Communications Management in Integrated Tax

How Integrated Tax Management Systems Can Benefit From Effective Taxpayer Communication Strategies
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ABSTRACT

WE ARE ALL FAMILIAR WITH THE FAMOUS BENJAMIN FRANKLIN QUOTE, “CERTAINTY? IN THIS WORLD, NOTHING IS CERTAIN BUT DEATH AND TAXES.” AS THIS SAYING DEMONSTRATES, TAXES HAVE ALWAYS BEEN, AND CONTINUE TO BE, TIGHTLY WOVEN THROUGH THE FABRIC OF OUR EVERYDAY LIVES. SO, IT IS NOT SURPRISING THAT WE, AND THE TAXING AUTHORITIES, CONTINUALLY SEEK OUT WAYS TO PERFECT AND AUTOMATE THE TAX PROCESS. IT IS THROUGH THIS QUEST FOR PERFECTION AND AUTOMATION THAT MULTI-CHANNEL COMMUNICATION WAS FOUND TO BE A CORNERSTONE IN EFFECTIVE TAX MANAGEMENT. IN FACT, THE IMPLEMENTATION OF AN INTEGRATED TAX COMMUNICATION SOLUTION ELIMINATES A MYRIAD OF PROBLEMS, BOOSTS PRODUCTIVITY, AND ENSURES COMPLIANCE FOR THE TAXING AUTHORITIES. IN ADDITION, THE TAXPAYER IS POSITIVELY IMPACTED THROUGH DETAILED, CUSTOMIZED COMMUNICATIONS, DELIVERED THROUGH A VARIETY OF CHANNELS, PROMOTING MORE CONTROL OVER ONE’S TAX SITUATION.
Overview

Efforts to integrate the collection of taxes in a unified manner are taking place all over the world. Most notable is the Total Revenue Integrated Processing System (TRIPS) in the United Kingdom, a return-free system in Finland, and a number of state initiatives in the United States, including North Dakota, New Mexico, Minnesota, Montana, Maryland, North Carolina and Idaho. Few of these systems take advantage of the emergent multi-channel communication behavior of modern citizens.

Corporations and individuals have quickly accepted new communication methods, far faster than the State administrations. Long forecasted disappearances of paper and postal mail have instead resulted in robust growth in the use of paper, and even a continuous growth in paper mail, in the US. This same period has witnessed over 2.5 trillion e-mails generated annually. Media use is proliferating, fragmenting (or diffusing) and growing in all directions.

A new dynamic has evolved where channels support transactions. The most common channels are web, e-mail and postal mail, with Short Message Service (SMS) or instant messages to a lesser extent. Since the advent of the telegraph, consumers have exhibited communication behaviors that allocate content suitable to the channel: few people write personal letters anymore, but nearly everyone writes e-mail. Most use the telephone when resolving an open-ended issue, such as information gathering or dispute resolution, but will turn to web applications to transfer money between accounts, and then insist on a paper statement of account balances. There is plenty of data in support of such channel-activity allocations.

Information media directly affects memory recall. In a 2005 study, 79% of participants had excellent print format recall, whereas only 49% of participants were able to remember the same information from screens. Print involves sensory stimulation with content recall—and this produces superior results for involvement, recall and action intention. The Department of Revenue’s (DOR’s) mission of ensuring tax code compliance overlaps well with these findings.

What does this mean for consolidated taxation processes?

A key objective for tax-related communication is to provide information on current obligations and to engender compliance with applicable law.

Many States have tax collection operations that were implemented piece-meal since the early 1960’s. Over the subsequent 50 years, newer technology was added to accommodate additional or different tax collection processes, while many of the older systems were left in place. In the 1990’s, the Y2K effort succeeded in replacing some of the older systems, but sometimes even this was done through protocol translations or other forms of middleware. The new Integrated Tax Management (ITM) effort seeks to combine all forms of taxation, including both data and processes.

What is Integrated Tax Management?

ITM brings together all State revenue collection processes, including those performed by the Federal Government, and collections on behalf of municipalities. ITM provides a complete view of the tax obligation and payments of a corporate or individual taxpayer.

States with the largest revenue are corporate and individual income, sales, real-estate and personal property. Many States have a variety of other taxes created by legislative process, including excise, inheritance, sales and taxes on different types of businesses and transactions. The advantage of integrated tax management for the DOR is productivity: a single Revenue Officer (RO) ensures compliance with all applicable laws. Beyond this, DOR statisticians easily understand the aggregate tax receipts, and provide a comprehensive analysis of tax payments to the appropriate legislative bodies.
Communication and Correspondence in ITM

Most ITM systems either have, or seek to deploy, partially automated correspondence systems. The reasoning for this is as simple as it is compelling. The typical State DOR officer deals with thousands of cases per annum, and the productivity impact of generating or processing the prolific correspondence requirements for each case is enormous. The average RO generates approximately $1 million in collections (depending on the wealth of the region represented), and annually generates anywhere between 18,000 to 25,000 notices, including letters, statements, garnishments and releases.

Some States implemented DOR call centers to provide a regional base of operations. These centers are staffed by 5 to 20 constituent service personnel who process calls, satisfy information requests and issue case notes. DOR centers are typically connected to a central processing system, where notices are generated and mailed.

At any given time in the calendar quarter, a small population of taxpayers (ranging between 0.5% to more than 2%) either completely or partially fails to post payments. This typically generates an automated notice and kicks off the first phase of a collections process. Most of the delinquencies—but clearly not all—are resolved quickly. For some corporate taxpayers, particularly larger companies, these notices are not made known to the responsible tax accountant until after the issue is resolved, or a business license is revoked. Cases where the right to collect revenues are impeded by medium or large corporations over discrepancies amounting to a few hundred dollars, are not rare. These situations, and many others like them, are eliminated with effective Integrated Tax Communication Management (ITCM).

Actual filing and payment processes have made use of electronic submission systems since Indiana was the first State to mandate electronic funds transfer (EFT) methods in 1987. Many States now have taxpayer portals and forms online. Most of the standards required for this have been developed and are making enormous gains in productivity. The Internal Revenue Service (IRS) processed 90 million electronic payments in 2007—representing the majority of all returns filed—and is now processing approximately $100 billion per day.

ITCM’s full value is realized through awareness and post-filing communication follow-up. As stated by the Federation of Tax Administrators (FTA), “Clear and frequent communication [with the taxpayer] is imperative to a successful [EFT] mandate”.

Partially automated communication management subsystems prove to be a positive impact on back-office productivity. For example, traditional correspondence systems do a poor job with customized communications. This insufficiency is due to the fact that an office worker must look up various items of information and then manually customize the communication piece, regardless of document type. ITCM generates these custom documents, each one uniquely tailored to each taxpayer, in large quantities at the push of a button. This process is commonly referred to as mass-customization. Most current systems utilize large batch files and perform periodic runs of mass-produced notices. ITCM helps produce single notices, targeted to a single taxpayer, with minimal effort. It is, therefore, much more effective to build ITCM into a DOR workflow—and it produces less waste. Moreover, ITCM provides for the partial automation in processing taxpayer responses. Finally, ITCM provides direct compliance information via the taxpayer’s preferred communications channel—resulting in greater awareness and compliance rates.
Information Management

ITM’s data structures must preserve the integrity of taxpayer data. This starts primarily with creating and maintaining a single taxpayer view (STV). The STV is a unique taxpayer identifier to which all tax transactions are mapped. This structure is represented in relational databases in ITM operating systems. Taxpayers have representatives, corporations and joint liabilities, all of which must be accommodated in this model. Integrated taxpayer data structures are a must for real-time reconciliation of tax payments.

Taxpayers are defined in terms of many types of data, including name, address, telephone number, employee identification number (EIN), Federal EIN (FEIN) and various taxpayer type codes. A data quality system that supports ITM must use normalization techniques to process these data items. Data quality is absolutely essential to effective ITM and communications operations.

Data quality functions also include data augmentation. For example, once an address is known, a location code (or geocode) is added to determine in which jurisdiction the address is located. Pitney Bowes Business Insight provides mission critical software to several States that have implemented jurisdictional tax. For example, some DORs distribute sales tax revenue to counties based on the location of sales transactions. In particular, Texas and Florida use highly reliable Location Intelligence (LI) software to determine jurisdictional tax liabilities.

Another key feature of STV is that all communications between the DOR and the taxpayer, or the taxpayer’s assignees, must be mapped and associated with the STV. This is the main reason why effective communications management and data quality are not separate features—one cannot exist without the other. ITCM requires the STV in order to function effectively.

Finally, proper analysis is not possible without an accurate STV. Business Intelligence (BI) systems provide key information about the identity and location of the taxpayer, but cannot do so without requisite data structure and quality.

Large-scale technology vendors and system integrators, such as Accenture, Oracle and SAP, provide the database technology to manage the STV. Pitney Bowes Business Insight offers the requisite data quality and augmentation to ensure effective communications management.

Multi-channel Communication

As mentioned above, correspondence management is a key feature of ITM. A typical DOR officer generates between 15,000 to 25,000 notices, letters and alerts per annum. Add to this the volume of return information, and the complexity becomes difficult to manage.

In the introduction, we briefly referred to emerging consumer/taxpayer communication patterns. If DOR’s are to take full advantage of multi-channel communication methods, then the format and content of the communication must be available on all channels.

For example, self-service kiosks or web pages are a common method of providing customers with control over their accounts and facilitating consumer communications. While many States offer portals to file or download forms, few offer specific access to taxpayer accounts, with filing history, status and a variety of payment options. ITCM offers the vehicle to implement taxpayer kiosks by providing all communications via the web. This is done in the same way as in print, only at a very large scale. Furthermore, combining e-mail communications with printed matter abbreviates the cycle time between payment shortfalls and resolution.
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Pitney Bowes Business Insight recently conducted interviews with major corporate customers. As a result, we learned that direct interaction with integrated tax accounts via the web was the single most desirable method to quickly and appropriately pay all required taxes with a minimum of administrative effort.

ITCM provides ROs with a simple and productive orchestration of these communication capabilities. It also provides taxpayers with the facility to understand their liabilities, assert their rights and communicate clearly with DORs on any tax matter.

What are the Uses for ITCM?
There are a wide variety of deployment scenarios for efficient communications management in DOR processes. The following are a few deployment examples of partially automated communications management systems that reduce costs and ensure facile and timely compliance with applicable tax laws.

Support for Revenue Officer Productivity
Since the majority of tax payment systems determine missing or deficient payments in semi-automated EFT transfers, they automatically generate standard shortfall or delinquency notices to taxpayers. The system determines, by address, to which taxpayer the notices were sent, and then alerts the responsible DOR office of the event.

The notices are allocated to ROs, who are often measured on the number of notices they process, for follow-up. Unfortunately, many ROs do not have visibility into payments posted in real time. In many States, ROs are unable to quickly and easily review the taxpayer’s payment history, total tax burden or credit situation. This inability to view taxpayer information represents a productivity improvement opportunity.

Many tax due notices are simply discarded, either because the taxpayer feels that the DOR is in error, or because the taxpayer is unable or unwilling to pay the tax. Usually a long period of time elapses before the taxpayer is alerted by the DOR to a potential tax delinquency.

While an Integrated Tax System (ITS) allows RO’s to easily review postings, payment reconciliation and taxpayer payment history, the ability to communicate the intent and findings is critical to the successful outcome of the notice issue.

For example, ITCM allows RO’s to review any past communication sent by the taxpayer. Since the RO can see payment history, they can judge if this occurrence is chronic, occasional or rare.

The RO then has options how to communicate with the taxpayer, including sending a follow-up notice with more information, combining the notice with a fax or e-mailing the alert. The RO advises the taxpayer of their rights, and provides obligation information. As opposed to standardized reasons or reason codes for the notice, the RO provides historical information and explains the exact reason. The RO sets up closing notices that are automatically triggered upon payment or satisfactory reconciliation. Finally, should the DOR afford taxpayers the ability to review their tax contributions online, the RO reviews online activity and encourages taxpayers to do the same through a variety of media channels.
The ITCM ‘workbench’ for the RO is a simple point and click interface—available on a laptop—with dozens or hundreds of pre-defined documents using automatic or manual fill-in. These communications are channel independent. This simply means that the same document can be sent via postal mail, e-mail, fax or any registered combination. Implementing partially automated communications increases customer-facing worker productivity by 50%.

This capability significantly increases the number of compliance variances a RO processes, thereby eliminating error and accelerating the collection process for amounts due.

Corporate Taxpayer Communications

Major corporate taxpayers differ from small business or individual taxpayers in that the large corporations do business in many States and have complex operations. Most States weight the aggregate sales of a corporation by the amount of business that particular corporation does in their State. Over the past 20 years, most States have increased the weight on sales in this formula (up to 100%) to encourage businesses to invest and create jobs in their States. For example, a manufacturer located in State A that sells its product in State B could end up allocating much less than 100% of its federal taxable income to States A and B combined if State A’s formula were based only on sales. Some States have "throwback" rules to tax at least a portion of the income that escapes State taxation, but these are limited and far from universal.

While corporations nominally pay a lower percent of income tax than individuals, they also collect property, payroll, excise and sales tax for each State in which they do business. Businesses bear a compliance responsibility and are subject to penalties and interest for not submitting accurate or timely information, withholding, collection of others’ taxes or payment of their own tax liabilities. For this reason, corporations typically have large, complex tax departments resulting in a complex bureaucracy of their own.

The opportunities for miscommunication are manifold. While the majority of communication problems result in unnecessary expenses for both the DOR and corporations, occasionally the rights to conduct business will be rescinded for established businesses due to a liability variance of a few hundred dollars.

In this vein, ITCM facilitates the DOR's connection to corporate communications in the following three major ways:

- **Web-based account services**—By creating corporate accounts at the State DOR level, and providing web-based reviews of liabilities, balances, and transactions, corporate tax departments take a pro-active role in reviewing their payments and liabilities.

- **Secure e-mail**—The FTA endorses a variety of secure e-mail protocols, from whole-message encryption to the use of secure sockets layer (SSL). ITCM enables ROs to efficiently send direct messages to specific contact e-mail addresses concerning tax transactions, ensuring traceability and appropriate attention from corporate tax accountants. Response messages from corporations are intercepted, stored and routed to the attention of the appropriate RO.

- **Summary accounts**—While DORs are loathe to aggregate different tax liabilities on summary statements (due to the differing legal nature of the liabilities), corporate taxpayers welcome summary liabilities for management purposes. ITCM facilitates summary liability reports for the benefit of corporate tax accounting management.

ITCM significantly reduces costs and errors, while improving payment compliance for the varied relationships between State DORs and corporate taxpayers.
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How Does ITCM Work?
The ITCM system has five major software components—Data quality, inbound services, content management, outbound services and archive. These components interact with each other and the ITM system enabling communications management as described above.

Data Quality Services
Data quality is critical to meaningful ITM operations. Data quality not only includes accurate names and addresses, but also encompasses contact information, corporate information and applicable tax codes. Effective communication with taxpayers requires that the information represented is correct.

Common Data Normalization Services
The ITCM system provides a common service set in the form of Data Quality Services (DQS). DQS validates names, addresses, codes, code mappings, telephone number formats and e-mail addresses. ITCM DQS is a graph programmable system that provides architects and system administrators with the ability to quickly and simply define data quality rules. The DQS is used for a variety of data normalization tasks, including generating key data, such as unique taxpayer keys.

Jurisdictional Boundaries
The DQS includes a Location Intelligence module that pin-points locations with respect to taxation of jurisdictional boundaries. This information is added to the taxpayer record in the STV, or associated per transaction, as required by prevailing law.

Entity Identification
Taxpayers commonly turn to e-mail to discuss issues on notices and tax questions. Some DORs are deluged by hundreds of thousands of free text e-mail queries and information responses.

This phenomenon demands that a communications management system must associate not only the e-mail’s sender, but also the e-mail’s content, with the context in which the e-mail was sent. This is done by identifying entities that are embedded in the e-mail text, such as names, addresses and other information deemed necessary by the DOR.

Household Identification
A common problem in understanding individual or combined tax liabilities is the identification of household members. People living in a household do not necessarily share the same last name, and they can have one address of several. The ITCM data quality subsystem determines associations based on address only, or on other data items as determined by State DOR analysts.

Inbound Services
Documents are captured via FTP, EDI, e-mail servers, OCR, scanners, bar code readers and other similar devices. Inbound images are stored either in the ITCM Repository or indexed into an external image management system.
Content Management Services

The ITCM content management services system is the heart of ITCM. This is the point where inbound meets outbound communications, and where data from ITM systems is updated from inbound communications, as well as merged into outbound processes.

The content management services identify communications content, manage content and communication data relationships via the ITCM Repository and provide limited workflow services to partially automate the production of messages.

ITCM’s content management capabilities offer integrated viewing of document types, full text searches and sophisticated content search filters with Boolean, wildcard and fuzzy comparison algorithms. It provides version control with master and sub-file support to construct visual association of documents. ITCM content management services also offer a wide variety of e-mail management capabilities.

ITCM’s records management capability allows administrators to define and execute document and communication retention policies.

ITCM offers workflow control utilities that support submission, review, approval, routing and notification of communication events. Workflows themselves can be edited, approved and are securely stored. This supports partially automated processing of standardized communications.

Outbound Services

Composition

The ITCM outbound subsystem provides facilities to efficiently author professional, personalized member correspondence with a system-managed Microsoft Word interface. Once suitably configured, the system populates fields with data from the ITCM Repository, reducing manual, error-prone key-entry. DOR administrative staff share approved content stored in the ITCM Repository and can easily author ad hoc content for immediate or high-volume batch production. The composition system scales to support thousands of concurrent users and supports remote and distributed access via a customer-care cockpit, an intranet or external internet. Salient features of ITCM composition services include:

- Enables end-user departments to create and control their own document content
- Lets users safely and securely assemble, proof, approve and signoff documents from any web browser
- Scales to support a workgroup, department or thousands of users across the DOR
- Transforms a word processor document or a graphical form into an interactive template that prompts the end-user for answers
- Enables state DOR supervisors and analysts to create templates without IT resources

Message Generation

A message is generated by converting a document template into an image. Data parameters in the templates are populated with data from the ITCM Repository at this time.

The invocation of a message generation service is usually initiated by a claims processing, provider management or care management application. Any appropriate business service has the capability to generate pre-defined messages and transmit them to a taxpayer by simple service request.

Message generation includes commingling (merging of single prints into a composite), splitting print streams, inserting 2D barcodes, inserting keyline information, inserting postnet or 4-state barcodes and archiving reprints.
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The message channel is usually selected by the transmitting business system, but can be selected by beneficiary preference. This preference is captured via web service or customer support application in the ITCM Repository. Subsequent transmissions of messages then use this definition and preferred channel (e.g., e-mail address instead of postal mail, or postal mail instead of facsimile).

Archive Services
The production archive provides a central repository for the long-term storage of customer communications and other relevant historical information. The production archive is the outbound storage complement of the ITCM Repository and forms a central point of collection for all outbound documentation.

ITCM production archive services provide real-time indexing, compression, storage and retrieval of high-resolution business documents, regardless of age or size. This provides very fast loading and retrieval speeds independent of size or age of a document.

This remarkable capability is accomplished in part by storing documents in their native print format—its compressed source character set. Since this is not readable, a render engine is used to transform, upon retrieval and in real-time, the source data into the customer’s preferred format. In essence, the archive trades linearly scaled retrieval speed and space efficiency for access-time processing power.

Features of the production archive include:
- Ingesting millions of compressed outbound documents per hour, providing a fast and highly scalable solution
- Supporting high-speed retrieval of documents and thousands of concurrent users with no degradation in performance
- Eliminating the need for expensive, high maintenance storage devices, such as optical disk drives
- Satisfying legal and records management requirements for archiving
- Storing and retrieving all print document types, as well as other data
- Adding e-payment as part of web-based provider or beneficiary services

Online Account Management
The Online Account Management (OAM) suite provides web-based self-service and a common invoice or account statement presentation portal.

Taxpayers are able to review their tax forms and other supplemental information online. The system offers secure and flexible electronic payment capabilities. With this technology, users deploy online presentment in days that, in turn, provide taxpayers with valuable benefits that include easy enrollment, e-mail notification and electronic payment options.

Providers have immediate, secure, online access to multiple years of filings, statements, correspondence and other communications, if so configured. Tax forms are printed from the web for manual completion, or forms are submitted using e-file capabilities.

ITCM OAM provides:
- Distributed archived documents to remote locations
- Native documents rendered in real-time
- Common platform for paper or electronic submission of messages and information
- E-payment and bill presentment
- Complete features and benefits page
- Regulatory or advisory documentation
- Integration with State DOR ITM for common look and feel
- Support for future value-added information services
Conclusion

Multi-channel, mass customizable communication is an important part of ITM. It improves DOR staff productivity, and provides convenience and facilitated awareness to the taxpayer. A proper communications management system eliminates data quality problems, offers comprehensive compliance analysis, and reduces DOR operating costs.

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