

Idaho State Tax Commission 2014 Annual Meeting

December 9, 2014

Welcome & Introductions

Commissioner Tom Katsilometes

Year in Review

Chairman Rich Jackson



Evolve

Are We Evolving?

- Yes – GenTax[®] version 9 (our tax processing system)
- Three ingredients:
 - People
 - Process
 - Image



We Are Evolving

- People
 - The right person
 - The right expertise or knowledge base
 - The right job
 - The right attitude

We Are Evolving (*cont.*)

- Process
 - Testing stage of version 9
 - Data
 - Dashboards

We Are Evolving (*cont.*)

- Image
 - Negotiated rulemaking
 - Legislative process

We Are Evolving *(cont.)*

- Invest in our employees
- Collect good data so we can be a resource and make data-supported decisions



GenTax® Enhancement Mission (GEM)

- **July 2013** – Legislature appropriates \$5.2 million for tax processing system upgrade
- **Oct. 2013** – We begin working on the upgrade
- **Sept. 2014** – System upgraded from version 6 to version 9 (in some cases, version 3 to version 9)
- **Sept. 2014** – We begin working on next phase of the upgrade



Taxpayer Access Point (TAP) Go Live Dates

- **Nov. 17** – IFTA Renewal and Decal orders
- **Dec. 15** – W-2, 1099, and Form 967 filing
- **Jan. 15**
 - Return Filing
 - Payment Agreements
 - Permit Validation
 - Where's My Refund?
- **March 15** – Filing E911 returns



What Else is Going Live in January?

- Fraud Manager
- Data Analytics
- Treasury Offset (TOP)
- Levy Manager
- Data Management Tools

Public Survey

Conducted survey to get feedback on how well the agency provides information on taxes.

Survey Approach

- Sample selected from 783,911 2013 individual income tax filers.
- 1,800 survey cards mailed.
- 198 returned = 11% response rate.
- Resulting in a 90% level of confidence +/- 6% margin of error.
- Online survey results are not included here.

“Take Home” Messages from Survey

- A little over half of recipients used paid professionals to prepare their returns.
- Most indicated that the most useful information received was from:
 - Tax packets
 - Website
 - Formal letters
 - Their tax professional
- Nearly two-thirds were either undecided or didn't understand Idaho tax laws.
- More than 80% weren't aware of the Idaho Taxpayer Bill of Rights.

Office of Performance Evaluations (OPE)

Follow-up

Recommendations	Action
#1.1. Develop comprehensive taxpayer rights publication	In process. Will be published in January 2015.
#1.2. Develop Web page dedicated to taxpayer rights	Web page available at tax.idaho.gov . Includes: <ul style="list-style-type: none">• Link to Taxpayer Bill of Rights law• Brochures we use to inform taxpayers of their rights in specific circumstances.• Will include new taxpayer rights publication

Office of Performance Evaluations (OPE)

Follow-up *(cont.)*

Recommendations	Action
#2.1 Improve data management to help guide agency decisions	Hired research analyst to analyze and compile data for agency decision making
	Added new goal to our strategic plan: Expand and enhance how the agency thinks about, maintains, and uses data to inform internal and external decision making
	GenTax upgrade includes new data tools for collection & reporting

Future Plans – Part 1

Commissioner Ken Roberts

Data Emphasis

Strategic Goal #4: Expand and enhance how the agency thinks about, maintains, and uses data to inform internal and external decision making.

- Create and provide performance dashboards with leading and lagging key performance indicators to improve data-informed decision making.
- Institute a Data Governance Workgroup that establishes a system of data-related standards, processes, and expectations across the agency.
- Develop and implement Collection and Audit case selection prioritization models to make the best use of resources.
- Institute an Agency Research Agenda to support data-informed decision making for commissioners, staff, and external stakeholders.

Legislation, Rules & Policy

Michael Chakarun
Tax Policy Manager

Legislative Proposals

- Tax Commission's statutory charge:
*To recommend to the governor...such amendments, changes and modifications of the various tax laws necessary to remedy injustice and irregularities in taxation and to facilitate assessment and collection of taxes in the most economical and efficient manner.
63-105(10), Idaho Code*
- Narrowly construed

Legislative Proposals (*cont.*)

- Claim of right
 - Claim a credit if no benefit from deduction
- Annual conformity
 - Congressional action?
- Retirement benefits deduction
 - Add certain Foreign Service workers

Legislative Proposals (*cont.*)

- Domestic production activities deduction and Idaho net operating loss (NOL)
 - Similar treatment as under Internal Revenue Code
- Charitable contributions and Idaho net operating loss
 - Allow deduction for contribution carryover

Legislative Proposals (*cont.*)

- Sales of utility type vehicles (UTVs) and specialty off-highway vehicles (SOHV) to nonresidents
 - Add to list of vehicles that may be sold exempt from sales tax
- Repeal hand tool exception

Legislative Proposals (*cont.*)

- Requirements to electronically file income tax returns
 - Practitioners compensated for preparing 25 or more returns
 - Large corporations, partnerships, and S corporations
 - Goal to get developers to offer business e-file



Negotiated Rulemaking

- Where rules come from
 - Legislative changes
 - Tax Commission staff
 - Public input
- Are all rules negotiated?
- Negotiated rulemaking-Tax Commission role
- Negotiated rulemaking-Public role

***See How You Can Participate in Negotiated Rulemaking chart
at: tax.idaho.gov/rules***

Tax Policy Update

Tax Policy Reorganization

- Split into two groups
 - Appeals Unit
 - Policy Unit
- Why?
 - Reduce protest case resolution time
 - Provide better policy analysis and other services to stakeholders

Break for Refreshments

(10 minutes)



Thanks to the Idaho Society of CPAs

Tax Fraud & Identity Theft

Growing threats to our economy

Commissioner Ken Roberts
Moderator

Tax Fraud

Doreen Warren, Revenue Operations Administrator
Randy Tilley, Audit Division Administrator

What is Fraud?

- Tax return(s) filed with the ***intent*** to receive monetary gain to which the person is not entitled
 - Fraudulent returns can be identified in multiple ways, especially if patterns exist (fraudulent schemes)
 - Identity theft (purposely filing a return using another individual's information) is another form of fraud

****Fraud does not occur when someone makes a mistake on their return (such as a transposition)***

Common Tax Fraud Methods

- False documents
- Hiding income (cash under the table)
- Inflating/manufacturing business expenses
- Falsely claiming credits or deductions
- Tax identity theft!

Fraud Trends

- Most fraudulent returns are e-filed
- “Fraudsters” have become very persistent
 - Fraudulent returns sent all year
- Fraud attempts go beyond withholding

Confirmed Fraud Statistics

Calendar Year	Confirmed Returns	Amount Saved
2014	1,112	\$1,379,671 (so far this year)
2013	574	\$605,455
2012	139	\$664,000
2011	183	\$206,000

Identity Theft

What Is Identity Theft?

- Someone knowingly and wrongfully obtains and uses another person's personal data in some way that involves fraud or deception, for economic gain or benefits
- Personal data:
 - Social Security number
 - Name and address
 - Account numbers



Identity Theft and Taxes

1. Stolen tax identity

- One or more tax returns filed
 - Using someone else's identity

2. Dependent identity theft

- Falsely claiming dependents on a tax return

3. Employment identity theft

- Using an illegally acquired Social Security number to obtain a job

Background Statistics

- Individual income tax returns for tax year 2013
 - 760,000
- Idaho tax identity theft cases identified
 - 2013: 648 as of October 30, 2014
 - 2012: 170
 - 2011: 57
 - 2010: 18



Fraud Identification Process

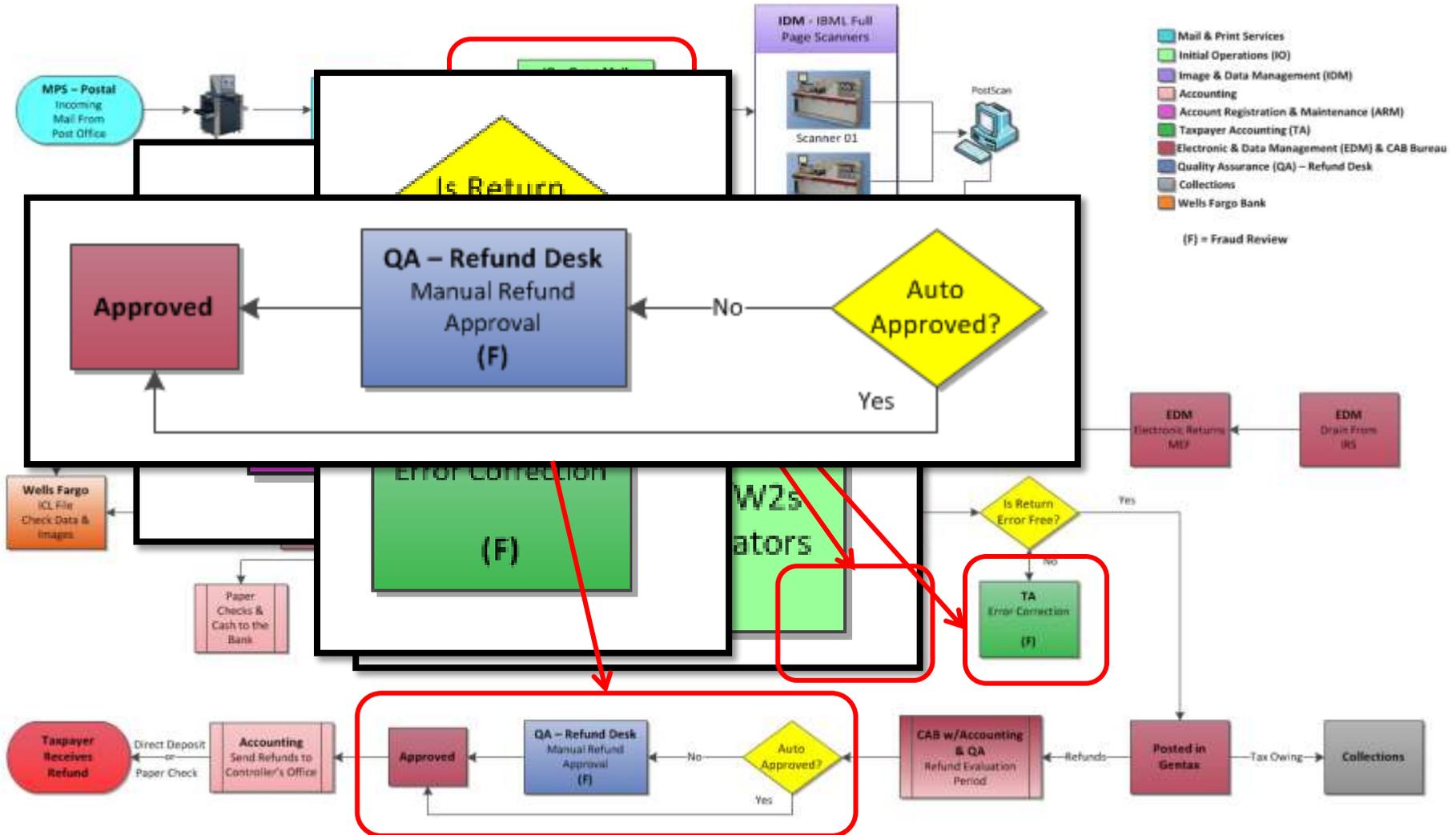
Fraud Flags

- Return discrepancies:
 - Unknown filer
 - W-2 issues
 - No response to request for information

How Do We Check for Fraud?

- Manual review (the “*gut feeling*”)
- Automated validations and edits
- External verification with other sources
 - Dept. of Labor
 - Fish and Game
 - Driver’s license

Income Tax Return Processing Flow Chart



Revenue Operations' Process

- Enhance collaboration between agency processing and enforcement sections
- Revenue Operations' processing section identifies a “suspicious” return and works with Audit's enforcement section to confirm the fraud return

Audit Process

Fraud

- Stop refund from issuing
- Determine if the fraud perpetrator is in Idaho
- Build case based on number and amounts of fraudulent returns
- Work with county prosecutors to obtain charges
- Testify in court if necessary

“Man gets prison in college student tax scam”

KTVB, KTVB.COM 8:06 a.m. MST November 15, 2013

SHERMAN, Texas -- A Dallas man must serve nearly four years in prison and repay almost \$1.5 million in a college student tax returns scam.

Prosecutors in Texas on Thursday announced the sentence for 39-year-old Moses Mukuka. He's from Zimbabwe but formerly lived in Pocatello, Idaho.

Mukuka last November pleaded guilty in a scheme targeting Idaho State University students. He pleaded guilty to conspiracy to file false claims for a refund and making a false claim against the U.S.

Prosecutors say Mukuka faked being an accounting student and offered to do income tax returns for \$10. The paperwork was submitted with false information to increase the refund. Mukuka kept part of the money and refused to show clients their returns.

Mukuka, who was sentenced Tuesday, will be deported after serving his prison term.

“Nampa woman gets prison for tax fraud”

BY ROCKY BARKER Boise – *The Idaho Statesman* August 30, 2014

A Nampa woman was sentenced Friday to five years in prison for filing a false state tax return.

Judge Christopher Nye sentenced Linda Wenzelburger, 60, to a three-year fixed sentence, followed by two years indeterminate. Nye also ordered Wenzelburger to pay \$240.50 in court costs. In July 2012, Wenzelburger filed a false state tax return to the State of Idaho using her former employer's business information to falsify a W-2 form in attempt to receive a large tax refund. In addition to the falsified W-2, Wenzelburger also forged a letter from a non-existent CPA that said the accountant for her previous employer had notified her that she had additional wages from the previous year that were unreported.

An Idaho State Tax Commission investigation determined that the filing and additional forms submitted by Wenzelburger were fraudulent.

Wenzelburger also was convicted in Ada County for felony Grand Theft in 2004 for embezzling money from an employer.

“Ms. Wenzelburger has a history of trying to take things that aren't rightfully hers,” said Canyon County Prosecutor Bryan Taylor. “Thankfully, investigators were able to catch her before she could defraud the State and its taxpayers for money that she didn't earn.”

Identity Theft

- Communicate with victim
- Verify our identity to the victim and the victim's identity to us
- Provide resources to assist the victim in reporting and resolving stolen identity
- Follow up with victim as we manage the case through tax return processing
- Communicate with fraud unit as needed

Filing After Identity Theft – Federal

- File Form 14039 Identity Theft Affidavit
- The IRS will issue an Identity Protection Personal Identification Number (IPPIN)
 - Federal use ONLY
 - Six-digit number assigned to ID theft victims
 - New IPPIN each year
 - Stops any federal return(s) using that Social Security number without the IPPIN

Filing After Identity Theft - Idaho

- Attach a copy of the federal Form 14039 Identity Theft Affidavit **and** a copy of the driver's license
 - Staple to back of a paper return, or
 - Attach a PDF document to an e-filed return
- New Forms 14039 will need manual review and validation
 - Returns may be delayed in processing

Idaho Identity Theft Web Page

- tax.idaho.gov/i-1135.cfm
 - Links to other agencies' information
 - Links to important forms and brochures
 - Including Form 14039



Agency Impact

- Fraud and identity theft cases are increasing
- Receiving more data from external sources with limited resources to pursue
- Pulling resources to work fraud and identity theft cases results in:
 - Fewer audits
 - Slower return processing

Building Fraud Detection Infrastructure

Efforts to Date to Fight Fraud

- Methodically build infrastructure
 - Tightened return edits and reviews
 - Isolate fraud detection workload
 - Train staff in fraud detection
 - Participate in national suspicious filer working group
 - Partner with states, IRS, and software developers

2015 Fraud Prevention

- Processing Year 2015
 - Enhanced Analytics
 - Score returns to identify potential fraudulent returns
 - Fraud Manager
 - Build specific fraud edits
 - Taxpayers may receive letters to validate identity
 - Validate taxpayer identities to prevent disclosure
 - Request up to 3 pieces of information validating identity

Future Fraud Prevention Efforts

- Expand scoring of returns based on additional data sources
 - Public and internal data and other states' data
- Incorporate a process that requires a taxpayer to take a quiz to verify identity when certain criteria are met

Future Fraud Prevention Efforts *(cont.)*

- One-time fee and annual maintenance funding required
 - Must be fully developed, tested, and implemented
- Additional resources are required to enhance fraud detection capabilities

Future Plans – Part 2

Commissioner Ken Roberts

Future Prevention Efforts

- GenTax[®] maintenance enhancement to receive regular maintenance updates
 - Security:
 - Can be proactive in applying security improvements
 - Agency impact:
 - Less user training required to maintain production levels and taxpayer services
 - Less system downtime due to fixes/repairs
 - Stay current on fraud detection tools
 - Taxpayer services:
 - Expand online applications based on business need

Future Prevention Efforts (*cont.*)

- Fraud & identity theft staff
 - Staff to handle increasing workload
 - Software upgrade for additional functionality we don't currently have

Future Prevention Efforts (*cont.*)

- Replace imaging equipment
 - Machines process 1.2 million transactions and help deposit 800,000 checks
 - Key components no longer manufactured or supported after Dec. 31, 2014

Questions



Thank You

for taking part in our
2014 Annual Meeting