



Use of Third Party Public Data to Reduce Improper Payments, Increase Collections and Compliance

Presenter

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About the Presenter



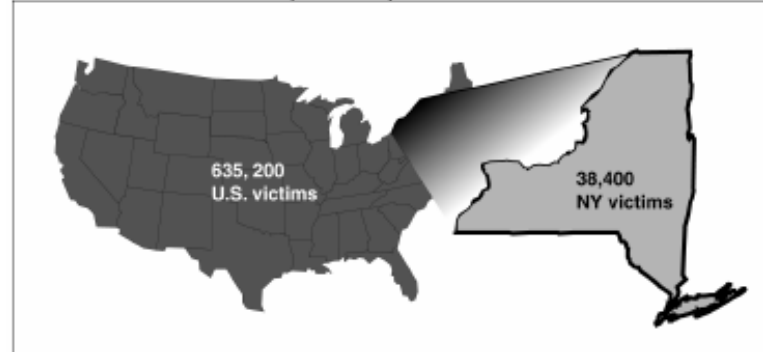
◆ John Chavez –

- Cabinet Secretary New Mexico Taxation and Revenue Department. 1995-2001.
- President, Federation of Tax Administrators 2000.
- Member, Multi-State Tax Compact Executive Committee 1995-2001
- New Mexico was the first state to roll-out Internet-based tax filing under John's leadership.
- Currently leads state revenue enhancement solutions for FMS.

ID Fraud is Here to Stay!

- ◆ GAO Report on ID Theft.
 - FTC reported that in 2004, 635,000 individuals filed identity theft complaints. Of which 5 percent were in New York.
- ◆ The OTHER financial disaster caused by Katrina.
 - Total General Accounting Office (GAO) estimate of improper payments by FEMA - \$1.2 Billion.
 - Total overpayment dollars recovered by FEMA to-date - \$7 Million!

Total Number of Fraud and Identity Theft Complaints to FTC in 2004



Source: GAO, FTC analysis and Art Explosion.

United States Government Accountability Office

Third Party Data Can Help in Key Areas



- ◆ **Reduce Improper Payments Tax Refund payments.**
- ◆ **Identify Taxpayers for Compliance and Nexus efforts.**
- ◆ **Increase Treasury Offset Collections.**
- ◆ **Reduce Mail Return Volumes.**

The Three Wave Theory of Tax Administration

- ◆ Early 90s - Integrated Tax Systems.
 - Capitalize on economies of systematic processes
 - Increase efficiency and
 - Accuracy of tax systems.

- ◆ Late 90s - Internal Data Mining.
 - Understand the taxpayer profile.
 - Advanced use of customer relationship data and processes.
 - E-commerce initiatives.

- ◆ Post 9/11 – Verification and Authentication.
 - Identity Verification and Authentication.
 - Security and Privacy.
 - Electronic Fraud – Without Borders.

What is Third Party Data



◆ Related to Individuals

- Credit
- Application
- Demographic
- Marketing
- Financial
- Legal – judgments, bankruptcies, etc.

◆ Business

- Credit
- Principals
- Certifications and Licenses
- Credentials
- Financial
- Legal – judgments, bankruptcies, etc.

Private Sector Use Third Party Data is a Mature Business



- ◆ Credit approval
 - Verification and authentication in less than 30 seconds!

- ◆ Point-of-sale tracking and security
 - Tracking behaviors and activity – can reject a purchase or make a phone call within minutes!

- ◆ Offers of credit
 - Marketing databases are used to track individuals, groups, by demographics, income levels, expenditure habits.

- ◆ Credit report purchases by a consumer
 - Forces multi-part authentication before credit bureau will sell the information to the consumer.

- ◆ Banks and processors such as Visa and MasterCard balance their books each night to within pennies!

Current Government Use of Public Records



- ◆ Government agencies use public records and third party data directly and indirectly.
 - Department of Homeland Security
 - **Link Analytics**
 - HSPD-12 for civilian federal employees
 - U.S. Marshall Service and Law Enforcement Agencies
 - U.S. Department of Agriculture
 - Federal Emergency Management Agency
 - **Katrina – and the lessons learned from the financial disaster!**
 - Transaction Processing – accepting credit card/ debit card payments
 - Public records – bankruptcies, judgments.

- ◆ In many ways, governments report to third party databases and public records – but do not use them.

Government Challenges in Using Third Party Data



- ◆ Vendor data is NOT ACTIONABLE.
 - Agencies must spend time and money to understand the data, and build systems to use them.
- ◆ Services to citizens can be impacted due to incorrect data.
- ◆ Third party vendors sell and re-sell each others' data. Too many choices with the same data being returned!
- ◆ Return on Investment (ROI) is not clear.
- ◆ In-house expertise on third party data is not available to agencies.

Third Party Data Challenges



- ◆ Generally do not know the business of government. Too many data vendors!
- ◆ Data vendor gets paid – regardless of your results!
- ◆ Generally requires customization of systems and data exchange by the Agency.
- ◆ Privacy concerns.
 - When is it permissible for an Agency to use third party data?
- ◆ Security concerns.
 - Is my taxpayer information secure with these data vendors? How can I be sure?
- ◆ Accuracy of data concerns.
 - Is the data accurate enough for me to use? How can I be sure?

High Impact – High ROI Areas for Use



- ◆ Reduce improper tax refund payments.
- ◆ Increase address accuracy for notifications of audit, offset certification, and other notices.
- ◆ Increase tax refund offset from Federal Treasury Offset Program
- ◆ Nexus

Reduce Improper Payments



- ◆ Do you know if the tax refund payment is going to an address that is actually a school? Or to a Bail Bondsman's address?
- ◆ Proven process exists for states to identify potential tax refund payments.
 - Two pilot project results available.
- ◆ Requires multiple external data sources and good internal business rules from the State.
- ◆ Will not negatively impact a “good taxpayer” refund payment.
- ◆ Some states could save more than \$30 Million annually. ROI is immediate.

Increase Address Accuracy



- ◆ Does your State have a significant number of letters returned as undeliverable? Or refund payments?
 - If so, use of third party data to obtain current addresses and names could reduce the number of returned notices.
- ◆ Addresses are important for Treasury Offset certification and for regular notices to taxpayers.
- ◆ States may not have the current address and name for their debtors.
- ◆ Treasury requires States to send notification to the debtor by certified mail with return receipt requested.

Increase TOP Collections



- ◆ Do you know that a simple name change will prevent a Federal tax refund offset to payoff the delinquent tax debt?
- ◆ Why do names change?
 - 11% of the U. S. population are reported married or divorced each year.
 - Tax preparers know how to avoid the offset.
 - Misspellings and aliases; inconsistent use of last names.
- ◆ Treasury matches the name and SSN of the debtor with the same information of the payee.
- ◆ If a match does not occur, the payment is not offset.
- ◆ States can use third party data to increase collections by identifying and adding all the names associated with a debtor to the debt in TOP.

TOP Enhancement Estimates



- ◆ FNS/USDA estimated a 13% increase in collection of food assistance debts for States as a result of alias (multiple) names.
- ◆ The table shows TOP collections for State income tax debt for 2006 and through April 2007 with projections of increased collections with alias records.
- ◆ Private sector solution exists to capitalize on this opportunity.

Period	TOP Collections (Million)	Potential Increased Collections (Million)		
		5%	10%	15%
01-01-07 to 04-30-07	\$165	\$ 8	\$17	\$25
01-01-06 to 12-31-06	\$218	\$11	\$22	\$33

Handling Nexus Issues



- ◆ Businesses are becoming Multi-State.
- ◆ Businesses doing business across state lines without registering with Tax agencies.
- ◆ How do you find them?
 - Leverage sophisticated models such as credit and trade references, to identify businesses that are most likely to owe tax obligation based on the specific tax laws of that state.
 - Educate businesses on the tax laws of your State.
 - Business registration data matched business credit agencies comparison with tax registration data.
 - Business trade data revenue flow comparison with tax registration data.
 - Business payment flow data review within a particular tax jurisdiction.

Addressing Challenges



- ◆ Implement performance-based contracting.
 - **Require data vendors to get paid for performance.**
 - **No risk to Agencies – business partnering approach.**

- ◆ Require actionable data – the data you buy should provide increases in collections or cost-savings.

- ◆ Security and privacy are addressed with proper certifications, due diligence, indemnifications, and protections that are available.

- ◆ Data accuracy and negative impact on taxpayer - citizens.
 - **Require vendors to validate the data – within the business rules of the Agency.**
 - **Use call centers and mailings to ensure citizen interests are protected.**

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