



Peter Franchot  
*Comptroller*

## TESTIMONY OF COMPTROLLER PETER FRANCHOT Fiscal Year 2023 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 2023 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, 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.

### **Taxpayer Service**

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 2021, our call centers answered over 690,212 phone calls, a 69.4% increase over 2020, 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. To improve our customer service, we enhanced our phone system to allow taxpayers to take a survey at the end of their call and share their experience with us.

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 156,281 e-mails, a 10.7% increase over 2020. Despite the pandemic, we still assisted 22,335 taxpayers in our branch offices across the state, of which 423 were virtual appointments designed to assist taxpayers that did not want to visit our offices in person.

In addition, our 12 regional branch offices prepared and filed 1,589 Maryland State Tax Returns free of charge for our taxpayers, processed more than 12,414 payments, and collected over \$97,862,336.10 million in payments.

### **Electronic Filing**

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.

## **Returns Processing**

In Calendar Year 2021, our agency processed more than approximately 3.3 million tax returns and processed more than \$3.1 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 252,000 taxpayers using our free online service for individuals.

In addition, more than 1.8 million returns were processed through b-file, our free online service for Maryland businesses. Payments of about \$256 million in outstanding tax obligations were made in the last tax year.

## **Compliance Tax Fairness**

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 \$8.2 billion in delinquent taxes over the last fourteen years. I must stress that these are not new taxes; rather, these are taxes lawfully-owed to the State.

## **Unclaimed Property**

A personal joy of mine is uniting Marylanders with money that is owed to them. As mandated by the General Assembly, I am tasked with accounting for and returning Unclaimed Property to its rightful owners. Each year, my office conducts a significant multimedia campaign to encourage Marylanders to check to see if we have property that belongs to them. Last year my office received \$246 million in unclaimed property, and we were able to match \$61.3 million of that property to its rightful owners. Please take the time to encourage your families and constituents to visit the Unclaimed Property section of [Marylandtaxes.gov](http://Marylandtaxes.gov) to see if they are owners of unclaimed property.

## **Tax Fraud Protection**

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 combating tax fraud and identity theft.

Since I took office in 2007, we have intercepted and blocked more than 140,000 fraudulent returns and prevented the disbursement of more than \$260 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. 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](http://www.marylandtaxes.gov).

Since the General Assembly's overwhelmingly bipartisan and unanimous passage of the *Taxpayer Protection Act of 2017*, the Field Enforcement Bureau - 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 six years, they have investigated 69 tax fraud cases, 53 of which have resulted in conviction. The Bureau currently has 10 open cases and investigations in those cases remain ongoing. In Calendar Year 2021, and up until February 2022, they completed 23 investigations and referred them to the Attorney General for prosecution.

These 23 tax fraud cases involved 1200 fraudulent returns, worth over \$3.4 million, and 11 defendants. I am especially proud to report that the close partnership between my Field Enforcement Bureau and the Attorney General's Office has resulted in a 100% conviction or guilty plea rate, with two 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.

## **Field Enforcement Bureau**

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

As you may recall, the Field Enforcement Bureau was renamed from the Field Enforcement Division, which previously handled all of the above matters, as well as alcohol and tobacco regulatory affairs. Pursuant to mandates from the Maryland General Assembly in the 2019 and 2020 legislative sessions, those activities were removed to a newly-created state agency, the Alcohol and Tobacco Commission (ATC). In January 2021, a Memorandum of Understanding was established between the Comptroller's Office and the ATC, detailing how the two agencies would "share administrative services, personnel, equipment, and other organizational resources...in furtherance of the intent expressed by the Maryland General Assembly." Over the succeeding months, this relationship has remained challenging for all parties, in terms of legal authority, budgeting, personnel, facilities, and equipment. I draw attention to this relationship and note for the record that both the Comptroller's Office and the ATC will need to be sufficiently - and perhaps forwardly - funded to prepare for either the voters or the legislature to legalize cannabis, thereby creating both a new tax and a new regulated product to be sold in our state.

## **COMPASS Project**

I am 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, Treasurers Kopp and Davis, and the Board of Public Works.

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 three 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 Motor Fuel, business taxes; Sales and Use tax, Withholding tax, Admissions and Amusement tax, Tobacco, and Tire Fee in calendar year 2022.
- Release 3 transitions International Fuel Tax Agreement (IFTA), Personal Income tax, Pass-Through Entity Income tax, Fiduciary and Estate tax, and Unclaimed Property and other miscellaneous tax types. This final release 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.

All releases will undergo an integration to the COM's existing Teradata Data Warehouse.

I am very happy with the first release of COMPASS, as during calendar year 2021, it processed 90,283 alcohol and corporate tax payments totaling \$2,364,536,836 as well as issuing over 23,000 licenses and permits.

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.

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 Andrew Schaufele, who is leading our agency's effort to ensure a smooth and seamless transition to our new tax processing system.

### **COM's Role in Cannabis Enforcement**

As the agency that will be charged with ensuring proper taxation and compliance of cannabis sales, the Office of the Comptroller stands ready and is committed to working with the General Assembly to create a strong, sound, and fair taxation statutory and regulatory framework. It is our sincere hope that the General Assembly will give careful consideration to the feedback and suggestions provided by a team of experts assembled within the Comptroller's Office, as the creation of a cannabis tax will impact ongoing and future agency operations, particularly for the COMPASS project. Given that the various legislative proposals for cannabis legalization all anticipate a start date ranging from Fall 2023 to Spring 2024 for retail sales, it is imperative the legislature begin appropriating funding to ramp up our taxation and compliance apparatus in this Fiscal Year to allow for the necessary staffing and programming upgrades to occur in time.

### **Conclusion**

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 2023 budget request in order to continue the successful work we have undertaken together on behalf of Maryland's taxpayers.

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## **COM Response to DLS Budget Analysis**

### **Issue**

#### **1. New Major Information Technology Project**

The Comptroller's Office has one new MITDP in fiscal 2023, which will modernize CPB's Payroll and Financial Management systems. The Comptroller should discuss the anticipated timeframe for completing these system replacements.

#### **Response:**

As the issue analysis from the Department of Legislative Services acknowledges, this project concept is in its infancy. To-date, there has been one meeting that included COM, DBM, and DOIT. It remains unclear at this time whether the two new projects, replacements of the State's payroll system and FMIS, should be grouped together or pursue separate tracks. Furthermore, we are only in the initial stages of a marketplace study to determine the products, vendors, and pricing that exists in these narrow markets.

The funds appropriated for fiscal year 2023 would enable COM to begin building the requirements and business cases that would be necessary for the development of a RFP (or two) or possibly the ability to utilize an existing State software and contract for payroll. Additionally, as noted in the analysis, the funds would support the identification of all stakeholders – there are likely a significant number for FMIS – and the development of project charters.

### **Recommended Action**

1. Adopt the following narrative:

#### **Major Information Technology Development Project (MITDP) Status Update:**

The committees remain interested in the progress of the development of the Integrated Tax System (ITS) and the new Central Payroll Bureau (CPB) Payroll and Financial Management System Modernization MITDPs. The committees request that the Comptroller of Maryland submit a report providing an update on each of the projects' current statuses, cost projections, and timelines. The report should detail the use of the fiscal 2023 budgets and project development costs as well as any changes in scope or timeline.

#### **Response:**

The Comptroller's Office concurs with the analyst recommendation.