



Peter Franchot  
*Comptroller*

## TESTIMONY OF COMPTROLLER PETER FRANCHOT Fiscal Year 2018 Budget Presentation

*For Presentation to the House Appropriations Subcommittee on Public Safety & Administration  
and the Senate Budget & Taxation Subcommittee on Education, Business & Administration*

It is my privilege to present the Fiscal Year 2018 budget request for the Office of the Comptroller of Maryland and to address the issues raised in the analysis conducted by the Department of Legislative Services (DLS).

I remain appreciative of the strong working relationship my office shares with this subcommittee. Thanks to the exceptional work of my outstanding staff, we continue to be regarded as the most efficient and effective Comptroller's Office in the nation. This budget reflects our shared desire to find even more ways to deliver exceptional taxpayer services in the most fiscally prudent way.

My senior staff and I work extremely hard to find efficiencies and continually strive to deliver the highest standard of customer service at the lowest conceivable cost to the taxpayers. As we continue to adapt to changing times and fiscal realities, I would like to briefly review some of our signature accomplishments in the core areas of taxpayer service, tax fairness, and taxpayer security – all of which have been made possible by your continued support of my agency.

As you know, the top priority of the Comptroller's Office is to respect the vast majority of Marylanders who pay their fair share of taxes on time, by making the filing process as easy and convenient as possible. With the help of our marketing and outreach efforts, more than 2.6 million Marylanders filed their returns electronically in Tax Year 2015, representing over 83% of all income tax returns and setting yet another all-time high. 94% of Marylanders who filed their returns electronically last year had their returns processed and refunds issued within four days and, as I've proudly noted to this committee and to taxpayers across the state, the vast majority of Maryland taxpayers actually receive their refunds within **three** business days.

This is a very important achievement to me and to my leadership team, because this money belongs to the taxpayers of Maryland, and it's good for them – and for our state's economy – when we put it back into their accounts as quickly as possible.

As has been the case over the last several years, many Marylanders took advantage of our free online taxpayer services during Tax Year 2014, with more than 283,000 taxpayers using our free online service for individuals and, as of this week, nearly 87,000 have already done so for this current tax year. Over 62,000 taxpayers used our online BillPay system to make over 246,000 payments – an increase of nearly 100,000 from last year – to settle over \$110 million in outstanding tax obligations in the last tax year.

First-class customer service continues to be the top priority for the 1,100 men and women of my agency. We remain firmly committed to providing taxpayers with respect, responsiveness, and results. That’s why we have worked diligently to strengthen our call center operations by reducing vacancies and establishing our first-ever remote call center in Salisbury to support our main operations in Annapolis.

More taxpayers are calling our agency now more than ever, and we will continue to take steps to reduce call wait times and provide Marylanders with the level of service that they deserve. In 2016, our call center answered nearly 517,000 phone calls. The fact is that these calls are becoming increasingly complex as a result of the current environment. For example, a telephone conversation with a taxpayer who has been victimized by tax fraud or identity theft – and needs guidance on the appropriate steps they must take in order to protect themselves from further harm – will, by its very nature, require more time than usual. The addition of new staff members to our call center operations will help alleviate the delays that taxpayers may experience, especially during our busy tax season.

Additionally, we strive to be responsive to inquiries and questions sent via email and remain committed to providing superior service at our regional branch offices. Last year, we received and responded to 45,000 taxpayer e-mails, and I am particularly happy to point out that our branch offices – many of which have been relocated, expanded or renovated during my tenure as Comptroller in order to serve the public more effectively – served nearly 125,000 taxpayers last year.

As the analysis notes and as this subcommittee is aware, the Fiscal 2017 Budget Bill restricted \$150,000 from agency funds dedicated to motor vehicle and travel to be used towards increasing efficiency and improving customer service. The restricted funds were used to fill four vacancies in our award-winning Questionable Returns Detection Team (QRDT) – which have allowed us to increase efficiency in our fraudulent returns detection process. The thorough review and investigation that this unit performs on potentially fraudulent tax returns may result – understandably – in delays of returns processing as we strive to ensure the accuracy and legitimacy of millions of returns that my agency receives annually. The elimination of vacancies in this vital unit has and will continue to improve the speed in which suspicious returns are reviewed.

As all of you know, the threats posed by tax fraud and identity theft continue to grow, as criminals utilize more sophisticated tools to victimize innocent and hardworking Maryland taxpayers. Less than two months into the new year, my office has already detected thousands of suspicious tax returns.

Earlier this month, my office announced that we will be suspending the processing of electronic tax returns from 20 tax preparation services across Maryland. This committee may recall that last year, we halted thousands of suspicious electronic returns coming from 61 tax preparers at 68 locations.

We continue to see an increase in the number of unscrupulous tax preparers who not only violate our laws, but violate the privacy and trust of their clients. Last month, Attorney General Frosh and I announced indictments against four tax preparers in Baltimore County, Baltimore City, and Prince George's County for using their clients' sensitive information to submit fraudulent tax returns. By doing so, they defrauded the State of tens of thousands of dollars, and damaged their victims' financial integrity.

These indictments were in addition to the criminal charges the Attorney General filed against a Baltimore City-based Liberty Tax franchise owner and her employees last year, who targeted the homeless and financially-vulnerable citizens in their fraud scheme.

These perpetrators are working aggressively to defraud the State of revenue that is desperately needed to invest in roads, schools and public safety, and rob innocent Marylanders of their money, their credit and their financial security.

That is why my office remains squarely focused on detecting and preventing tax fraud, and to using every tool at our disposal to protect taxpayers from harm. But as hard as we work to stop them, they are growing more sophisticated and more brazen. When I took office in 2007, my agency detected and stopped 314 fraudulent returns, with a total dollar value of just over \$650,000.

Last year, my agency detected and blocked more than 13,000 returns, worth more than \$21 million. Had my agency not suspended processing returns from 68 suspicious tax preparers last year, we project that an additional 14,000 fraudulent returns worth \$18 million would have been submitted. Just over a month into this year's Tax Season, my office detected and stopped more than 800 fraudulent returns, worth more than \$1.1 million, and thousands more in highly questionable returns are under review from the 20 suspicious tax preparation sites my agency is currently investigating. In total, since I took office ten years ago, we have detected and blocked more than 76,000 fraudulent returns and withheld fraudulent refunds totaling more than \$174 million.

As you can see, these figures are nothing short of extraordinary, and my team is working tirelessly – through investments in state-of-the-art technology and highly skilled fraud prevention specialists, compliance officers and sworn field enforcement agents -- to respond to what has emerged as a national challenge.

While I am proud of our work on this front, we need greater statutory powers to keep pace with these criminal schemes that are becoming growingly sophisticated, which is why I respectfully urge this subcommittee and the full committee to support the *Taxpayer Protection Act*, which would grant my office needed investigative and enforcement powers to more effectively prevent criminals from victimizing hardworking Marylanders. It is my hope that the General Assembly will take swift and decisive action and adopt this legislation in the interest of protecting Marylanders from the devastating effects of fraud and identity theft.

As we continue to take proactive steps to reduce our vacancy and turnover rates, we respectfully disagree with DLS' recommendation to increase our turnover rate to 4.4%, which would result in a \$376,000 reduction. We have worked diligently to fill vacant positions to improve tax administration and taxpayer service; having gone from 123 vacancies as of last year's budget hearing to 76 vacancies today – a 38% reduction in one year. The increase in our agency turnover rate and the proposed reduction would hamper our ongoing efforts to eliminate existing vacancies.

Efficiency and effectiveness continue to be defining qualities that have helped transform my agency into one of the best Comptroller's Offices in the nation. I recognize that there are opportunities for improvement and growth, which is why my agency immediately took action after internal and external audits confirmed discrepancies in the distribution of local income tax revenue to Maryland's 195 taxing jurisdictions. As this subcommittee is aware, errors in our geocoding data software resulted in improper distributions to taxing jurisdictions.

My agency – in consultation with MACo, MML, and other stakeholders – implemented short-term and long-term solutions that sufficiently addressed the financial impact on municipal budgets, while taking steps to prevent these discrepancies from happening again in the future. As this subcommittee is aware, jurisdictions that were owed money were immediately contacted by members of my staff, and checks went out within hours after we were able to speak with the jurisdictions' finance directors. For the jurisdictions that received additional distributions, they have been advised that they will have a 17-year repayment horizon, whereby jurisdictions will not be required to start making payments until 2024, and they will have an additional 10 years to repay the additional funds that they received. As all of you know, we brokered similar arrangements with the municipalities and tax jurisdictions affected in Montgomery County, in close consultation with MACo and MML.

We're also making necessary technological upgrades and procedural modifications to ensure that our system is equipped to our unique taxpayer coding needs. Furthermore, we've already updated and made changes to the tax forms, which will gather additional taxpayer information to help us confirm a taxpayer's taxing district for them.

My agency will also undergo comprehensive, independent biennial audits and continuous taxpayer address verifications as part of our ongoing efforts to confirm the accuracy of taxpayer data. The bottom line is that instantly after learning about the issue, we launched an internal review, hired a third-party expert to undergo a statewide audit, and we have swiftly taken immediate and long-term steps to implement their recommendations, to both fix the issues that exist and improve the process for the future. And we've worked closely with our local partners throughout the process, to keep them properly informed, and to ensure the solution is as fair and reasonable as possible.

As the state's chief fiscal officer, my agency continues to work diligently to ensure that all citizens, businesses, and companies are paying their fair share in taxes. I am proud that my agency continues to reward those taxpayers who follow the law by aggressively pursuing those who do not. In the Comptroller's Office, tax fairness is not an abstract concept - it's a driving principle. By consistently implementing new, innovative and aggressive strategies, our Compliance Division has collected \$5.5 billion in delinquent taxes over the last ten years. I must stress that these are not new taxes; rather, these are taxes lawfully owed to the State, but were until recently, virtually uncollectible.

Our first-in-the-nation vendor offset program continues to pay large dividends, allowing us to recover nearly \$100 million from federal contractors with unsatisfied state liabilities. Our Data Warehouse has already enabled us to collect more than \$427 million in delinquent tax payments in the past 10 years.

In addition to our successful tax compliance efforts, our nationally-recognized Field Enforcement Division continues to diligently and proactively work across Maryland to battle illegal tobacco and alcohol sales, and ensure taxes are properly paid. Since I took office, our agents have made over 1,000 arrests for tobacco violations, confiscating more than 2.4 million packs of untaxed cigarettes with a market value of approximately \$11 million.

The continued disparity between our cigarette prices and those in some of our neighboring states, as well as our proximity to multiple interstate corridors, make Maryland a prime target for smuggling activity. Mindful of the lost revenue to the State and the public health and safety implications illegal tobacco sales pose to our

children in particular, I appreciate the continued support from the General Assembly regarding increased penalties for cigarette smuggling.

Through our efforts to combat the illegal sale and consumption of alcohol, we have confiscated nearly 3,000 gallons of distilled spirits, more than 81,000 containers of beer, and 1,500 gallons of wine in the past eight years, with a combined retail value of over half a million dollars. We have also worked in collaboration with the General Assembly to modernize our alcoholic beverages laws and trade practice regulations in order to foster the growth and success of Maryland's burgeoning wine, distilling and brewing industries. I am particularly proud of our successful efforts to expand consumer choice and implement commonsense advancements, which have resulted in Maryland's wine industry growing from 25 wineries when we began to 74 open for business today, including 5 opening in the last year alone.

My field enforcement officers have also conducted nearly 40,000 motor fuel inspections to ensure Maryland consumers are getting what they pay for at the pump, and that motor fuel taxes are being paid properly. Based upon the results of these inspections, I'm proud to say that the overwhelming majority of our service stations deal with their customers fairly and operate in accordance with the law.

I'm enormously proud of the successes and results that my agency has been able to deliver on behalf of the taxpayers of Maryland. Thanks to the professionalism and dedication of our team in the Comptroller's Office, as well as our agency's longstanding relationship with this subcommittee, we continue to provide the level of service that taxpayers expect and deserve from their government.

I am deeply appreciative for your support of our efforts to implement efficient and innovative programs, and I look forward to our continued cooperation in the years to come. With gratitude, I respectfully ask for your support of the Comptroller of Maryland's Fiscal Year 2018 budget request in order to continue the successful work we have undertaken together on behalf of Maryland's taxpayers.

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**FY 2018 BUDGET REQUEST - COMPTROLLER OF MARYLAND**  
**The Comptroller's Responses to Issues and Recommended Actions**  
**of the Department of Legislative Services**

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**Issues**

*Customer Service - The Comptroller's Office should comment on the role of new positions and how they have helped improve customer service.*

As noted in our JCR report on Turnover and Customer Service dated September 30, 2016, the Comptroller's Office has redirected \$150,000 originally intended for travel and vehicle replacement and has used these funds to fill vacant positions and improve customer service. Areas where we have focused our efforts to reduce vacancies include our Call Centers and our Questionable Return Detection Team (QRDT). More than a dozen vacancies were filled by adding a remote call center in our Salisbury regional branch office. The labor market in Salisbury provided a workforce with the skill set needed to expand our call center operations and reduce wait times for taxpayers. Other critical vacancies were filled in QRDT for the purpose of identifying fraudulent returns more expeditiously which will allow additional time and resources to be devoted to the review and processing of legitimate tax returns for Maryland taxpayers. We have also worked with the Office of the Attorney General to add a full time prosecutor to our staff. This will allow us to better combat tax fraud and deter unscrupulous preparers from committing tax crimes in our state. These efforts all increase opportunities for improving taxpayer administration and improving taxpayer service for the citizens of Maryland.

*Earned Income Tax Credit Notification System - The Comptroller's Office should discuss the feasibility of using the Data Warehouse to increase participation in the EITC.*

In a response to the reporting requirements outlined on page 30 of the 2016 Joint Chairmen's Report, the Comptroller of Maryland prepared a report (enclosed) on the feasibility and estimated costs associated with the development of an Earned Income Tax Credit (EITC) notification system. The research conducted by the Agency, resulted in numerous pre and post-filing proposals involving the utilization of the Agency's data warehouse for the purpose of developing potential outreach, notification, and matching programs directed to identifying eligible candidates and increasing participation in the State's EITC program. The report is attached for your reference. As stated in the report, the Agency would need additional data sources, technical resources, and funding to effectively administer these programs.

## **Recommended Actions**

1. *Increase turnover expectancy to 4.4%*    \$376,495

For the past two fiscal years, the Department of Budget and Management has provided us with an additional \$500,000 in funding to reduce turnover and fill vacant positions. During the 2016 legislative session, the Department of Legislative Services acknowledged our high turnover and directed us to move more funding into salaries to fill vacant positions and improve customer service. We have been working very diligently over this past year to fill as many vacant positions as our budget will allow, and we are proud to report that we have gone from 123 vacancies at last year's budget hearing to a figure of 76 vacancies as of today. This is a 38% reduction in our vacancy count in one year.

In addition to our request for funding for turnover relief, legislation enacted during the 2016 session called for an increase in staffing. Chapter 582 of the Acts of 2016, Section 2 requires the Comptroller to implement a private letter ruling process to provide additional tax guidance to taxpayers. Our FY 2018 budget request as submitted to the Department of Budget and Management asked for six (6) additional positions to carry out this private letter ruling legislation. Instead of providing the additional positions and funding, DBM opted to provide an additional \$300,000 in turnover relief so we could fill more of our existing vacant positions to perform the private letter ruling requirements. If this recommended action is adopted, the Comptroller will not have sufficient funding to fill the vacancies necessary to implement the private letter ruling requirements outlined in Chapter 582 of the Acts of 2016. *We therefore request that the budget committees reject this recommended action.*

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