



State Reverse File Match Initiative

- SRFMI -

**Partnering with State Tax Agencies
to Reduce the Tax Gap**



SRFMI may help to reduce the Federal Tax Gap

- **Leverage New Data Sources**
 - Continue Improvements In Information Technology
- **Address Intentional Non-Compliant Behavior**
 - Improve Compliance Activities
- **Coordinate with Partners and Stakeholders**
 - Develop SRFMI

Drivers of the SRFMI Initiative

- TIGTA Report (September 2005)
 - Commissioner's commitment to expand Reverse File Match
- Interest of GAO & Senate Finance Committee
- Possible impact to reduce the Tax Gap and alignment with Improving Voluntary Compliance Report
- Potential for many Compliance Work streams
 - Greatest potential exists with Non-Filers and Underreporters



SRFMI Timeline





SRFMI differs from other data sources

State tax agencies are sole sources of unique data

- Taxpayer self-reports taxable income and signs under jurat
- Non-Filers are identified by state return type
 - business, farm, retail, payroll, corporation, etc.
- Underreported business income and gross sales transactions are not resident on the Information Returns Master File (IRMF)
 - Rents, retail sales, transactions exempt from Inf. Reporting
- Case development generally quicker than indirect



Other Unique Features – Potential Uses

- Includes current state liability balance
 - Identifies Federal Individual Non-Filer who filed & full-paid with state
- Identifies business activity on CNC accounts
 - Could reactivate to inventory when sales tax & withholding returns indicate business activity
- Includes Corporate & Withholding first & last return indicator
 - Data could support a closing of BMF DEL RET modules after last state return



Groundwork to facilitate use of SRFMI data

Counsel Opines SRFMI Data Can Be Used “as-is”

- State-supplied Federal AGI or TXI is sufficient to determine deficiency
 - use IRP data as source when available
- Signed state return perjury statement may be treated as an admission and reliable evidence



Indicators that Individual Non-Filer Data Proving Valuable

Preliminary Results Field Examination

	SRFMI Phase 1		All Sources IMF
Related Rtns	56%		38.6%
Hours/Rtn		7.5	
		18.6	
No Change	3%		12.3%
Cycle Time	147		218



Indicators that Individual Non-Filer Data Proving Valuable *(cont.)*

Preliminary Results – ASFR

	SRFMI Phase 1	FY 07 Program
TP Returns	58.1%	12%
Default Rate	41.2%	63%
Recons	7%	17%

Future SRFMI Vision

- SRFMI Data fully integrated in the Service's Workload Selection and Prioritization workstreams
 - Secure Compliance results to drive business decisions
 - Modify Systems and work streams to further automate SRFMI
 - Reduce tax gap by making inroads with non-compliant business entities



Current Status (cont.)

- July '08, 15 states will deliver 41 files
 - 11 Individual
 - 10 Corporate
 - 9 Sales
 - 7 Withholding
- July '09 45 states will deliver 125 files
 - 38 Individual
 - 31 Corporate
 - 30 Sales
 - 26 Withholding



Moving Forward:

Integrate/institutionalize SRFMI data into current processes

- Evaluate the utility of the data for each potential use
- Based on the results, modify or build systemic processes to automate usage
 - Case Creation
 - Case Building
 - Case Scoring
 - Case Closure



Continued testing is critical in establishing the Service's position on SRFMI

- Decisions must be rooted in data
 - Some testing is planned for enforcement activity in FY'08
 - Some testing is in a formative discussion stage



IRS Business Owners

	Director, Collection	Director, Examination	Director, Campus Compliance Services	Director, Specialty Programs	Director, Fraud	Director, Exempt Organizations	Director, Governmental Entities
Individual Income Tax Non-Filer and Underreporter		X					
Sales Tax Non-Filer and Underreporter	X						
Withholding Tax Non-Filer and Underreporter			X				
Corporate Tax Non-Filer and Underreporter	X						
Application with Collection Accounts	X						
Assistance with SRFMI Originating Fraud				X			
Exempt Organizations						X	
Governmental Entities							X



For More Information

- Take the SRFMI Implementation Tips Handout today
- Contact your IRS Governmental Liaison
- Send inquiries to dan.c.porter@irs.gov

Thank you for supporting SRFMI