



Leveraging Online Data to Enhance Voluntary Compliance and Strengthen Enforcement

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The New York State Department of Taxation and Finance's approach to online service is comprehensive, and extends beyond the collection of taxes and taxpayer data to real-time approaches to improving voluntary – and involuntary – compliance.

In New York State, 96 percent of the \$87.4 billion in taxes remitted is done so willingly by taxpayers. The remaining four percent is collected through enforcement means – audit, collections and criminal investigations - which requires roughly 70 percent of our staff resources at a cost of \$325 million.

While our enforcement programs unquestionably support the rate of voluntary compliance, an increase of just one percent in voluntary compliance equates to nearly \$900 million in taxes, which translates into administrative savings of \$3.25 million.

A one percent increase in e-filing means nearly 250,000 fewer returns would need to be converted from a paper to electronic format.

Meeting Challenges through Online Services

New York State's 70 Online Services serve as the foundation for voluntary compliance. More than 70 percent of the 24 million returns processed are filed electronically, and 91 percent of the 9.4 million personal income tax returns submitted this year were e-filed.

We now have more than one million individual taxpayer online accounts with an additional 900,000 business accounts.

With online filing as a starting point, New York State now offers a suite of online services that empower a broad spectrum of taxpayers to conduct virtually all their tax business online. The simplicity and efficiency of these types of services benefit taxpayers and tax administrators alike, including:

- millions of dollars saved in processing costs each year
- time and resources saved by taxpayers who have moved from paper to electronic filing
- fewer taxpayer errors, which are expensive and time consuming to resolve

Our online interface is modeled on e-commerce software used by commercial retailers. Leveraging both shopping software and customer relationship management platforms, we treat taxpayers as customers.

We can quickly add new online service applications, while implementing an Account Summary to view taxpayer activities with the Department and accommodating the rapidly growing number of online account users.

The architecture of our website is flexible enough to make modifications easy to implement. The systems we build are extendable and facilitate continuous improvement, rather than relying on rebuilds in order to accommodate new services.

The Online Services environment has fundamentally changed the way the Department does business. In fact, many of our new filing and registration processes are designed exclusively for the web.

Enhancing Voluntary Compliance

The expansion of our online environment – and accompanying availability of real-time data – enables us to focus an array of our “big data” efforts on boosting voluntary compliance.

Last year, we established our Bureau of Voluntary Compliance, which combined our existing taxpayer guidance, data analysis and clear language teams with a new Tax Analytics Solution Center.

The new Solutions Center uses data analytics and predictive modeling to identify solutions before problems occur.

By partnering the data and communications disciplines, the Department is identifying opportunities to increase voluntary compliance – again at a significant savings to the Department with accompanying improvements in taxpayer service and convenience.

We are attempting to move away from the traditional model of taxpayers seeking information as they need it by identifying leverage points where we can provide context-driven answers and tips – ideally before the questions are even asked.

We are pursuing opportunities to:

- use data analytics to better understand and service taxpayers
- target messaging based on their unique filing circumstances
- further integrate clear language principles and new media into our daily operations

We have historically used third-party sources of data in our enforcement program. We are now using external data – and operations – for the benefit of the taxpayers before compliance issues occur.

Strengthening Enforcement

The data collected through our online services is also critical to our enforcement-based tax collections activities, particularly when combined with third-party data sources.

Our Case Identification and Selection System (CISS) utilizes predictive intelligence and analytics to determine when to process a refund request and when to queue the return for further analysis.

The process is embedded into the processing flow of incoming tax return data, allowing the Department to automatically review each of the 10 million personal income tax returns filed annually before refunds are issued.



In contrast to the relatively fixed algorithms drawn from historical data, CISS is designed to both continually improve its accuracy and stay ahead of emerging fraud threats.

CISS is saving New York taxpayers \$370 million annually by stopping fraudulent and erroneous refunds.

The analytics are also employed to review withholding claimed on income tax returns for an additional \$45 million of annual savings.

CISS was recently extended to our collections program. The analytics compare each collections case with profiles of past similar cases. The result is predictive models that indicate which cases should be prioritized and which collection options are mostly likely to be successful.

Early in the application to collections, analytics are generating an additional \$80 million of savings each year.

Though CISS can review individual returns and facilitate the development of predictive models, it is limited in its ability to identify patterns among multiple returns. Our Fraud Analysis and Selection Team (FAST) – created in 2012 – analyzes income tax returns to uncover large-scale refund fraud schemes, many involving paid tax preparers.

FAST excels at using technology to identify questionable returns, such as those from the same preparer, with common IP or email addresses, or with similar refund amounts and credit claims.

The Department's return-on-investment has been significant. In less than two years, the team's scheme identification has resulted in \$150 million in denied refunds, at an annual staff cost of less than \$500,000.

We are now in the process of furthering the uses of business analytics to other tax types, as well as developing the capacity to extend the parameters considered in identifying refund schemes within the return processing workflow.
