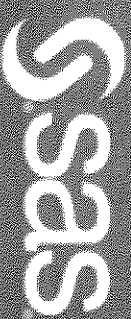


House File No. 174
How Tax Analytics and Business
Intelligence Tools can Enhance
Tax Collections

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SAS Institute
John Dolejsi, Government Account Executive



**THE
POWER
TO KNOW.**

About SAS

Our Company



- The world leader in business analytics software and its applications
- Business analytics software and its applications are our only business
- Continuous investment in research and development, 24% of revenue in 2010 (twice the industry average)
- US \$2.43 billion worldwide revenue in 2010; revenue growth every year since 1976
- More than 11,000 employees

About SAS Customers



- Most Leading Minnesota Businesses use SAS
 - US Bank, Target, Mayo Foundation
- State of Minnesota uses SAS
 - Customer for 25 Years
 - 10 State Depts including:
 - » Dept of Health – Provider Peer Grouping
 - » Dept of Human Services – Reporting and analysis
 - » OET – Resource management
- Revenue Agencies
 - US IRS
 - CA, FL, GA, IA, KS, LA, NM, MA, MT, NC, NY, OK, OR, PA, RI, VA, WI, WV

Government Tax Audit & Collections – Why?

- Revenue dept's collect about 83% - 90% of the tax revenues they are due → this is the TAX GAP
- Tax Gap – hundreds of millions of dollars that could:
 - Support vital public services
 - Reduce budget deficit without increasing taxes & fees for citizens
- Largest source of Tax Gap is *underreporting*
- 5%-10% of all returns could contain some type of underreporting

MN DOR Compliance Challenges

- DOR has completed seven distinct and successful compliance initiatives since 2002 but there is a down side to compliance initiatives:
 - More aggressive compliance actions pit revenue goals against customer service and taxpayer fairness (i.e., training, educating and informing).
 - The stress of meeting ambitious revenue goals is changing the culture of the agency - e.g. competition, instead of cooperation, among auditors and collectors.
 - Initiatives can be addictive – an easy way to avoid difficult budget or political problems.
 - Taxpayers have complained about increased frequency of audits and more aggressive stance of auditors and collectors.

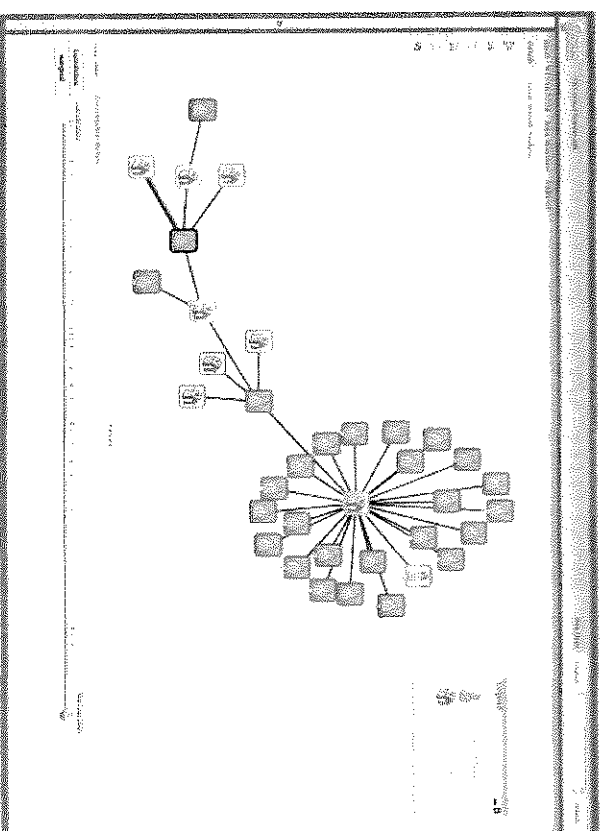
Number of Employee (FTEs) FY1996-2010



Fighting Fraud, Waste and Abuse

Innovation in Detection and Prevention

- An approach is needed – current efforts are becoming less effective
- An integrated, multi-faceted approach is necessary to keep up with compliance and fraud.
 - Business Rules
 - Clustering
 - Pattern Detection
 - Anomaly Detection
 - Predictive Models
 - Link Analysis



Government Tax Audit & Collections – Why?

- Advanced analytical techniques provides scores for identifying most likely under-filers or non-filers that can be ranked for the highest payback potential
- Advanced scoring capability can improve audit success by 20% - 50%
- Advanced modeling allows for:
 - Better rank ordering
 - Fewer unproductive audits
 - Higher collection revenues
 - Greater return on investment of your staff
- Also unusual behaviors (anomaly detection)

All Data will come from Existing Systems

Gen Tax System Progress:

- Contract with Fast Enterprises was signed February 2008

Rollouts One thru Three: Completed by Dec 2010

- Included the following tax types:

Sales and Use Tax, MinnesotaCare Tax, Petroleum Taxes, Insurance Taxes, Mortgage Registry & Deed Taxes, Withholding Tax, Corporate Franchise Tax, S-Corporation Tax, Fiduciary Tax, Partnership Tax, Other Business Income Tax, Rural Electric Co-ops, Drycleaner Tax, Individual Income Tax

Rollout Four:

To be completed February 2012 and will include the following tax types:
Cigarette Tax, Gambling Tax, Liquor Tax, Non-Tax Debt

Close to 50% of the data in Wisconsin analytic system comes from their Gen Tax system

State of Wisconsin Department of Revenue - Tax Audit and Collections

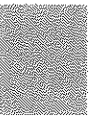
- Objectives: Improve audit and collection capabilities and integrate them with taxpayer education programs to increase compliance and reduce the tax gap
- Solution: Integrate data from existing systems (including Gen Tax), apply advanced analytics and operationalization into Gen Tax system for a more dynamic and comprehensive approach.

Finding a Forward-Looking Solution

"We needed a product that would bring all these processes together and do it in real time, but also give us the ability to look toward the future."

Roger Ervin
Secretary of Revenue
State of Wisconsin





The Goal

- Provide the Department of Revenue with the Most Powerful Tools to Maximize Tax Collections
- To Support their Vision

“Everyone pays the right amount, no more, no less.”