



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

09/2006		12/31/2006		Sep. - Dec. 2007		07/15/2008		08/2008			04/15/2010
States Enroll for 2007 SRFMI & GLDEP Extract Year		2006 Tax Year Ends		2006 TY IMF/IRTF & BMF/BRTF Extracts to States		SRFMI Extracts to IRS		SRFMI Data Available to Compliance		Statute Expiration Date	



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 methods



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

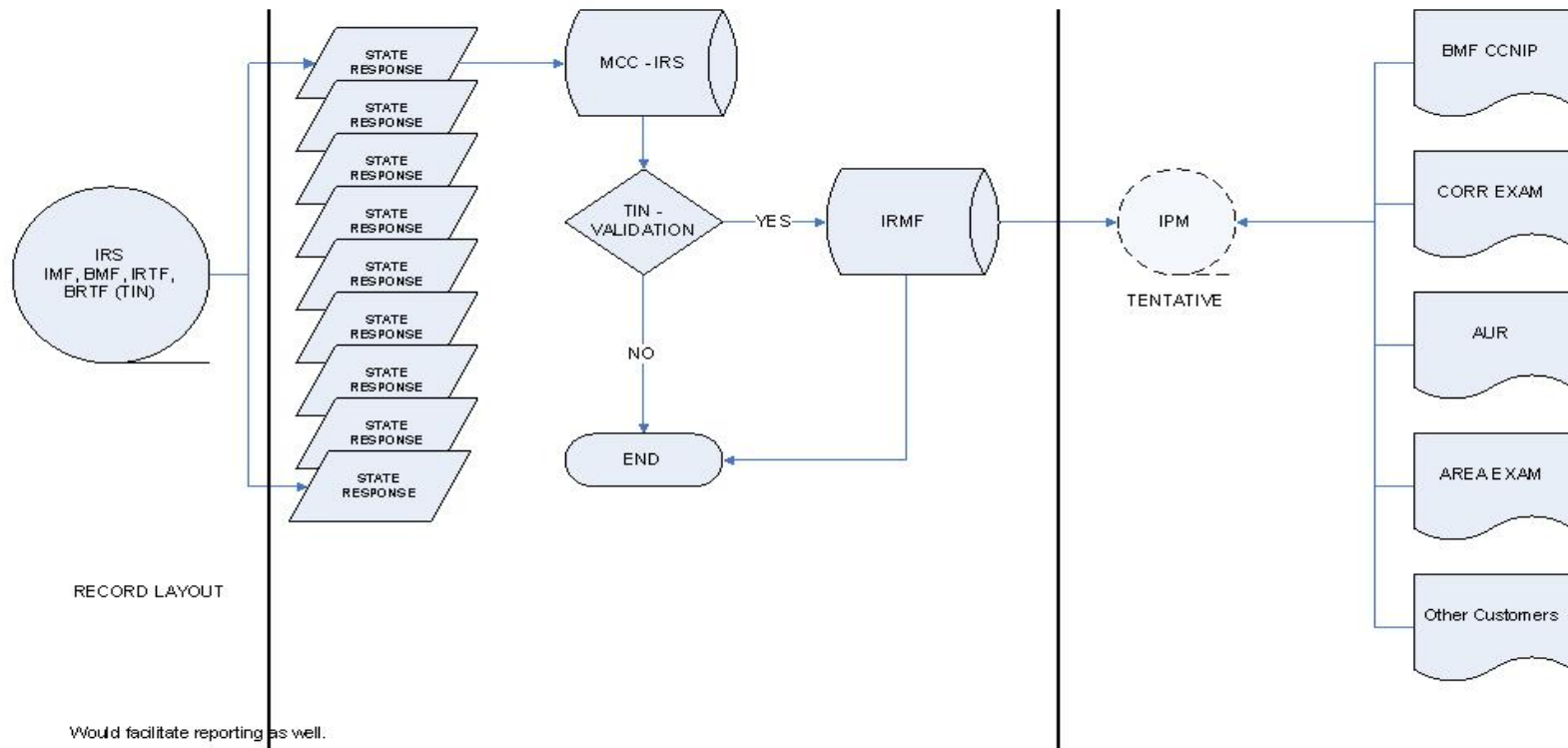
- SRFMI Data fully integrated in the Service's Workload Selection and Prioritization workstreams
 - Secure Compliance results to drive business decisions
 - Modify Systems and work streams to further automate SRFMI
 - Reduce tax gap by making inroads with non-compliant business entities



All data to reside on IRMF

SRFMI MODIFIED PRODUCTION PROCESS – EFFECTIVE 07/2009

IRS requests data from the states	IRS receives data from states and performs TIN validation. Once TIN validation performed results are loaded onto IRMF Db.	Either customers access data directly from IRMF or via IPM extracts.
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Current Status

- TY 05 data from 9 states is in-house
 - File Types:
 - 9 Individual
 - 4 Corporate
 - 5 Withholding
 - 4 Sales
 - Data is validated and perfected
 - Data is maintained by MITS
 - MITS finishing filter programming



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							
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