

STATE of INDIANA



INDIANAPOLIS, IN 46204-2253

DEPARTMENT OF REVENUE

INDIANA GOVERNMENT CENTER NORTH
100 N. SENATE AVE

September 17, 2010

Mr. Adam Horst
Director
State Budget Agency
212 State House
Indianapolis, IN 46204

Dear Director Horst:

Please accept this report as the Indiana Department of Revenue's justification request for funds to support and drive programs and initiatives in fiscal years 2012 and 2013. These allocation requests will enable the Department to fulfill its mission, which has consistently been established since 2006 as:

Administering tax laws in a fair, consistent and efficient manner that supports the State and local budgets, which allow Indiana to be a highly desirable place to live, work and do business.

In fiscal years 2009 and 2010, the Department of Revenue implemented its technology strategy proposed in its last biennial budget request. That implementation, along with other ongoing efforts regarding compliance, enforcement and electronic filing, have enabled the Department to provide better customer service and more efficient and effective operations, and to meet budget reversions.

Today, the Department is operating with more than 100 fewer employees than it had in place in 2008 and has continued to keep costs restricted – spending approximately 9 percent less than it was spending in FY 2008, and 14 percent less than in FY 2005. Government efficiency, while providing core services effectively even in these lean economic times, has continued to be our central operating mantra – identified among our employees as *Quality That Counts*. In short, we have remained true to what is most important in operating our agency on behalf of the state.

The following pages outline how the Department plans to continue to provide *Quality That Counts* for the citizens of Indiana.

STRATEGIC PROGRAMS AND INITIATIVES:

The Department's strategic objectives – as outlined below – work collectively to accomplish our most core purpose: to effectively and timely collect the tax revenue due to the state and counties. However, these objectives can only be achieved through a combination of advanced technology, training, qualified staffing, communication and supportive legislative policy.

- **Information Technology** – Over the past two years, the Department has made headway in reshaping its IT area, from dislodging a costly and long-imbedded consultancy firm, to implementing a data warehouse that allows for better data retrieval for audits and collection analysis, to digital imaging that captures data from paper tax returns and downloads it to the state's returns-processing system. This latter initiative has enabled the Department to drastically cut the amount and cost of hiring outside keypunch resources (manual data entry) and has greatly improved the quality of the data collected from paper returns by eliminating the element of human error inherent in manual data entry. The imaging initiative also has made tax return data and imaged forms available electronically to DOR customer service representatives, enabling them to resolve taxpayer issues far more quickly. In addition, the Department has put significant promotional emphasis on driving more taxpayers to electronic/online filing.
- **Collections** – The Department continues to place strong emphasis on its collections efforts. In addition to ensuring the collections division remains fully staffed in spite of increasing budget reductions, the Department has also continued with its monthly best-information-available billings to businesses delinquent in trust taxes. This practice, along with using three professional collection agencies, garnishing wages and levying bank accounts as appropriate, in addition to implementing the registered retail merchant certificate renewal program, has enabled the Department to increase trust-tax collections over the past few years.
- **Enforcement (compliance)** – The audit function within the Department is now under new leadership and has been divided into three key areas of focus: desktop audit, field audit and audit management. Newly implemented, the desktop audit function will perform specific basic reviews of taxpayers' returns to ensure proper compliance. The reviewers will search for proper use of credits, payments of use tax, identification of non-filers, etc. The audit-management function will also help the Department make better decisions by using statistical sampling to select audit cases. This audit component will help to ensure fair, consistent audit selection and weed out the risk of human error.
- **Electronic filing** – The Department continues to place a dedicated and focused promotional and educational emphasis toward encouraging more Hoosier taxpayers to file their individual-income tax returns electronically. On average, the Department has seen electronic filing of all types (e-File through the Internal Revenue Service and I-File via the State of Indiana) increase by about 15 percent each year.
- **Taxpayer feedback & education** – The Department continues to seek out taxpayer and practitioner feedback in many avenues to determine what information they need, what self-serve tools they prefer or would like to see put into place and how the Department can improve its customer service. In turn, this feedback is converted into taxpayer-driven outreach efforts, education and online tools that enable the Department to respond to taxpayer needs and concerns in a timely and effective manner and help increase the odds of greater taxpayer compliance.

DIVISION DESCRIPTIONS:

Serving a population of approximately 3.6 million taxpayers requires significant resources. To serve that mass stakeholder group – which is made up of individual taxpayers; business taxpayers; more than 2,000 tax practitioners; more than 25 interest groups (associations, etc.) and multiple state agencies within Indiana and outside – it takes seven centralized divisions. Those divisions include Enforcement, Human Resources, Legal, Public Relations, Special Tax and Support Administration, Tax Administration and Finance.

All seven Department divisions are responsible for contributing to the daily operations of the agency, and in contributing to the five strategic programs outlined previously (see p. 1). Below are brief descriptions of each of the divisions:

- **Enforcement** – Manages audit, collections and special investigations.
- **Human Resources** – Manages all employment issues, recruitment and training.
- **Legal** – Manages tax rulings, hearings, protests and inheritance tax issues.
- **Public Relations** – Manages all internal and external communication, community outreach and education, market research and all form and tax booklet development.
- **Special Tax and Support Administration** – Manages all special taxes (i.e., fuel tax and cigarette tax), Motor Carrier Services, returns processing and information technology.
- **Tax Administration** – Manages all aspects of individual and business tax (formerly compliance), including Taxpayer Services.
- **Finance** – Manages budgeting, procurement and internal audit and financial reporting.

Three adjunct sections also report to the Commissioner: Collections, Taxpayer Advocate and Tax Policy. Below are brief descriptions of each:

- **Collections** – Manages all aspects of inbound and outbound collection efforts, as well as oversight of Registered Retail Merchant Certificate (RRMC) expirations and renewals, sheriffs' collections, etc.
- **Taxpayer Advocate** – Manages complex tax issues needing specialized attention when other departmental channels have been unable to resolve a tax matter and fulfills the legislatively mandated taxpayer advocate responsibilities. The Taxpayer Advocate's office also acts as the agency's liaison with the Internal Revenue Service regarding federal security data.
- **Tax Policy** – Manages policy research, legislation and tax rulings.

ACCOMPLISHMENTS:

Since the last biennial budget request in 2009, the Department has achieved a number of key milestones in helping the state recover outstanding tax revenue and set the agency up to succeed – to the state's benefit:

1. **Collections** – In FY 2009 and 2010, the Department continued to make strides in collecting delinquent taxes, particularly trust taxes. A systematic combination of collection practice changes, a commitment to optimal collection staffing levels and new legislative tools have contributed to this more effective and efficient means of collecting on delinquent tax debts. Between fiscal years 2005 and 2010, trust-tax collections have increased by 57 percent. In FY 2005, the Department collected more than \$90 million in delinquent trust taxes. In FY 2010, the Department collected more than \$157 million for the same.
2. **Imaging implementation** – Though electronic filing is the most efficient and effective means of processing tax returns, the Department nonetheless still processes more than one million paper returns each year – for individual income tax returns alone. To make processing of paper returns more efficient, the Department successfully implemented new imaging technology in FY 2009 to optically capture and digitize paper-return data. As a result, the Department has reduced the need for and cost of outside keypunch services, reduced the risk of human data-input error and reduced physical warehouse requirements to store paper returns. Now paper returns are digitally imaged into the Department's returns-processing computer system, allowing for improved quality of data and instant access to taxpayer returns for more timely customer service.

3. **Online self-serve taxpayer tools/products** – Based on taxpayer feedback, the Department has made several improvements in its INtax business-tax filing and payment tool, increasing usage by more than 12 percent in the last part of FY 2010 alone. Also, the Department has continued to receive high satisfaction ratings from taxpayers who use I-File. In fact, on average, more than 90 percent of taxpayers say they are satisfied or very satisfied with I-File, would use it again and would recommend it to a friend or family member. The Department also launched a New and Small Business Education Center in late 2008, which has attracted the attention of more than 50,000 users and more than 1,000 subscribers – as well as kudos from the Federation of Tax Administrators and the Midwest Association of Tax Administrators as an innovative tool. In addition, the Department also launched a new online payment plan tool that allows taxpayers to set up their own payment plans 24/7 (prior to a warrant stage). This new tool recently earned the “Cool Idea” recognition from the Federation of Tax Administrators.

4. **Electronic filing** – Concerted and strategic marketing efforts have provided a continual trend of at least 5 percent or greater increase annually in overall electronic filing (a combination of the state’s I-File program and the IRS’s e-File programs). In FY 2005, overall electronic filing was about 46 percent of all filing types. Today it makes up approximately 65 percent of all filing types. The Department estimates that it costs the state about \$2 million/year operationally to process approximately one million paper returns, but only about \$150,000 operationally to process more than two million electronic returns. In addition, taxpayers who are set up for direct deposit and file their returns electronically usually see their refunds deposited in an average of four to seven days, compared with an average of four to 10 weeks for paper-filed returns.
 - **I-File** – Marketing efforts, satisfaction surveys and technology improvements continue to drive growth uptake of the state’s I-File electronic-filing tool. In FY 2009 and FY 2010, I-File usage increased by more than 10 percent each year. These increases are marked by high satisfaction statistics from taxpayers. In the FY 2010 annual satisfaction survey, more than 2,800 taxpayers participated, indicating that 97 percent were satisfied or very satisfied with I-File, 97 percent would use it again and 97 percent would recommend it to a friend or family member.
 - **WH-1s & WH-3s** – The Department has worked diligently to accommodate WH-1 and WH-3 electronic filing, which enables the Department to electronically cross-check employer withholding statement data with individual income tax return data. Effective Jan. 1, 2010, all business taxpayers must file their WH-1s electronically, and beginning Jan. 1, 2011, all business taxpayers must file their WH-3s electronically.

5. **Customer service** – In FY 2010, the Department handled more than 140,000 phone calls during the tax season, compared with 114,000 for the same time period last year, and yet the agency’s hold times went down from over four minutes on average in 2009 to less than three minutes on average this year. In addition, deflected calls, those callers not able to get through the first time, were down 42 percent this year, compared with the 2009 tax season.

6. **Training** – In FY 2010, approximately 104 employees representing six different divisions received basic job-application training to uniformly and consistently perform their jobs. As of FY 2010, over 80 percent of Department frontline employee jobs have formalized training modules in place. These training modules will also be used for new-hires and remedial training in those sections. At the end of FY 2010, 67 percent of Department employees had defined, measureable, customized, customer-focused processes in place in their areas. Online computer-based training was also expanded in FY 2010 as virtually all supervisory and manager-level courses were converted to this efficient, self-study method of learning.

CHALLENGES:

Currently, the Department faces the following challenges in achieving its stated objectives below:

- **Limited means** – As Indiana has felt the impact of the national economy, so have all state agencies. The Department is fully understanding of and accepting of the challenge ahead to operate within limited means. However, we also view this as an opportunity to find ways to work smarter, faster and better. The Department is fully committed to working within the means available and encouraging its employees to continue to do the same.

- **Expansion of taxpayer uptake of self-serve automation** – Both cost efficiency and enhanced customer service can be achieved by broader taxpayer use of the Department’s established automated, self-serve tools, such as I-File (individuals), INtax (businesses), the online payment plan tool, online payment services, online business-opening registration, etc. These tools provide a true win-win: It enables taxpayers to quickly, easily and often-times at no cost complete important tax-compliance transactions, and it enables the Department to more quickly process those transactions and provide much-improved customer service, better data quality, vastly reduced costs in savings and vastly improved efficiencies on the whole. However, there are still a large number (more than one million) of individuals and businesses that do not use these automated tools available to them via the Department’s Web site 24/7.
- **Retaining experienced and knowledgeable employees** – The Department’s employees are fully committed to providing effective service to Indiana citizens as we work through these financially difficult times. Through positive attitudes, training and enhanced tools, our employees have accomplished greater service levels than in past years. The agency still faces the challenge of retaining those employees and their institutional knowledge. In addition, retirements continue at the same pace within the Department, creating an additional challenge as that institutional knowledge must be recreated and replaced.

OBJECTIVES:

The Department’s key objectives (see also p. 1) are to infuse a culture of customer focus throughout the agency, improve operational efficiencies and effectiveness and ensure we have the right people in the right jobs. Those objectives will be addressed through better decision-making tools, staff proficiency, greater effectiveness in collection efforts from the billing to the pursuit stages and continued use of technology that delivers better results and improved customer service at lower cost and in less time.

ORGANIZATIONAL CHART:

See Attachment A.

REDUCTION/ELIMINATION OF PROGRAMS:

The following programs are in progress of being reduced, some in hopes of phasing out all together in the future:

Keypunch – The imaging technology has enabled the Department to reduce the number of keypunch (data entry) contract staff needed, and thus the state’s annual costs.

Warehousing of returns – The imaging technology data-capture capabilities have enabled the Department to reduce its warehouse spacing and retrieval process. Now that paper returns can be optically digitized and that data transferred directly into the Department’s computer system, there is no need to physically store vast numbers of paper returns in the warehouse, nor is there a need to retrieve most paper returns for tax analyst review. Due to the imaging technology, those returns are now electronically available instantaneously to Department representatives throughout the state.

Printing and mailing – Due to higher levels of electronic filing each year, the number of booklets and forms printed and directly mailed to paper filers has been significantly reduced (by 20 percent or more) in the past biennial period. In addition, the Department has converted some form mailing programs to “on request” programs only, where taxpayers call in and request the forms as needed. This eliminates a long tradition of proactively mailing forms and booklets to taxpayers on existing lists. This has enabled the Department to better measure demand (and monitor customer push-back) to determine the need for proactive mailings on some projects. (To date, request demand has been low and customer push-back has been even lower.) In addition, the Department has directed form requests directly to its Web resources – where taxpayers can use automated tools (instead of completing forms by hand and mailing them in for manual processing) and download printable forms 24/7. These measures have reduced the Department’s printing and mailing budget by thousands of dollars in FY 2009 and FY 2010, compared to previous biennial budget periods.

REALLOCATION OF FUNDS:

None.

The Indiana Department of Revenue is appreciative of your time and consideration of our funding request and justification. In the words of our Honorable Governor Mitch Daniels, we seek to “buy results, and not merely fund the cost of running government.” If any further information is needed, or if I can provide additional insights or data, please contact me at your earliest convenience. We are happy and honored to serve the people of Indiana.

Sincerely,

A handwritten signature in black ink that reads "John Eckart". The signature is written in a cursive style with a large, looping initial "J".

John Eckart, Commissioner
Indiana Department of Revenue

APPENDIX A

