

2016-18 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 administer the tax laws of the Commonwealth with integrity and efficiency to support funding of government services for Virginia's citizens.

Staffing 820 Salaried Employees, 76 Contracted Employees, 940 Authorized, and 65 Wage Employees.

Financials Budget FY 2017, \$106.59 million, 88.62% from the General Fund.

Trends
Legend

↑ Increase, ↓ Decrease, → Steady

Key Perf Areas

➔ % of Calls Answered.

➔ Error % of local distribution of sales and use tax

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 (Virginia Tax) administers 37 state and local taxes, including individual and corporate income taxes, sales and use taxes, and miscellaneous excise taxes. We serve approximately 5.5 million taxpayers throughout the Commonwealth. Virginia Tax works directly with individual and business taxpayers, tax preparers, 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. Organizationally, we are aligned under the Tax Commissioner who reports to the Secretary of Finance.

Major Products and Services

In fiscal year 2016, Virginia Tax:

- Collected \$22.6 billion in revenue
- Processed 12.2 million tax returns
- Issued 2.8 million income tax refunds totaling \$1.74 billion
- Distributed \$1.77 billion to local governments
- Handled over 1.5 million taxpayer contacts
- Collected \$48.1 million in court debts

Customers

Customer Summary

The primary stakeholders include anyone who pays taxes or court debts to our agency and any entities that assist taxpayers in maintaining compliance with the tax laws of Virginia. These stakeholders include the legislative and executive branches of state government (to whom we provide tax policy clarification and guidance), payroll providers, tax preparers, other state agencies, local governments, and professional associations.

Anticipated Changes to Customer Base

We anticipate a 1.5 to 2% growth in our customer base overall.

Customer Table

Predefined Group	User Defined Group	Number Served Annually	Potential Number of Annual Customers	Projected Customer Trend
Business and Finance	Professional Associations	30	30	Stable
Attorney General	Attorney General's Office	1	1	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
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, corporations and other business taxpayers	587,076	598,026	Increase
Taxpayer	Individual taxpayers - Resident, non-resident and part-year resident taxpayers that file personal taxes in Virginia	5,162,846	5,193,316	Increase
Taxpayer	Tobacco wholesalers	150	150	Stable
State Agency(s),	Courts - Court Debt Collections	239	239	Stable

Finance

Financial Summary

Virginia Tax is funded 89% from the general fund with the remaining from non-general fund sources. We use non-general fund revenue to fund outside collection agencies (percentage of collections), court debt collection, and the administration of the communication sales and use tax, motor vehicle rental tax, wireless tax, and insurance premium tax. Non-general funds are also used for railroad and pipeline assessments, land preservation credit administration, and local assessor training classes.

Fund Sources

Fund Code	Fund Name	FY 2017	FY 2018
0100	General Fund	\$94,456,144	\$94,889,418
0200	Special	\$612,428	\$613,590
0208	Scc Public Service Co Fees And Taxes	\$471,962	\$471,962
0209	Scc Insurance Fees And Assessments	\$327,234	\$327,234
0214	Contract Collector Fund	\$6,002,050	\$6,002,050
0216	Land Preservation Fund	\$866,254	\$766,254
0223	Motor Vehicle Rental Tax Undistributed Fund	\$265,766	\$265,766
0231	Court Debts Collection Program	\$2,876,001	\$2,876,001
0251	Voluntary Contribution Administration Fund	\$50,000	\$50,000
0400	Commonwealth Transportation	\$0	\$0
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	\$576,522	\$576,522
0928	Wireless E-911 Fund	\$53,815	\$53,815

Revenue Summary

Performance

Performance Highlights

Virginia Tax collects most of the general fund revenues for the Commonwealth. The revenue we collect 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. In FY 2016, we collected more than \$22.6 billion in revenue.

Performance highlights from some of our various operational areas include:

Administration

- Migrated Virginia Tax's revenue accounting module to the Commonwealth's new statewide accounting system - Cardinal.
- Opened the Danville Customer Service Office.
- Enhanced physical security in Richmond facilities.
- Distributed \$1.77 billion in tax revenue to local governments.

Policy

- Closed 525 cases on appeal in FY 2016.
- Completed 294 fiscal impact statements for the 2017 General Assembly.

Tax Processing Operations

- Processed over 12.8 million returns and 6.7 million payments in FY 2016; 77% through an electronic channel and 23% from paper. This is an increase from FY 2015, when 75% of returns and payments were processed through electronic channels and 25% from paper.
- Received and processed 6.8 million electronic W-2/1099 statements in a timely manner to support the Refund Fraud Program.
- Implemented electronic filing mandates for the communications, vending machine, motor vehicle rental, and other tobacco products taxes.

- Executed a new vendor management agreement with tax preparation e-File vendors to incorporate identity theft and other tax fraud prevention language.

Customer Service

- Received 598,000 inbound telephone calls, received 20,000 secure messages, and processed 107,000 pieces of Taxpayer Correspondence.
- Handled 44,700 refund review calls in FY 2016.
- Reduced the average taxpayer correspondence turnaround time to fewer than 6 days.
- Maintained a taxpayer first call resolution rate of 85%.
- Collected court debts in FY 2016 totaling \$48.1 million.

General Legal and Technical Services

In calendar year 2016:

- Responded to 33 Freedom of Information Act (FOIA) requests.
- Resolved 3,700 offers in compromise.
- Revoked the ST-10 exemption permits of 195 businesses that were purchasing cigarettes illegally.
- Resolved 7 Taxpayer Bill of Rights issues and resolved 45 priority cases through our Taxpayer Advocate Program.
- Processed 2,700 sales tax exemption applications.

Compliance

In FY 2016:

- Collected \$580.7 million in compliance revenue.
- Denied 35,000 refund returns, saving over \$27 million in fraudulent refunds.
- Collected \$15.6 million in the United States Treasury Offset Program.
- Collected \$11 million in revenue through our outside collection agency.

Technology

- Completed comprehensive redesign and rewrite of the Virginia Tax website.
- Provided numerous technically detailed and time-sensitive modifications to Virginia Tax’s Refund Fraud programs to detect refund fraud.
- Completed all legislatively mandated 2016 projects within the timelines necessary to ensure a successful 2017 tax filing season.
- Implemented Appeals and Ruling Case Management System.
- Implemented an electronic filing system for the fiduciary tax.
- Converted Advantage Revenue security from user-based to role-based security.
- Completed 100% of requests for technology system vulnerability scanning and analysis.
- Compiled system security plans for all systems based on new classifications.
- Completed penetration testing to ensure system protections are functioning properly.

Selected Measures

Measure ID	Measure	Alternative Name	Estimated Trend
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
161.0001	Error rate % of local distribution of sales and use tax	Error % of local distribution of sales and use tax	Maintaining

Key Risk Factors

Virginia Tax is a large and complex agency with many multifaceted systems, numerous regulations and recurrent vulnerabilities needing our constant attention. Yet, as we work daily to mitigate risk and execute our mission, we acknowledge that we must address multiple challenges. These risks include an aging workforce, complex/aging technology, and taxpayer data security and identity theft.

Aging Workforce - Like other government agencies and private industry, Virginia Tax has been and will continue to be affected by the impact of baby boomers transitioning to retirement. A striking example of this is that 13 department employees with a combined 411 years of service retired on January 1, 2015. Unfortunately, we can expect to lose many of our senior, experienced employees to retirement over the next 5 years. Currently, more than 160 employees have reached age and service requirements for unreduced retirement. Over the next 5 years, almost 120 additional staff will meet the requirements for unreduced retirement. This represents about 35% of our workforce and will be a significant loss of productivity and institutional knowledge for the agency. Clearly, this challenge requires us to begin now to plan for knowledge transfer and focus efforts on recruiting and retaining new talent as emerging leaders.

Complex and Aging Technology – When Virginia Tax modernized our revenue management system technology (1999-2005), we implemented numerous individual components that are not part of the core system. We have an application for collections, an application for auditing, another for processing returns and payments, a separate one for scanning returns, and numerous other systems that support agency processes. The number of systems, coupled with their dependence on each other, has created a technology environment that is extremely complex and requires numerous skill sets to operate. With so many technical platforms, we are not able to redeploy our technology resources where most needed; for example, a programmer who works on the auditing system must have knowledge of a completely different programming language than one who works on our collections system. Most importantly, keeping so many current products supported and secure ties up the same resources that are needed to expand our technology offerings to meet taxpayers’ rapidly changing service expectations.

Securing Taxpayer Data and Identity Theft – Taxpayer data security, refund fraud, and identity theft are growing problems for all government agencies and private businesses. Recent data breaches across a broad spectrum of private and public entities are examples of the need to proactively secure taxpayer data. This is critical given the stealth and speed at which huge volumes of data can be compromised. Securing this data has been and remains a top priority and transforming our agency environment to reflect this fact is an ongoing and iterative process that will continue. In addition, increased fraud and identity theft require us to identify new and creative ways to address these two critical issues. This includes continually adjusting and adapting our business rules to stop fraudulent refund requests and identifying other resources we can leverage or acquire to further complement our business rules and mitigate risk to our taxpayers and the Commonwealth.

Agency Statistics

Statistics Summary

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

Statistics Table

Description	Value
Individual income tax returns processed FY2016 (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 FY2016 (in millions)	13
Phone Calls Handled in FY2016	598,286
Fiscal Impact Statements published for General Assembly in FY2016	309
Total collected revenue (in billions of dollars)	23
Issued Refunds (in billions of dollars)	2
Correspondence received from taxpayers in FY2016	445,926
Number of payments processed in FY2016 (in millions)	7

General Information About Ongoing Status of Agency

Virginia Tax will continue our commitment to providing taxpayers with requested services—such as our new website—that are more efficient and productive and meet their needs. Key to this commitment is the agency's ability to have an application platform based on next generation technology. Our current technology application platform is the largest impediment to meeting the rapidly-changing service expectation of taxpayers. While we are able to adapt and integrate some improved product offerings to taxpayers, the high cost of providing those on our current application platform (as well as the high cost to develop and implement them) limits our ability to meet demand. We also have to address the continued pace of retirement and turnover of agency staff.

Information Technology

In addition to our normal technology maintenance, refund fraud mitigation enhancements, and legislative updates, Virginia Tax has several technology initiatives in progress or just completed. First is undertaking a current-state analysis of our technical environment. We are retaining an outside technology contractor to review the strengths, weaknesses, opportunities, and threats associated with our applications, infrastructure, security, and resources. Our current environment is aged, costly to operate, and (because of its architecture) difficult and inefficient to use. Because of its complexity, our environment is also difficult to maintain and enhance, making it almost impossible for us to effectively meet the changing needs of taxpayers. By highlighting where and how to improve our technical environment, an analysis of the current state will help guide our strategic initiative to provide modern tax systems, processes and tools.

Second is an overhaul of our web presence. The recent website redesign was based entirely on input from taxpayers about what they want and need from our website. We have defined and are actively developing the next phases, including an application to allow taxpayers to set up and administer partial payment plans, a new single-sign-on application to allow taxpayers to access all their accounts under a single logon, and a redesign of all of the existing web applications to be more intuitive and better meet the needs of today's taxpayer. The goal is to increase taxpayers' willingness and ability to do business with Virginia Tax electronically.

Information technology security remains a high priority throughout the Commonwealth, and particularly for Virginia Tax. The taxpayer data that we store is highly sensitive and ensuring its protection is a top priority for us. Implementing, auditing, and monitoring IT security are costly but necessary activities. Existing technology staff must include extensive security reviews into their day-to-day activities.

The agency is also preparing for transition efforts underway with VITA as they move to a multi-vendor provider approach for administering the Commonwealth's infrastructure. Virginia Tax anticipates significant resource investments as VITA moves messaging, servers, storage, and networking from the current provider to other vendors.

Workforce Development

Workforce Composition

With about 820 full-time employees, Virginia Tax's classified workforce has declined by about 7% since the beginning of fiscal year 2010. Our agency's workforce is tenured with an average age of 50 years. The average years of service for the classified workforce is almost 14 years. About 57% of the agency's workforce is older than 50 years of age. Only 4% of the agency's workforce is younger than 30 years of age. The majority of positions at Virginia Tax are classified as professional roles (based on EEO categories).

This tenured and experienced workforce comprises agency employees with a depth of expertise in tax policies, laws, and practices. This expertise helps build a culture of learning, efficiencies in productivity, and knowledgeable skilled resourcing for informed decision making throughout the agency.

In addition, Virginia Tax has a strong telework program that is a key workforce strategy to attract and retain employees as well as to provide other benefits – including continuity of operations in the event of an emergency. Currently, 85% of the agency's employees have the capability of working from home in some capacity.

The most significant workforce challenge for the agency continues to be the volume of employee retirements. Retirements have hovered around 3.5% of the workforce over the past several years and the trend is expected to continue through at least through 2023. The high volume of retirements results in knowledge gaps, productivity loss, the need to acquire new talent, and the need to train and integrate new talent into our culture and workforce. This occurs at various levels of the agency but is especially acute at the leadership level (mid-level and upper-level management roles) where nearly half of this population will likely retire within the next 10 years. We continue to emphasize the development of lower-level managers and supervisors to prepare talent for these future needs.

Virginia Tax also has about 6% of its workforce using short-term disability benefits at a given time. It is important for employees to address medical issues and the use of short-term disability benefits is one important avenue for doing so. With an aging workforce, the short-term disability rate will likely increase in the future. Our challenge is to identify how to effectively manage the workforce to ensure that we continue to maximize operational performance and meet productivity standards.

With a significant volume of retirements and other turnover, the agency leadership has identified Talent Acquisition as a key strategic priority for short-term focus. Specifically, we have established a team to create an effective talent acquisition process to ensure future success. Virginia Tax recognizes that a focus on talent acquisition is the first step and that we will also need to pay attention to other parts of the employee lifecycle to ensure that employees can be successfully on boarded, integrated into the agency, developed, and retained.

Physical Plant

The agency does not own any buildings and has three leases for space. Two of the leases are in Richmond while the third lease is in Danville.
