

Utah State Tax Commission

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July 26, 2017



\$9.3 billion in FY17*

Education Fund 43%
(\$3.999 billion)
(88% is Individual Income tax)

General Fund 24%
(\$2.179 billion)
(86% is state sales tax)

Fiduciary Funds 17%
(\$1.598 billion)

Transportation 12%
(\$1.192 billion)

Other 4%
(\$332 million)

- Revenues deposited
- Recorded in taxpayer accounts
- Distributed to various funds

**Preliminary results*

Constitutional Authority

- ◆ Article XIII, Section 6
 - The State Tax Commission shall administer and supervise the tax laws of the State.
 - Four commissioners appointed at staggered 4-year terms
 - Oversee the tax appeals process
 - Management agreement with Executive Director
 - Oversees daily operations



Statutory Requirements

Title 59 – Revenue & Taxation

- ◆ Chapter 2 – Property
- ◆ Chapter 5 – Severance on Oil, Gas, and Mining
- ◆ Chapter 6 – Mineral Production Withholding
- ◆ Chapter 7 – Corporate Franchise & Income
- ◆ Chapter 8 – Gross Receipts

Statutory Requirements

Title 59 – Revenue & Taxation (2)

- ◆ Chapter 9 – Taxation of Admitted Insurers
- ◆ Chapter 10 – Individual Income
- ◆ Chapter 12 – Sales & Use
- ◆ Chapter 13 – Motor & Special Fuel
- ◆ Chapter 14 – Cigarette & Tobacco



Statutory Requirements

Title 59 – Revenue & Taxation (3)

- ◆ Chapter 15 – Beer
- ◆ Chapter 17 – State & Local Revenue
- ◆ Chapter 21 – Mineral Lease Funds
- ◆ Chapter 26 – Multi-Channel Video or Audio Service
- ◆ Many other taxes found in Title 59

Statutory Requirements

Additional Code Sections

- ◆ In addition to administering Title 59, the Tax Commission has significant statutory duties in the following titles.
- ◆ Title 10 – Collection of:
 - Municipal Energy Sales & Use tax
 - Municipal Telecommunications tax



Statutory Requirements

Additional Code Sections (2)

- ◆ Title 19 – Collection of:
 - Underground storage tank fee
 - Used oil fee
 - Waste tire recycling fee

- ◆ Title 41 – Administration of:
 - Registration/Plates/Title of motor vehicles
 - Registration/Title of ATV's as agent for Parks & Recreation
 - Licensing and regulation of motor vehicle dealers
 - Release of state impounded vehicles/Sale of state impounded vehicles

Statutory Requirements

Additional Code Sections (3)

- ◆ Title 69
 - Collection of 911 emergency service charges
- ◆ Title 72
 - Aircraft registration
- ◆ Title 73
 - Registration/Title of boats as agent for Parks & Recreation



Taxation & Motor Vehicle Legislation Changes Every Year

- ◆ Over 150 bills reviewed each year
- ◆ Over 90 bills to be implemented each year

Year	Reviewed	Passed
2015	152	91
2016	172 + 2 Special Session	91
2017	161	106
Total	487	288



TAX COMMISSION ORGANIZATION & SERVICES PROVIDED

Mission

Collect revenue for the state and local governments and to equitably administer tax and assigned motor vehicle laws.



Organization Chart

Office of the Commission

Executive Director's Office & Administration

Auditing

Processing

**Taxpayer
Services**

Property Tax

Motor Vehicle

**Motor Vehicle
Enforcement**

Organization

- ◆ 732 employees focused in 6 functional divisions
- ◆ The main office is in Salt Lake City
- ◆ Tax assistance is also available by phone, the internet, and at Branch Offices in Ogden, Provo, and Hurricane
- ◆ State-run Motor Vehicle Offices operate in 8 counties, and support is provided to the remaining 21 county-run offices

Office of the Commission

- ◆ Establish Tax Policy Based on Statute
- ◆ Provide an Appeal Process to Taxpayers
- ◆ Economic & Statistical Unit
- ◆ Internal Audit
- ◆ Public Information Coordination



Office of the Executive Director

- ◆ General administration of the divisions
- ◆ Financial Accounting and Distribution of the state's tax & motor vehicle revenues
- ◆ Collect and Distribute local revenues
- ◆ Data Security
- ◆ Fraud Detection and Investigation
- ◆ Budget & Planning
- ◆ Human Resources oversight
- ◆ Help Desk & Support
- ◆ Project Improvement Oversight



Auditing

- ◆ Enhance voluntary taxpayer compliance through return review and audit functions
- ◆ Identify individuals and businesses that are not licensed or filing tax returns
- ◆ Ensure that tax laws are understood by taxpayers to maintain a high level of compliance



Auditing Measurements

- ◆ Audits ensure compliance and understanding of tax laws
- ◆ Audit satisfaction rating is 4.3 of 5 (with 5 being best)
- ◆ More income tax audits being completed in fewer hours

Processing Measurements

- ◆ Timely deposit of state revenues within 24 hours of receipt – 99% of the time
- ◆ Over 3.5 million tax transactions received, recorded, and archived each year
- ◆ Timely filed income tax returns are processed within 14 working days – 99% of the time
- ◆ Income taxes filed electronically – 87%
- ◆ Business taxes filed electronically – 69%

Taxpayer Services

- ◆ Educate the taxpayers on their responsibility to file and pay taxes
- ◆ Assist the taxpayer in filing their returns
- ◆ Answer taxpayer questions about tax requirements & account balances
- ◆ Collect delinquent taxes through notices, personal contact, payment agreements, garnishments, and liens



Taxpayer Services Measurements

- ◆ Taxpayer service phone calls 320,600 – 91% answered by agent (others answered by automated FAQ or abandoned)
- ◆ Cost of collection on delinquent accounts – 2% (.02¢ for every delinquent dollar collected)
- ◆ Delinquent cases cleared – 105,900

Property Tax

- ◆ Certify county and entity tax rates
- ◆ Oversee statutory compliance of county property tax assessment procedures
- ◆ Provide technical assistance and training to counties
- ◆ Appraise centrally assessed properties (mines, utilities, etc.)
- ◆ Provide personal property auditing services



Property Tax Measures

- ◆ Provide training and update of local entities on property tax requirements
 - 8,500 training hours
- ◆ Timely valuation of centrally assessed companies – 100% completed on time
- ◆ Percent of counties NOT receiving corrective action orders (in compliance)
 - 100%
- ◆ Personal property tax audits – contracts with counties
- ◆ 1.25 million parcels are valued statewide
- ◆ Certify over 550 taxing entities

Motor Vehicle

- ◆ Title, register, and license motor vehicles, vessels, aircraft and off-highway vehicles
- ◆ Collect all taxes and fees associated with vehicle registrations
- ◆ Maintain records of title ownership and lien-holder
- ◆ Register over 3.0 million vehicles
- ◆ Verify motor vehicle safety inspection, and county emission requirements
- ◆ Register and collect fees for interstate motor carriers



Motor Vehicle Measurements

- ◆ Process over 4.8 million motor vehicle transactions – highway vehicles, off-highway, boats, snowmobiles
- ◆ Customers served in 20 minutes or less – 91.5%
- ◆ Online renewals – 64% completed directly by citizens or through third-party stations
- ◆ Motor Vehicle Phone Call Center – 531,200 calls with 98% answered by staff (others answered by FAQ or abandoned)

Motor Vehicle Measurements - continued

- ◆ In addition to Transportation Funds collected from registration fees:
 - Sales tax revenue - \$80.3 million
 - Property tax revenue - \$186.5 million

Motor Vehicle Enforcement

- ◆ License and regulate motor vehicle businesses
- ◆ Investigate motor vehicle theft and fraud
- ◆ Enforce motor vehicle registration laws
- ◆ Investigate unlicensed motor vehicle businesses
- ◆ Take complaints from the public

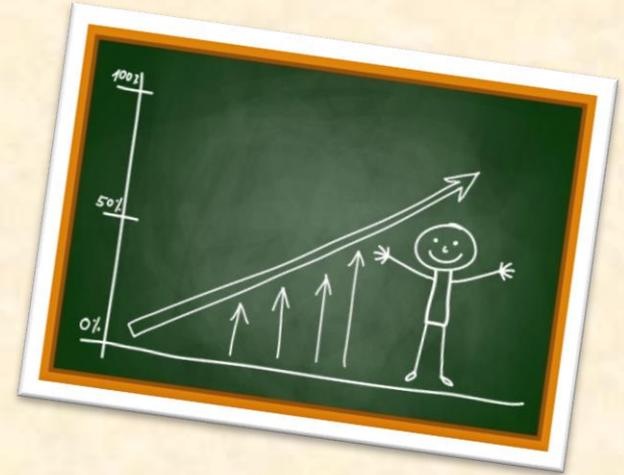


Motor Vehicle Enforcement Measurements

- ◆ Motor vehicle industry business licenses issued each year is 14,600
- ◆ Motor vehicle cases investigated – 3,948 last year
- ◆ Recovered stolen vehicles – over 195 vehicles valued over \$1.2 million

Tax Commission Improvement Summary

- ◆ New computer system is providing efficient and consistent applications for all tax types
- ◆ Business processes have been evaluated and updated as each tax system was developed
- ◆ Improve efficiency, customer service, citizen access to file and review account information
- ◆ Handling growing volumes of transactions with less resources



System Development and Implementation Timeline

2006

April 2006 – January 2007

Individual Income Tax & Fiduciary

2007

January 2007 – May 2007

Imaging

2008

March 2007 – March 2008

Sales and Use Tax

April 2008 – March 2009

Withholding, Corporate, Partnership, Streamlined Sales Tax, IFTA, IRP, and SFU

2009

April 2009 – December 2009

Taxpayer Access Portal

2010

January 2010 – October 2010

Fuels and Other Taxes

2011

January 2010 – June 2011

Sales Energy, Tobacco Taxes, & TAP for Business Taxes

January 2011 – June 2011

Muni-Telecom, Emergency Services, Gross Receipts, Insurance Premium, Self Insurers, Lube Oil, SEB Tax, Brine Shrimp, Cable Satellite Tax

2012

January 2012 – June 2012

Oil & Gas Conservation, Oil & Gas Severance, Mineral Severance, Inheritance, Beer Tax, Radioactive Waste, Property Rail Car

2013

June 2012 – October 2013

Motor Vehicle and Motor Vehicle Enforcement

2014

November 2013 – November 2014

Imaging Update, Tax Version 9 upgrade (Web)

2015

January 2015 – June 2015

Remittance Processing update, VOIP Technology installation, Property Tax Systems development

2016

July 2015 – April 2016

Property Tax Systems Completed (Centrally Assessed +2)

2017 & Beyond

May 2016 – Present

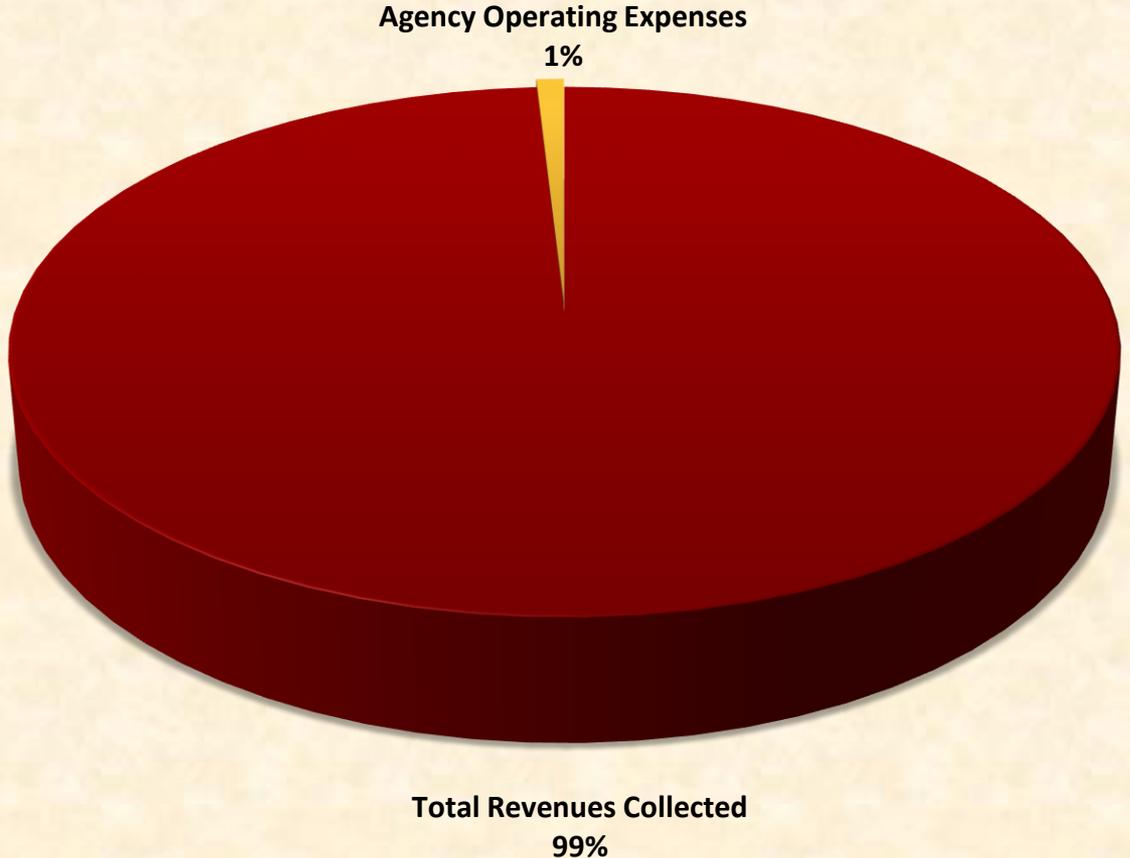
Maintenance, legislative changes, quarterly updates, and periodic version updates



FUNDING SOURCES & EXPENSES

Revenues Collected vs Agency Operating Budget

\$9.3 billion collected
\$86.5 million expenses

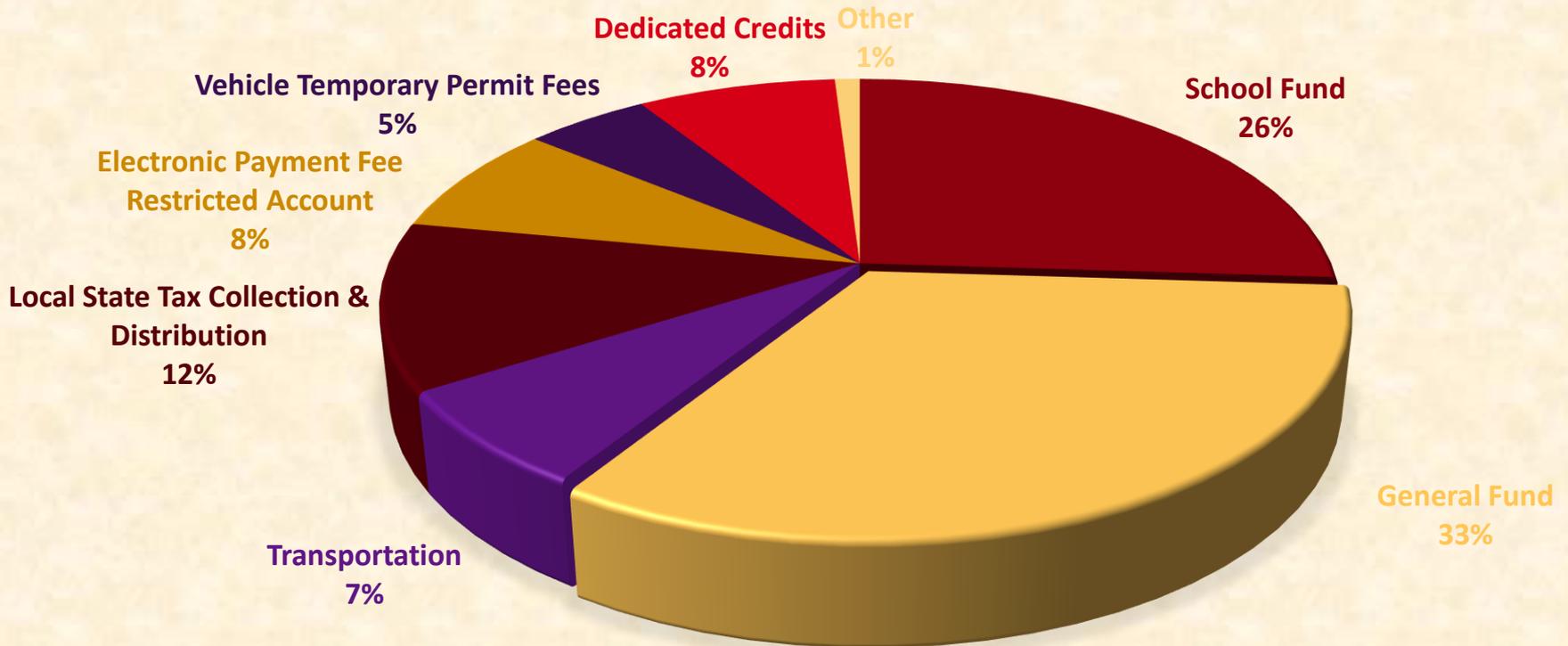


Tax Commission Total Budget FY18 Appropriation

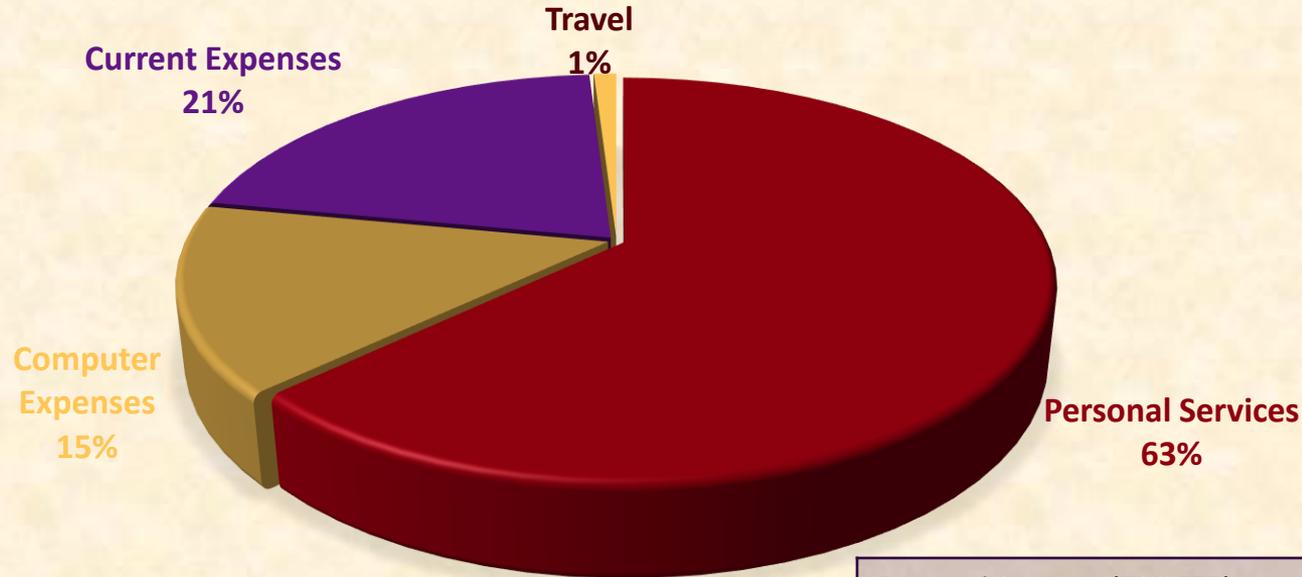
Tax Administration – Operating Budget	\$	86,463,200
Tax License Plate Production	\$	3,286,500
Tax Liquor Profits Distribution	\$	5,597,400
Tax Rural Health Care Distribution	\$	<u>218,900</u>
	Totals \$	95,566,000

Operating Budget – Funding Sources

All major state funds and other programs that the Tax Commission collects revenue for contribute to the agency's cost of administration.



Operating Budget Expenses – \$86.5 million FY2018 Appropriated



Personal Services (732 FTE)

Current Expenses (printing, postage, buildings, banking fees)

Computer Expenses (system, maintenance, DTS infrastructure costs)

Travel

License Plate Production – \$3,286,500

Revenues and expenses to pay for the production of vehicle license plates and decals

Funding Source	Expenses
Dedicated Credits	Current Expense (plate, decals, and distribution costs)

Tax Liquor Profits Distribution – \$5,597,400

Funds appropriated to the Tax Commission are a pass-through to law enforcement agencies to augment alcohol and drug related programs.

Funding Source	Expenses
Alcohol Beverage & Substance Abuse Enforcement Fund	Pass-through Expense

Tax Rural Health Care Distribution – \$218,900

Funds appropriated to the Tax Commission are a pass-through to local entities authorized for rural hospital related costs.

Funding Source	Expenses
General Fund	Pass-through Expense



As the state's revenue agency, we need to always be vigilant when performing our responsibilities.



Control number		A1B2		9		10 Dependent care benefits							
Employee's first name and initial			Last name			Sub		11 Nonqualified plans		12a See instructions for box 12			
Jane A			DOE					12b		D 1,500.00			
123 Elm Street			Anywhere Else, PA 23456					13 Social Security		DD 1,000.00			
								14 Other		P 4,800.00			
F Employer's address and ZIP code													
16 State		Employer's state ID number		18 Other wages, tips, etc.		17 State income tax		19 Local wages, tips, etc.		20 Local income tax		21 County name	
PA		1235		50,000		1,535		50,000		750		MU	

W-2 Wage and Tax Statement
Form 990-SS
Copy B—To Be Filed With Employer's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.
Department of the Treasury—Internal Revenue Service

TAX FRAUD DETECTION

In 2015, we saw a substantial increase in attempted income tax refund fraud.



We implemented a new Fraud Manager in January 2015.

The goal was to detect and stop fraudulent refund claims before taxpayer money was lost.

We identified a potential breach or data intrusion in a third-party tax preparer's database.



We notified the taxpayers and asked them to complete an ID Verification Process.

We received responses that they hadn't yet filed their returns.

We began researching the possibility of identity theft.

Through the Fraud analytics we identified questionable returns.



We immediately stopped all income refund processing.

We proceeded with further analytics and identified additional fraud schemes.

We then issued a press release telling citizens the refund process was stopped and getting a refund would be slower than in previous years.



We also notified other states of our findings.

Our Chairman, John Valentine, was asked to testify before the Senate Finance Committee chaired by Senator Orrin Hatch.



SENATE BILL 250

Even with the success of the new fraud manager, there were still time delays in processing valid refunds.



In response to those delays, the Utah Legislature passed SB 250 to speed up the return process while improving refund security.

SB 250 lets our system quickly compare employer and employee withholding data to ensure a match.

SB 250 Requirements

- ◆ Employers must now submit employee wage information:
 - Electronically
 - By January 31
- ◆ Employer submitted information includes:
 - All W-2's
 - Required 1099R's
 - TC-941R, Utah Annual Withholding Reconciliation
- ◆ SB 250 prohibits the acceptance of paper forms from employers

New Filing Date

The new employer filing due date is January 31.

This is the same date employers must provide their employees with their W-2 and 1099R information.

Aligning the due dates makes the process more efficient for employers.



Refund Processing

Per SB 250, we will not issue individual income tax refunds before March 1 unless:

- ◆ We have received both employee and employer required forms and returns, and
- ◆ All forms and returns received must match.
- ◆ Millions of dollars in fraudulent refund requests have been identified and stopped.

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DATA SECURITY

Today's Challenges

In the ever-changing world of technology, developing a strong security program can help the agency protect the sensitive data entrusted to it by the citizens.

Hackers are always looking for vulnerable systems to either steal information or attack others. In addition, hackers use other means to gain access to information such as phishing emails, social engineering, and other ways to disguise themselves.



Data Security Threats

- ◆ International Organized Intrusions
- ◆ Organized Crime
- ◆ Hacktivists (thrill of doing it)
- ◆ Social Media, Phishing, etc.



Breaches

- ◆ Cyber theft is the fastest growing crime in the United States
- ◆ ID's stolen from 15.4 million U.S consumers in 2016
- ◆ U.S. cyber crime damage costs were \$3 trillion last year
 - Expected to hit \$6 trillion annually by 2021
- ◆ More than \$80 billion spent nationally on cybersecurity in 2016

Government & Military Breaches

- ◆ Every state has been hit in the past year
- ◆ Over 13.8 million records breached in 2016
- ◆ 215,345 records breached so far this year
- ◆ The IRS has been hacked twice already in 2017
 - February – 464,000 SSN's stolen/100,000 used to successfully access eFile PINs
 - April – Over 100,000 student taxpayers had personal information stolen from a breach in an online tool they used to apply for financial aid



ID Theft Records

- ◆ Names
- ◆ Addresses
- ◆ Social security numbers
- ◆ Drivers licenses
- ◆ Birthdate
- ◆ Credit/Debit card data
- ◆ Health records
- ◆ Educational records



Data Security Prevention

- ◆ System updates
- ◆ Application updates
- ◆ Monitoring audit trails
- ◆ Firewalls
- ◆ Security profiles
- ◆ Security training
- ◆ Two-factor authentication
- ◆ Restricting access



Responsibility

- ◆ Hackers, fraudsters, and ID thieves potentially have 3 or more records on each of us
- ◆ We must be vigilant in securing citizens' data.
- ◆ We must make security one of our most important goals.



Summary - Comments - Questions

