



Peter Franchot
Comptroller

TESTIMONY OF COMPTROLLER PETER FRANCHOT Fiscal Year 2022 Budget Presentation

*For Presentation to the House Appropriations Subcommittee on Public Safety & Administration
and the Senate Budget & Taxation Subcommittee on Public Safety, Transportation, And Environment*

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 2021 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.

I would like to begin by acknowledging the exceptional work of my outstanding staff especially during the incredibly strenuous challenges presented by the COVID-19 Pandemic. With 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.

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 imperative 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 three fiscal years, we've placed a strong emphasis on strengthening our taxpayer services operations. We have established an independent, stand-alone Taxpayer Services Division, which has better synchronized our efforts to address taxpayer needs across our agency.

In 2020, our call centers answered over 407,385 phone calls, and every single Marylander who calls our 1-800-MD-TAXES taxpayer services hotline deserves 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 more than 141,184 e-mails, a nearly 100,000 email increase due to the logistical complications of COVID-19. Despite the pandemic we still assisted more than 56,656 taxpayers in our branch offices across the state.

In addition, our 12 regional branch offices prepared and filed more than 3,582 Maryland State Tax Returns free of charge for our taxpayers, processed more than 41,270 payments, and collected over \$68 million in payments.

In today's digital age, my office continues to emphasize the convenience of our free, secure electronic filing system. It remains a top priority for my agency to ensure the security of our e-file system, and we continuously make necessary upgrades to address any potential cybersecurity threats. I am proud that more than 2.8 million Marylanders utilized this service in Tax Year 2020. That represents 88% of all income tax returns, which is another historic high. I am very pleased that we continue to see incremental increases in the number of taxpayers filing electronically, as it not only shortens the tax processing period, but is environmentally friendly and saves the agency a considerable amount of money in printing costs.

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 have their returns processed within **three** business days. What's more, the average number of days for electronic filers receiving their refunds was 2.5 business days.

In Calendar Year 2020, our agency processed more than 3.2 million tax returns and processed more than \$3 billion in tax refunds.

As has been the case over the last several years, many Marylanders took advantage of our free online taxpayer services during the 2020 Tax Filing Season, with more than 244,000 taxpayers using our free online service for individuals.

In addition, more than 1.5 million returns were processed through b-file, our free online service for Maryland businesses. Over 446,500 payments – an increase of more than 88,000 from last year – to settle nearly \$173 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 120,000 fraudulent returns and prevented the disbursement of more than \$225 million in fraudulent refunds. 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 21 preparers, and since 2016, my agency has blocked 236 preparers at 250 locations. A full list of all the preparers and their locations appear on our website, www.marylandtaxes.gov.

Since 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 four years, they have investigated 59 tax fraud cases, 36 of which have resulted in conviction. The Division currently has 14 open cases and investigations in those cases remain ongoing. In Calendar Year 2020, they completed 20 investigations and referred them to the Attorney General for prosecution.

These 20 tax fraud cases involved 10,017 fraudulent returns, worth over \$6.1 million, and 19 defendants. I am especially proud to report that the close partnership between my Field Enforcement Division and the Attorney General's Office has resulted in a 100% conviction or guilty plea rate and three cases closed by exception.

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 are making tremendous progress and are on schedule and on-budget with our transition into COMPASS – a new, state-of-the-art tax processing system that replaces our current 25-year-old SMART system that is costly, inefficient, and obsolete. COMPASS has already and will continue to improve our internal systems and processes that will strengthen our core agency operations and bolster our ability to deliver exceptional taxpayer service.

This major and critically-important overhaul of our tax system would not be possible without the consistent support of the General Assembly, Governors O'Malley and Hogan, Treasurer Kopp, and the Board of Public Works.

Our new tax processing system, called Compass, went through a competitive bidding process in 2018 and effective January 2019, our selected Implementation Contractor, Revenue Solutions Inc. (RSI) came on board.

The Comptroller's Office and RSI are dedicated to the configuration and development activities of the tax types administered by my agency and are aligned to implement the program in four releases over a period of five years. The system will be hosted in the cloud via the Microsoft Azure Government platform. The first year and first release are already complete.

Below are the implementation releases and major tax types with targeted go-live dates:

- Release 1 is further broken into sub-releases, with Alcohol tax being the first tax to be transitioned on schedule, which went live on July 6, 2020. This was followed by Corporate Income Tax which went live on schedule on February 2, 2021. This release implements most features and functionality to be used by the agency to administer all taxes.
- Release 2 transitions business taxes; Sales and Use tax, Withholding tax, Admissions and Amusement tax, Tobacco, and Tire Fee in calendar year 2022

- Release 3 transitions Personal Income tax and brings enhanced functionality to the Taxpayers of Maryland by offering a one stop self-service portal for all interaction with the Comptroller's office; including, advanced communication features, filing of returns, making payments for all tax types in a secured portal environment.
- Release 4 transitions International Fuel Tax Agreement (IFTA), Abandoned Property, and other miscellaneous tax types is the final phase of the project. All four releases will undergo an integration to the COM's existing Teradata Data Warehouse.

I am very happy with the first release as during the first six months in use, 770 licenses were issued, 3,635 alcohol returns were processed along with 5,664 payments totaling \$22,105,560.32 in successful transactions.

COMPASS is using an iterative approach for the implementation which allows for early and continued user involvement and continuous feedback. During the design sessions, the team members are evaluating tax form consolidation for simplicity, consistency, elimination of redundancy and ease of use. All notices and correspondences are evaluated and revised for plain language and standardization. With the ability to scan and data capture most tax forms that are currently manually keyed, there will be improved efficiency and improved resource usage. Taxpayers will also have an enhanced user experience.

For each release, data from respective processing systems will be migrated to the new system for uninterrupted business continuity.

Consistent communication throughout the agency is being provided through our award-winning Change Ambassador program generating positive anticipation and excitement.

We are also reaching out and working with our external partners and stakeholders to ensure that they are aware of the new system and have a chance to give us their feedback. When the entire program is implemented, taxpayers will have a new online portal where they will be able to do almost all their tax and license transactions online, with the expert help of our employees.

Transitioning to our new Integrated Tax System 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 \$7.3 billion in delinquent taxes over the last thirteen years. I must stress that these are not new taxes; rather, these are taxes lawfully owed to the State.

Our first-in-the-nation vendor offset program continues to pay large dividends, allowing us to recover over \$113.6 million from federal reciprocal contractors with unsatisfied state liabilities. Our Data Warehouse has already enabled us to collect nearly \$707.7 million in delinquent tax payments since 2007.

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 2021 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. Increase turnover to 7.75%. The budgeted turnover rate is 6.25%. The most recent vacancy rate in the department is 11.13%. The reduction is taken in Executive Direction but may be allocated across the department as appropriate.

Response:

The Comptroller's Office respectfully disagrees with the analyst recommendation. Over 91% (\$1,028,150) of this reduction is targeted at general funds. The general fund turnover in the Governor's Allowance is **7.42%**. The recommendation would drive the general fund turnover up to **9.21%**. With over a \$4 million reduction in general funds already from FY21 Legislative Appropriation, in order to stay within budget, any additional reductions will force the agency to continue to leave positions vacant while attempting to meet our core mission.

2. Report on the Integrated Tax System: The committees request a report providing an update on the project's current status, cost projections, and timeline. The report should include details on the use of fiscal 2022 funding and project development costs.

Response:

The Comptroller's Office concurs with the analyst recommendation.