

# Michigan Department of Treasury

Data Mining and Data Matching

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# Data Mining

- Business Taxes
- Individual Taxes

# Business Taxes

- Schedule C
- Delinquent Business Tax
- Nexus Creating Activities

# Schedule C

- Find Michigan residents that file a Federal Schedule C and have gross sales that exceed the Single Business Tax filing threshold. We have contacted taxpayers that have schedule C's greater than \$350,000 for the years 2003 and forward.
- The population will be determined by pulling information showing gross sales greater than the filing threshold and business income + depreciation expense + wages greater than \$60,000.

# Delinquent Tax

- Information from Federal business tax (1120, 1120S or 1065) returns is compared with the Single Business Tax file to identify businesses that may be delinquent.
- Verify gross receipts from the federal data is greater than our filing threshold. We do this to eliminate contacting companies that have zero liability therefore are not delinquent.

# Nexus Creating Activities

- Utilizes IRS data to contact out of state companies who make 1099-MISC, non-employee compensation payments to Michigan individuals, which may create nexus with Michigan.
- Review registration for other taxes in Michigan. If a company is paying withholding or use tax then an employee may create nexus for the company.

# Individual Taxes

- Delinquent (IRMF)
- K-1
- Miscellaneous credits
- Adjusted Gross Income (AGI/HHI)
- Individual Income Tax Return Processing
- Use Tax

# Individual Return Master File (IRMF)

- Utilizes IRMF data to identify 1099-MISC non-employee compensation issued to a Michigan address.
- Then we verify the individuals are paying Michigan income tax.
- When an account is identified as not paying Michigan income a letter of inquiry is sent asking for a MI-1040 to be filed.

# K-1 Project

- Utilizing information from the IRS, out-of-state shareholders and partners of one or more Michigan companies who received income payments (K-1's) from such companies.
- Have no records of filing MI income tax returns for the years in which they received the payments are contacted and asked to comply with Michigan Income Law by submitting the required returns with tax and interest.

# Miscellaneous Credits

- Michigan has a very narrow scope for Charitable credits.
- Individuals with AGI \$10,000 and below
- Have contributed cash of \$200 or more.
- They are contacted to substantiate the cash contribution. They can only claim the credit if it is to a qualified Michigan public institution.

# Adjusted Gross Income (AGI/HHI)

- Compares adjusted gross income reported on the MI-1040 to household income on the Michigan Homestead Property Tax Credit. Household income is adjusted for discrepancies.

# Individual Income Tax Return Processing

- First time filer and not in UIA file
- 1099R
- Capital Gains
- AGI is less than total wages on W2
- Foreign Earned Income Exclusion

# Use Tax

- Customs
- Data from non-government sources

# Customs

- Receive data on imported items from the U.S. Customs Department.
- Match individuals and businesses against Michigan Use tax filings.
- Contact individuals and businesses with a tax due letter if no Use tax remittance is found.

# Data from Non-government Sources

- Receive data from companies that ship products into Michigan. (e.g. furniture or cigarettes)
- We contact individuals regarding use tax or tobacco tax.
- We have received PDF file of invoices. We manipulate the data into a database format.
- We have received hard copy and scanned the data into a data table.
  - Scanning can create matching problems.

# Data Matching

- Voluntary Disclosure
- Untaxed Cigarettes
- Attribution

# Voluntary Disclosure

- Match new data against multiple data tables.
- Look for companies we have already contacted.
- Remove companies who already filing Michigan Taxes.
- Verify the companies they are not under audit.
- Name of company
- Federal Identification number
- Address
- Valid mailing address

# Untaxed Cigarettes

- Match on Name and Address
  - Keeps purchases for the same individual from different companies and time periods together
- Match on Name only
  - Finds individuals who have moved
- Match on Address only
  - Finds Women who have recently been married
  - Finds family members who are also purchasing (e.g. spouses or children)

# Attribution

- Use W2 or UIA data to find family members working for a company.
  - Match on Names
  - Match on Address (find spouses and children)