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## Enterprise Data Strategies to Improve Reporting and Compliance

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2009 FTA Technology  
Conference  
Boise, Idaho  
David Boyd



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### ■ Introduction

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## Overview of the Presentation

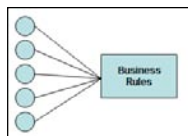
- This presentation is about improving overall data management in tax agencies
- It acknowledges the important relationships between data and:
  - Process efficiency
  - Policy
  - Compliance enforcement outcomes
  - Customer service
  - Reporting objectives
  - IT
- It is premised on the idea that data is under managed in most tax agencies and that policy and software design have lagged behind technology and that focusing on these two areas will produce significant benefits.



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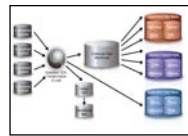
## Tax Agency IT Personnel Have Been Busy



Electronic Filing/Improved Data Capture



Integrated Tax System



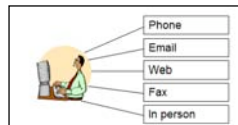
ETL Tools/Staging Environments



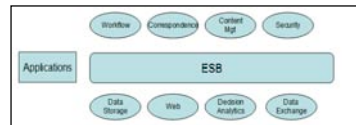
Decision Analytics/Data Warehouse



Security



Improved Taxpayer Service



Enterprise Services/SOA Architectures

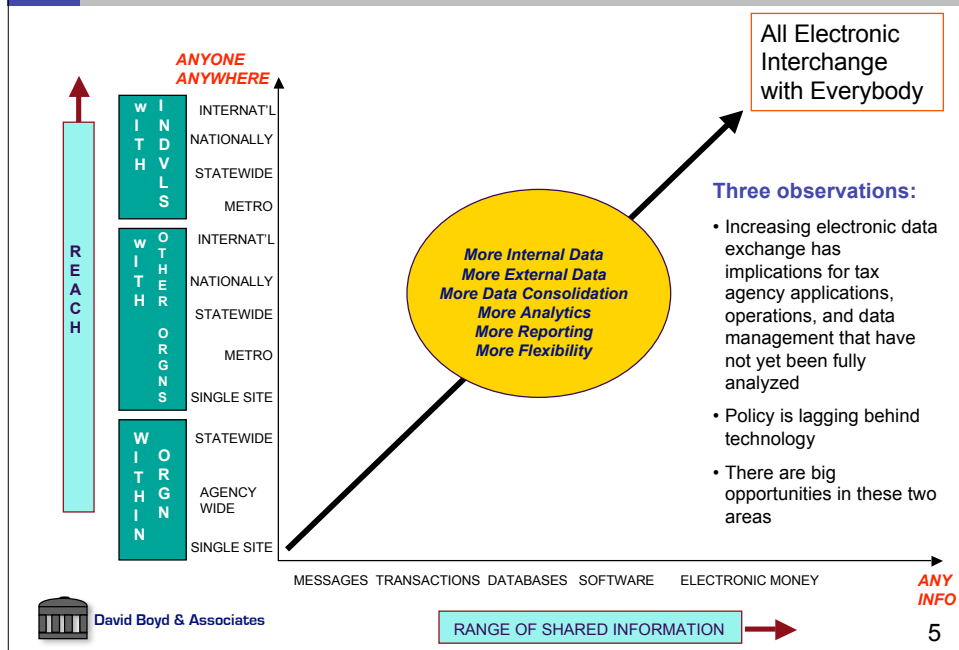
1. An enormous amount of new technology has become available and has been deployed in tax agencies over the past 10 years
2. But, there are still a significant number of data related problems and opportunities



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## Tax Agency Data and Technology Journey



## 10 Points on Data

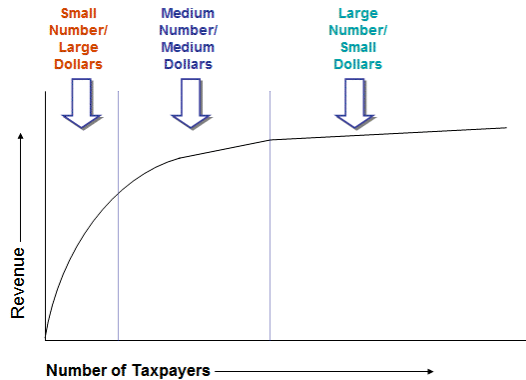
### Point 1: Current e-filing and data capture policies should change

- Electronic filing and payment mandates need to expand to catch up with current technology
- A policy of complete return data capture and storage needs to become the norm to support increased compliance efforts and customer service objectives and to provide for consistency during the continuing shift in return channel usage.
- An implication - application configurability must become a higher priority to deal with annual changes given the increased data capture, validation, storage, and display.

## 10 Points on Data

### Point 2: Data policies should focus on the most valuable data

1. Data is valuable when focused and relevant and not all data is of equal value.
2. For example, there is a business case for more data capture on large and some medium taxpayer returns
3. But, or the large number of small returns, the case is for more efficient capture

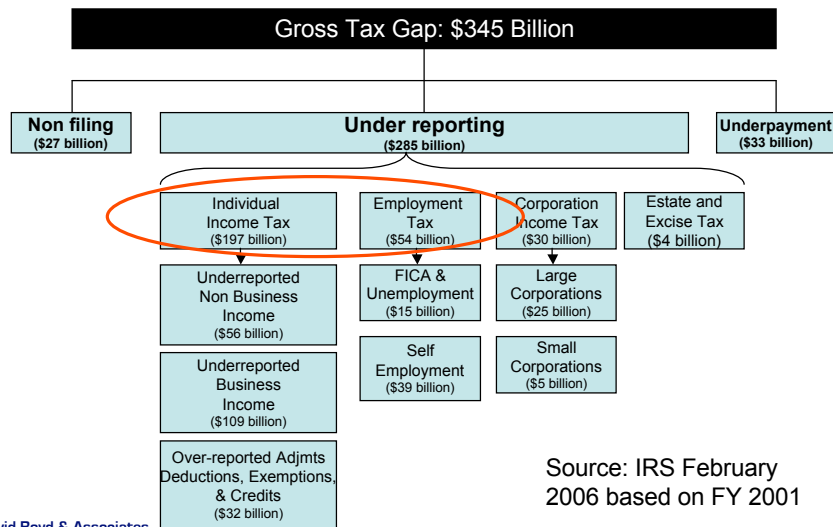


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## 10 Points on Data

### Point 3: The IRS is Trying Hard to Tell You Where to Look



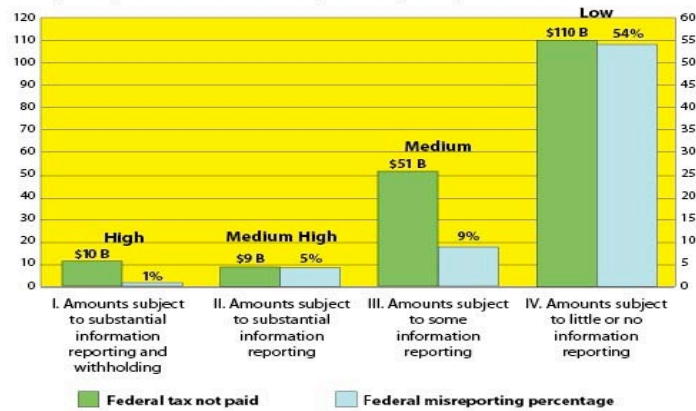
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## 10 Points About Data

### Point 4: Just Requiring Taxpayers to Tell You More Improves Voluntary Compliance...

**Figure 1. Tax Year 2001 Federal Individual Income Tax Misreporting Percentage**  
Misreporting of income and offsets by "visibility" categories



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Source: IRS February 2006 based on FY 2001

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## 10 Points About Data

### Sources

**Federal Return Data**  
• IMF  
• IRMF  
• IRTF  
• BMF  
• BRF

**Federal Compliance Data**  
• CP 2000  
• RAR File

**Information Returns**  
• W2  
• 1099S  
• 1099INT  
• 1099DIV  
• 1099R  
• Pass Through Entity

**Other Government Data**  
• Motor Vehicles  
• Property Tax  
• Professional Licenses  
• State and Local Contracts

Other 3rd Party

Return Data

Remittance Data

Internal Demographic and Account Data

Internal Compliance History, and Metrics Data

### Uses

Audit Selection

Non Filer Discovery

Returns Processing

Pass Through Entity

Collections

Forms Design

Policy Analysis

### Point 5: Not all data you have is being used to best advantage...

#### Examples

- 1 Bank Account Data captured during remittance processing is not used to support levy processing in collections
- 2 W2 data is not used to validate withholding claims or to support garnishment processing in collections
- 3 Non filer data is not used in audit selection
- 4 Compliance history, W2, 1099, professional licensing, vendor contract data is not used in collections scoring or in automating enforcement technique selection
- 5 Property tax data is not used to find non filers or underreporting taxpayers

## ■ 10 Points About Data

### Point 6: Low priority on maintaining internal data quality significantly affects efficiency, compliance, and service

#### Examples:

- Bad addresses affect billing, collection, and customer service
- Inaccurate registry of active, liable taxpayers affects delinquency processing
- Inaccurate officer data affects responsible party assessments
- Incomplete and inaccurate data on pass through entities precludes effective enforcement



## ■ 10 Points About Data

### Point 7: Applications are not compiling all data needed for reporting

#### Examples:

- History for all activities in a process to allow backlog, throughput, and productivity reporting on: comparative periods, multi period trends, or on any date in the past
- Compliance history for taxpayers spanning filing, payment, times in collection, non filing, audit results, etc...
- Return line detail, errors and adjustment detail to use in redesigning forms, optimizing validation routines, and performing policy analysis
- Volumes and outcomes by tax preparer
- Channel usage



## ■ 10 Points About Data

### Point 8: Reporting platforms are not optimally designed

1. ITS systems are typically designed with the needs of production in mind. They do not provide data structures optimized for operations, financial, or policy focused reporting. Separate mirrored databases don't solve this problem.
2. Production and reporting needs often conflict if reporting is done on the same platform as production.
3. There are gaps in data received, captured, and compiled
4. There are gaps in the data needed to support operational reporting
5. Most users in a tax agency are not capable of doing the ad hoc reporting from a normalized database.

*A reporting database operating on a separate platform with customized, de-normalized data structures designed for operations, policy, accounting, compliance reporting is required.*



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## ■ 10 Points About Data

### Point 9: Data management roles need to be defined more comprehensively

- ① **Determination Of What Data to Capture or Acquire**
- ② **Managing Data Capture**
- ③ **Managing Internal Data**
- ④ **Managing External Data Acquisition**
- ⑤ **Staging & Preparation**
- ⑥ **Data Use for Compliance Reporting Policy Analysis**
- ⑦ **Measurement of Data Value**



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## ■ 10 Points About Data

**Point 10: Business must take the lead on policy and IT on technology, design, and maintenance issues**

**Both have a role and both  
must be accountable!**



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## Going Forward

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1. Tax Agency Agenda
2. Some Specifics On:
  - Data and Process
  - Data Management
  - Reporting Platforms
  - Useful ITS Features



## ■ Going Forward

### Over the next 10 years the tax agency IT agenda should focus on:

1. Expanding data requested from taxpayers
2. Mandating electronic filing
3. Fully capturing and storing all returns, schedules, W2, and 1099 data
4. Managing data across all sources and uses
5. Improving applications and process configurability and flexibility to deal with expanded capture, storage, and validation on data subject to annual change
6. Improving application design to better capture process and operational data
7. Consolidation of internal and external data to improve process efficiency, decision analytics, and compliance revenues
8. Improving reporting, policy analysis, and compliance decision support
9. More web self service

### Or more generally...

*Catching up filing and payment mandate, process designs, reporting platform design, and data usage and management approaches to catch up to technology potential.*



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## ■ Processes Improved by More & Better Data

**Billing** – Can be improved by better address data and by reducing the number of notices to repeat offenders before commencing enforcement

**Delinquency processing** – Can be improved by better ‘active and liable’ status data

**Returns Processing** – Validation and refund fraud detection can be improved via use of captured W2 and 1099 data.

**Collections** – Scoring, automated determination of collections technique, and automation of collection technique can be improved with more data on bank accounts, assets, employment, income sources, licenses, potential offsets

**Audit Selection**– Can be improved with more return data, income source data, external data, compliance history data, more audit outcome data as relates to selection reason and audit procedures

**Audit Prep** – Time to prepare for audit can be reduced if return, IRS, industry, and other data are pre-captured and packaged.

**Customer Service** – Online view of all accounts, transactions, open cases, work listed or ‘suspended’ items, inbound and outbound contacts, compliance history, open service requests, installment agreements.

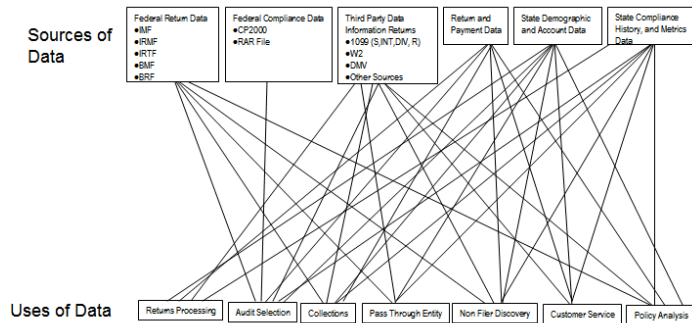
**Pass Through Entity** – Additional business structure, owner/officer, K-1, and chain of ownership data can improved enforcement



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## Management of Data



*The same data is used multiple times in multiple ways!*

*It should be managed as an enterprise service.*

### Key Points

- 1 The graphic above understates the complexity of data management in a typical tax agency by a substantial amount
- 2 Timing, channel, access, data standards, match capabilities, and enterprise use of this complex does not show up in most technology transformation project scope statements, architecture designs, or other well funded projects.
- 3 There is a business case for enterprise level management of this function



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## Reporting Platforms

- Many ITS projects implement a 'mirror' of the production database operating on a different hardware platform to avoid contention with production processes.
- What is needed is a customized set of data structures on a separate platform that focus on:
  - Expanding ad hoc reporting
  - Providing operational reporting
  - Providing comparative period and trend reporting
  - Providing performance reporting
  - Providing policy reporting
- This can be done in a separate phase of an ITS implementation or in a later project if the right data is available in the ITS or is captured and stored otherwise
  - Return detail stored as XML can be converted to fixed record structures in the reporting database
  - Adjustment history at the return line level
  - Credit usage, carryforward, and carryback
  - Schedule usage
  - Channel usage for returns, payments, and other submissions
  - Status history for each step in a process
  - Compliance history
  - Business structure, owner and officer data, K-1 data



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## Useful Application Features

1. Ability to store entire return as XML data (but translate it to fixed record structures for reporting)
2. Able to use externally supplied data in processing (e.g. W2 data during returns processing, other agency license data to support collections technique selection, etc...)
3. Ability to store and report history for each step, work list, case status for a defined process to support comparative period backlog, throughput, and productivity reporting.
4. Ability to establish workflow processes for incomplete registration follow-up, account cancellation, returned mail, and other processes that improve data quality.
5. Ability to link with external data sources for address updates and validations
6. Relatively easy configuration to support expanded data capture, storage, validation, display, and reporting associated with return data affected by annual change
7. Ability to store and report on form and schedule usage, channel usage, taxpayer errors/return line item adjustments to support policy analysis, customer service, and operational decisions



## Q&A

# Questions and Answers

