



Peter Franchot  
*Comptroller*

## TESTIMONY OF COMPTROLLER PETER FRANCHOT Fiscal Year 2019 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 2019 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, the full Committee, and all members of the General Assembly. 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.

With the legislature's continued strong support, and that of the Administration, the Comptroller's Office continues to lead the nation in combatting tax fraud and identity theft. As financial criminals grow brazen in their assault of Marylanders' financial security, my agency remains firmly committed to utilizing the best available technology to detect and prevent tax fraud, and working with Attorney General Frosh, we are aggressively investigating and prosecuting these criminals.

Since I took office, the Comptroller's Office has intercepted and blocked more than 88,000 fraudulent returns and has prevented the disbursement of more than \$190 million in fraudulent refunds. Last year alone, we blocked more than 10,000 fraudulent returns worth more than \$16 million. Given the data breaches that major

companies have experienced in the last two years, my office remains vigilant and will exercise all precautions as we process tax returns this year.

Due in large part to the additional statutory authority granted to us by the legislature through the passage of the *Taxpayer Protection Act of 2017*, my agency has been able to more swiftly and thoroughly investigate fraudulent tax preparers and take immediate action to prevent them from further compromising the financial integrity of hardworking taxpayers.

Less than two months into the new year, my office has already detected a high volume of highly-suspicious returns, prompting us to suspend processing returns from 14 tax preparation services. Thanks to our state-of-the-art and award-winning fraud detection model, we are able to identify anomalies in submitted returns that then result in additional scrutiny and verification by our highly-talented Questionable Returns Detection Team. This committee may recall that last year, we halted thousands of suspicious electronic returns coming from 34 tax preparers at 45 locations, and since 2016, we have blocked more than 108 highly-suspicious tax preparation services.

I'd like to note that we have given these tax firms an opportunity to come in and provide documentation to verify the authenticity of the returns they have submitted on behalf of Marylanders, and only a handful – over the last two years – have done so.

Over the last several years, Attorney General Frosh and I have developed a close working relationship to facilitate prosecution of these perpetrators. They have defrauded the State of tens of thousands of dollars, and damaged their victims' financial integrity, and must be brought to justice. I'm grateful to the Attorney General and his outstanding team for sharing my agency's commitment to preventing financial fraud in our state.

These culprits 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. The devastating impact that their actions can and have had on innocent, hardworking Marylanders cannot be overstated. That is why my office will continue to use every tool at our disposal to protect taxpayers from harm.

Our aggressive efforts to combat fraud and identity theft are a core pillar of our unwavering commitment to provide first-class customer service to all Maryland taxpayers. Another critical component of our commitment is executing the primary responsibility to process Marylanders' tax returns in a timely and efficient fashion. We continue 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, nearly 2.7 million Marylanders filed

their returns electronically in Tax Year 2016, representing over 84% 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 2016, with nearly 283,000 taxpayers using our free online service for individuals and, as of this week, nearly 20,000 have already done so for this current tax year. Over 71,000 taxpayers used our online BillPay system to make over 302,000 payments - an increase of nearly 55,000 from last year - to settle nearly \$131 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.

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 2017, our call center answered over 710,000 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 nearly 43,000 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 more than 135,000 taxpayers last year.

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 \$5.8 billion in delinquent taxes over the last eleven 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 over \$108 million from federal reciprocal contractors with unsatisfied state liabilities. Our Data Warehouse has already enabled us to collect nearly \$482 million in delinquent tax payments in the past eleven 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. This team of highly-skilled and dedicated law enforcement officers deserves the gratitude and admiration of all Marylanders for their dedication to consumer safety and tax compliance and performing their duties honorably each and every day. Since I took office, our agents have made over 1,200 arrests for tobacco violations, confiscating more than 2.8 million packs of untaxed cigarettes with a market value of approximately \$12.5 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, my dedicated field enforcement agents will remain aggressive in enforcing our laws and regulations that govern tobacco sales in our state.

Through our efforts to combat the illegal sale and consumption of alcohol, we have confiscated nearly 3,000 gallons of distilled spirits, nearly 82,000 containers of beer, and over 1,500 gallons of wine in the past eleven years, with a combined retail value of well over half a million dollars.

My field enforcement officers have also conducted nearly 43,000 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 2019 budget request in order to continue the successful work we have undertaken together on behalf of Maryland's taxpayers.

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