

2014-16 Executive Progress Report

Commonwealth of Virginia
Secretary of Finance

Department of Taxation

At A Glance

The mission of the Virginia Department of Taxation is to serve the public by administering the tax laws of the Commonwealth of Virginia with integrity, efficiency, and consistency.

Staffing 805 Salaried Employees, 76 Contracted Employees, 940 Authorized, and 98 Wage Employees.

Financials Budget FY 2015, \$105.36 million, 87.12% from the General Fund.

Trends Number of Taxpayers

Number of e-Filed Returns

Revenue Collections

Legend Increase, Decrease, Steady

Key Perf Areas

Refunds Issued in <12 Days.

% of Calls Answered.

Productivity

Average cost to process an individual income tax return

Legend

Improving, Worsening, Maintaining

For more information on administrative key, and productivity measures, go to www.vaperforms.virginia.gov

Agency Background Statement

The Virginia Department of Taxation administers 37 state and local taxes, including individual and corporate income taxes, sales and use taxes, and miscellaneous excise taxes. The agency serves approximately 5.5 million taxpayers throughout the Commonwealth. The Department works directly with taxpayers, retail organizations, local governments, members of the General Assembly, the Attorney General's Office and the Governor's Office to ensure the Commonwealth's revenue is collected and administered with fairness and due diligence.

Major Products and Services

In Fiscal Year 2014, the Department:

- Collected \$20.7 billion in revenue
- Issued 2.8 million income tax refunds totaling over \$1.73 billion
- Distributed \$1.6 billion to local governments
- Answered 505,888 phone calls
- Responded to approximately 208,902 "live chat" sessions on its website
- Received 375,586 letters from taxpayers
- Processed 12.2 million tax returns
- Administered Court Debt program collecting \$36.5 million

Customers

Customer Summary

The Department's customers use the Internet more routinely to conduct their business with the Department, and are becoming more diverse. The Department believes there is a large and increasing number of taxpayers who will use the Internet to find information 24 hours a day as long as what they need is available.

As a result, the Department continually evaluates the usability of its website, and offers the following services: several methods by which taxpayers can file returns, make payments and check the status of their refunds electronically. They also have the ability to sign up for e-Alerts to receive emailed information about various tax types.

Customer Table

Predefined Group	User Defined Group	Number Served Annually	Potential Number of Annual Customers	Projected Customer Trend
Taxpayer	Individual Taxpayers -- Resident, non-resident, and part-year resident taxpayers	5,074,517	5,100,000	Increase
Taxpayer	Tobacco Wholesalers	150	150	Stable
Business and Finance	Payroll providers --Companies representing and filing for multiple business taxpayers	200	300	Increase
Business and Finance	Tax preparers -- Professional preparers of individual and corporate income taxes and business taxes	8,000	10,000	Increase
Business and Finance	IRS/Professional Associations	31	31	Stable
Attorney General	Attorney General's Office	1	1	Stable
General Assembly	General Assembly	140	140	Stable
Governor	Governor's Office	1	1	Stable
Local or Regional Government Authorities	Federal/State/Local Governments	216	216	Stable
Local or Regional Government Authorities	Transportation Authorities	2	2	Stable
State Agency(s),	Agency Management and Employees	940	940	Stable
State Agency(s),	State Agencies	124	124	Stable
Taxpayer	Business Taxpayers -- Sales tax dealers, employers, ecorporations and other business taxpayers	469,841	500,000	Increase

Finance

Financial Summary

The Department is predominantly funded from the general fund. It uses non-general fund sources to fund outside collection agencies (percentage of collections), court debt collection, the administration of the communication sales and use tax , motor vehicle rental tax, and the insurance premium tax. Non-general funds are also used for railroad and pipeline assessments, land preservation credit processing and local assessor training classes.

Fund Sources

Fund Code	Fund Name	FY 2015	FY 2016
0100	General Fund	\$91,784,551	\$92,555,814
0200	Special	\$131,401	\$536,401
0208	Scc Public Service Co Fees And Taxes	\$356,229	\$356,229
0209	Scc Insurance Fees And Assessments	\$210,632	\$210,632
0214	Contract Collector Fund	\$8,000,000	\$8,000,000
0216	Land Preservation Fund	\$647,000	\$647,000
0231	Court Debts Collection Program	\$3,454,559	\$3,454,559
0251	Voluntary Contribution Administration Fund	\$50,000	\$50,000
0400	Commonwealth Transportation	\$250,000	\$250,000
0904	Transportation District Fund	\$18,186	\$18,186
0906	Waste Tire Trust Fund	\$12,962	\$12,962
0926	Virginia Communications Sales And Use Tax Fund	\$389,608	\$389,608
0928	Wireless E-911 Fund	\$50,000	\$50,000

Revenue Summary

Performance

Performance Highlights

The Department collects most of the general fund revenues for the Commonwealth. The revenue collected by the Department is essential to the funding of state agencies and programs, and impacts every citizen of Virginia. This revenue funds critical state services like education, health and human services, and public safety. Consequently, the Department diligently executes the revenue collection duties required by statute. In FY2014, the Department collected more than \$20.7 billion in revenue, and issued more than \$1.73 billion in individual refunds.

Performance highlights from some of our various operational areas include:

Tax Processing Operations

- Over 12.2 million returns and 6.3 million payments were processed in FY2014; 72 percent through an electronic channel and 28 percent through paper. This is a substantial increase from FY2013, when 66 percent of returns and payments were processed through electronic channels and 34 percent via paper.

Customer Service

- During FY2014 the Department answered 505,888 telephone calls, received 375,586 letters, and handled 208,902 Live Chat sessions.

Compliance

- Compliance revenue collections were \$537.7 million in FY2014.
- The Court Debt Collection Unit's collection of court fines in FY2014 totaled \$36.5 million.
- The Department collected \$10.1 million in FY2014 in the United States Treasury Offset Program.

Technology

- Deployed the Department's first mobile application. This application brings automation to the Department's field-based collections staff. Instead of printing case loads each morning, and taking this unsecure information to taxpayer locations, collectors now take an iPad with all of their case information at their fingertips. This application also allows the collectors to take electronic payments – credit, debit or EFT – while onsite.
- Implemented an electronic filing program for Pass Thru Entities (PTE) taxpayers, which has been widely accepted. Over 60 percent of PTE tax returns have been electronically filed in the first year.
- Completed refresh of over 1,000 workstations and 150 Windows 2000 Servers.
- Implemented new security software to monitor the agency's infrastructure and applications for vulnerabilities.
- Replaced the Department's Legislative Development and Tracking tool.
- Completed implementation of a Voice over Internet Protocol (VoIP) telephony system and integrated a workforce management tool. This will help the Department improve customer service, staff training, and workforce planning. Integrated a public address module into the VoIP system to improve agency emergency communications.

Selected Measures

Measure ID	Measure	Alternative Name	Estimated Trend
16173214.001.001	Percentage of all refunds from current-year electronically-filed returns issued within 12 days of receipt of the return	Refunds Issued in <12 Days.	Improving
16173217.001.001	Percentage of calls answered before callers disconnect	% of Calls Answered.	Maintaining
16173214.001.002	Average cost to process an individual income tax return.	Average cost to process an individual income tax return	Improving

Key Risk Factors

The Department faces many challenges, including, but not limited to, the following:

Technology Costs: While the Department continues to investigate more innovative technologies to enhance customer services and make its overall operations more efficient, investment in new and innovative technologies is expensive, as are maintenance and operating costs of existing technologies.

Data Security / Identity Theft: The increase in data security breaches and identity theft has created a need for the Department to increase efforts and resources to protect taxpayers. This is an evolving need requiring consistent hardware and software updates as well as a growing knowledge base to combat any potential data compromise of confidential taxpayer information.

General Fund Resources: Resources to maintain current service levels have steadily declined since 2010 due to \$17 million in budget reductions. Maintaining current Department service levels with current resources will continue to pose challenges especially considering that additional budget reductions are expected in the next biennium. With advances in technology, the increase in electronic filing, and dedicated staff, the Department has been able to keep customer service levels at a high standard.

Aging of Workforce: Leveraging a workforce that continues to increase in average age, thereby increasing the number of staff members who could retire at any time, also presents a continuing challenge in regards to transition planning, time off and transfer of knowledge.

Agency Statistics

Statistics Summary

The following statistics demonstrate the magnitude of the work the Department undertakes on behalf of the Commonwealth and its citizens every year.

Statistics Table

Description	Value
Individual income tax returns processed FY2014 (in millions)	4
Number of taxpayers in Virginia (in millions)	6
Number of individual refunds issued (in millions)	3
Total number of tax returns processed in FY2014 (in millions)	12
Phone Calls Handled in FY2014	505,888
Live Chats Handled in FY2014	208,902
Fiscal Impact Statements prepared for General Assembly	218
Total collected revenue (in billions of dollars)	21
Issued Refunds (in billions of dollars)	2
Correspondence received from taxpayers in FY2014	375,586
Number of payments processed in FY2014 (in millions)	6

Management Discussion

General Information About Ongoing Status of Agency

The Department will continue its commitment to serving the public with customer-focused services that are more efficient and productive. Its focus will continue to make full use of the technology tools available and develop more tools in order to keep offering more innovative customer service products and accurately match employee skill sets with customer needs.

The Department was given an additional 10 positions FY2014 to expand its focus on compliance programs, including the review of individual tax refunds. It is projected that these additional individuals will generate over \$10 million per year starting in FY2015.

Information Technology

While the Virginia Information Technologies Agency (VITA) and Northrop Grumman (NG)'s mandated transition to the Commonwealth technical infrastructure is complete, the Department still must provide functions that were once performed by VITA staff, but have now reverted to the agency. Additional VITA/NG-mandated activities have a heavy impact on technology staffing and agency applications. Modification to TAX's internal applications is sometimes necessary to ensure they function with the new infrastructure. In addition, the policies and procedures outlined by VITA require extensive internal work and review to ensure agency alignment.

Information technology security is a high priority throughout the Commonwealth, and particularly at the Department of Taxation. Taxpayer data stored by this agency is highly sensitive and ensuring its protection is a top priority for the agency. Implementing, auditing and monitoring IT security is a time-consuming and expensive activity. Existing technology staff must include extensive security reviews into their day-to-day activities. This requirement further limits the agency's ability to meet the ever-increasing demand for technology improvements.

With the growth of Internet-based applications, the Department continues to experience increased demand for more online and electronic functionality to better serve individual taxpayers, businesses, and tax preparers. To assist in meeting these needs, the agency has recently offered additional electronic filing options. Several additional electronic filing options are being considered. New electronic filing options can be more efficient for the agency and improve taxpayer refund turnaround time, which is an agency performance measure.

The Internal Revenue Service (IRS) continues to enhance its electronic capabilities and, as a result, the agency must align with new federal requirements for filing, security and access in order to retain usage of IRS data. The IRS data, used by Taxation's compliance programs, result in approximately \$130 million in revenue annually.

Workforce Development

the Department's classified workforce has declined by over 10 percent since FY 2009. At that time, General Fund employees numbered 863 and today the average is 774. With a reduction in the agency's classified workforce, a greater reliance on contingent workers as well as use of overtime has been used to meet workload and staffing demands. Taxation's workforce is technically skilled and long-tenured. The median age of the classified workforce remains constant at 52. Approximately 17 percent of employees are currently over the age of 60 and 21 percent of the workforce is eligible for full retirement. Moreover, approximately one-third of the workforce will be eligible to retire within the next five years. For agency leadership, 73 percent of management is over the age of 50 and 31 percent can retire by December 2014. In FY2014, TAX's turnover rate averaged 5.5 percent, about half of which is attributable to retirements.

As the agency's workers retire, its internal pool of candidates consists of a large number of less-seasoned employees; 42 percent have less than 10 years of service. Of particular concern is the lack of employees with leadership experience to step in to middle and upper-level management roles. The agency has placed a priority on addressing the leadership challenge and has emphasized the development of supervisors to senior managers through leadership development training for the last several years.

Continued implementation of new technology at the Department requires more highly skilled technical employees to maintain the systems. Taxation must continue to be creative in using compensation and alternative reward and recognition strategies to attract and retain highly skilled technical staff.

Telework and Career Development Plans continue to be effective workforce strategies. Approximately 39 percent of the agency's workforce is home-based and 26 percent are allowed to work from home at least one day a week. Allowing employees to telework has produced positive outcomes for both the agency and its employees. Career ladders have been developed for many positions to recognize the advancing achievements of the workforce. These career ladders can be an incentive for employees to stay with the agency by providing advancement and development opportunities within one's current job.

Physical Plant

The Department does not own any buildings, and all employees in the Richmond area work in facilities owned by the Department of General Services.