



# ***Revenue Solutions, Inc. Top Ten Compliance Programs to Drive Revenue***

**Presentation for:**

***Federation of Tax Administrators –  
Solution Track Series***

**August 2009**

# Introductions



- **Paul Panariello**

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



# Agenda



- RSI Overview
- So Your State, Too, Needs Money!
  - State budget crisis
  - Paul's Top 10
- Questions & Answers



# Revenue Solutions, Inc.



## *Mission Statement*

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



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

- Incorporated in May 1996
- Headquartered in Pembroke, MA with Solution Centers in Roseville, CA and Charlotte, NC
- Dedicated exclusively to providing products & services to tax agencies
- Over 200 tax professionals with over 1000 combined years of revenue systems consulting
- Deep tax administration domain expertise
- Software Solutions for Integrated Tax and Integrated Compliance Management (Data Warehousing, Audit, Collections, Fraud...)
- Committed to client partnerships in delivery of projects

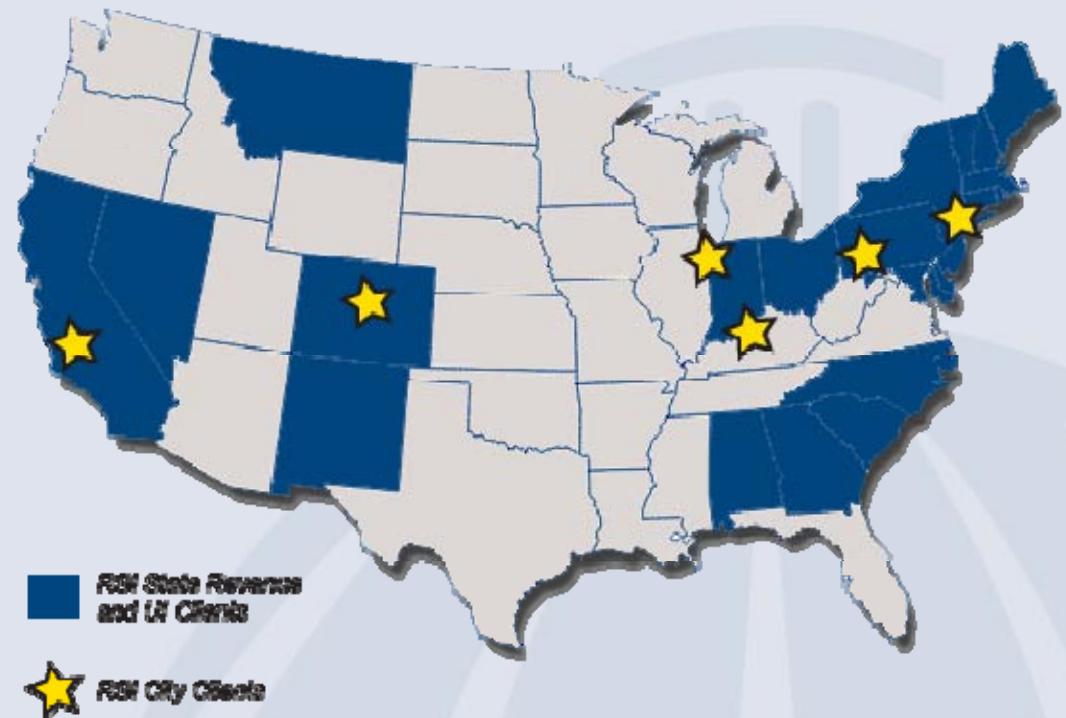


# Proven Tax and Revenue Experience



- Partnered with over thirty (30) revenue agencies since inception – Federal, State and Local
- Currently working with ten (10) revenue agencies/associations on fourteen (14) projects
- Over twenty-five (25) Integrated Tax Systems Planning, BPR, Design, Implementation and Maintenance Projects for Tax & Labor
- DiscoverTax® is licensed by NESTOA for the Clearinghouse and nine (9) state revenue agencies: CT, GA, IN, MA, NC, NM, NV, RI, SC
- TaxMaster® is licensed by 5 states and over 25 counties
- Dedicated Solution Center and support help desk – Roseville, CA

*RSI brings a wealth of tax processing & compliance systems experience to **our clients***



# RSI Practice Lines



## ■ Revenue Management

- Legacy Systems Support
- Legacy Systems Modernization
- Revenue Administration - *Integrated Tax System*
- Labor Administration - *UI Tax System*



## ■ Compliance Management

- Data Warehousing and Business Intelligence
- Accounts Receivable Management
- Decision Analytics
- Audit Management



# So Your State, Too, Needs Money!



## ■ State budget crisis

- 42 states face a 2009 budget shortfall (in excess of \$60 billion)
- 46 states predict a 2010 budget shortfall (in excess of \$130 billion)
- 2011 is not any better

## ■ Legislative response

- Reduce government services
- Increase taxes
- Amnesty
- Join streamlining sales tax
- *Collect more that is due*



# So Your State, Too, Needs Money!



## ■ Compliance industry trends

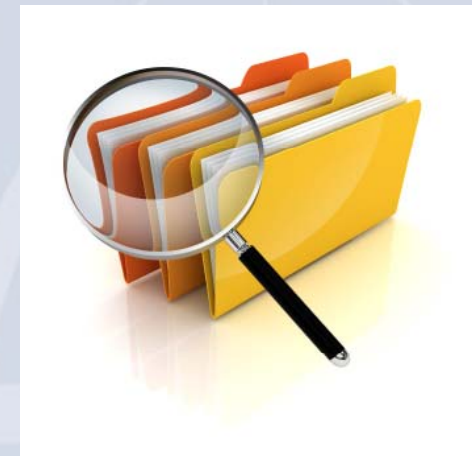
- Use of data warehouses; 15 states have advanced warehouses with:
  - Improved matching for existing programs (e.g., CP2000, RAR...)
  - Multiple data sources with timely refreshes
  - Fully leveraged for data decision driven compliance
  - Integrated case management/correspondence
- Leverage correspondence audits and taxpayer service
- Deploy risk scoring
- Attack compliance on multiple fronts: discovery, collections, audit, fraud and education
- Involve third parties
  - Proposed NYS legislation (e.g., credit card receipts for businesses, bank deposits)
  - External data

# #1: Discovery – *Federal Non-Filers*



- States traditionally rely on the IRS CP2000 and IRS IRTF to find non-filers despite the following constraints:
  - IRS resource
  - IRS data matching techniques
  - IRS thresholds
- Non-filers who file neither federal or state are 5x more prevalent. MA DOR raises \$30m annually.
- Considerations:
  - Direct billing process
  - Data warehouse (aggregate data, view portfolios, scoring,...)

Revenue Potential	> \$30m
Systems Impact	High
Audit / Collector Resources	Low
Legislation Required	No
Implementation Timeframe	< 1 year
Cost	> \$1m

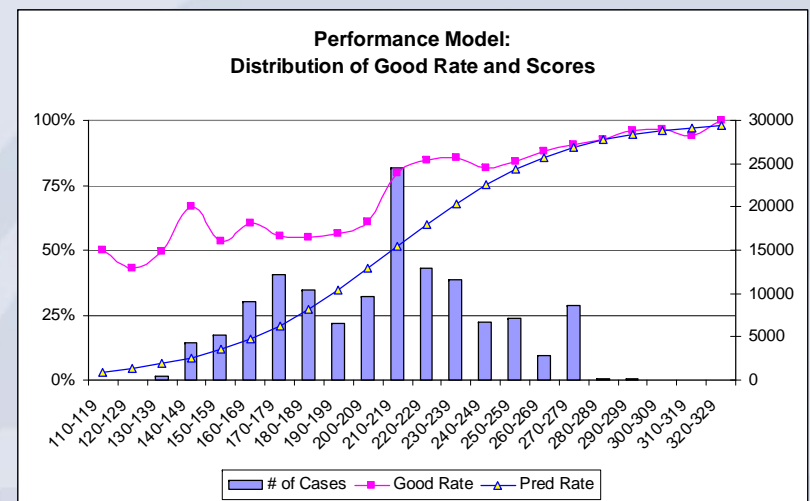


## #2: Collections – Risk Scoring



- Use statistical-based risk scoring to assign/treat collection cases.
  - Assign each case the right action
  - Proven private sector technique
  - Used by fewer than 10 states
  - End your use of judgmental models!
- South Carolina and Massachusetts have seen collection increases exceed 20%.
- Also “resource” enhancer
- Considerations:
  - *Requires systems changes*
  - *Requires change management*

Revenue Potential	> \$20m
Systems Impact	Medium
Audit / Collector Resources	None
Legislation Required	No
Implementation Timeframe	< 6 months
Cost	< \$1m



# #3: Fraud – *Personal Income Tax Refund*



- States flag returns using limited data:
  - New Identity
  - Ratios / Refund Amount
  - Known / Duplicative Addresses
- “Best Practice” is to “pre-score” every individual for their refund; those not pre-scored receive more scrutiny.
- Maryland savings > \$20m; Massachusetts < \$15m
- Also “resource” enhancer
- Considerations:
  - Integration with refund process to suspend returns and mail letters

Revenue Potential	> \$15m
Systems Impact	High
Audit / Collector Resources	Low
Legislation Required	No
Implementation Timeframe	> 6 months
Cost	Medium

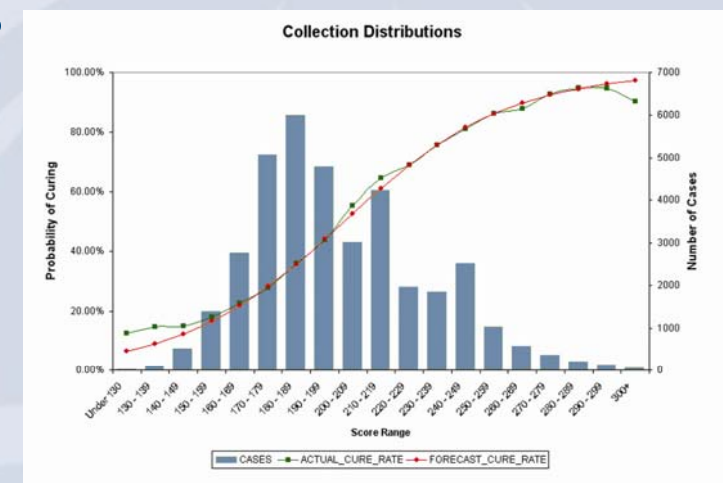
*Electronic Filing and PC automation coupled with increased refundable credits has opened the fraud floodgates*

## #4: Audit – Risk Scoring



- Use statistical-based risk scoring to select audit cases (after repeat audit cases).
  - Assign cases on statistical models
  - Used by fewer than five states
  - End your use of judgmental models!
- Connecticut has seen high-dollar cases account for 44% of the audits vs. 11% - 17% historically.
- Also “resource” enhancer
- Considerations:
  - Requires auditor “*buy-in*”
  - Requires time to complete audits

Revenue Potential	> \$10m
Systems Impact	Low
Audit / Collector Resources	None
Legislation Required	No
Implementation Timeframe	< 1 year
Cost	< \$1m



## #5: Collections – *Automated Wage and Bank Levies*



- Automatically (hands-off) garnish wages or levy bank accounts based on employer provided lists (wage reports), or bank provided accounts
- “Best practice” in 6-10 states. MA DOR collects \$18m annually.
- Also “resource” enhancer
- Most effective: personal income tax / responsible person collection tool
- Considerations:
  - *“Big Brother” (although DORs already have account information)*

Revenue Potential	> \$10m
Systems Impact	Medium
Audit / Collector Resources	Low
Legislation Required	Yes
Implementation Timeframe	> 1 year
Cost	< \$1m



# #6: Collections - *Driver's License Revocation*



- Revoke driving privilege for failure to pay taxes.
- Rhode Island began in 2005
- Massachusetts has raised \$7m on 2855 letters with 598 suspensions since September 2008.
- Considerations:
  - Public response
    - *“Can’t pay my taxes if I can’t go to work”*
    - Massachusetts has had minimal negative feedback
  - Trend linking services to taxes

Revenue Potential	> \$10m
Systems Impact	Low
Audit / Collector Resources	Taxpayer Service
Legislation Required	Yes
Implementation Timeframe	< 6 months
Cost	< \$100K



# #7: Discovery – *Business Non-Registrants*



- Use internal and third-party data to find non-registered businesses
  - Leverage other state agency data as well as private sector marketing databases
  - Need more information, other than what a taxpayer tells you, to find a non-registered business
- Considerations:
  - Requires advanced matching warehouse to avoid false positives
  - Requires auditor time for follow-up if no response is received

Revenue Potential	< \$10m
Systems Impact	Medium
Audit / Collector Resources	Low
Legislation Required	No
Implementation Timeframe	< 6 months
Cost	< \$1m



## #8: Collections – *Other Best Practices*



- Inventory reprioritization
- Skip tracing using the data warehouse / internet
- Collector views to provide address, telephone, and financial means info
  - Federal – state comparisons
  - Asset Information (cars, property...)
- Collector alerts
- Also “resource” enhancer

Revenue Potential	< \$10m
Systems Impact	Medium
Audit / Collector Resources	Low
Legislation Required	No
Implementation Timeframe	< 1 year
Cost	< \$1m



## #9: Audit – *Tax Preparer Program*



- Compare tax return average ratios for the entire population with average ratios for returns submitted by a preparer.
- Broader reach and easier than identifying a single return for desk or self audit.
- South Carolina effectively identified outliers; audits in process

Revenue Potential	< \$10m
Systems Impact	Low
Audit / Collector Resources	Medium
Legislation Required	No
Implementation Timeframe	< 6 months
Cost	< \$500k



# #10: Audit – Returns Clearinghouse Membership



- Exchange data with other states nationally through a single hub
- Detect
  - Non-filers
  - Discrepancies on credits claimed
  - Futures
    - Refund Fraud
    - Refund Offsets
    - Collections Skip Tracing
    - IRS reverse match
    - ....
- Considerations:
  - Not all states participating

Revenue Potential	< \$2m
Systems Impact	Medium
Audit / Collector Resources	Medium
Legislation Required	Maybe
Implementation Timeframe	< 1 year
Cost	< \$250k

***Taxpayers use state's own borders against them – this cooperation is a must for tax compliance given today's mobile workforce and virtual economy***

# Other Assumptions and Ideas



- **Basic matching already completed**
  - IMF/IRTF and BMF/BRTF (basic blocking and tackling)
  - CP2000 (are 100% of the records used?)
  - Business and Individual Matching using other agency data (SOS, Labor, Licensing, DMV...)
- **Other ideas**
  - Pass-Thru Entities (non-resident partners, multi-tier...)
  - RAR (should be automated to case management)
  - Automated discrepancies (State returns vs. Federal/Other Data (return, IRMF, Wage, W-2))
  - Internet cigarette sales



# Summary – *Data Driven Compliance*



## ■ Common themes

- More and more data
- More complex queries / data driven
- Third-Party Involvement
- Statistical Risk Scoring
- Automated desk / correspondence audits
- Better use of resources

*Integrated Compliance Management Systems have to be seen as an agency asset next to the processing systems*

## ■ Warehouses to move from concept to case action:

- Load, Purify, Match and Aggregate Data
- Selection, Decision Analytics and Scoring Tools
- Portfolio Views (see the whole taxpayer)
- Integrated Case Management & Correspondence
- Executive Dashboards
- Segmentation (future)



# Questions and Contact Information



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