

# Virginia Department of Taxation

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## **Refund Debit Card and Office of Compliance Reorganization**

*Senate Finance Committee*

*May 23, 2013*

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Tax Commissioner



# Tax Refund Debit Card: Overview

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- Prior to the 2013 tax filing season, the default medium for issuing income tax refunds was a check
  - Direct deposit was option, default was paper check
- Item 466 of 2012 Appropriation Act (Chapter 3, 2012 Special Session I) requires that individual tax refunds be issued only through debit card, direct deposit or other electronic means beginning January 1, 2013
  - Direct deposit and debit cards are options, default is debit card
- Department of Treasury's budget reduced \$200,000 annually in fiscal years 2013 and 2014 reflecting savings from reduced mailing/printing costs
  - Variable cost to print and mail a check is \$0.48 compared to transaction cost of \$0.10 for direct deposit
- The tax refund debit card program is included under the Department of Treasury's contract with Xerox State and Local Solutions and is administered at no cost to the Commonwealth
  - Xerox administers the state's unemployment insurance benefit and SNAP benefit debit card programs



# Tax Refund Debit Card: Overview

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- During implementation, six states offering prepaid debit cards in 2012 for tax refunds were contacted for best practices and lessons learned
  1. Push information and details regarding program via all communications channels
    - Produced audio public service announcements (PSA) and instructional video for media outlets and Taxation's website
    - Communicated with tax preparers, taxpayers, industry and advocacy groups, all media via print and electronic mediums
    - Updated tax instruction booklets and commercial tax preparation software vendors
  2. Communicate with banks and credit unions regarding program requirements
    - Delivered detailed communications to banks and credit unions regarding program and requirements—conducted by Department of Treasury
  3. Establish conditions requiring the issuance of a refund check
    - Defined conditions in which a check is issued rather than a debit card, in accordance with budget language

# Tax Refund Debit Card: Use and Fees

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- The individual tax refund debit cards:
  - Non-reloadable (cannot be used for subsequent tax refunds)
  - Requires activation and selection of a PIN by taxpayer before use
  - All funds available to the taxpayer upon activation
- Fees can apply, but taxpayers have four options for obtaining funds with no fees
  - Cash out card at any MasterCard participating bank
  - Transfer the funds to a bank account via phone or online
  - Point-of-sale use at any retailer including cash back
  - Withdrawal at Money Pass ATMs
- Fee schedule is in the insert mailed with each card, in the tax filing instruction book, and posted on Taxation website
  - All mailings and correspondence to tax preparers, taxpayers, and media included fee schedule or how to obtain the full schedule

# Tax Refund Debit Card: Refunds Issued

Refund Type	2012	2013	Change
Direct Deposit	1,472,432	1,758,697	286,265
Debit Card	0	383,594	383,594
Paper Check	1,050,061	349,426	(700,635)
<b>Total</b>	<b>2,522,493</b>	<b>2,491,717</b>	<b>(30,776)</b>
% Direct Deposit	58%	71%	
% Debit Card	0%	15%	
% Paper Check	42%	14%	

Data through May 19, 2012 and 2013



# Tax Refund Debit Card: Checks Issued

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Reason Check Issued	Number
Debt Setoff	256,775
Tax Year Prior to 2012	53,563
Direct Deposit Failed	19,821
Taxpayer Under Age 18	8,853
Deceased	1,719
Maximum Refund Amount	1,015
Mailing Address Invalid	979
Other	6,701
Total	349,426

Data through May 19, 2013



# Tax Refund Debit Card: Transactions

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Transaction	Number
Point-of-Sale Use	287,333
ATM Withdrawal	91,775
Bank Teller Cash Withdrawal	87,350
ATM Balance Inquiry	58,418
Point-of-Sale Cash Back	27,734
Bank Transfer	17,028

Data through May 19, 2013



# Tax Refund Debit Card: Implementation Issues

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- Implementation of the program has been somewhat challenging but overall has proceeded more smoothly than projected for the first year of a program of this magnitude and with the number of debit cards issued
  - Projected more than 30,000 additional calls to Taxation’s customer contact center for debit cards issued through May 1
    - Received 4,850 debit card calls through May 1
- However, issues have been encountered that have already been addressed or continue to be addressed
  - Xerox’s IVR menu confused some taxpayer
  - Xerox incorrectly assessed fees on 14 accounts due to algorithm that used card number sequences to apply fees to account (Xerox credited all taxpayers accounts for the incorrect fees)
  - Xerox’s website and IVR was not clear regarding the one free bank transfer they were entitled to under this program (No fees charged)
  - Some banks not cashing out the cards as required or turning away cardholders if no bank account at that bank
  - Cards not being activated prior to use
  - Attempts to cash card out at non-MasterCard member banks

# Tax Refund Debit Card: Going Forward

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- The refund debit card program has resulted in higher direct deposit participation and real savings to the state from the reduction in check printing and mailing
- Taxation and Treasury will work over the spring and summer to address programmatic issues that have been identified
  - Revise card mailer insert to address program requirements and fees as clearly as possible
  - Communicate frequently with all banks, including non-MasterCard member banks, regarding the program requirements
  - Use experiences to date to work with Xerox to clarify IVR menu and program website to eliminate potential for confusion
  - Work with commercial tax preparation software vendors on their presentation of the direct deposit and debit card options

# Office of Compliance Restructuring

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- The 2013 Appropriation Act (Chapter 806, 2013 Acts of Assembly) included a plan submitted as part of the Fall 2012 reduction plans to restructure a portion of the Office of Compliance
- Restructuring will affect the Criminal Investigation Unit (CIU) by eliminating two positions and transferring the remaining four to other compliance or audit functions
  - Savings of \$120,000 in FY 2014 were included in approved budget
- CIU established in 1993 to prevent fraudulent refunds and incentivize compliance with tax laws
  - Implementation of the Integrated Revenue Management System in 2007 resulted in transferring the refund fraud function to the desk audit section

# Office of Compliance Restructuring

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- One factor in the reduction proposal was the CIU's low impact on compliance revenue
  - FY 2012: \$245,198
  - FY 2011: \$598,407
  - FY 2010: \$1,352,629
  - FY 2009: \$814,183
  - FY 2008: \$35,703
- Another was the CIU's high operating costs of about \$500,000 annually
  - Average annual salary for CIU staff exceeds the average salary of desk audit staff by \$25,000
  - Experienced desk auditor should generate \$750,000 annually in compliance revenue
- In addition to maintaining or improving compliance revenue going forward, the proposal will enhance Taxation's ability to protect taxpayer information and maintain controls over critical operations

# Office of Compliance Restructuring: Allocation of CIU Positions

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- Fraud Refund Auditor: Position added to refund team that identifies and stops possible refund fraud before refunds are issued
- Senior Field Agent: Position with prior collections experience assigned to the team in the Tidewater Region. Responsible for collecting tax liabilities from individuals and businesses who do not respond to written payment requests.
- Disclosure Officer: Currently a collateral responsibility of the Director of Desk Audit, one of the Department's largest compliance programs. Position will enable the Department to be more proactive in protecting taxpayer information and ensuring IRS safeguard requirements and enable Desk Audit Director to focus on compliance programs.
- Internal Auditor: Position transferred to the Department's Internal Audit Unit to conduct financial control audits. Enables internal audit staff holding certification for auditing large-scale information technology platforms to focus on procedures and controls necessary given the large amounts of sensitive information processed and stored electronically.



# Compliance Revenue: FY 2003 – FY 2012

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Fiscal Year	Amount
2012	\$488,242,792
2011	\$487,490,890
2010	\$520,972,078
2009	\$467,752,429
2008	\$523,912,495
2007	\$415,072,622
2006	\$290,547,192
2005	\$469,320,614
2004	\$449,060,758
2003	\$367,598,493

# Compliance Revenue/Fees From Outside Collection Entities: FY 2003 – FY 2012

Fiscal Year	Total Outside Collection Agency Revenue	Fees	Net Revenue
2012	\$32,606,213	\$7,290,221	\$25,315,993
2011	\$34,329,594	\$7,253,544	\$27,076,050
2010	\$49,817,067	\$8,750,900	\$41,246,079
2009	\$48,907,383	\$12,009,999	\$36,897,384
2008	\$37,779,790	\$3,831,487	\$33,948,303
2007	\$46,594,104	\$4,652,592	\$41,941,512
2006	\$30,719,327	\$2,853,726	\$27,865,601
2005	\$31,280,361	\$5,069,717	\$26,210,644
2004	\$39,590,351	\$4,939,881	\$34,650,470
2003	\$29,362,377	\$4,290,607	\$25,071,770



# Office of Compliance Restructuring: Going Forward

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- Reallocating CIU staff anticipated to provide higher compliance revenue per position with minimal impact on compliance with tax laws
  - Field collections/tax law enforcement enhanced by allocation of experienced field agent and internal refund fraud prevention program strengthened
  - Taxpayers and the Commonwealth will accrue additional indirect benefits due to development and oversight of additional safeguards/controls over confidential taxpayer information (Disclosure Officer) and the Department's large-scale information technology platforms (Internal Auditor)
- Going forward, the Department will work with applicable law enforcement agencies to analyze and provide information to assist in prosecuting cases