



Peter Franchot
Comptroller

TESTIMONY OF COMPTROLLER PETER FRANCHOT Fiscal Year 2020 Budget Presentation

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

With my continued gratitude for the strong and collaborative partnership my agency continues to share with the General Assembly, I am pleased to present the Fiscal Year 2020 budget request for the Office of the Comptroller of Maryland.

Working closely with this subcommittee, the full Committee, and all members of the General Assembly over the years, the Office of the Comptroller has been able to strengthen its core operations to improve our ability to deliver the highest level of service to Maryland taxpayers.

Thanks to the exceptional work of my outstanding staff and the support from this subcommittee, 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 further build upon our successes as an agency in the most fiscally prudent way.

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 customer service, tax fairness, consumer protection, and taxpayer security – all of which remain top priorities for me, my senior leadership team, and my dedicated agency employees.

The Comptroller's Office remains dedicated to serving the taxpayers as efficiently and effectively as possible, and that starts with providing first-class customer service. This is a top priority for the 1,100 men and women of my agency, and we remain committed to providing respect, responsiveness, and results to every taxpayer.

Over the last two fiscal years, we've placed a strong emphasis on strengthening our taxpayer services operations. We established an independent, stand-alone Taxpayer Services Division, which will better synchronize our efforts to address taxpayer needs across our agency. Additionally, recognizing the significant increase in call volume during tax season, we opened two remote call centers – one in Hagerstown, and the

other in Salisbury – to allow taxpayers to speak with our friendly and professional agency employees.

In 2018, our call centers answered over 650,000 phone calls, and each of those 650,000 people deserve timely answers to their questions, not to waste their time sitting on hold. I am especially proud that thanks to our investment in our call center operations, the average wait time is under one minute.

The same commitment to excellent service is emphasized in our responsiveness to emails that we receive from taxpayers. Last year, our taxpayer service representatives received and responded to nearly 43,000 taxpayer e-mails, and served more than 147,000 taxpayers in our branch offices across the state.

In today's digital age, my office continues to emphasize the convenience of our free, secure electronic filing system, and I am proud that nearly 2.7 million Marylanders utilized this service in Tax Year 2018. That represents over 85% of all income tax returns, which is another historic high.

95% 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, that over 90% of Maryland taxpayers actually receive their refunds within **three** business days. What's more, the average number of days for electronic filers receiving their refunds was 2.5 business days.

As has been the case over the last several years, many Marylanders took advantage of our free online taxpayer services during the 2018 Tax Filing Season, with nearly 283,000 taxpayers using our free online service for individuals. Over 77,000 taxpayers used our online BillPay system to make over 358,000 payments – an increase of nearly 55,000 from last year – to settle nearly \$137 million in outstanding tax obligations in the last tax year.

A crucial service that complements excellent customer service is working relentlessly to protect taxpayers' hard-earned money from financial criminals. Each and every day, these unscrupulous criminals find even more ways, with the benefit of technology and sophisticated tactics that target the most vulnerable populations among us, to defraud Marylanders. But, we remain firm in our mission to utilize the best resources possible to protect our taxpayers. Because of the hard work of my employees, the Comptroller's Office leads the nation in combatting tax fraud and identity theft.

Since I took office in 2007, we have intercepted and blocked more than 100,000 fraudulent returns and prevented the disbursement of more than \$205 million in fraudulent refunds. Last year alone, we blocked more than 12,000 fraudulent returns worth more than \$14 million. Given the data breaches of major companies that have

seemingly become more commonplace over the last few years, my office remains vigilant – exercising all precautions as we process tax returns this year.

A significant component of our fraud protection involves identifying and halting fraudulent tax preparers. The Comptroller’s Office prides itself on maintaining a state-of-the-art fraud detection model that can identify suspicious returns regardless of how sophisticated the criminals become. Last year alone, our award-winning Questionable Returns Detection Team blocked 74 preparers in 78 locations, and since 2016, my agency has blocked 191 tax preparers at 204 different locations, 172 of which are Maryland-based.

Thanks to the General Assembly’s overwhelmingly bipartisan and unanimous passage of the *Taxpayer Protection Act of 2017*, the Field Enforcement Division – which is charged with investigating tax fraud cases and working with proper prosecutorial entities to bring these criminals to justice - has used every statutory tool at their disposal to not only quickly investigate these fraudulent actors, but also block them from victimizing other innocent Maryland taxpayers.

In the last two years, they have investigated 27 tax fraud cases. In Fiscal Year 2017, they completed 9 investigations and referred them to the Attorney General for prosecution. Of those cases, 5 pled guilty, 2 were turned over to the IRS, and the remaining are awaiting trial dates.

In Fiscal Year 2018, the Field Enforcement doubled the number of investigations. These 18 tax fraud cases involved 7,651 fraudulent returns, over \$9 million, and 30 defendants. Of those, 11 are with the Attorney General’s office awaiting further action, 4 were found guilty, and 2 are still being investigated.

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.

I am extremely proud of the critical work that my Field Enforcement Division, the Questionable Returns Division Team, and all our employees who play a role in safeguarding Marylanders’ financial security and combatting the national epidemic of tax fraud and identity theft.

I am also happy to report that, in our mission to maximize both customer service and taxpayer protection, we have officially begun the transition to a new, state-of-the-art integrated tax system. Thanks to the consistent support of this Committee, Governors O’Malley and Hogan, and my colleagues on the Board of Public Works, the new

COMPASS system will revolutionize the way in which we serve the people of Maryland, replacing our current 25-year-old SMART system that was costly, inefficient, and simply, obsolete.

It will expand revenue-generating projects, provide enhanced reporting functionality and make it easier for taxpayers to view their accounts with the agency, whether they're individual taxes or their business's. These online resources will ultimately relieve some of burden at call centers and branch offices by providing information at the taxpayers' fingertips.

To further complement our current efforts to combat tax fraud, COMPASS will improve fraud detection and prevention programs. It will provide additional information in a centralized system that will allow the agency to use more complex fraud models, reducing the number of fraudulent refunds issues and streamlining the pursuit and recovery of refunds obtain by fraud.

Given the breadth of phasing out a statewide tax system, this transition is projected to take place over the next five years, with structures for filing corporate, personal, estate, and fiduciary taxes in place by 2022. The taxpayer portal will be rolled out in phase three of implementation, starting in 2021. The program will be fully integrated by mid-2023.

As we move through this complex process, the Comptroller's Office will remain committed to being transparent and informative, so the public knows exactly what to expect and how best to utilize these new resources.

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 crucial that we value their tax-filing experience, and what their money does for this state and its economy. I'm sincerely grateful to Deputy Comptroller Sharonne Bonardi, who is leading our agency's effort to ensure a smooth and seamless transition to our new tax processing system.

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 \$6.5 billion in delinquent taxes over the last twelve 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 \$111 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 since 2007.

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.

Lastly, I would like to highlight the critical work that my Field Enforcement Division does on behalf of Marylanders. As members of this Committee are aware from their interactions with this division, my Field Enforcement agents – ably led by Director Jeff Kelly – are consummate law enforcement professionals who work hard day in and day out to protect Maryland children and consumers, and ensure that every one regulated by my agency is playing by the same set of rules.

I would be remiss if I did not take this opportunity, given the recommendations recently published by a legislatively-appointed task force to transfer the Field Enforcement Division from my agency, to highlight the accomplishments and the important work of this unit.

Our Field Enforcement Division is driven, not only by its statutory mission of ensuring that all applicable laws and regulations are fairly and properly enforced, but also by a personal mission that is focused on consumer protection. There is simply no other government division with the skills, experience, or commitment necessary to carry out this job so successfully.

Since I took office twelve years ago, our agents have made over 1,400 arrests for tobacco violations, confiscating more than 2 million packs of untaxed cigarettes with a market value of approximately \$13.5 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 3,400 gallons of distilled spirits, nearly 85,000 containers of beer, and over 2,000 gallons of wine in the past twelve years, with a combined retail value of over a quarter a million dollars.

My field enforcement officers have also conducted more than 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.

As the aforementioned statistics highlight, my Field Enforcement Division continues to operate in an impartial manner and is squarely focused on enforcing our laws and regulations fairly in the interest of the people that we serve.

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 2020 budget request in order to continue the successful work we have undertaken together on behalf of Maryland's taxpayers.

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Recommended Actions

1. *Delete 5 vacant positions (PIN 003589, 053915, 003222, 003378, and 049740).
\$255,946 GF*

The Comptroller's Office concurs with this recommendation. As the DLS analysis highlights, the agency has been working very diligently over the past few years to fill as many vacant positions as our budget will allow. We are proud to report that since December 31, 2018, we have committed another 20 employees.

To ensure that the agency can recruit, hire, and retain qualified candidates, the Comptroller's Office continues to identify ways to address the need for competitive salaries – given the continued widening gap of salaries, especially when compared to companion states and private sector firm compensation. Both salary increases and reclassification of pins are merited and necessary in order to ensure that the Comptroller's Office remains competitive in providing salaries that will attract qualified individuals from diverse backgrounds to assume positions within state government.

To fulfill our mission-driven focus on customer service and taxpayer protection, the agency has officially begun the transition to COMPASS – our new, state-of-the-art integrated tax system. The revolutionary COMPASS system – which will replace our current 25-year-old SMART system that was costly, inefficient, and simply, obsolete – will deliver increased efficiencies that will bolster our ability to deliver first-class taxpayer service. This transition will assist us with our recruitment process, as employees will have the opportunity to use the 21st century technology that is needed for modern day tax administration. To ensure that the project is a success, the agency will need to assign its experienced staff to assist with the implementation of the COMPASS system while new hires will be used to staff the operations. This is the model used nationally to manage service levels and maintain legacy system functionality during the implementation process. To accomplish this goal, we will be requesting future appropriations to fund these much-needed positions.

As we move through this complex process, the Comptroller's Office will remain committed to being transparent and informative, so the public knows exactly what to expect and how best to utilize these new resources.