

Table of Contents
2014-15 Biennial Budget - Revenue Dept

Agency Profile - Revenue Dept	1
Tax System Management	3
Accounts Receivable Debt Collection	6

Mission:

The Department of Revenue's mission is to gain compliance with tax laws to fund public services in Minnesota.

Statewide Outcome(s):

Revenue supports the following statewide outcome(s).

Efficient and accountable government services.

Context:

The Minnesota Department of Revenue works together with individuals (3.7 million), businesses (610,000), local governments (over 3,300), federal and state agencies, tax professionals, and others to administer 28 state taxes, collecting \$17.3 billion annually to fund state and local programs.

The Department also collects non-tax debt owed to state agencies, oversees the uniform application of property tax laws by local governments, administers state property tax refund and relief programs, and makes state aid payments to counties, cities, towns, and special taxing districts through 32 different state programs.

Revenue collected by the Department is allocated through the budget process to fund education, health care, roads and bridges, transit, parks and trails, prisons, public safety, job training, economic development, local government services, and other programs.

Complex tax laws, changing technology, taxpayer expectations, and shifting demographics all influence the Department's efforts to administer the tax system. Key issues for the Department include formulating recommendations for changes to tax laws that meet expectations for fairness, simplicity, and economic growth; improving outreach and education efforts that promote and increase voluntary compliance; and expanding the use of tax analytics to increase the efficiency of enforced compliance. A fully implemented integrated tax system and new website lay the groundwork for further improvements to customer interfaces, process improvements to taxpayer services, and reduced cost of compliance for taxpayers and the state.

To carry out the work of the Department, the budget is organized into two major programs, Tax System Management and Debt Collection Management. Tax System Management includes activities such as compliance support; appeals, legal services and tax research; property tax administration and state aids; tax payment and return processing; tax compliance and enforcement; and technology development. The Debt Collection Management program includes tax and non-tax debt collections.

The Department employs over 1,500 full-time equivalent staff organized into five major clusters: business taxes, individual taxes, tax policy, and administrative support functions, and MN.IT employees provide technical support.

More information on the Department, including its mission, values and strategies, can be found at: <http://www.revenue.state.mn.us>.

Major Taxes: In fiscal year 2012, most state tax revenue was generated by the Individual Income Tax (\$7.8 billion), Sales and Use Tax (\$4.3 billion) and the locally administered property taxes (\$7 billion, not included in state total revenues).

Other State Taxes include: corporate franchise tax; estate tax; motor vehicle sales tax; motor fuels excise taxes; alcoholic beverage taxes; cigarette taxes and fees; tobacco products taxes and fees; controlled substances tax; mortgage registry tax; deed transfer tax; bingo, raffle and paddlewheel tax, pull-tab and tip-board tax; combined receipts tax; pari-mutuel taxes; insurance premium taxes; health care surcharges; MinnesotaCare taxes; mining occupation tax; net proceeds tax; state property taxes; motor vehicle registration tax; air flight property tax; aircraft registration tax; rural electric co-ops; solid waste management taxes; and metropolitan landfill fees.

Strategies:

The Department has identified seven strategies to achieve our vision - "Everyone voluntarily reports and pays the right amount of tax: no more, no less."

1. Provide taxpayers with the information, education and services they need to voluntarily comply.
2. Create operational efficiencies and design systems that align with changes in technology, secure taxpayer information, and meet taxpayer and employee needs and expectations.
3. Continuously improve our ability to identify non-compliant taxpayers and assist them with returning to compliance.
4. Listen to our customers and incorporate feedback into the way we provide information and deliver services.
5. Identify, develop and recommend changes to the tax laws that help make the tax system fair, simple, reliable, and competitive.
6. Foster a productive, innovative and healthy work environment for all employees.
7. Measure the cost and effectiveness of our activities, add value, and make improvements to achieve positive outcomes.

Measuring Success:

The Department is committed to using performance measures to drive desired outcomes, measure progress and ensure productivity goals are met. Eleven outcome measures capture the progress the agency is making toward meeting its mission and vision. These key measures will be used to track, evaluate and communicate the Department's progress.

1. Percent of taxpayers that file and pay on-time
2. Taxpayer satisfaction
3. Percent of electronic taxpayer transactions
4. Taxpayer security
5. Non-compliant taxpayers brought into compliance
6. Sustained compliance rate
7. DOR employee turnover rate
8. Employee satisfaction
9. Return on investment (ROI) compliance vs. voluntary
10. Participation in DOR outreach activities
11. Appeals cases settled and age of unresolved cases

Revenue

Tax System Management

<http://www.revenue.state.mn.us>

Statewide Outcome(s):

Tax System Management supports the following statewide outcome(s).

Efficient and accountable government services.

Context:

The Tax System Management program provides the technologies and human resources required to administer tax laws. This program includes providing tax information services, filing and paying services, property tax and state aid administration, and tax compliance and enforcement activities. A successful Tax System Management ensures individuals, businesses and policy-makers have:

- the information they need to accurately, conveniently, and voluntarily fulfill their tax filing and paying obligations;
- the confidence that everyone is paying the proper amount of taxes, no more or no less; and
- accurate, impartial and complete information to make informed decisions about the structure and operation of the state revenue system.

The activities that contribute to successful Tax System Management include:

Tax Compliance and Enforcement - Tax compliance and enforcement activities include voluntary compliance efforts like taxpayer information and service, and enforcement efforts such as taxpayer audits and investigations. Tax compliance divisions include Corporate Franchise Tax, Criminal Investigation, Individual Income Tax and Withholding, Sales and Use Tax, and Special Taxes.

These activities serve Minnesota individual and business taxpayers, tax preparers and attorneys, local tax administrators, legislators and staff.

Key compliance and enforcement issues include: providing taxpayers with the information they need to voluntarily comply; keeping pace with changing technology and tax laws; responding to taxpayer inquiries, in the format desired by the taxpayer (phone, email, social media, walk-in); auditing a wide range of individual and business taxpayers; and identifying and pursuing non-compliant taxpayers while efficiently using public resources.

Tax Payment and Return Processing - Tax Payment & Return Processing activities primarily involve processing paper and electronic tax returns, refund requests, and payments sent to the Department. Tax Payment & Return Processing mainly serves individual and business taxpayers and other state agencies.

Key payment and return processing issues include: keeping pace with changing technology; making sure there are convenient, secure ways to accurately file and pay Minnesota taxes; processing tax returns, payments and refunds accurately, efficiently and on time; performing “early audits” of tax returns during processing to ensure they are correct and accurate; issuing timely refunds, depositing and applying payments; and ensuring fraudulent returns are stopped.

Appeals, Legal Services & Tax Research - Appeals, Legal Services and Research activities support tax policy development and tax administration by: analyzing proposed tax legislation and providing revenue estimates of proposed law changes; working with taxpayers to review and resolve tax appeals; providing government officials with the research information they need to make decisions on tax law and policy; providing timely and accurate legislative support and advice; and ensuring the agency complies with state and federal laws and rules.

Appeals, Legal Services and Research serve individual and business taxpayers, tax administrators, the governor, legislators and staff, state agencies, local governments, and nonprofit organizations.

Property Tax Administration & State Aid - Property Tax Administration and State Aids activity is responsible for the oversight and administration of Minnesota's property tax system. While counties are responsible for the direct administration of property taxes, the Department oversees and supports the counties by: providing education, guidance, and assistance to county assessors, auditors, and treasurers; overseeing local property tax administration to promote compliance and uniformity; administering a range of specific functions and programs; and collecting, analyzing, and providing data to stakeholders.

Property Tax Administration & State Aids serves taxpayers, local administrators, and state policymakers. These activities promote equity and uniformity throughout the state's very complex property tax system.

Compliance Support - Compliance support provides the overall strategic and organizational support to the agency. Compliance Support activities include the commissioner's office, human resource management, facilities, strategic organizational planning, budget planning, financial and performance reporting, tax policy development, taxpayer rights advocate, tax publications and other taxpayer and employee communication.

Compliance Support serves all department employees, individual and business taxpayers, tax administrators, the governor, legislators and staff, state agencies, and local governments.

Technology Development, Operations & Support - The Department relies heavily on technology to meet our agency's mission, vision and strategies.

Information technology (IT) functions are now provided under a service agreement with MN.IT Services. MN.IT@Revenue supports the Revenue Department with hardware, software and information technology professionals to run the systems and develop the software applications. This activity serves all employees of the Department and external customers of the agency by providing technology solutions that facilitate tax administration, provide for security of taxpayer data, which meets a unique set of regulatory requirements, and supports continuous business improvements in taxpayer services.

For more information about the activities performed by the Tax System Management Program, go to: <http://www.revenue.state.mn.us/Pages/budget.aspx>.

Strategies:

The Department has identified seven strategies to achieve our vision - "Everyone voluntarily reports and pays the right amount of tax: no more, no less." The Tax System Management Program identifies key activities to support the department's strategies below:

1. Provide taxpayers with the information, education and services they need to voluntarily comply.
2. Create operational efficiencies and design systems that align with changes in technology, secure taxpayer information, and meet taxpayer and employee needs and expectations.
3. Continuously improve our ability to identify non-compliant taxpayers and assist them with returning to compliance.
4. Listen to our customers and incorporate feedback into the way we provide information and deliver services.
5. Identify, develop and recommend changes to the tax laws that help make the tax system fair, simple, reliable, and competitive.
6. Foster a productive, innovative and healthy work environment for all employees.
7. Measure the cost and effectiveness of our activities, add value, and make improvements to achieve positive outcomes.

Results:

Performance Measures	Previous	Current	Trend
A. Percent of Taxpayers that File and Pay On-Time	92.0%	93.4%	Improving
B. Percent of Electronic Taxpayer Transactions (File, Pay and Refund)	70%	72%	Improving

Performance Measures	Previous	Current	Trend
C. Return on Investment (ROI) – DOR (Compliance and Voluntary Revenue)	\$121 to \$1	\$134 to \$1	Improving
D. ROI – Voluntary Tax Revenue	\$389 to \$1	\$422 to \$1	Improving
E. ROI – Direct Compliance Tax Revenue	\$5.76 to \$1	\$6.17 to \$1	Improving
F. DOR Employee Turnover Rate	3.2%	3.7%	Increasing
G. DOR Website Visits (monthly average)	442,437	442,551	Stable
H. DOR Website – Average Visit Duration	372 seconds	255 seconds	Improving
I. Percentage of Appeals Cases Greater than One Year of Age	40%	34%	Improving
J. Number of Bill Analyses prepared by the Research Division in connection with tax legislation.*	663	602	Stable

Performance Measures Notes:

Headings: Previous = FY 2011, Current = FY 2012

- A. Percent of Taxpayers that File and Pay On-time is an indicator of voluntary compliance by Minnesota taxpayers. The ability of taxpayers to file and pay, accurately, on time, implies that they have the information, education and services they need to voluntarily comply.
- B. The percentage of transactions in three key areas- returns, payments and refunds- that occur electronically. Completing required transactions electronically is associated with a variety of efficiencies (lower costs) for both taxpayers and the DOR, including lower labor costs, reduced mailings and increased accuracy.
- C. Total DOR Return on Investment compares total revenues collected by the department versus the department's total budget. The return on investment provides an indication of the overall efficiency of the DOR; a higher or increasing ROI indicates the department is using taxpayer resources efficiently to meet the agency's mission. In FY 2012, the total DOR return on investment was \$134 of revenue for every budget dollar spent.
- D. In FY 2012, Voluntary Tax Compliance (taxpayers that voluntarily comply) efforts produced \$422 for every budget dollar spent on these activities.
- E. In FY 2012, Direct Compliance and Enforcement activities (auditing, criminal investigations, non-filer activities) generated \$6.17 for every budget dollar spent in these activities.
- F. DOR Employee Turnover is measured each fiscal year (FY 2010 and FY 2011 reported). Low and declining turnover rates could suggest that the DOR is meeting the expectations of employees for a productive, rewarding work environment.
- G. DOR Website Visits are measured monthly each calendar year (CY 2011 and CY 2012 reported). This metric identifies the use of the DOR public website by taxpayers.
- H. DOR Website – Visit Duration is measured each calendar year (CY 2011 and CY 2012 reported). Typically lower visit durations would indicate web site users are able to more efficiently obtain information.
- I. Percentage of Appeals Cases Greater than One Year of Age. As the DOR becomes more efficient at processing taxpayer appeals, the percentage of cases greater than one year of age drop.
- J. Number of Bill Analyses is computed using biennial figures (FY 2008-2009 vs. FY 2010-2011).

Revenue

Accounts Receivable Debt Collection

<http://www.revenue.state.mn.us>

Statewide Outcome(s):

Accounts Receivable Debt Collection supports the following statewide outcome(s).

Efficient and accountable government services.

Context:

The Department of Revenue's Account Receivable Debt Collection program handles delinquent tax debts and other public funds (or "non-tax debts") referred to the Department by other public agencies. The program's mission is to collect the right amount of debt and promote future compliance at the lowest cost to the public.

This program serves taxpayers, tax administrators, state legislators, tax professionals, local elected officials, state agencies, local governments and other public entities.

The Department started collecting non-tax debts on behalf of other agencies in 1994, when legislation provided for a centralized debt collection service within the Agency's Collection Division. In 2008, new legislation expanded this service to include debts referred by courts and local governments in Minnesota. The division now collects 171 types of fees, fines, taxes, and payments for a range of public agencies including:

- 35 State Agencies: Including the Departments of Agriculture, Corrections, Commerce, Employment and Economic Development, Health, Human Services, Labor and Industry, Military Affairs, Natural Resources, Public Safety, Revenue, Transportation, Veterans Affairs, and the Pollution Control Agency
- Four State Boards: State Campaign Finance Disclosure Board, Minnesota Client Security Board, Iron Range Resource Rehabilitation Board, and State Veterans Home Board
- Two Public Employee Retirement Associations: Minnesota State Retirement System and Public Employees Retirement Association
- Six Independent State Government Entities: Attorney General's Office, Secretary of State's Office, Minnesota Individual Affairs Council, Minnesota Office of Higher Education, Minnesota State Lottery, and Minnesota State Colleges and Universities system
- Ten Judicial Districts: District Courts in each of the state's 87 counties, which are divided among ten judicial districts for administration purposes
- One pilot program working with County Debt: Hennepin County Restitution

Strategies:

To collect delinquent tax and non-tax debts, the Account Receivable Debt Collection program:

- responds to debtor inquiries about how much they owe, and why they owe;
- educates debtors about filing and payment requirements;
- corrects errors in department tax or penalty assessments;
- negotiates and monitors payment plans;
- encourages voluntary compliance through billing notifications and taxpayer education; and
- uses enforced collection efforts for non-compliant debtors; including issuing liens and levies against debtors' assets, revoking professional licenses, and seizing assets.

Results:

Performance Measures	Previous	Current	Trend
Return on Investment (ROI) - DOR AR Collection Efforts	\$11.69	\$13.71	Improving
Accounts Receivable Tax Debt Revenue Collected	\$234 M	\$257 M	Improving
Non-Tax Debt Revenue Collected	\$48 M	\$49 M	Stable
Net Delinquent Accounts Receivable Tax Debt	\$451.6 M	\$461.5 M	Stable

Performance Measures Notes:

Previous – FY 2011

Current – FY 2012

In FY 2012, for every dollar spent in Accounts Receivable Debt Collection activities, the DOR collected \$13.71.