

PROGRAM DESCRIPTION

Department of Revenue

HB Section(s): 4.01

Program Name - Income Tax Bureau

Program is found in the following core budget(s): Taxation

1a. What strategic priority does this program address?

Embed Transformational Purpose; Focus on Service Culture; Partnerships; IT Roadmap

1b. What does this program do?

The **Income Tax Bureau** administers income tax laws to help Missouri citizens meet their tax obligations by processing returns, reviewing returns for fraud, issuing refunds and notices of adjustment and billings, responding to customer inquiries and administering debt offset programs for income, fiduciary, partnership taxes and property tax credit claims.

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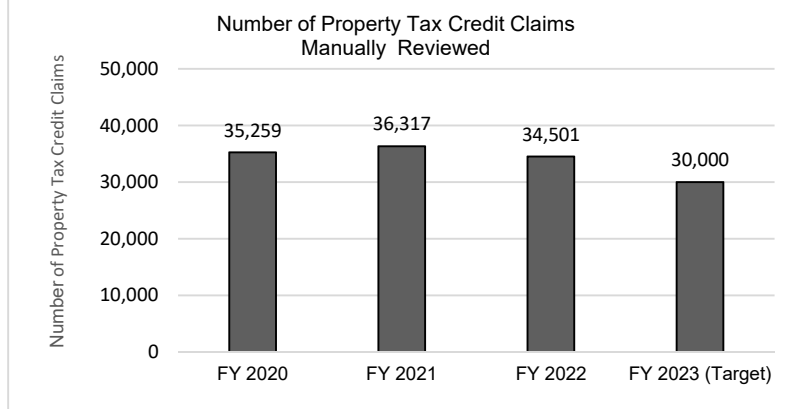
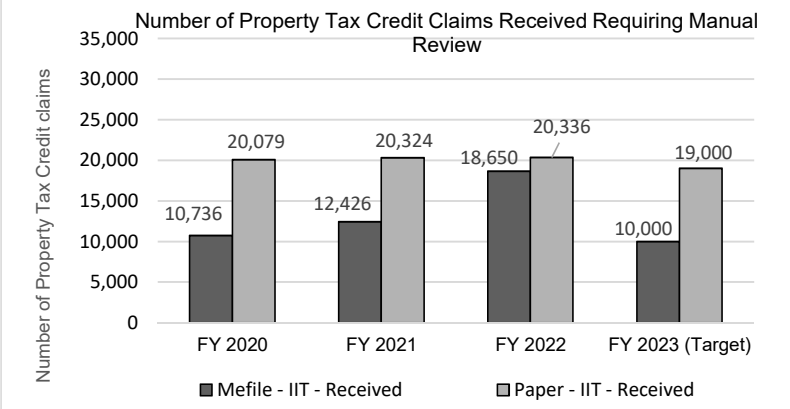
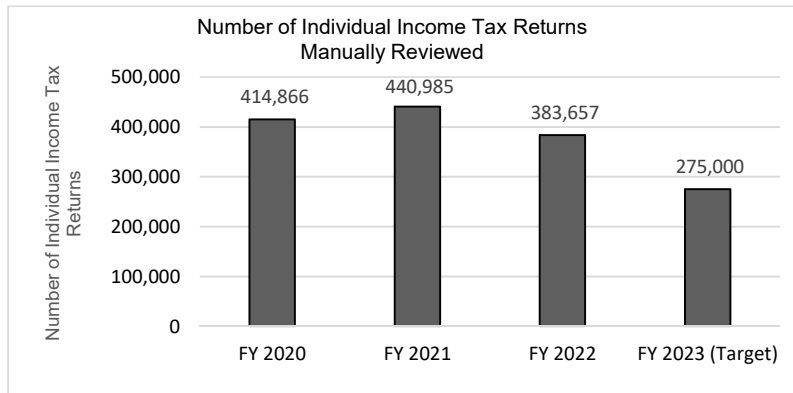
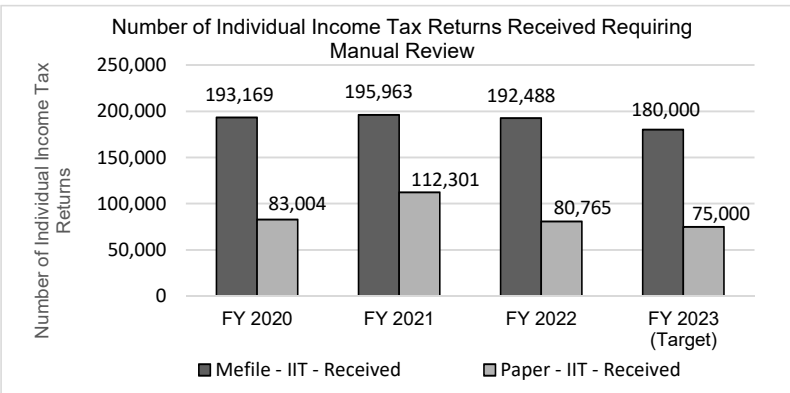
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2a. Provide an activity measure(s) for the program (cont).

i. Returns Manually Reviewed - Volume

The Income Tax Bureau conducts manual review of certain returns to ensure returns are calculated correctly and that the customers provided proper support for their refund claims. The due date for tax year 2020 was extended from April 15, 2020 to July 15, 2020; causing returns normally due in FY 2020 to be received in FY 2021, increasing the returns received for manual review in FY 2021. This phenomena did not occur in this fiscal year, accounting for the reduction in returns received for manual review in FY 2022.



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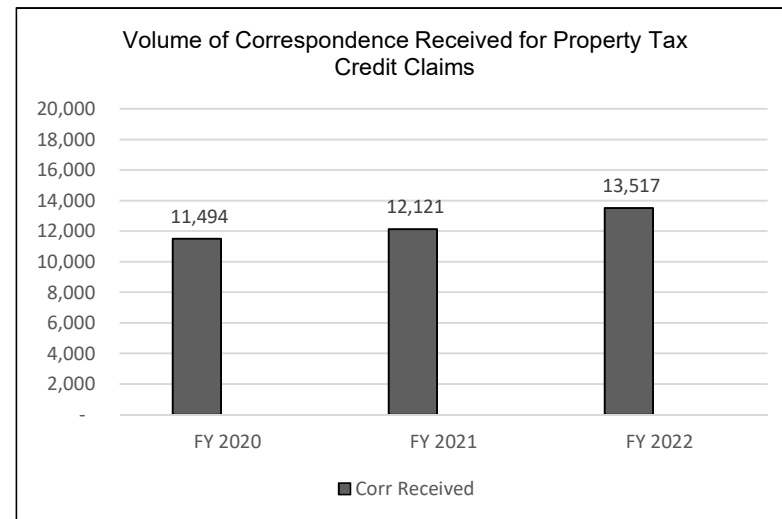
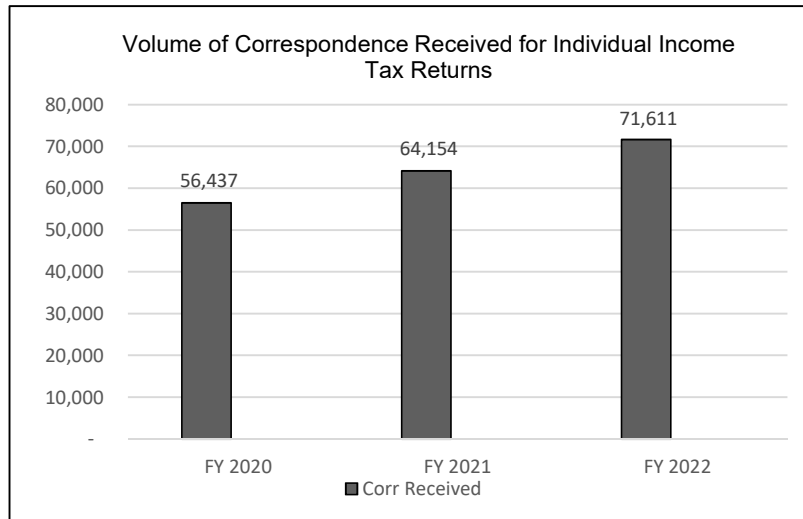
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2a. Provide an activity measure(s) for the program (cont).

ii. Correspondence Received for Individual Income and Property Tax Credit Claims - Volume

The bureau sends outbound notices to customers whose accounts were adjusted or show a balance. In FY 2022, the bureau sent out 1,013,399 notices for individual income tax and property tax credits. The bureau also receives inbound correspondence and responds to inquiries regarding customer's individual income tax and property tax credit accounts. The FY 2022 increase in individual income tax correspondence received was due to the increase in notices issued within the fiscal year. The increase of notices issued stemmed from the extended due date for the 2019 and 2020 individual income tax returns.



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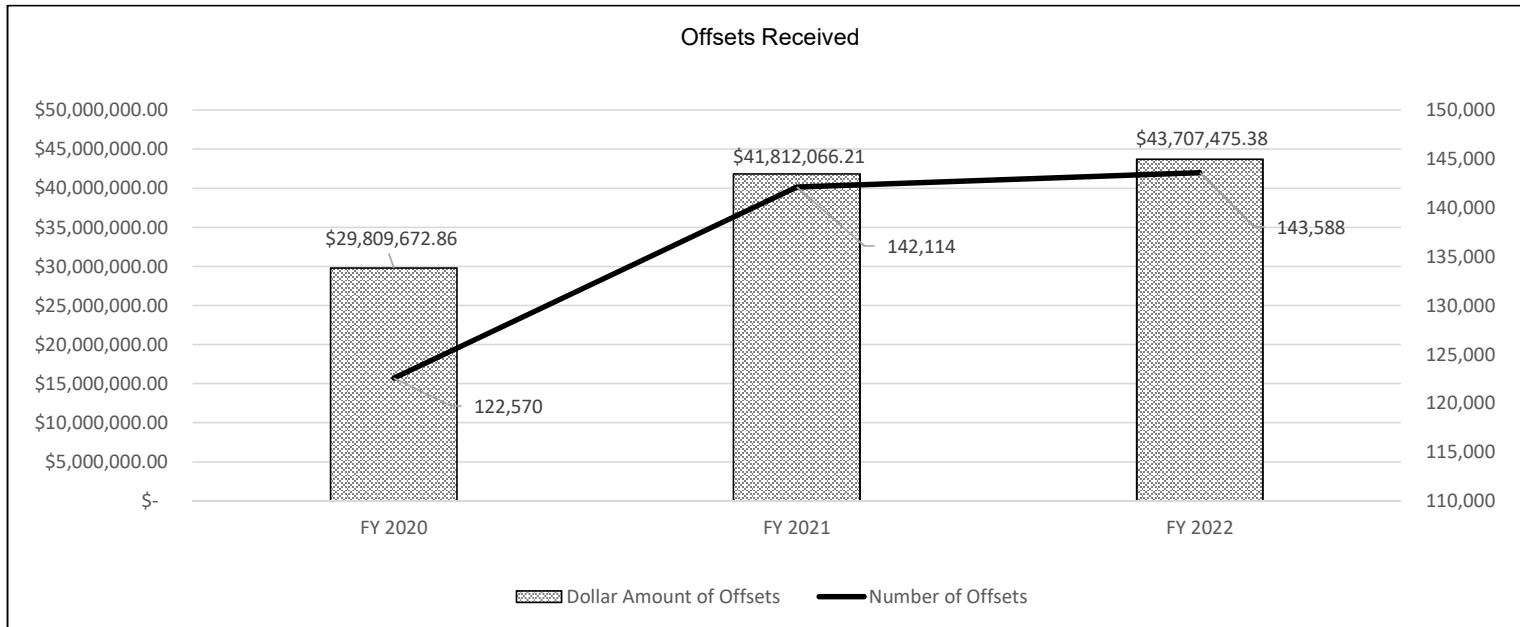
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2a. Provide an activity measure(s) for the program (cont).

iii. Income Tax Offsets Received - Volume and Amount

The bureau administers a reciprocal offset agreement with the Internal Revenue Service and the Kansas Department of Revenue to receive offset money and apply to Missouri individual income tax debts. The volume and dollar amounts below also include internal offsets.



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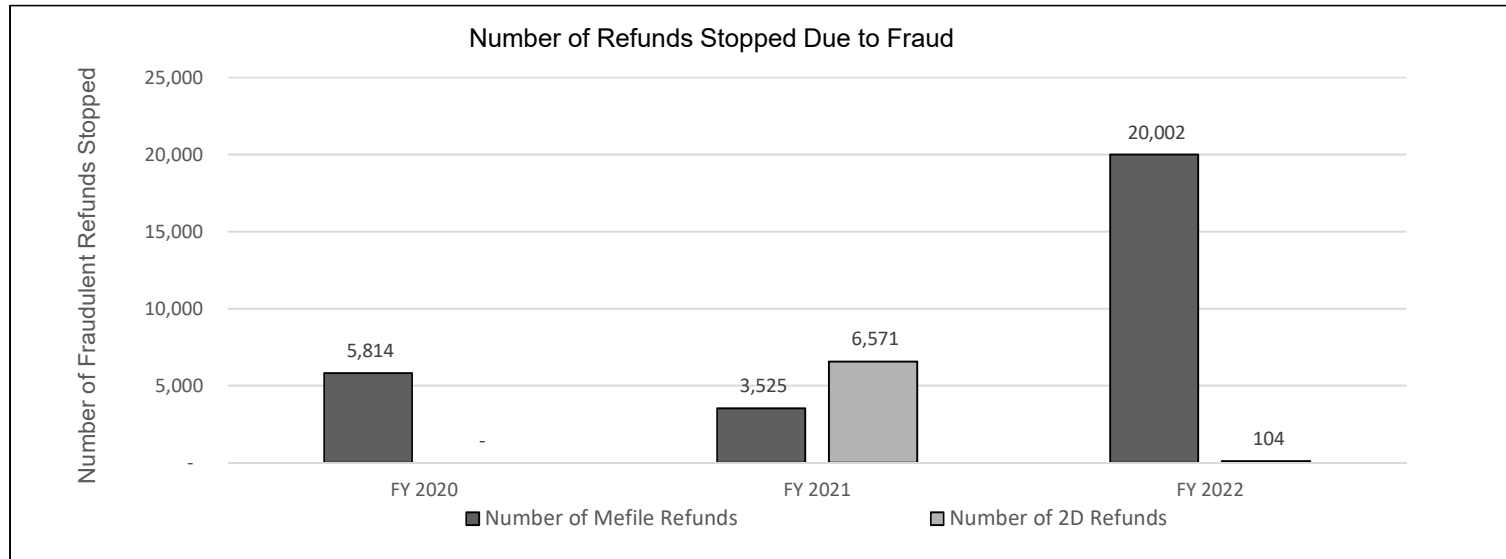
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2a. Provide an activity measure(s) for the program (cont).

iv. Refunds Stopped Due to Fraud - Volume

The bureau works with an external vendor to continually update a fraud analytics algorithm that identifies fraudulent returns. The algorithm is updated based on patterns found by our fraud team, other states sharing fraud patterns, and continuous analysis by our partnering vendor. A score is assigned to each electronically filed return. If the score exceeds the thresholds set, the return is flagged for manual review. The bureau also utilizes reports developed to identify fraud on paper returns. In FY 2020, the bureau identified a fraud scheme related to Forms 1099 with excessive withholding. This scheme was identified in Missouri and other states. These fraudulent claims continued throughout FY 2021 and FY 2022, but the volume was significantly lower.

Fraud is typically observed in our Individual Income Tax MeFile process (electronically filed returns). In FY 2022, 75% of the fraud received was the result of a new type of fraud received through Property Tax Credit (PTC) Claims. This fraud was identified by the algorithm and staff. The score was immediately amplified to identify and flag claims which met the criteria, allowing DOR to prevent the issuance of fraudulent PTC refund claims.



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2a. Provide an activity measure(s) for the program (cont).

v. Volume of Notices Issued to State Employees, Professional Licensees, and Other Discovery Programs

The bureau is required to perform a tax compliance check on all state employees, professional licensees including attorneys and insurance licensees to determine if the taxpayer has filed the last 3 years of tax returns and that all state taxes owed have been paid. If an employee or licensee has not filed a return or has a delinquency, a notice is mailed to the taxpayer. If the taxpayer fails to remedy or make arrangements for tax compliance, the agency or board of professional registration is notified. The bureau receives data from the IRS to identify additional leads of potential taxpayers who haven't filed a tax return or have discrepancies on their filed return. If any non-filed period or discrepancy is identified, a notice is mailed to the taxpayer.

The Division of Professional Registration has requested the Department suspend the Professional Registration program. The increase in the number of notifications sent out on discrepancies and non-filers is due to additional programs being operational in FY 2022.

Discovery Programs	FY19	FY20	FY21	FY22
State Employees	3,888	-	10,105	5,868
Professional Registration	206	-	548	-
Insurance	14	-	202	120
Nursing Home Administrators	-	-	-	99
Attorneys	-	-	621	244
Non-filers	-	-	30,983	81,383
Discrepancy	-	-	3,872	16,991
Total Notifications	4,108	-	46,331	104,705

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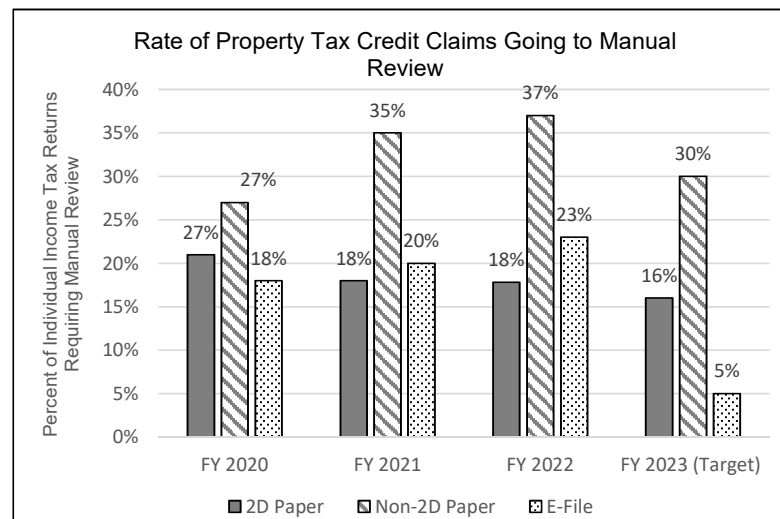
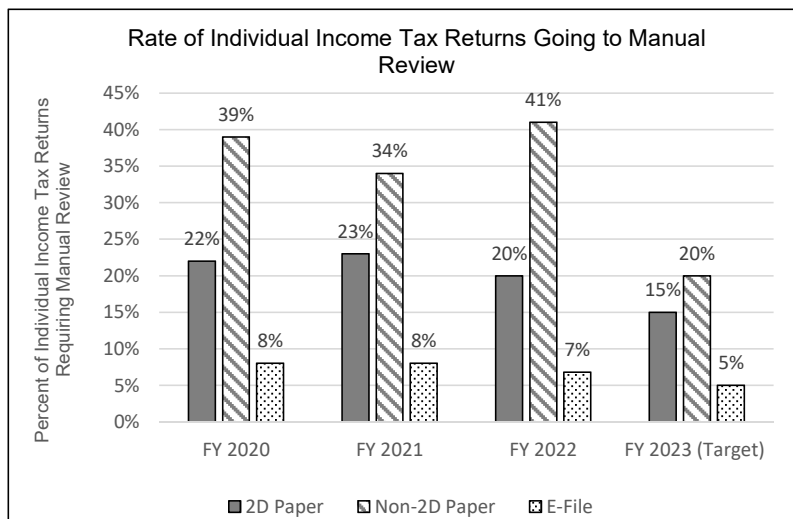
2b. Provide a measure(s) of the program's quality.

i. Rate of Returns Going to Manual Review

Individual income tax returns and property tax credit claims are segmented below by filing type. Customers send 2D returns to the Department in paper form, and these returns are scanned into the system by reading a barcode on the return. Non-2D paper returns have no barcode and must be keyed into the system or scanners read data entered on each line of the return.

The Department received 89 percent of individual income tax returns and property tax credit claims electronically overall in FY 2022. The number of paper returns received continues to decrease annually.

Non-2D barcode paper returns have a much higher manual review rate than 2D or electronic returns, as data entry errors also cause manual review. In FY 2022, the Processing Bureau increased the volume of non-2D returns processed through the data capture functionality. This new data capture process initially caused an increase in error, we will continue to refine this process. A quality control process is completed daily during the tax season to identify issues from internal and external sources that cause returns to be triggered for manual review unnecessarily. This process allows the bureau to identify and correct issues early.



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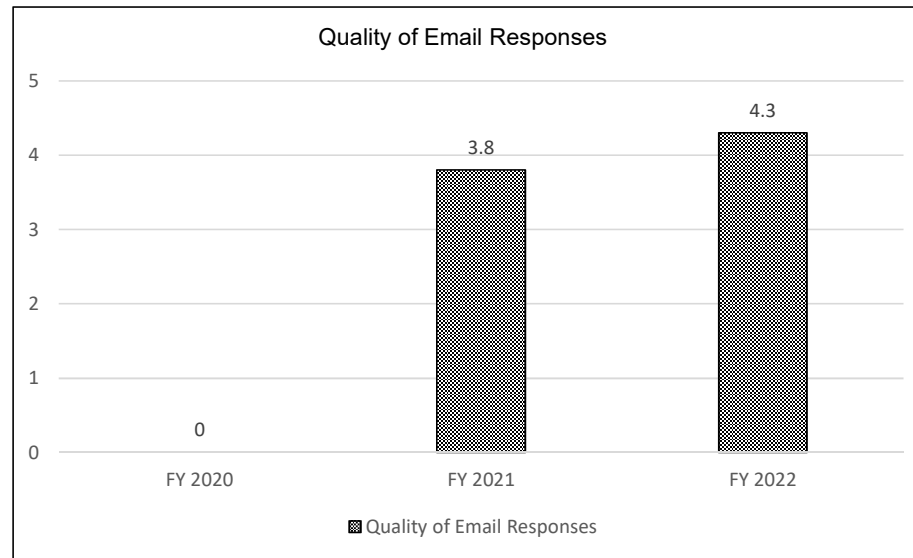
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2b. Provide a measure(s) of the program's quality.

ii. Correspondence Received for Individual Income and Property Tax Credit Claims

The bureau did not track data for the quality of correspondence in FY 2020. In January 2021, a new survey was created to track the quality of email responses and to rate the customer's satisfaction of the services provided for individual income tax and property tax credit claims. Based on a scale of 1 through 5, the quality of the responses was rated at 4.3 or 86% positive.



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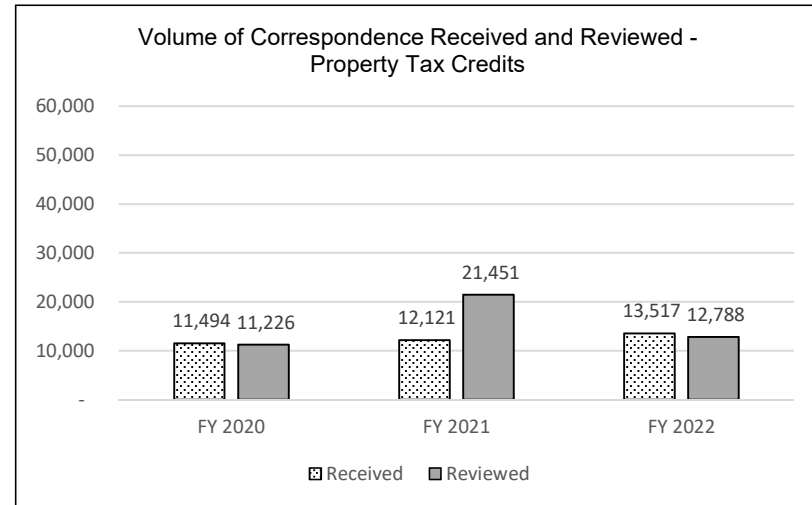
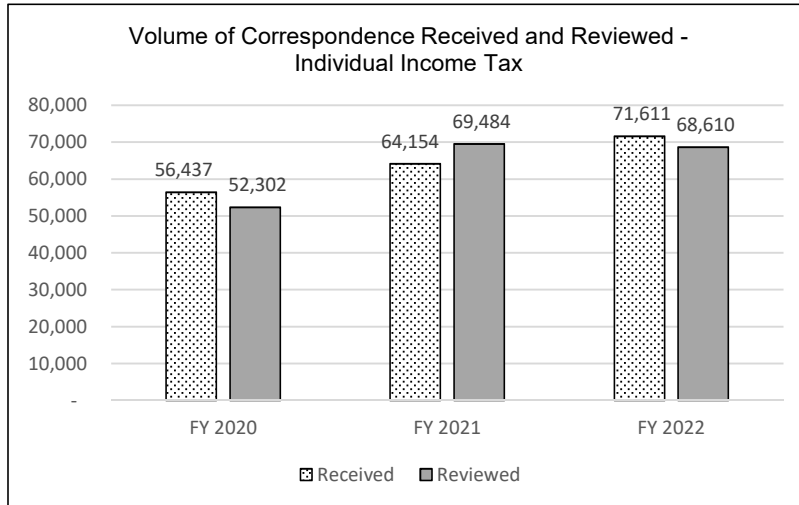
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2c. Provide a measure(s) of the program's impact.

i. Volume of Correspondence Reviewed for Individual Income and Property Tax Credit Claims

The bureau receives and responds to inquiries regarding individual income tax and property tax credit claims. The increase in the volume of correspondence received is attributed to the 2019 tax return due date extended from April 15, 2020, to July 15, 2020, and the 2020 tax return due date extended from April 18, 2021, to May 18, 2021. This caused the bureau to delay issuing individual income tax notices for both tax years and an increase of correspondence received in FY 2022.



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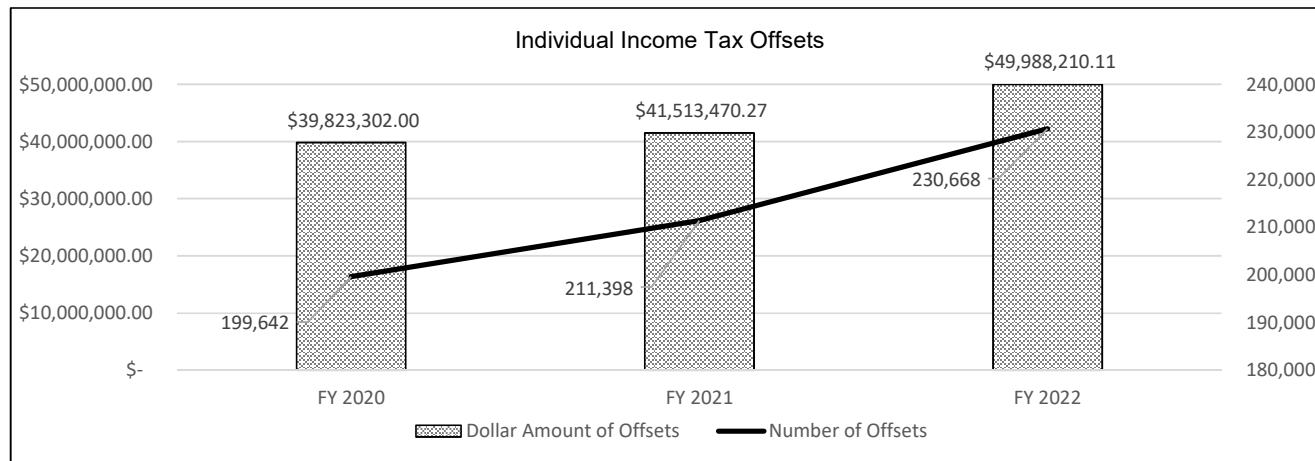
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ii. Income Tax Offsets - Dollar Impact

The bureau has a reciprocal offset agreement with many other state agencies, colleges, and housing authorities that allows the bureau to offset individual income tax refunds if a customer has an existing debt with the partner agency, college, or housing authority.



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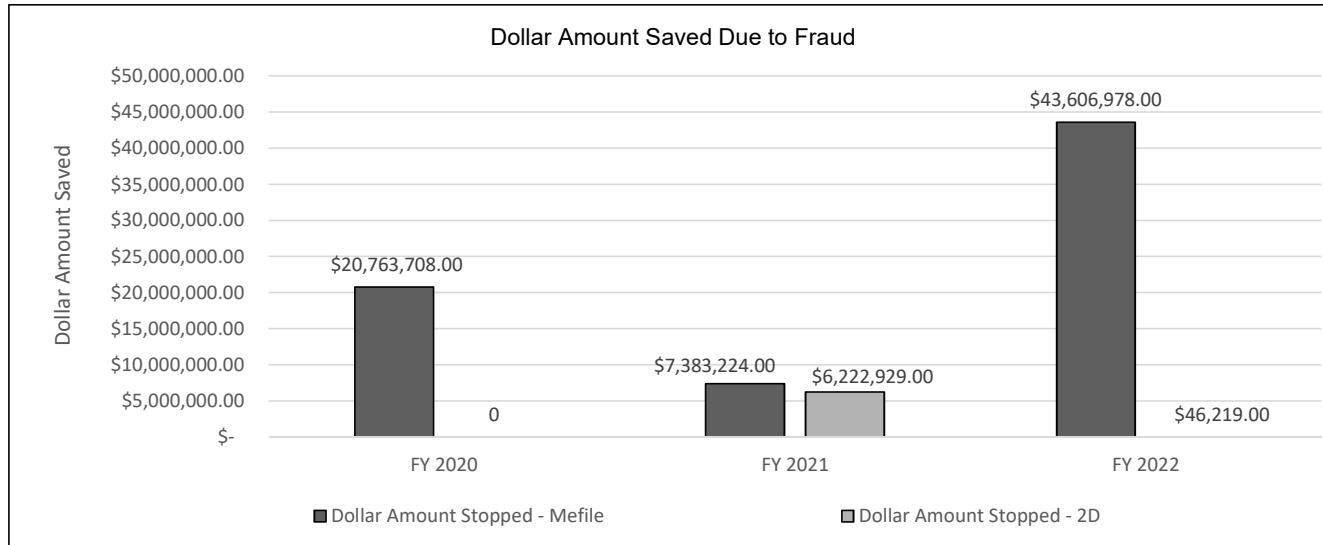
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2c. Provide a measure(s) of the program's impact.

iii. Refunds Stopped Due to Fraud - Volume and Dollar Amount

The bureau tracks the volume and dollar amount of refunds stopped following the submission of fraudulent returns. These refunds were identified as noted in 2a.v.



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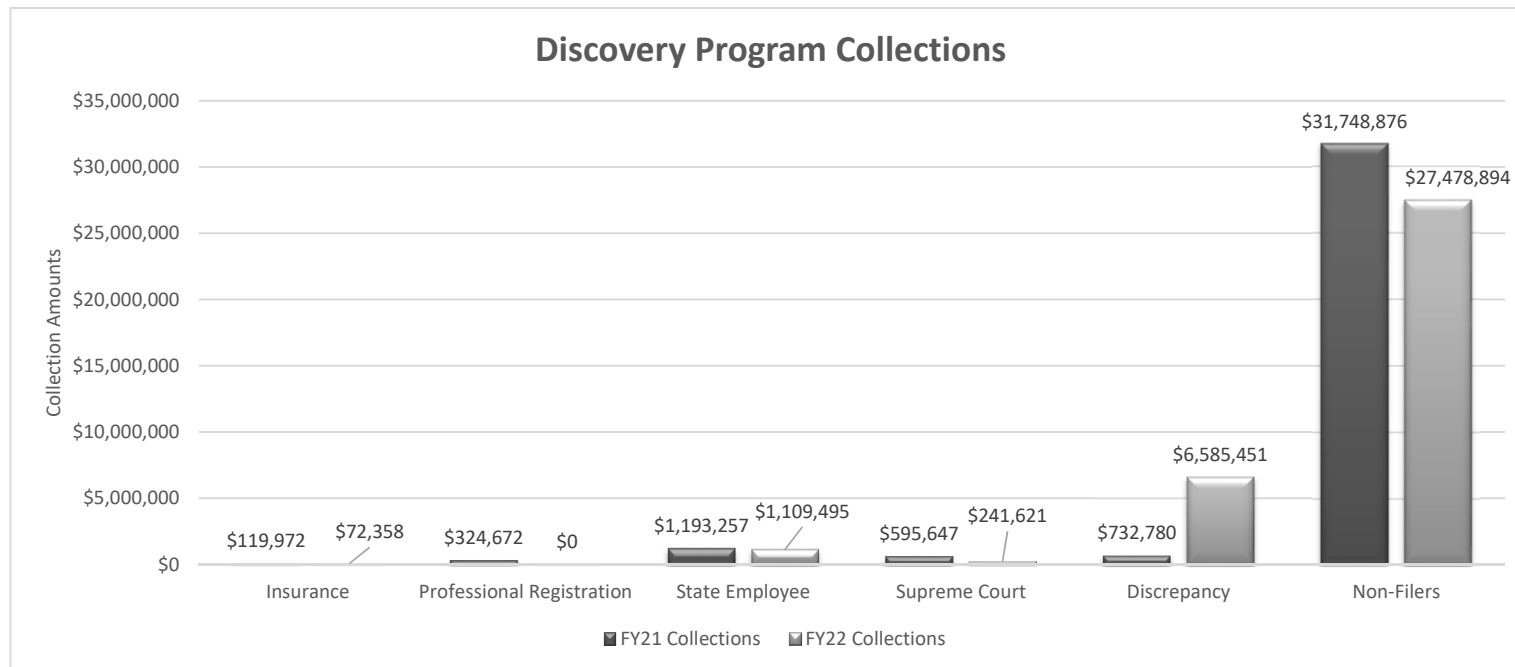
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2c. Provide a measure(s) of the program's impact.

iv. Collections from State Employees, Professional Licensees, and Other Discovery Programs

Below is the dollar amount the Department has collected in relation to the activity of volume of notices issued to state employees, professional licensees, and other discovery programs.

The zero dollar collections amount for Professional Registration is due to an evaluation of the program.



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2d. Provide a measure(s) of the program's efficiency.

i. Manually Review Individual Income Returns and Property Tax Credit Claims

The bureau continues to evaluate all system edits on an annual basis to ensure the system edits in place are effective. This review identifies efficiencies that result in fewer returns being subject to manual review as shown in Section 2a. ii. Returns Manually Reviewed - Volume activity above for FY 2020, FY 2021, and FY 2022. This savings is observed in the volume of Individual Income tax returns requiring manual review. However, with the increase in fraudulent Property Tax Credit (PTC) Claims received, DOR is unable to show these benefits during this fiscal year.

A Workload Optimizer was developed in collaboration with an external vendor and placed into service in January of 2021. The Workload Optimizer utilizes various data points to identify return edits that can be systematically resolved and do not require manual review, resulting in reduced processing time for the impacted customers. This process systematically resolved audit reasons on 12,267 returns; saving the bureau approximately 295 hours of work.

The bureau's revised cross education and staffing plans which increased staffing levels for critical functions with backlogs, reduced processing time for returns that require manual review.

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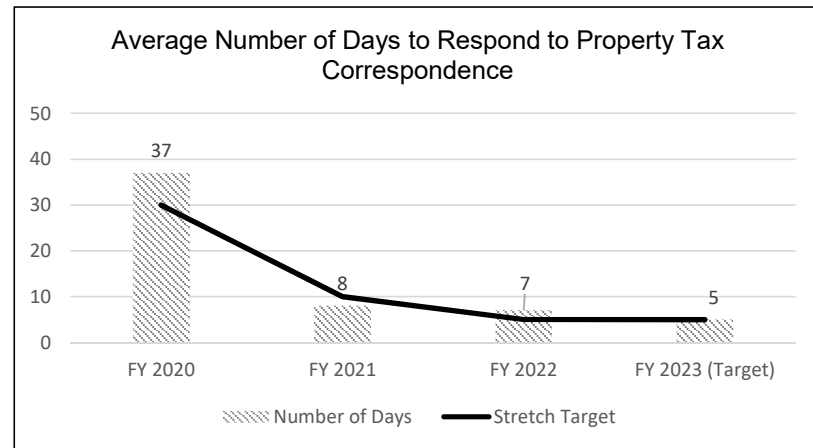
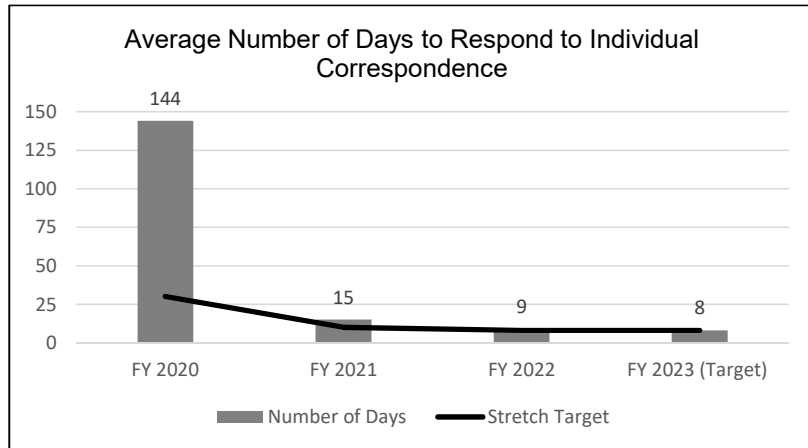
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ii. Individual Income and Property Tax Credit Correspondence - Average Number of Days to Respond

In FY 2019, the bureau implemented the individual income tax component the Integrated Tax System. The increase in days to respond in FY 2020 was due to certain functionality not being operational until late FY 2020. The bureau worked diligently in FY 2021 and FY 2022 to resolve defects and to construct detailed staffing plans to lower our average days to respond to customer inquiries. These staffing plans are reviewed daily during tax season and again at the end to identify any gaps in the staffing plan that could decrease our response time to the taxpayers. These efforts will continue into FY 2023.



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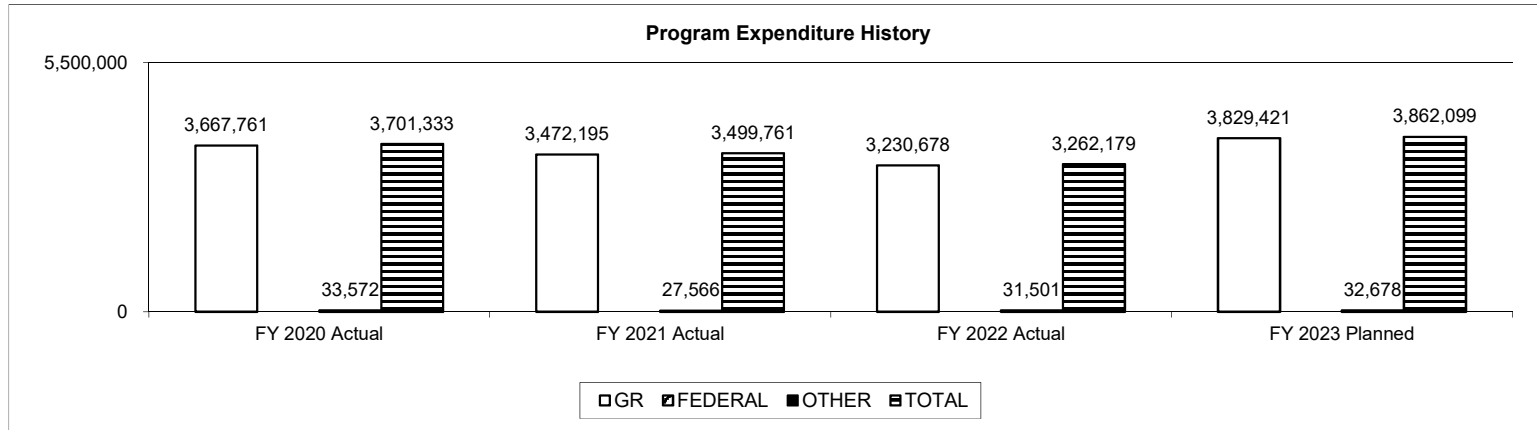
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8. Provide actual expenditures for the prior three fiscal years and planned expenditures for the current fiscal year. (Note: Amounts do not include fringe benefit costs.)



9. What are the sources of the "Other " funds?

Conservation Commission Fund (0609), Health Initiatives Fund (0275), Petroleum Inspection Fund (0662), Petroleum Storage Fund (0585), Highway Collections GR/State Highways and Transportation Department (0644)

10. What is the authorization for this program, i.e., federal or state statute, etc.? (Include the federal program number, if applicable.)

Missouri Constitution, Article, IV, Sections 12, 15, and 22 and Chapters 32, 134, 143, 143, 144, and 147 RSMo

11. Are there federal matching requirements? If yes, please explain.

No

12. Is this a federally mandated program? If yes, please explain.

No