



*Executive summary*

2017

# **Tax Season Readiness Report**

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October 18, 2017



## Executive summary

The budget report for HB 5535 (2017), the primary budget bill for the Department of Revenue, included the following budget note and instruction:

The Department of Revenue is to report the agency's readiness status for the tax processing season in 2018 to the Interim Joint Committee on Ways and Means in September of 2017.

The committee requested that the department present additional information in November.

The Department of Revenue administers more than 30 different tax programs that were responsible for 95.7 percent of the \$17.96 billion in General Fund revenues for the 2015–17 biennium. The largest of our tax programs is the personal income tax program with more than 2 million returns submitted annually. Collecting data from these returns and banking the associated taxes due—along with those of several other tax programs—is the primary focus of our tax processing season.

This report will discuss the following season preparation activities:

- Forms updates.
- Systems updates.
- Return and payment processing.
- Fraud module.
- Manual verification, including kicker.
- Appeals.
- Customer service and engagement.
- Applying lessons learned.
- Establishing contingencies.

There are two key areas that may pose a risk to a successful tax season that we're monitoring during our preparations. The first is manual verification processes, including those for fraud and the tax surplus credit, or kicker. Processing delays due to manual verification lead to an increase in calls from concerned or dissatisfied taxpayers. The increase in calls drives up the wait times for all taxpayers calling us for assistance. To mitigate this risk, tax program staff review the system edits<sup>1</sup> that trigger the manual verification process to ensure that returns aren't being flagged for additional review unnecessarily. The same process is applied to the business rules that drive our fraud detection and prevention activities. In addition, staff have been cross-trained and can be temporarily reassigned to manual verification work during the processing season, if necessary. This is particularly important since the kicker credit has previously led to more returns needing manual verification than in a non-kicker year.

The second area that may pose a risk to a successful tax season is system functionality. If any of our processing systems were to fail, there could be a significant impact to our ability to process returns and payments timely. We have contingency plans in place for each of our five systems and our key

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<sup>1</sup> After return information is in GenTax, the system checks and verifies certain information, in accordance with the agency's business rules. These checks are called "edits" and may relate to calculations on the return, schedules needed for processing, or misapplied payments, among other things.

banking functions to ensure continuity in return and payment processing and banking of funds.

We consider ourselves ready for the 2018 tax processing season when our forms are up-to-date and available to the public, our processing systems and GenTax have been configured for the current year, our e-file systems are ready to receive data, our seasonal staffing plan is prepared to manage the return and payment workload, and customer engagement activities and preparations are complete. We're currently on or ahead of schedule for completing these tasks.



*Budget note report on*  
**2017**

# **Tax Season Readiness**

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October 18, 2017



# Introduction

The budget report for HB 5535 (2017), the primary budget bill for the Department of Revenue included the following budget note and instruction:

The Department of Revenue is to report the agency's readiness status for the tax processing season in 2018 to the Interim Joint Committee on Ways and Means in September of 2017.

The committee requested that the department present additional information in November.

This is a report on our readiness status for the 2018 processing season. The primary processing season is from January through June, but some preparation activities started as early as January 2017. The tax programs involved in processing season activities are:

- Personal income tax.
- Corporate income and excise taxes.
- Fiduciary and estate transfer taxes.
- Withholding and payroll taxes.
- State lodging tax.
- Cigarette and other tobacco taxes.
- Emergency communications (E-911) tax.
- Timber.

This report will discuss the following season preparation activities:

- Forms updates.
- Systems updates.
- Processing, including:
  - Paper returns and payments.
  - Fraud module.
  - Manual review, including kicker.
  - Appeals.
- Customer service and engagement.
- Applying lessons learned.
- Establishing contingencies.

We will be ready for the 2018 tax processing season when our forms are up-to-date and available to the public, our processing systems and GenTax have been configured for the current year, our e-file systems are ready to receive data, our seasonal staffing plan is prepared to manage the return and payment workload, and customer engagement activities and preparations are complete.

Filing enforcement, audit, and collection activities happen throughout the year. Filing enforcement begins once we know a taxpayer hasn't filed a return timely. Audits are generally one to three years behind the current filing season. In accordance with the statutory requirements for debt notifications, the first collection notices regarding tax debt resulting from

returns processed between January and June are generally sent out in June. For these reasons, the filing enforcement, audit, and collection functions are not included in this report. These key activities are heavily dependent upon the return and payment data collected during the processing season.

Additionally, many of our internal measures of success and our key performance measures are designed to measure the progress and success of the season itself, such as the amount of time it takes to process a return or issue a refund. However—much like our filing enforcement, audit, and collection activities—reaching the targets for our seasonal performance measures is made possible by thorough processing season preparations.



## Agency overview

The Department of Revenue administers more than 30 different tax programs that were responsible for 95.7 percent of the \$17.96 billion in General Fund revenues for the 2015–17 biennium.

### Personal income tax programs

The personal income tax (PIT) program is administered by the Personal Tax and Compliance Division. In addition to policy development, audit, and collection functions, the division also develops the various PIT forms and instructions. To date, we've received and processed nearly 2 million 2016 PIT returns. Of those, 86.6 percent of the returns were filed electronically.

The Withholding and Payroll Tax Section (WPTS) of the Business Division administers the personal income tax withholding program as part of a multi-agency effort to administer combined payroll tax programs. Withholding and payroll taxes are paid by businesses, but they are considered personal income taxes because the money is withheld from employees' wages or the tax is based on the wages. Much of what is categorized as personal income tax first enters as withholding revenue paid by employers. Last biennium, more than 1 million withholding program returns and \$13.58 billion in payments were processed.

### Corporation and estate tax programs

The corporation income and excise tax programs are administered by the Business Division's Corporation and Estate Section. These tax programs contributed more than \$1 billion to the state's General Fund for the 2015–17 biennium. Approximately 180,000 corporation tax returns are filed each biennium.

The fiduciary and estate transfer tax programs are also administered by the Corporation and Estate Section. During the 2015–17 biennium, estates filed approximately 66,000 fiduciary tax returns and 2,300 estate transfer tax returns.

### Property tax programs

The Property Tax Division's timber tax program is part of the tax processing season. The timber tax program has two annual returns: the Small Tract Forestland (STF), and Forest Products Harvest Tax (FPHT). The FPHT and STF tax returns are required when a taxpayer notified the Department of Forestry of a potential taxable timber harvest during the year.

### Special programs

The Business Division's Special Program Administration (SPA) unit administers ten programs, five of which have either annual or quarterly return requirements or varying payment frequency requirements. Two of these programs—emergency communications and petroleum load fee—have nearly all taxpayers filing electronically through Revenue Online, our taxpayer self-service site. Of state lodging taxpayers, nearly 85 percent file electronically. Cigarette and other tobacco taxpayers still primarily file using paper returns. More than 14,500 returns for these five programs are processed each year.

## **Program support services**

### ***Information technology***

The Information Technology Services Section (ITS) has five units, each with a separate focus. Each unit has its own area of expertise and emphasis to provide IT system support and solutions to Revenue's business and other support areas. ITS maintains and configures the systems and infrastructure that the agency depends upon for return processing.

### ***Processing Center***

The Processing Center is made up of seven major functional units that process all of the agency's incoming mail, transcribe information from tax returns, correct errors made on tax returns, process and bank payments made in the form of check and cash, maintain paper files of tax returns and documents, and ensure our front-end paper return processing and banking systems operate properly. We've historically relied on the physical movement of paper documents for different processes and workflow management. Electronic return filing has reduced much of this work, but the Processing Center still annually receives and processes more than 502,000 paper tax returns for multiple tax programs.

### ***Communications***

The Communications Section helps the agency's program areas explain tax programs to the public. The section accomplishes this by designing and maintaining all agency forms and publications, planning communications activities, developing web strategies and maintaining the agency's external website, and engaging with the media. In preparation for processing season, Communications Section staff primarily assist by coordinating and executing annual updates to the agency's forms and publications and engaging with program areas to plan communications to share key tax season information.

### ***Customer service***

Every agency function, whether or not it's associated with tax return processing, has a significant customer experience component. Because of the number of taxpayers touched by the various tax season processing functions, we approach all seasonal activities with an element of customer service in mind. Tax program areas and the Communications Section identify information and messages that need to be shared, key stakeholders, the various methods of sharing the information, and the most appropriate timing for delivering the information. The major activities we conduct to serve and engage our customers fall into three categories: written communication, outreach, and assistance. For more information on some of the ways we work to provide taxpayers with a positive customer experience, see page 18.

### ***Governance***

There has been a governance group in place specifically for the Core Systems Replacement project. With that effort nearing completion, leadership decided to re-establish an agency governance committee to provide oversight for the consideration, implementation, and monitoring of strategic initiatives. The committee will also monitor projects within the agency's portfolio to ensure initiatives are managed appropriately and expected benefits are achieved. This iteration of the committee is still in its infancy, but its future portfolio to manage will include tax season preparation activities.

# Forms updates



**Status:** Green

**Target completion for this activity:** January 7, 2017

**Current phase:** Design updates

**Recent tasks:**

- Processing Center is reviewing final drafts.
- Final drafts provided to vendors.

**Upcoming tasks:**

- Finalizing instructions.
- Adding fillable fields to all forms.
- Posting forms to website.

Tax program, Processing Center, and Communications Section staff update or create more than 300 forms and publications every year, including tax return forms and schedules, instructions for completing forms, and publications explaining tax laws and requirements. Some returns are due annually and others quarterly. Quarterly forms are developed at the same time as annual forms so they're all available to the public at the same time, despite being due at different times throughout the year. There are also a handful of new forms and publications that need to be developed and designed each year in response to new legislation or federal law changes.

The forms development process starts each year by January. From January through March, program areas perform their initial review of content to incorporate law, rule, and administration changes. Once those updates are complete, the Processing Center and the Communications Section coordinate the design updates. These include structural changes like the addition of return lines or relocation of components like dollar fields or check boxes. Design is integral to helping the Processing Center process the forms quickly and accurately.

Generally, it takes three to five drafts to complete updates to a form or publication. The drafting period ends in October when the finals are provided to software vendors to use in developing the forms they submit to us on behalf of taxpayers who use their software to file. Final forms are posted to our external website in either December or January, depending on the tax program's filing requirements.

Some of the forms and instructions that the department maintains rely on federal forms or information and some Oregon tax laws are tied to federal law. This means a number of changes

to Oregon forms and publications are dependent upon federal determinations on subjects like the expiration or extension of credits. Until the IRS finalizes the information, we do our best to provide taxpayers with draft forms to ensure they have as much information as possible in advance of the final version. Oregon tax law changes that impact the current tax year can also have this same effect. However, last-minute changes are necessary in some years. This may affect season preparation timelines or the ability of some taxpayers to file returns early in the season.

Software vendors use our paper forms as templates when building their tax preparation products, such as Turbo Tax. These tax preparation products must be able to reproduce our forms if printed. We call these reproductions “substitute forms.” Substitute forms must be formatted like our actual forms to ensure they can be properly processed into our system. During the tax year 2016 vendor-testing season, we received approximately 425 submissions that included over 1,100 substitute forms and vouchers from approximately 40 different software vendors. These numbers are expected to increase for the tax year 2017 vendor-testing season.

Additionally, the state’s 2-D barcode mandate requires that software-generated forms used for personal income tax purposes include a 2-D barcode. This requires additional testing with vendors to ensure the barcodes will scan properly. For tax year 2016, we reviewed 168 submissions from 27 software vendors. This included ensuring that more than 4,700 lines of information were captured correctly from 11 different forms.

Testing for both standard and 2-D returns starts with the development of test scenarios. Staff then review the vendors’ substitute forms to ensure the layout is consistent with the agency’s standards, that they can be completed by taxpayers as intended, and that each vendor’s approach to the test scenario produces the desired results.

Oregon also participates in the federal/state electronic filing system. Through this system, when the taxpayer files electronically, both the federal and state returns go first to the IRS and are then automatically passed along to the appropriate state. To ensure this works, the department tests the electronic output from more than 40 tax software products used for electronic filing. Staff grade each test submission and provide feedback to the vendors until they are able to pass. Vendors must pass the agency’s requirements in order to file returns electronically.

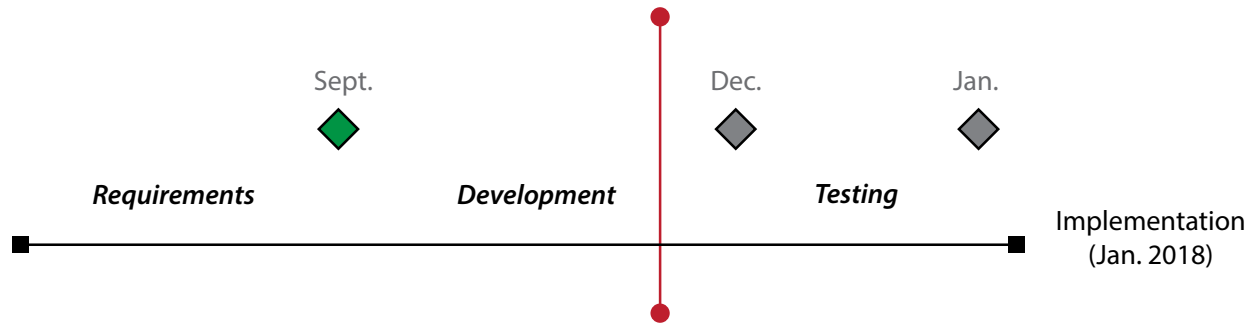
Forms development for the Withholding and Payroll Tax Section’s (WPTS) withholding tax program is different than that for many other agency tax programs. First, the tax programs administered by WPTS require primarily quarterly filing rather than annual, so there isn’t one specific processing “season.” Second, the withholding tax program is part of the multi-agency combined payroll tax administration, which also includes the Unemployment Insurance Tax, TriMet and Lane transit district payroll taxes, and the Workers’ Benefit Fund Assessment. These programs affect the payroll reporting of every employer in Oregon, many employers outside of Oregon, and individual wage-earners who file personal income tax returns.

For the combined payroll tax effort, the Oregon Employment Department (OED) processes returns while the Department of Revenue processes payments for the above programs. The Department of Revenue partners with OED and the Department of Consumer and Business

Services (DCBS) in the development of forms and publications used by all three agencies. The agencies then transmit data files to one another daily to ensure each has the information needed to properly administer the programs housed within their agency.

# Systems updates

## Core system (GenTax)



**Status:** Green (one week ahead)

**Target completion for this activity:** January 15, 2018

**Current phase:** Development

### Recent tasks:

- Finished gathering business and return processing requirements.
- Finished configuration for e-file.
- Halfway through testing for e-file.

### Upcoming tasks:

- Update edits for manual verification activities.<sup>1</sup>
- Update refund rules.
- Update correspondence.

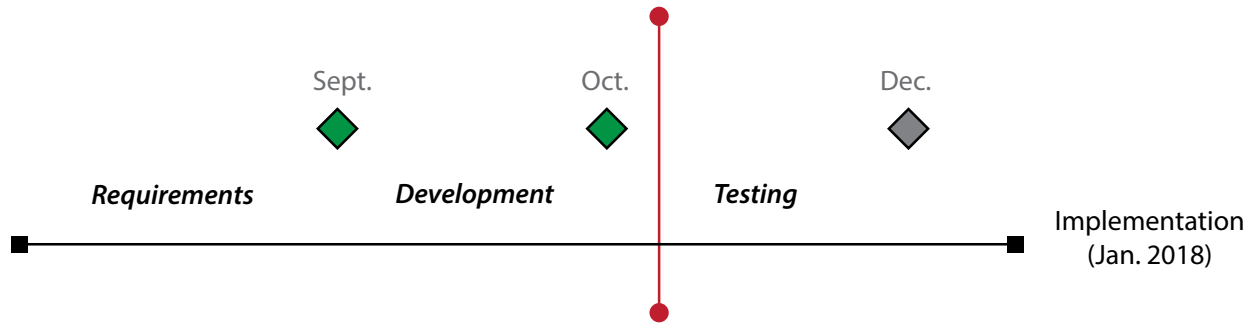
GenTax is our core computer system. It's the system of record for the state's tax information and provides a centralized location for carrying out most of the functions described in this report, as well as compliance and collection activities. When we configure our paper return and payment processing systems, GenTax must be configured to receive, record, and further process all of the information captured. It serves the same function for information received electronically. All annual changes to tax programs and forms, whether from new laws or process changes, must be migrated into GenTax and tested to ensure all functions work properly. Our legacy system also required significant preparation prior to each tax season.

This seasonal preparation work is unrelated to the Core Systems Replacement project, which is coming to a close at the end of this year. However, with the legislatively-approved funding for level 3 contracted maintenance, we'll have some vendor support to help us continue to fine tune our new system to best meet our business needs without detracting from the resources needed to prepare the system for processing season.

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<sup>1</sup> After return information is in GenTax, the system checks and verifies certain information, in accordance with the agency's business rules. These checks are called "edits" and may relate to calculations on the return, schedules needed for processing, or misapplied payments, among other things.

## iCapture 3.0



**Status:** Green (three weeks ahead of schedule)

**Target completion date:** January 15, 2018

**Current phase:** Testing

**Recent tasks:**

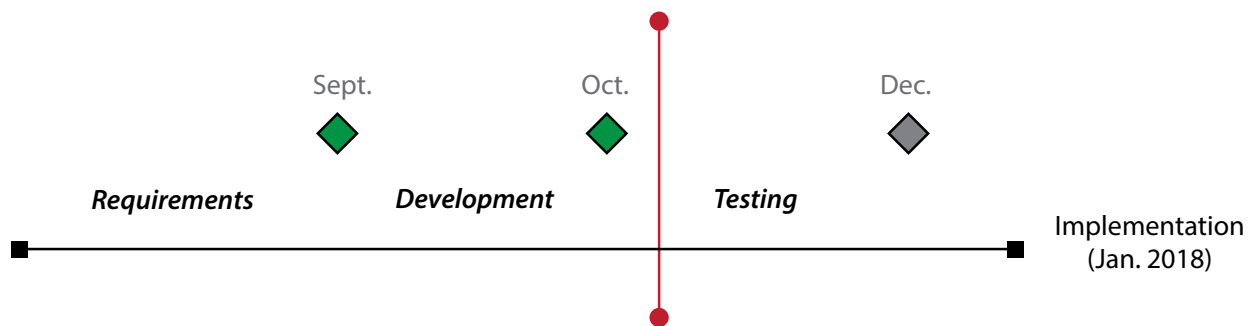
- System development completed ahead of schedule.
- Testing team has been assembled and is preparing testing materials.

**Upcoming tasks:**

Running returns through test scenarios.

iCapture 3.0 is a key-from-paper solution. It is used to capture return data from traditional paper tax returns including: personal income tax returns for all tax years, timber tax returns for all tax years, TriMet transit tax returns for tax year 2014 and prior, Lane transit tax returns for tax year 2014 and prior, and corporate tax returns from tax year 2006 and prior. Return data is keyed twice, once each by two separate data entry operators to reduce the chances of data entry errors.

## 2-D (PIT 2-D)



**Status:** Green (three weeks ahead of schedule)

**Target completion date:** January 15, 2018

**Current phase:** Testing

**Recent tasks:**

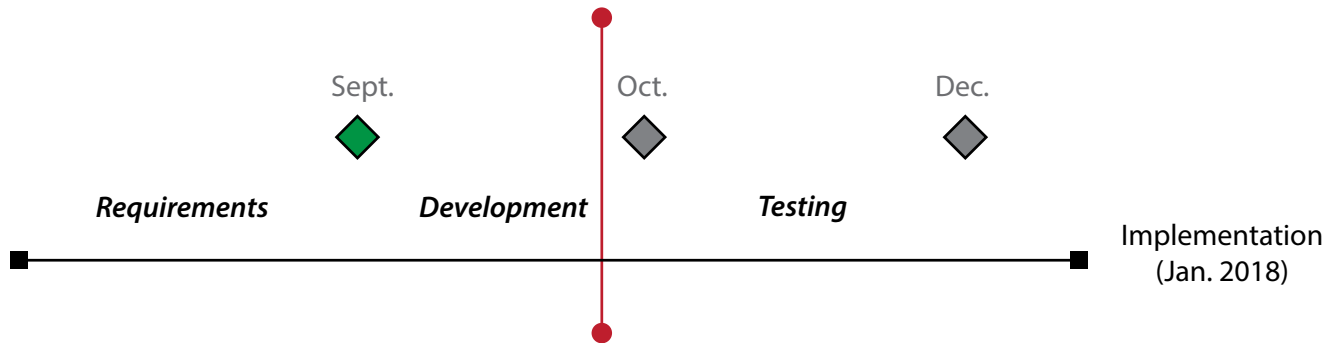
- System development completed ahead of schedule.
- Testing team has been assembled and is preparing testing materials.

**Upcoming tasks:**

Running returns through test scenarios.

The 2-D barcode system captures return data that is contained in a 2-dimensional barcode that's printed on paper returns by approved tax preparation software vendors. This system is much faster and more accurate than traditional data entry, but it's limited to personal income tax returns for tax years 2004 to the current tax year.

## iCapture 4.0



**Status:** Green

**Target completion date:** January 15, 2018

**Current phase:** Development (working with external vendor).

**Recent tasks:**

- All requirements gathered.
- Forms and requirements have been delivered to external vendor for development.

**Upcoming tasks:**

- Installing system updates provided by external vendor.
- System testing

iCapture 4.0 is a key-from-image solution. It is used to capture return data from paper corporate tax returns for tax years 2007 to the current tax year. This includes traditional paper and 2-D barcode returns. Returns are imaged into the system with two IBML high-speed scanners. Then the returns follow an electronic workflow through the system. Return data is keyed twice, once each by two separate data entry operators to reduce the chances of data entry errors.

## Transaction Management System (TMS)

**Status:** Ready

**Target completion date:** January 15, 2018

No changes were required to prepare TMS for the 2018 tax processing season.

TMS is used to process and bank check payments. This system uses two Quantum NDP600 remittance processors to image checks and vouchers. These imaged items flow through an electronic workflow where the payment data is captured using optical and intelligent character recognition (OCR/ICR) technologies. Payment data that isn't captured by OCR/ICR or those



for which the system has low confidence in the accuracy of the data captured go to a data entry operator to be keyed. Payments processed through TMS are electronically deposited with the bank through an image cash letter, also known as Check21.

## **Processing Center Modernization**

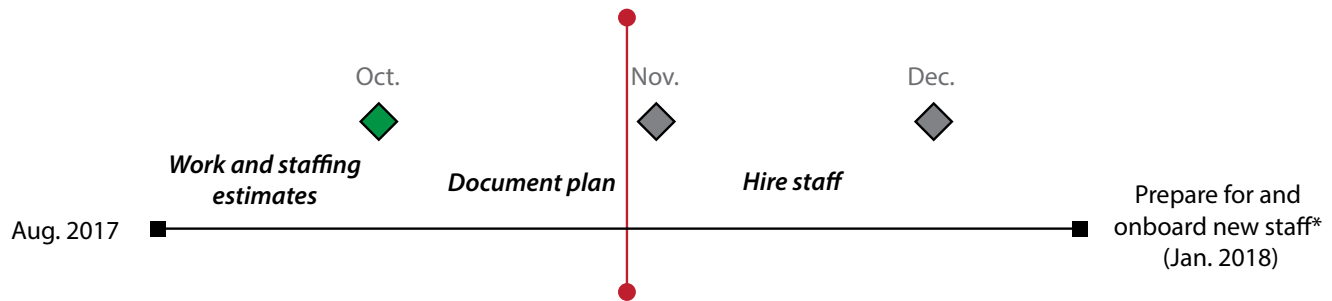
Return and payment processing systems are integral to our success. While the systems described above are currently getting the job done, we are using multiple types of hardware and software that are outdated and, in many cases, no longer supported by their manufacturers. Some of the outdated software systems require special workarounds to continue operating, and the workarounds themselves are reliant on outdated, unsupported software. If no action is taken, the risk of the systems failing will continue to increase. Failure of these systems will slow, if not completely stall, paper return and payment processing.

For this reason, we've started the Processing Center Modernization (PCM) project. During the 2017 Legislative Session, we requested funding to begin this project and \$1.5 million was approved for the 2017-2019 biennium to fund the first phase of the three-phase project.

During the multi-year implementation of PCM, the agency will also be preparing its current systems as a contingency should problems arise. This will provide an adequate fail-safe allowing us to quickly redirect its processing efforts with little impact to the tax processing season. To ensure this contingency remains a viable option, there are plans in place to address current system failures (see page 23 for details).

# Processing

## Paper return and payment processing



*\*Preparation for and onboarding of new staff continues for most of the processing season due to the staggered start dates detailed in the table below.*

**Status:** Green

**Current phase:** Document plan

**Target completion date:** January 19, 2018

**Recent tasks:**

- Documented final work projections and seasonal staffing needs.
- Reviewing documented plan.
- Human Resources notified of intent to hire seasonal staff.

**Upcoming tasks:**

- Contact previous seasonal staff and invite them back for 2018.
- Preparing for hiring processes.

After arriving at the department, the average paper return and payment will be opened and sorted, data on the document will be captured, any errors will be corrected, and the paper document or an electronic image of the document will be filed and retained. The data captured from paper returns is then further processed through the fraud module and may require manual verification.

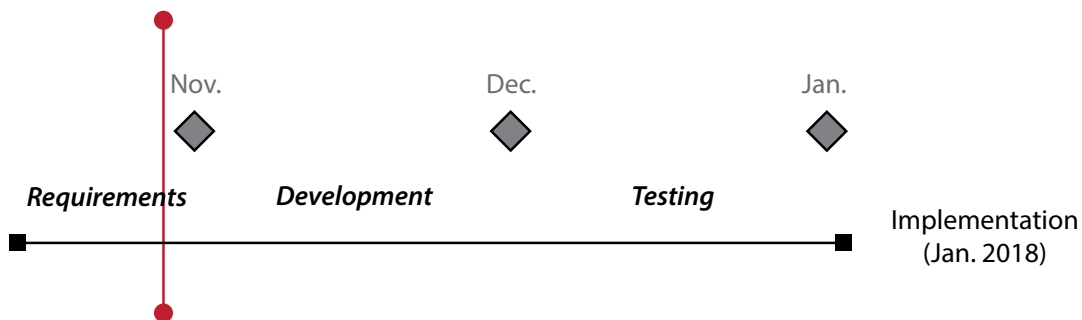
The majority of workload related to return processing flows through the Processing Center. For planning and workload management purposes, tax processing season starts for the Processing Center when the first seasonal staff are brought on board. The table below provides information on the estimated amount of work expected in the Processing Center during the 2018 season, January through June, and when seasonal staff are on-boarded and off-boarded.

Unit	Function	Est. workload	Season start	Season end
Mail Processing	Opening, sorting, and routing mail.	1.4 million pieces of mail.	Feb. 1, 2018	May 11, 2018
Information Transcription	Key and scan data from paper returns.	500,000 paper returns.	Jan. 22, 2018	May 18, 2018

Taxpayer Identification	Resolve issues with taxpayers IDs, such as incorrect information or alternate names.	90,000 work items.	Mar. 5, 2018	May 31, 2018
Banking	Process payments, create vouchers and manually process payments that arrive without a voucher or with an incorrect voucher.	1 million paper checks.	Apr. 2, 2018	May 11, 2018
Files	Maintain records, image documents.	100,000 returns to image.	Jan. 19, 2018	May 31, 2018

During the busiest weeks of tax processing season, the Processing Center has more than 100 seasonal staff working in these various units. Letters are mailed to returning seasonal staff in December to begin building the seasonal team. Additional staff are hired through open recruitments to finish filling out the team in January and February.

## Fraud



**Status:** Green

**Current phase:** Requirements

**Target completion date:** January 15, 2018

**Recent tasks:**

Finalizing requirements.

**Upcoming tasks:**

Module development

GenTax has a fraud module that is designed to identify potentially fraudulent returns or refund requests. The module uses the agency's information, public data, other state information (such as data on cases of confirmed fraud shared with Oregon), and proprietary analytics to analyze each tax return. It's specifically aimed at recognizing identity theft. Processing season 2018 will be our third year using the fraud module.

The module itself has over 20 business rules based on input from other states, trends, and information from the Security Summit group, which is made up of IRS, tax software industry, and financial institution representatives. Personal income tax program staff review these and other business rules relating to fraud each year. Staff analyze the types and amount of fraud detected and missed in the previous year to adjust business rules to improve detection rates while minimizing the additional time it takes for taxpayers to receive their refunds.

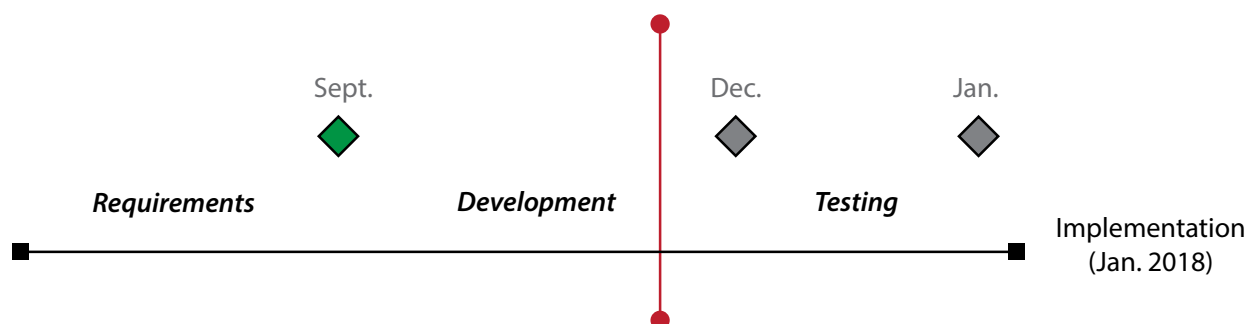
The best way for us to evaluate our performance in finding and preventing fraud is to continually track the number of fraudulent returns detected and refunds stopped and compare those to national trends, such as increases or decreases in the amount of fraud being seen in other states or by the IRS. We also monitor fraud module business rules throughout the season to determine if system edits need to be changed to account for new types of fraud that emerge during the season or in response to returns being inaccurately identified as fraudulent. An instance of when system edits would need to be changed is if a large number of legitimate returns are being identified as potentially fraudulent. We would evaluate the rule that pulled those returns to see what portion of the returns were actually fraudulent. If the rule was primarily pulling legitimate returns, we would adjust it to avoid unnecessary delays for taxpayers.

Every personal income tax return is run through the fraud module and scored to determine the likelihood of it being fraudulent. When a return is identified as possibly fraudulent, the person named on the return may be sent an identity verification quiz. Taxpayers can take the quiz online or by phone. The quiz asks questions that anyone other than the taxpayer would be unable to answer. Taxpayers who are unable to verify their identity through the quiz are given further options to do so by submitting certain documentation. The taxpayer may be asked to submit documents to verify their identity.

We also participate in a multi-state group whose primary purpose is to share information on the latest fraud trends and ways to stop as many fraudulent refunds from being issued as possible. Combining the knowledge gained from this group with the functionality of the fraud module helps us increase the effectiveness of our fraud detection and prevention capabilities.

We plan on holding personal income tax refunds until mid-February to allow for an additional level of fraud review, as we did last year. The refunds are held until we have wage and withholding information from employers, which is due by January 31. This information is vital to confirming that the wage information claimed on the return is valid and can be a very effective way to detect fraud.

## Manual verification and kicker credit



**Status:** Green

**Current phase:** Development

**Target completion date:** January 15, 2018

**Recent tasks:**

Finalizing kicker edits and calculations.

**Upcoming tasks:**

- Update edits for manual verification activities.
- Testing by tax program staff.

We strive to balance timely processing with ensuring the accuracy of returns. After return information is in GenTax, the system checks and verifies certain information, in accordance with the agency's business rules. These checks are called "edits" and may relate to calculations on the return, schedules needed for processing, or misapplied payments, among other things. Business rules are designed to correct errors, enforce limits and thresholds, and enable staff to ask for necessary documentation. For example, the personal income tax program uses over 300 business rules and edits when processing individual income tax returns.

Some of the edits are automated (correcting a math error), some require manual review, and others may require a request for more information. Most returns can be processed without being stopped. In 2017, about 75 percent of personal income tax returns were processed without needing manual review.

However, if a return needs to be manually verified, an employee must personally review some component. This adds to the amount of time it takes for the return to finish processing and for a refund to be issued, if one is due. Manual verification for personal income tax returns can take 12 weeks or more depending on factors such as what information needs to be validated, the volume of returns needing verification, and how quickly the taxpayer responds to the agency's request for additional information or documentation.

For corporate income or excise returns, the target is to complete the manual verification process in four months or less. For estate tax returns, the target is two months or less. For quarterly withholding returns, manual verification must be completed prior to the due date of the next quarter's return to avoid creating a backlog.

Refunds are issued once they can be reconciled with an accurate and appropriate return filing. Most refunds are issued without being stopped. Those that require a manual review take longer to process due to the volume of refund requests. Agency policy defines three levels of refund review. This three-level review minimizes the risk of refund errors by ensuring technical experts, mid-level managers, or senior management approve certain requests for refund. The level of review needed is based on a variety of risk factors.

Personal income taxpayers can check the status of their refund by phone or online through our Where's My Refund application. Where's My Refund lets taxpayers know if their return has been received, processed, or if it needs additional review. It also informs taxpayers of whether their refund has been issued and deposited into their account.

## **Kicker**

The surplus credit, or “kicker,” is a refundable credit on the tax return when certified by the Office of Economic Analysis. It’s claimed in odd-numbered years’ returns and was last certified in 2015. The personal income tax kicker is refundable, and it’s treated as a payment like other refundable credits, such as the state’s Earned Income Credit or the Working Family Household and Dependent Care Credit. The credit is a percentage of the prior year tax (net tax after all other credits but for the credit for taxes paid to another state).

Taxpayers must have filed their prior year tax return; if no tax return was filed in Oregon for the prior year, they’re not eligible for the kicker. Lastly, because the kicker is a credit, taxpayers who are due a kicker must file a tax return to claim it—even if they have no filing requirement for the current year. In most cases, the system automatically calculates the kicker and will adjust returns accordingly if the taxpayer didn’t claim the kicker or didn’t claim the correct amount.

Between 1995 and 2011, kicker refunds were issued as checks. We understand that the statutory change and corresponding change in process have been confusing for taxpayers. To help educate taxpayers on how to calculate their kicker credit and the filing requirements to claim the kicker, we developed a comprehensive communications plan in 2015 that included news releases, web messages, and other information delivery methods to ensure key information was publicly available. The kicker will also be a key feature of the agency’s tax season communications for the 2018 season.

We also developed an application that allows the taxpayer to calculate the amount of their kicker credit (What’s My Kicker?). The calculator will be available through Revenue Online and will use the taxpayer’s information from our system to calculate their kicker credit amount. There will also be a worksheet available in the instructions for the Form OR-40 that walks taxpayers through how to manually calculate their kicker amount.

Overall, the kicker presents a manageable risk related to manual verification workloads. Workloads increased in 2015 due to the credit not being claimed when it should or taxpayers claiming an incorrect credit amount. Personal income tax program management will be monitoring manual verification workloads closely throughout the season and have identified additional staff to temporarily assist with this work, if necessary.

In 2016, our call center received about 1,600 kicker calls. We anticipate fewer calls during 2018 for two key reasons: The process for claiming the kicker will be more familiar to taxpayers, and we plan on continuing our efforts to educate taxpayers about claiming the kicker. With the added benefit of bringing on temporary staff again, we expect the call load to be manageable.

There is also a fiduciary-return kicker that mirrors the personal income tax kicker. Prior to going live in GenTax in the fall of 2015, all returns were manually processed which included calculating any kicker by hand to determine the amount of the rebate check. Although the program was live in GenTax for the 2015 kicker, much of the kicker work still needed to be done manually because the system didn’t have the data from past returns to facilitate automation of kicker return processing. Now that there’s data in GenTax, we expect that 2017 kicker return processing will be easier to administer.

## Appeals

Taxpayers have a right to appeal any adjustments made during return processing. They can appeal through a written objection, an in-person or telephone conference, or the Oregon Tax Court. Written objections or requests for a conference can be made by mail or electronically through Revenue Online, our taxpayer self-sufficiency site. Tax program staff work directly with the taxpayer or their representative during the appeals process, no matter what type or level of appeal it is.

Historically, appeals have been reviewed toward the end of processing season after the majority of the returns are processed. We've seen a substantial increase in appeals in the past few years. As a result of the increase in appeals, the personal income tax program dedicated more staff to appeals work in 2017 and started reviewing appeals as soon as they were received—reducing the time to close appeals from 94 days to 63. They are planning on using that approach again in 2018, with the goal of closing appeals within 60 days.

In the corporation tax program, there are fewer staff overall, so appeals from processing adjustments are worked year-round in addition to other duties. Their target for issuing determinations on written objections is nine months from the date of appeal receipt.

All of our appeals staff are specifically trained to skillfully navigate and expedite the appeal process to ensure a timely resolution for taxpayers. Appeals staff pay close attention to court decisions and opinions to ensure the agency's policies and procedures relating to appeals are updated as frequently as needed to maintain accuracy.

Some appeals need additional coordination with outside stakeholders. Appeals staff in the property tax programs work closely with county stakeholders to provide administrative support and guidance to property tax appeals.

# Customer service and engagement

The major activities we conduct to serve and engage our customers fall into three categories: written communication, outreach, and assistance.

## Written communication

We provide many forms of written communication to the public to help them file and pay their taxes:

- **Forms, instructions, and publications:** Updates to these documents are one of the key parts of seasonal readiness because they're the primary way taxpayers get the information they need to successfully file and pay.
- **Web content:** Content is frequently updated throughout the tax processing season to ensure the most relevant and timely topics are featured in prominent places and that other tax return and payment information is easy to find.
- **Email listserv:** The agency maintains multiple email lists for a variety of audiences to use as a way to share information with interested parties.
- **Other materials:** A variety of flyers, brochures, and one-page notices share customized information for many different groups of taxpayers. These are also available online.

## Outreach

We engage with taxpayers in-person in a number of ways. This allows two-way conversations to happen and questions can be answered in real time. Here are the major activities we conduct to reach out to taxpayers and prepare them for tax season:

- **Liaison meetings:** Liaison meetings are an opportunity for practitioners to let us know how our internal processes affect them. They also facilitate a conversation where the practitioners and agency representatives can discuss tax issues and policy development. We currently facilitate these liaison meetings:
  - **Oregon State Bar Liaison meeting** – Meets three to four times per year in Salem and also includes certified public accountants.
  - **Tax Practitioner Liaison meeting** – Meets four times per year in Salem.
  - **New law updates:** There are 27 events around the state reaching about 2,000 practitioners where we present information on recent tax law changes.
- **Business community events:** As part of the multi-agency partnership that administers the combined payroll tax program, the Withholding and Payroll Tax Section participates in and presents information at conferences, business fairs, association/organization events, and meetings. The goal of attending these events is to provide information to prospective and current business owners to ensure that they have the tools necessary to maintain tax compliance.

## Assistance

We have a number of options available to taxpayers who need assistance. Our main call center—the Tax Services Unit—is dedicated to answering all general tax assistance calls. Calls



to Tax Services staff are often the first indicators of potential processing issues.

In 2017, we hired five temporary, seasonal employees for our main call center to handle high call volumes. It was the first time the agency had used seasonal staff for this purpose. By putting the more basic questions into a separate queue for the seasonal staff to handle, training time for those staff was reduced from four to six months to only 30 days. This allowed us to reduce overall wait times and move closer to the target of five minutes or less in our Key Performance Measure #5. We will be using seasonal staff for this function again in 2018. We also plan on making a request to the Legislature in the near future to discuss these needs and the possibility of being granted additional seasonal positions and funding.

There are also two new phone lines being implementing in response to recent legislation: one for corporate taxpayers and another for tax practitioners. The agency's main phone line is answered by call center staff who are trained to answer questions about every program the agency administers. If there's a question they can't answer, the call is routed to a subject matter expert in the appropriate program area. The goal of any phone contact with a taxpayer is for staff to be knowledgeable, friendly, helpful, timely, and courteous.

Taxpayers can also email the tax program areas through one of more than a dozen program-specific email addresses. There's also an email address for general questions. If taxpayers want a more secure way to communicate with the agency but with the convenience of email, they can send a message through Revenue Online.

Our goal when interacting with taxpayers is to provide a positive overall experience. Our Key Performance Measure (KPM) #4 measures the quality of the customer service we provide. For 2017, our target was 98 percent of survey respondents rating their experience as "good" or "excellent" in the following areas: overall experience, timeliness, accuracy, helpfulness, expertise, and availability of information. Our actual was 65 percent. This actual was far higher than 2016's 13 percent. We recently redesigned the delivery of our survey by adding an online option for taxpayer convenience and informing taxpayers of the survey each time we interact with them directly.

# Applying lessons learned

Each season, the agency finds areas of tax return processing activities that can be improved. Some changes can be made during the season, but others need additional research, analysis, or planning before they can be implemented. Each area discusses potential or required changes during review sessions after processing season has ended.

These are examples of the types of lessons learned being addressed for 2018:

## Problems solved

For these lessons learned, staff were able to identify a way to solve the problem or reduce the likelihood that the problem will arise in the future.

1. **Lesson learned (Manual verification):** Automated adjustments and certain manual verification functions initially led to some unintended consequences, such as an increase in appeals.

**Solution:** Each year, tax program staff review the system edits that govern automatic adjustments. For personal income tax returns, certain edits are removed from the list of automated adjustments each year and, instead, staff ask taxpayers for additional information.

2. **Lesson learned (Forms updates):** Moving the Earned Income Tax Credit (EITC) line to make room for the kicker on the form made it more difficult for taxpayers to find where to claim the EITC.

**Solution:** For 2017, staff reworked the form to make space for both in a location that is easier to find.

3. **Lesson learned (Systems updates):** Maintaining inadequate planning and tracking documents during the Processing Center Lifecycle project caused confusion in decision making, inconsistent communication, difficulty managing project scope, and deficiencies in managing schedule, contract, and organizational change management.

**Solution:** The OSCIO stage gate process has been embraced and new staff have been assigned to the roles of project manager and business analyst. Proper documentation has been developed and is updated regularly and a well-defined governance structure is in place.

4. **Lesson learned (Fraud):** Leaving a return in the fraud queue until it can be manually worked allows the system to automatically reevaluate it if more information is received, such as wage information.

**Solution:** Now returns are only moved out of the queue as we are able to work them.

5. **Lesson learned (Fraud):** Fraud staff are the first to notice if a large employer hasn't submitted W-2 information by the deadline.

**Solution:** Staff will work with the Withholding and Payroll Tax Section to engage the employer and get the wage information needed.

## Mitigating impact

These are problems that may not be fully resolved because there are some aspects of the situation that the agency cannot control. The agency has developed strategies to mitigate their impact, should they arise.

1. **Lesson learned (Kicker):** A change in filing status (from married to separate or single) in a kicker year requires manual processing to allocate the prior year's net tax appropriately.

**Solution:** The only option is to allow the system to suspend the return and then process it manually. The personal income tax program has shifted staff and have established a better workflow for suspended returns.

2. **Lesson learned (Appeals):** It took too long to respond to personal income tax appeals in 2016. For 2017, program management designated two staff to work appeals starting at the beginning of the processing season. This approach enabled the program to better manage the appeal workload.

**Solution:** Program management plan on using the same approach for 2018.

3. **Lesson learned (Systems updates):** Agency rules require employers to electronically file information returns. The application used for these submissions (iWire) was difficult to use, but there was little that could be done to improve upon it due to internal technical constraints. In 2017, iWire was redesigned in GenTax, which addressed many ongoing customer complaints.

**Solution:** The redesign was successful and additional improvements are planned. For example, in 2018 users will have access to better submission reports, be able to report corrections to their submission without requiring direct assistance from staff, and the overall experience will be more intuitive.

## Outstanding

These are lessons learned that will take a longer period of time to solve because there are multiple options for solutions that need to be thoroughly considered.

1. **Lesson learned (Manual verification):** Although they do increase consistency in correspondence coming from the agency, some of the scripted explanations in adjustment notices are confusing to taxpayers because they don't quite fit every situation.

**Solution:** Staff continue to collect feedback from taxpayers and use that to guide changes to explanations and other correspondence to make them easier for taxpayers to understand.

2. **Lesson learned (Processing):** When the state lodging tax program transitioned to GenTax, program management made the tactical decision to redesign the state lodging tax return, change filing requirements, and switch to online-only filing all at once. As a result of all these changes taking place at once, there was a significant increase in taxpayers needing assistance with the electronic return or looking for options other than

online filing.

**Solution:** Program staff spent a lot of time working directly with taxpayers to get them familiar with the new filing requirements and process. As a result, the number of calls for assistance from taxpayers has decreased. However, with so many programs under their purview and three new tax programs coming in 2018, program management will be using the lessons learned from this experience to guide future decisions regarding filing methods and requirements.

# Establishing contingencies

When issues arose during the 2016 processing season, the agency dedicated management and staff resources toward developing an emergency plan to get the processing season back on track. To avoid this happening again in the future, the agency now has several contingency and mitigation plans in place that are used throughout planning, testing, and implementation of the processing front-end systems. Here are the major strategies:

1. **Trigger:** Processing systems (not including GenTax) aren't configured and in production on time.

**Response:** Management will assess priorities for development and testing to make sure that staff are focused on the most critical business need. Additional development staff would be shifted from their normal duties to these activities or could be required to work overtime in an attempt to get the systems operational. In the meantime, paper tax returns will be keyed directly into GenTax. Staff will be temporarily assigned to help with the seasonal return workload. Additional hiring processes will begin to add additional seasonal staff in paper return processing.

**Mitigation:** We're configuring "direct-key-friendly" data entry screens in GenTax as a part of season preparation activities to better facilitate direct data entry should this contingency trigger.

2. **Trigger:** Processing machinery fails.

**Response:** We will immediately engage with the appropriate vendor to implement a fix or replacement unit where necessary.

**Mitigation:** We have active maintenance and preventative agreements for the hardware and software used for our processing systems. We maintain dual hardware components where possible to reduce the risk of a total system outage. The agency also has a business continuity plan for key banking functions that is tested quarterly with live transactions. In most cases, it would only take a matter of hours to initiate a corrective course or take steps to mitigate the impact of these system issues. However, it can take weeks to implement a suitable replacement for some pieces of machinery in the case of failure.

3. **Trigger:** GenTax system development falls behind schedule and is not ready for the 2018 tax processing season.

**Response:** Management will immediately engage Fast Enterprises for support and assess priorities for development and testing to make sure that staff are focused on what is most critical based on business need. Additional development staff would be shifted from their normal duties to these activities or could be required to work overtime.

4. **Trigger:** Workload significantly exceeds expectations in fraud, manual verification, or appeals.

**Response:** Staff will be temporarily assigned to address the concerning seasonal workload. Once unexpected issue is addressed, staff will be directed back to their regular duties.

**Mitigation:** The agency has identified staff in key areas and cross-trained duties to

support this response, should it be needed. During season, management monitors reports weekly, in some cases daily, and will be ready to address any problems.

## Conclusion

The Department of Revenue is on or ahead of schedule for all tax season preparation tasks. Lessons learned from recent seasons are guiding our preparation activities and contingency planning. Based on these factors, we're currently on track to be fully prepared to start receiving and processing returns and payments at the start of tax season, January 21, 2018.