PERSONAL INCOME TAX REFUNDS STATUS

House Committee on Oversight Presentation

June 9, 2016

STATE OF RHODE ISLAND

DOR

DEPARTMENT OF REVENUE

Agenda

- Executive Summary

- Division of Taxation Status

- Refund Fraud

- STAARS Project

- Process Changes and Staffing

- Delay Factors

- Refund Delays in Other States

- Tax Season Comparison 2015 vs. 2016

- Timeline for Substantial Completion
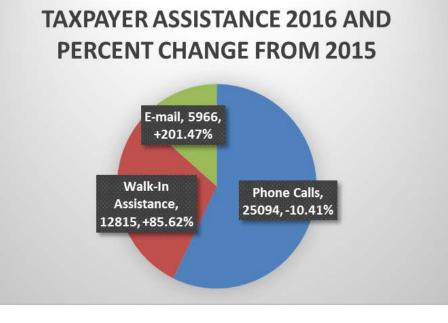
- Action Plan

- Future State

Executive Summary

- The Division of Taxation has processed **~395,000 refunds** as of 6/6/16 (95% of progress last year).

- Potentially **Fraudulent** tax refunds have increased by **84%** since 2015.

- Delay factors:
    - ✓Increased **fraud** experience
    - ✓Auditor General **review** mandate
    - ✓**STAARS** rollout
    - ✓Filing **Errors**
    - ✓Staffing challenges due to **increased calls/walk-ins/emails**

- **Substantively all** valid tax refunds filed as of 6/6/2016 should be issued by **mid-July 2016.**

- **Safeguarding** Taxpayer **information** and **money** is primary objective.

Division of Taxation Status

- Total Employee Count: **225**

- Employees in Personal Income Tax Section**: 23**

- Employees in Tax Processing Section: **21** FT; **12** Seasonal

- **2.5 Million** Filings (total)

- **58** Different **Taxes** and **Fees**

- 2015 FY Revenue: **$3.2 Billion**

- 2016 YTD Revenue: **$2.8 Billion**

- YTD Income tax **returns** filed:**562,916**

- YTD Income tax **refunds** filed:**393,629**

TAXPAYER ASSISTANCE 2016 AND PERCENT CHANGE FROM 2015

E-mail, 5966, +201.47%

Walk-In Assistance, 12815, +85.62%

Phone Calls, 25094, -10.41%

Refund Fraud

- At the **national** level, the IRS is taking **three times longer** to process refunds in 2016 due to fraud with an estimated loss of **$21 billion** due to identity theft.

- The IRS identified **42,000** fraudulent tax returns amounting to **$227 million** in the **first 1.5 months** of this tax season and confirmed **blocking $7 billion** in fraudulent returns last year.

- At the state level, **multiple states** have delayed processing of refunds.

- New RI tax technology allows for **advanced fraud analytics**.

- The DOR's primary objective is to **safeguard** taxpayer information and to ensure taxpayer refunds are **accurate** and **valid**.

STAARS Project

- $25 million new RI tax system implementation ("STAARS") approved and launched in 2013.

- Phases 1.0, 1.5 and 2.0 **on time** and **on budget.**
  - ✓ Shifts RI from manual paper batching and manual data entry to **scanning, data capture**, & **data verification**
  - ✓ **Automates** 36 miscellaneous tax streams, IFTA, Personal Income Tax, Collections and Initial Revenue Accounting

- Final Release 3.0 **launches 10/16** and **concludes 6/17.**
  - ✓ Includes Online Taxpayer Portal, online Letters of Good Standing, and automation of another 22 different tax streams

Process Changes and Staffing

- Current tax staff is working through a **live implementation** of the first personal income tax season with new STAARS system and preparing for the **final phase** of STAARS in FY 2017.

- Staff directly involved with **testing** and **received training** prior to implementation.

- New **cyber-fraud context** requires **constant real-time response** to fraud information shared between federal and state agencies, vendors, stakeholders, and the public.

- New technology shifts from **manual data entry** to state of the art **scanning/data capture** and limited key entry.

- **100% audit review** (above minimum thresholds) is demanding.

Delay Factors

"There has been a 400 percent increase in email phishing and malware incidents this tax season aimed at both taxpayers and tax professionals."
--Accounting Today, citing the IRS, February 18, 2016

- Suspected Refund Fraud

- Auditor General Mandate

- Tax Form Supplier Noncompliance

- New System Transition

- Staffing Challenges

- Taxpayer Error

Refund Delays in Other States

"All states with an individual income tax are experiencing refund delays due to high levels of refund fraud this tax season."

-- State Tax Today, citing Federation of Tax Administrators, March 14, 2016

State	Delay Length	Reason
Hawaii	16 weeks	Additional Safeguards
Colorado	8-10 weeks	Fraud
Idaho	7-11 weeks	Fraud and/or Entry Errors
Louisiana	8-14 weeks	Fraud
Virginia	2-8 weeks	Fraud and/or Entry Errors
West Virginia	2-3 weeks	Enhanced Security Measures
Missouri	10 weeks	Fraud
Georgia	6-8 weeks	Fraud
Vermont	10 days-4 weeks	Fraud
Michigan	2-3 weeks after ID quiz	Fraud
Maryland	General Delay-Not Specified	Fraud and/or Entry Errors

Tax Season Comparisons 2015 vs. 2016

		2015	2016
Total Tax Year Refunds Issued*		454,214	446,000
Total YTD Refunds Issued (6/6)		415,985	393,629
YTD % of Total Tax Year Refunds Issued *		92%	**88%**
YTD Refunds Issued % of Prior YTD (6/6)		100%	**95%**
Remaining to Work in Queues (6/6)	Fraud	12,758	25,522
	User Error	14,395	17,332
	Refund Confirms	N/A	2,297
	Scanning/Paper	2,349	14,066
Refunds Remaining in Queues (6/6)		29,502	59,217
Refunds Under Long Term Evaluation**		(13,952)	(13,952)
Net Refunds Remaining		15,550	45,265

*2016 Total Tax Year estimated using prior year statistical data.

**End of tax year number

Timeline for Substantial Completion

- Based on the tax returns filed as of 6/6/2016: 59,217 refunds remain in the queues; it is estimated that 13,952* will remain under **long-term evaluation** at year-end.

- Therefore it is estimated that **45,265**** refunds are expected to **actually be issued** in the short-term.

- Assuming 6,000 refunds are processed per week, we should reach completion by **mid-July**.

*Estimation based on tax year 2014 year-end data
**Estimation based on statistical analysis of previous three tax years

Action Plan

- **Redeployed** refund processing staff from Field Audit and Collections to Personal Income Tax and Tax Processing to cover surge in demand.

- Implementing select **audit filters** and **intelligent reductions** real-time to further **reduce queues**.

- **Increased** third-party **staff** from RSI and Fairfax (scanning) vendors.

- Keeping **taxpayers informed** by addressing media with full **transparency** and regular web updates.

- **Full staffing** expected to largely **clear** refund **queue**.

Future State: 2017

- Capturing **"lessons learned"** and modifying procedures accordingly.

- Assessing online **portal benefits** and **increased productivity** in STAARS 3.0.

- Addressing peak **staffing requirements** and **organizational caliber** by adding FTE's in 2017.

- Expanding **cyber fraud "unit"** to streamline process and further protect taxpayers.

- Have provided **legislation** to move W-2 filing to January 31 to enhance earlier fraud detection in 2017.

- Expanding **LEAN processes** beyond Letters of Good Standing to other processes.