



# ***Return Clearinghouse: States Sharing Data for a U.S. Based Clearinghouse***

**Paul Panariello – Revenue Solutions, Inc.**

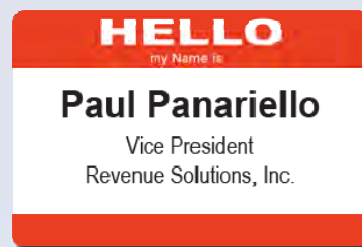
***FTA Technology Conference  
August 6, 2007***

FTA Technology Conference 2007

## **Introductions**



- **Paul Panariello**
  - Co-founder of Revenue Solutions, Inc.
  - Leads Strategy, Sales & Marketing and Products
  - Twenty-two years as industry consultant
  - Both integrated tax system and compliance data warehouse experience



# Agenda



- Clearinghouse Concept
  - Problem Statement
  - Opportunity
  - Year 1 Scope
- Clearinghouse Project Details
  - Overview
  - Clearinghouse Year 1 Results
- Potential Future Plans
- Get Involved



# Clearinghouse – Problem Statement



- Two common income tax problems:
  - Non-Filers
    - **Residents** who file a non-resident return to another state but fail to file a resident return in their home state
    - **Non-Residents** who claim an Other Jurisdiction Credit on their resident return and fail to file a non-resident return to the corresponding other state
  - Verifying **Other Jurisdiction Credit** for taxes paid to other states
- Other potential problems:
  - Refund Fraud
  - Promoter Schemes and Aggressive Tax Preparers
  - More...

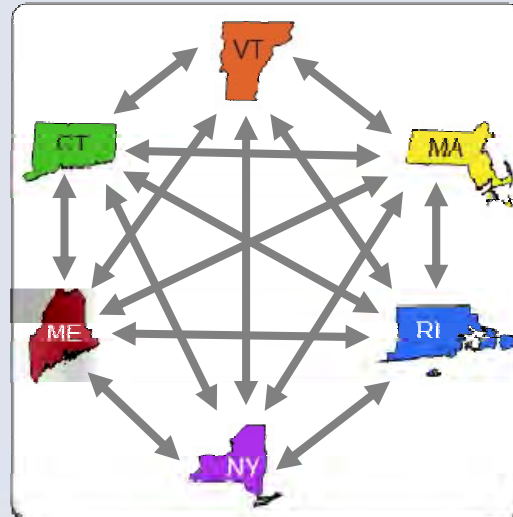
# Clearinghouse – Problem Statement



## Example : Current Data Sharing Arrangement (6 Northeastern States)

### As-Is Model:

- 36 separate data exchanges
- 6 - 36 technical solutions
- Single compliance program per exchange
- Limited data for each compliance program
- Data analysis limited due to how it is stored



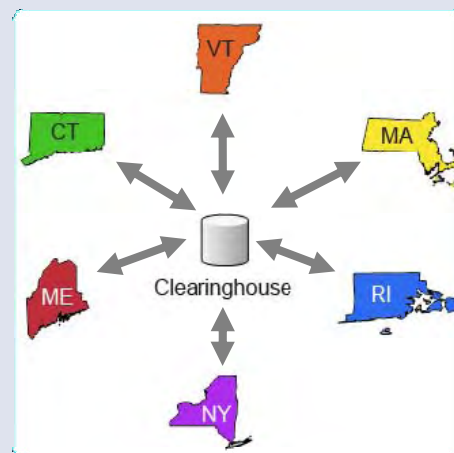
# Clearinghouse – Opportunity



Enhance information sharing to collectively improve taxpayer compliance.

### Clearinghouse Model:

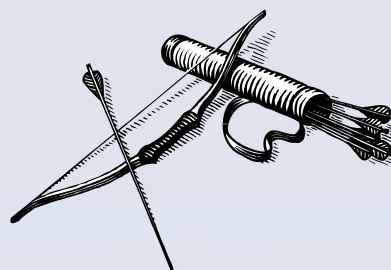
- 6 separate exchanges
- 1 technical solution
- Efficient, proven process for loading & matching data
- Interstate taxpayer profiles
- Multiple compliance programs per exchange
- Foundation for additional data analysis
- Comparative reporting
- Quick turnaround to generating quality leads



# Clearinghouse – Year 1 Scope & Goals



- **Participation**
  - MA, NY, CT, MD, VT, RI, NJ, PA, DE
  - All Resident and Non-Resident Returns for Tax Year 2004
- **Compliance Programs**
  - Resident & Non-Resident Non-Filer
  - Other Jurisdiction Credit (OJC)
- **Environment**
  - MA responsible for administration, data aggregation, technical operations and secure data center
  - RSI's DiscoverTax product is the foundation of the Centralized Return Clearinghouse
- **Schedule**
  - Signed Agreements by August 2006
  - Data fully loaded by January 2007
  - Test Files sent by beginning of February
  - Full Case Files sent by end of April 2007



# Clearinghouse – Key Considerations



- **Cost**
  - Year One costs paid by MA for Proof of Concept
  - Year Two costs will be shared by participating states
    - Cost paid into Clearinghouse Expendable Trust
    - Costs based on size of state with minimum and maximum cost
- **Service Level Agreements for States to Share Data**
  - Based on the FTA Uniform Exchange of Information Agreement
  - Clearinghouse Specific Addendum agreed to and signed by participating states
  - Participating State Confidentiality Agreements adhered to
- **Data Standardization**
  - Data Extract Layout and Lead Files adhere to a single designed layout which mimics the IRS IMF/IRTF

# Clearinghouse - Year 1 Results



## Input Records from 9 States

- 39,193,128 taxpayers
- 28,412,302 resident returns
- 2,481,128 non-resident Returns
  - Two-thirds from other NESTOA states
  - One-third from the rest of the country/world; those above 10,000 listed

State	Source of Non- Resident Returns
FL	134,230
NH	93,048
CA	79,152
VA	52,403
GA	42,788
NC	37,982
TX	29,590
IL	28,337
OH	25,423
ME	16,959
AZ	15,638
SC	15,348
DC	13,598
CO	13,575
MI	12,997

# Clearinghouse - Year 1 Results



## Potential Cases

- OJC Cases
  - 1,027,155 matching Non-Resident to Resident Cases
  - Up to 71,400 Potential Cases with an estimated Amount Due of up to \$45m
- Non- Filers Cases
  - Up to 112,000 potential Resident Non-Filer Cases with a value of \$32m
  - Up to 10,000 potential Non-Resident Non-Filer Cases with a value of \$6m



## Case Management Status



- Process Began in April
- Results vary by state, sampling:

MA	5399 notices, \$1.3m collected, another \$1.4m billed
NJ	125 notices for \$125K mailed, another 2650 to be mailed
VT	6 notices for \$42k mailed
CT, DE, MD, NY, PA and RI	Mailings not started

- Analysis underway to understand differences

## Clearinghouse – Potential Future Plans



- Increased participating with emphasis on states from “Commuting Clusters”
- Additional Income Analysis
  - Inconsistent Reporting (AGI, Exemptions, K-1s)
  - Refund Offsets (possibly real-time)
  - Refund Fraud (possibly real-time)
  - Tax Preparer / Promoter Analysis
  - Tax handling of entertainers
- Other Tax Types
  - Corporate/Partnerships - Apportionment Analysis
  - “Nowhere Money” – Inter-State Businesses reporting revenue “nowhere”
- Aggregate and Comparative Reporting
- Additional Processing Support
  - Inquiry, Noticing, Case Management



# How can our state get involved?



- **Year Two is starting now!**
  - Agreements to be signed by mid August
  - Deadline for late participation is October 31st
- **Costs**
  - Costs are shared by all participating states based on state size
    - Based on number of returns
    - Includes a floor and ceiling price for small and large states ranging from \$60,000 to \$250,000.
  - The greater the number of participating states, the lower the cost. Year 3 costs to be less since infrastructure purchased.
  - Costs are paid to the Clearinghouse Expendable Trust
- **Contact**

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# Revenue Solutions, Inc.



## *Mission Statement*

“Assist revenue and labor agencies to maximize collections, increase compliance, improve customer service and streamline operations through the use of enabling technologies, in particular, integrated tax, compliance management and tax data warehouse solutions”



[www.RevenueSolutionsInc.com](http://www.RevenueSolutionsInc.com)

- Incorporated in May, 1996
- Headquartered in Pembroke, MA with a Solution Center in Roseville, CA
- Dedicated exclusively to providing products & services to tax agencies
- Approximately 200 employees with over 700 combined years of tax and labor systems consulting
- Deep tax administration and compliance management domain expertise



# Questions



# Contact Information

