

Department of Revenue Update

presented to
House State Government Finance Committee
March 22, 2012

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Tax Compliance Initiative Update

- * Current Tax Compliance Initiative (2011 Legislation):
 - * Appropriates \$13.7 million in FY2012/13 to DOR for tax compliance, tax analytics and business intelligence tools.
 - * The target for revenues in FY2012/13 is \$82.3 million.

- * Last Fiscal Year, DOR collected \$15 billion in net revenues of which \$617 million (4.1%) was collected through Direct Compliance Enforcement Activities.

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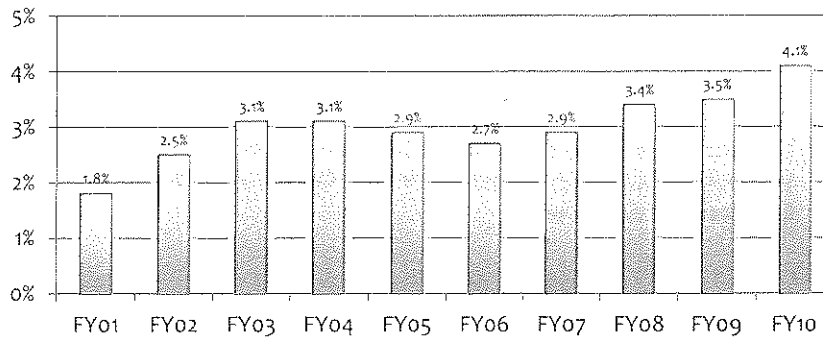
Tax Compliance Initiative Update, cont.

- * Increased tax compliance efforts show good results
 - * In December, we reported having collected \$6.1 million of the \$82.3 million revenue target for the FY 2012-13 biennium.
 - * As of the end of February, we have now collected \$15.5 million of the \$82.3 million, or about 19% of the revenue target.
 - * Most of the revenues were the result of increased efforts in the collection of delinquent debts.

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DOR Compliance Revenue as a Percentage of Total Net Tax Revenues

The percentage of DOR compliance revenue generated of the total net tax revenues collected from both voluntary and compliance efforts



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Tax Analytics Update

- * Contracts signed and DOR engaged approved vendors – December 2011
- * Tax Analytics—22 data analytics vendors were certified by the Department of Administration as part of the Master Contract
 - * 10 vendors were certified to provide tax analytics.
- * Prior to final certification, DOR initiated a team of agency leaders to prepare for and shape agency strategies around tax analytics.

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Tax Analytics Update, continued

- * We have met with 9 of the 10 vendors (10th vendor chose not to pursue tax analytics) to better understand the tools and techniques the vendors are offering.
- * The certified vendors offer a range of tools, including:
 - * Enhanced fraud detection
 - * Transfer pricing support
 - * Improved audit selection
 - * Collection case prioritization
- * We are in the process of reviewing and considering all options (demos and/or proof-of-concepts).

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Tax Analytics Update, continued

- * Proof-of-concepts are a key step to ensure that vendor solutions will enhance either the efficiency or the effectiveness of our compliance efforts.
- * Work Underway
 - * Fraud Detection/Prevention – with a goal of preventing invalid refunds
 - * Enhanced audit selection – with a goal of minimizing marginally productive audits and instead selecting those furthest from compliance.
- * Still Under Review
 - * Early Audit during processing
 - * Transfer pricing
 - * Flow through entity visualization
 - * Evaluation of statistical software to support analytics

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Tax Analytics Update, continued

First Proof-of-Concept

- * In our first proof-of-concept, we are working with a vendor that specializes in fraud prevention and identity theft.
- * How did this proof-of-concept work?
 - * DOR provided a file from a prior tax year to the vendor to analyze and identify potentially problematic refund payments.
 - * By using a prior tax year, the analysis by the vendor can then be compared to the Department's activities.
- * Early Results
 - * In reviewing the vendor's results presentation, we have determined that DOR's existing processes caught all nine of the scenarios presented.
 - * Even though the scenarios appeared suspicious from a data analytics standpoint, the refunds were caught and corrected by DOR's current processes.

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Tax Analytics Update, continued

Next Steps

- * Complete proof-of-concept studies
- * Continuously explore new opportunities to apply analytics.
- * Enter into contracts with vendors for services and tools where added-value can be demonstrated.
- * Incorporate chosen vendor solutions into ongoing operations

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Federal Reciprocal Program

Background

- * Legislation was passed in July 2011 that allowed us to implement the Federal/State Reciprocal Program with the U.S. Department of the Treasury.
 - * Allows us to offset Federal vendor payments for Minnesota state debts to include tax and other state agency debt.
 - * Allows for the offset of Minnesota payments to collect Federal non-tax debts.
 - * Expected Revenue from the Federal Reciprocal Agreement: \$4.3 million

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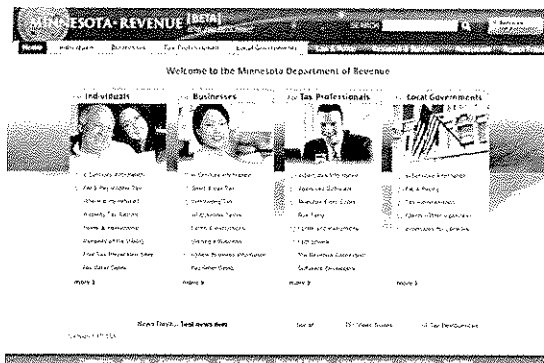
Federal Reciprocal Program, cont.

- * Completed steps that allowed us to fully develop the Federal Reciprocal Program
 - * Implementation of SWIFT – July 2011
 - * Rollout of non-tax debts into our integrated tax system – December 2011
 - * Rollout of Special Taxes into our integrated tax system – February 2012
- * In progress:
 - * Creating and testing file formats with SWIFT, DHS, and the Federal Treasury Department
 - * Implementing a faster, automated process to communicate and transfer files with the Federal Treasury Department
 - * Scheduled implementation of Federal Reciprocal Program: End of April 2012

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New website available May 1, 2012

www.revenue.state.mn.us



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