

House Legislative Oversight Committee

South Carolina Department Of Revenue

June 18, 2018

Director Hartley Powell

Agenda

- Historical Highlights
- Mission, Vision, Strategic Goals, and Stakeholders
- By the Numbers
- Organization
 - Successes
 - Challenges
 - Emerging Issues
- Recommended Law Changes
- Questions

With You Today



W. Hartley Powell
Director



Meredith Cleland
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Communications & Strategic
Initiatives



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Human Resources Director



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Historical Highlights

1915

Gov. Richard Manning created the South Carolina Tax Commission with 3 governor-appointed commissioners and 1 employee to execute the equitable assessment of property for taxation.

1993

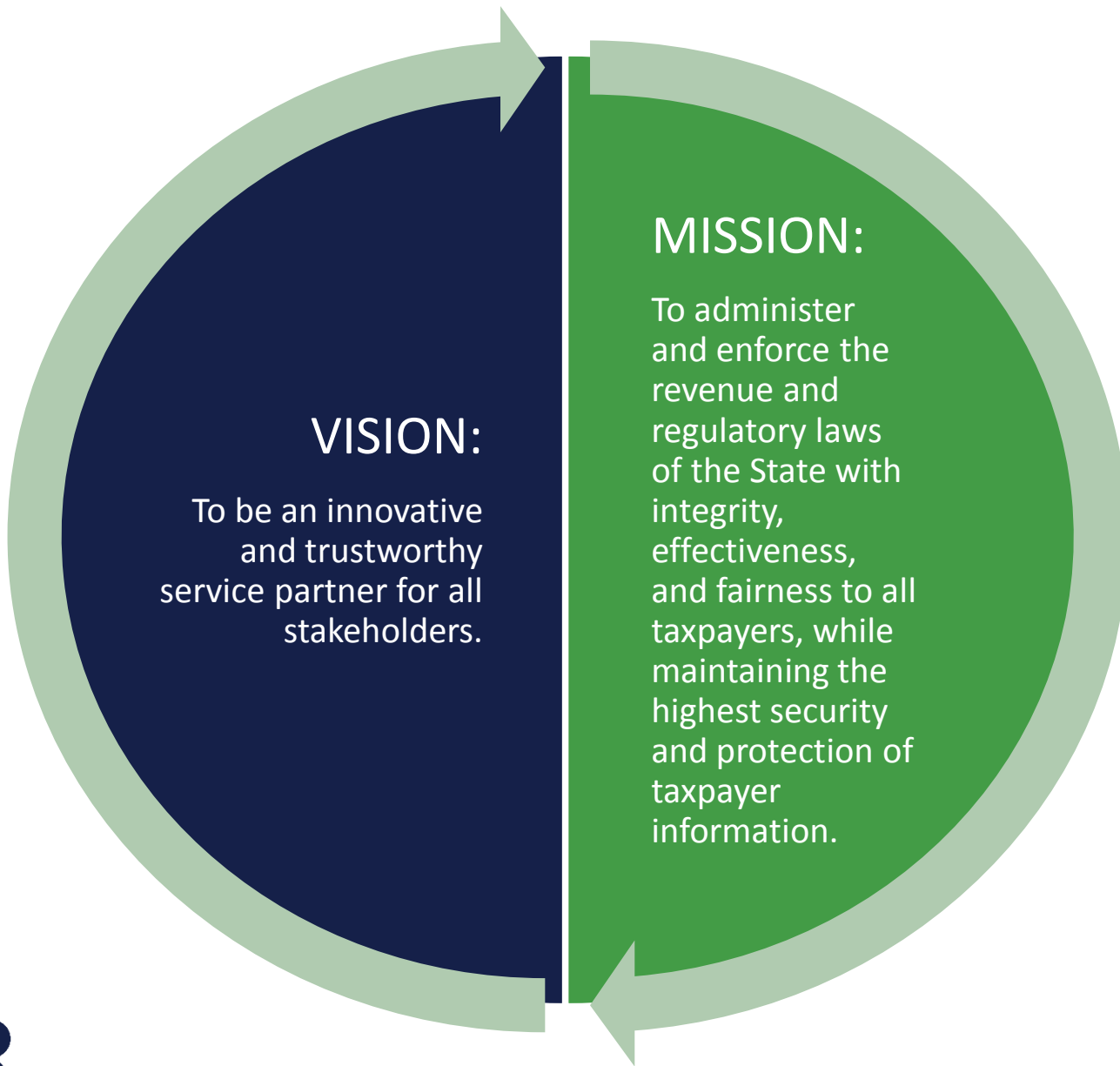
Merged with the licensing arm of the Alcohol Beverage Control Commission.

1995

SC Legislature dissolved the Tax Commission and created a cabinet agency – the South Carolina Department of Revenue – with a governor-appointed director.

2018

The SCDOR currently administers 72 taxes and fees and collects 95% of the State's General Fund. The SCDOR has over 760 employees and 6 offices across the state.



VISION:

To be an innovative and trustworthy service partner for all stakeholders.

MISSION:

To administer and enforce the revenue and regulatory laws of the State with integrity, effectiveness, and fairness to all taxpayers, while maintaining the highest security and protection of taxpayer information.

SCDOR Strategic Goals

1

Fairly administer and enforce the revenue and regulatory laws of the State of South Carolina

2

Ensure taxpayer security by utilizing state-of-the-art technology

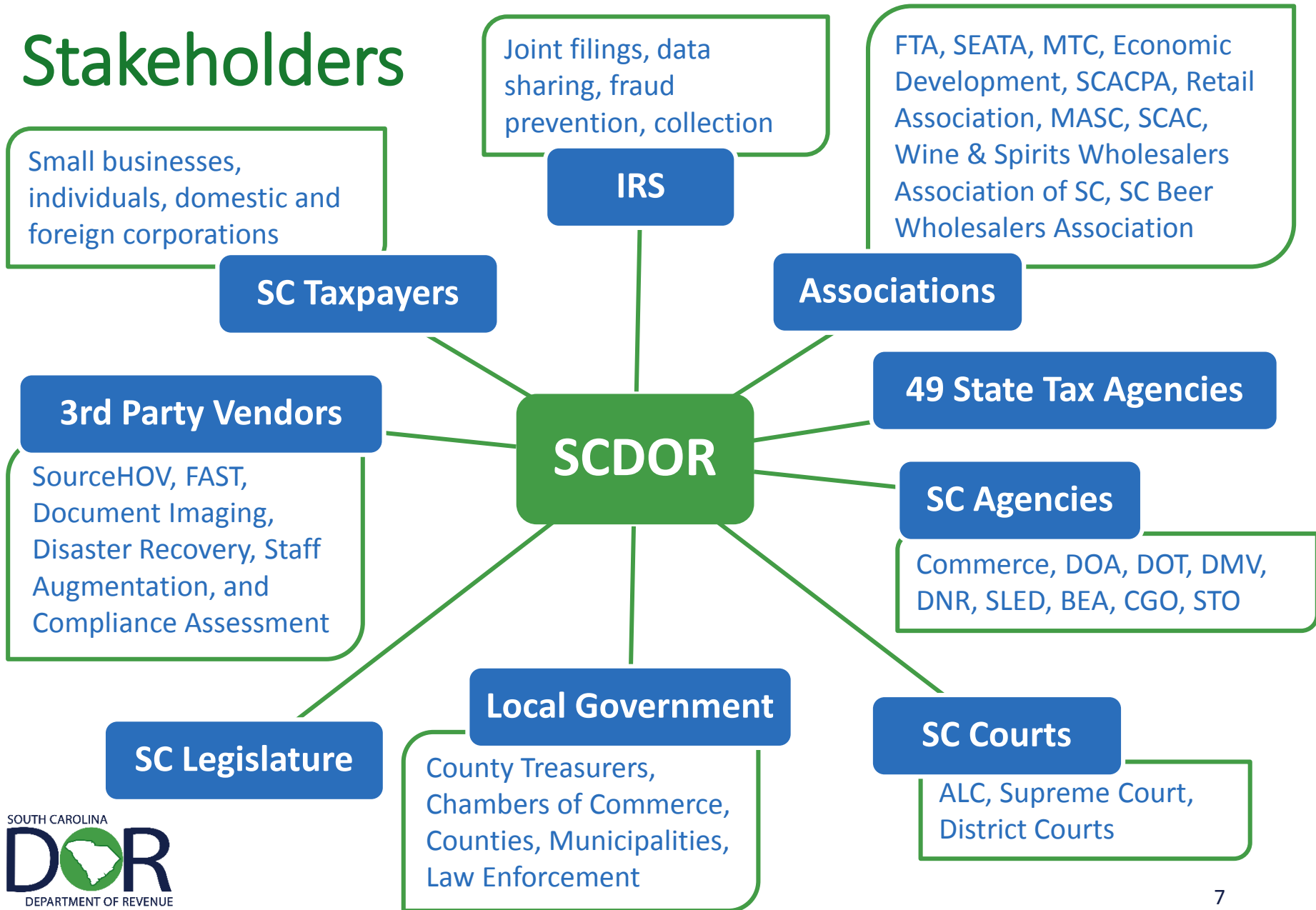
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Maintain a positive customer service experience for all stakeholders

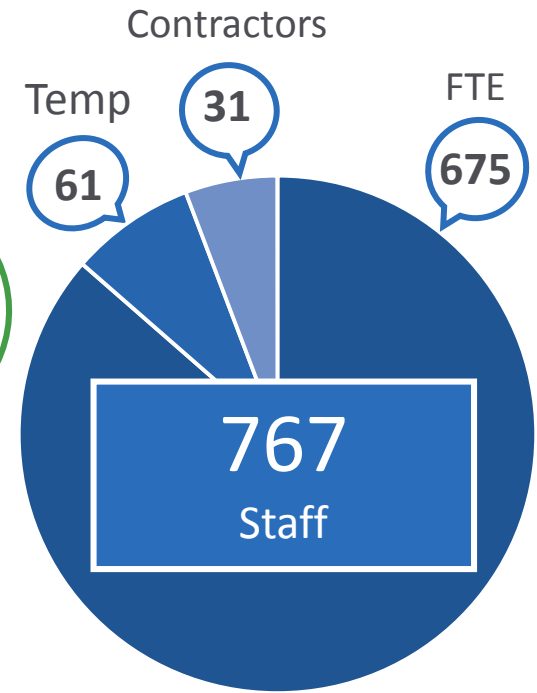
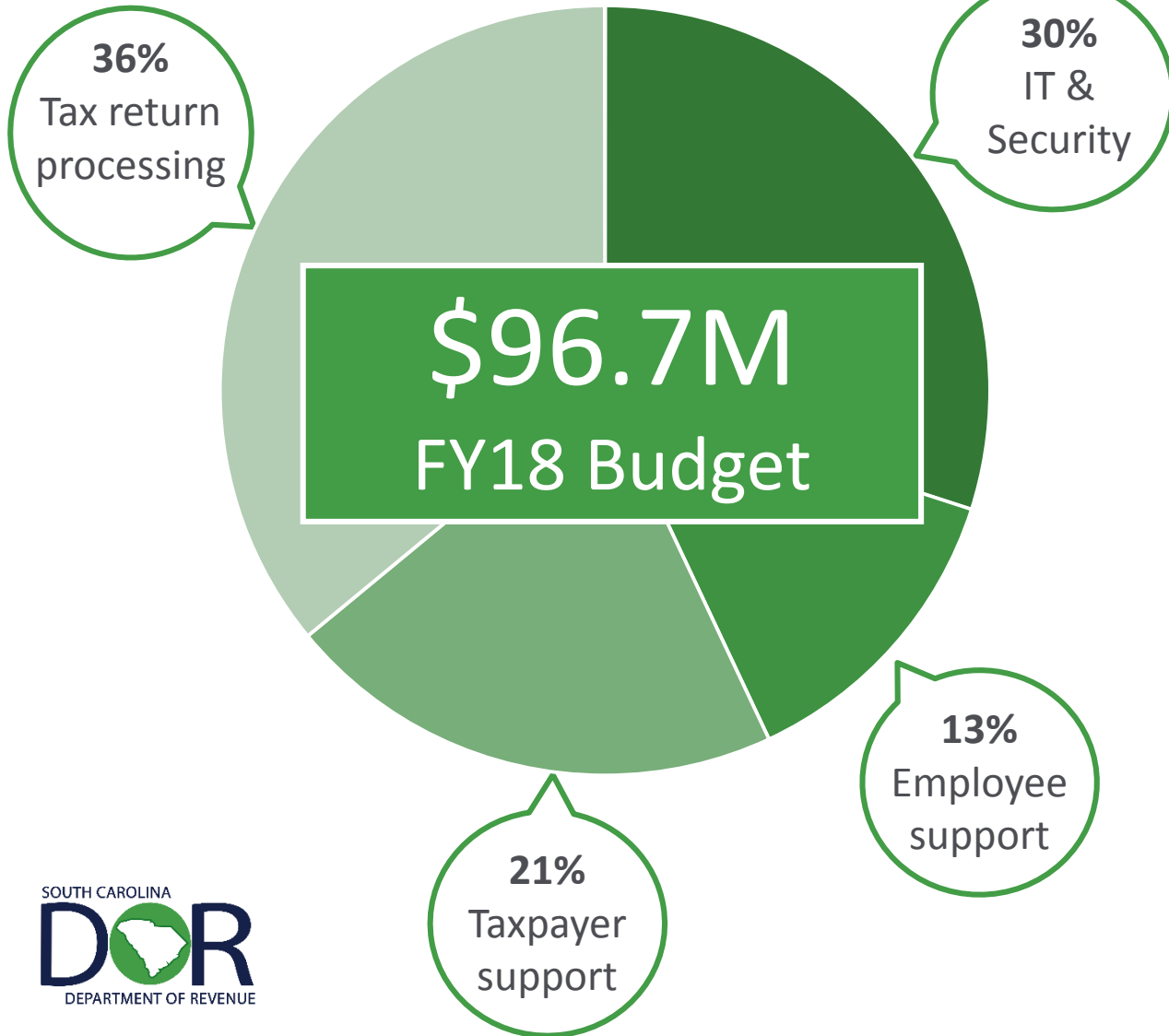
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Promote and maintain a competent, productive, and diverse workforce

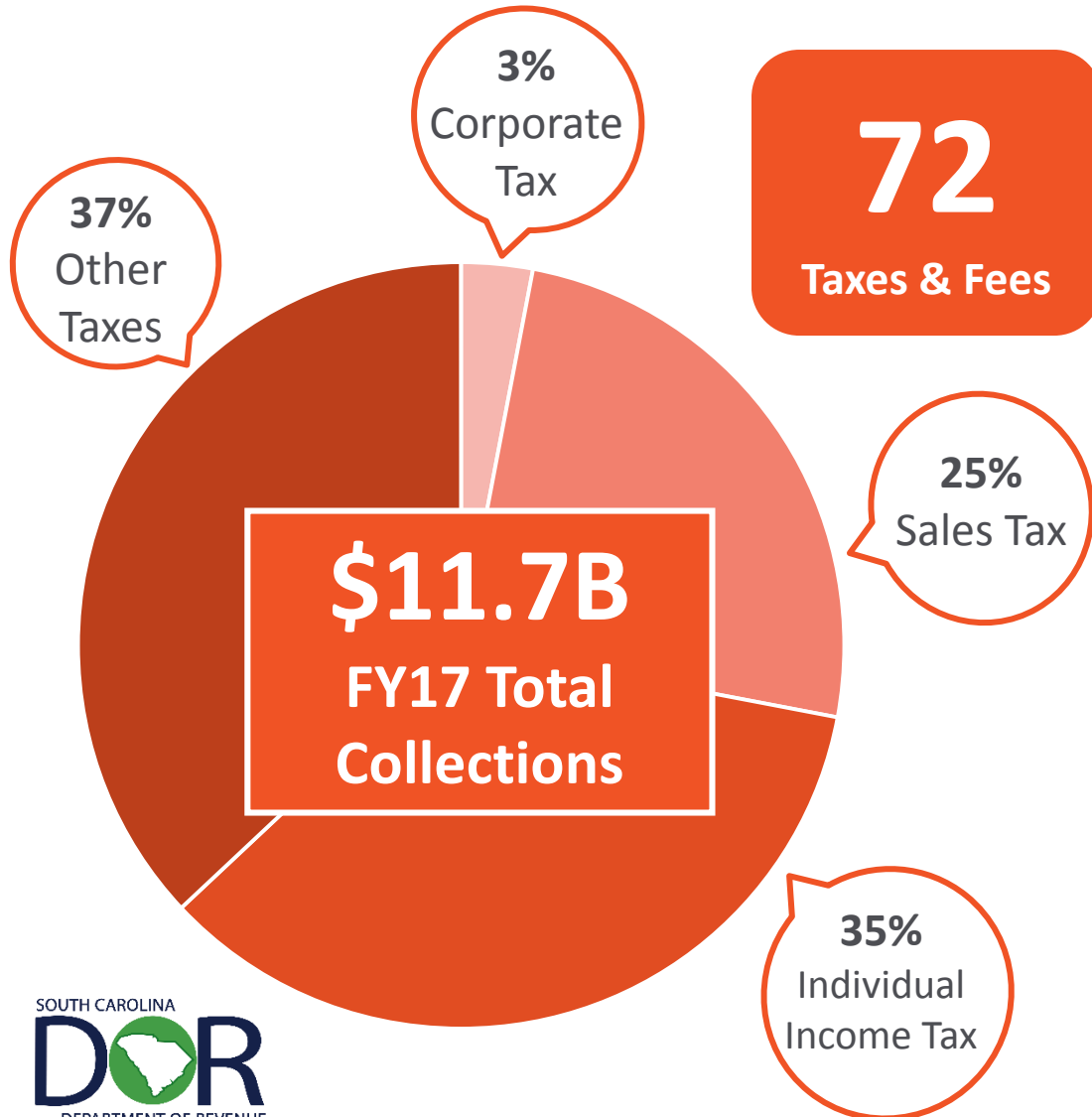
Stakeholders



SCDOR by the Numbers



Revenue Collections

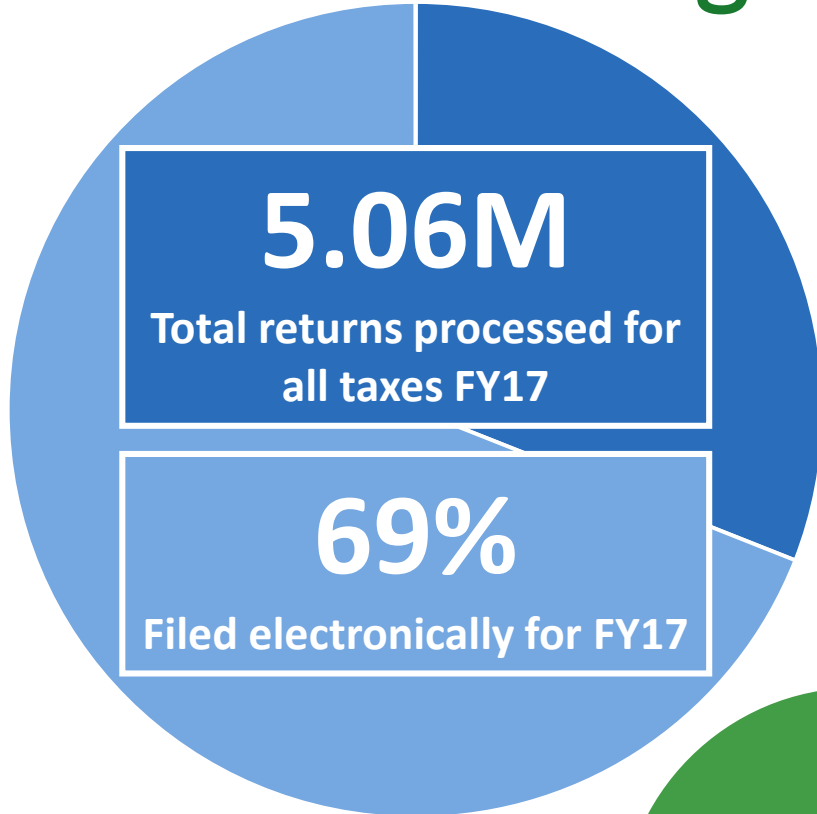


95%
of the General Fund

\$1.7B
Taxes collected for local governments FY17

\$10.8B
FY18 YTD Record Collections

Tax Processing



14,000
Property Tax Exemptions

390,000+
Property Tax Assessments

83%

Individual, Corporate, and Sales returns filed electronically FY17

1.7M

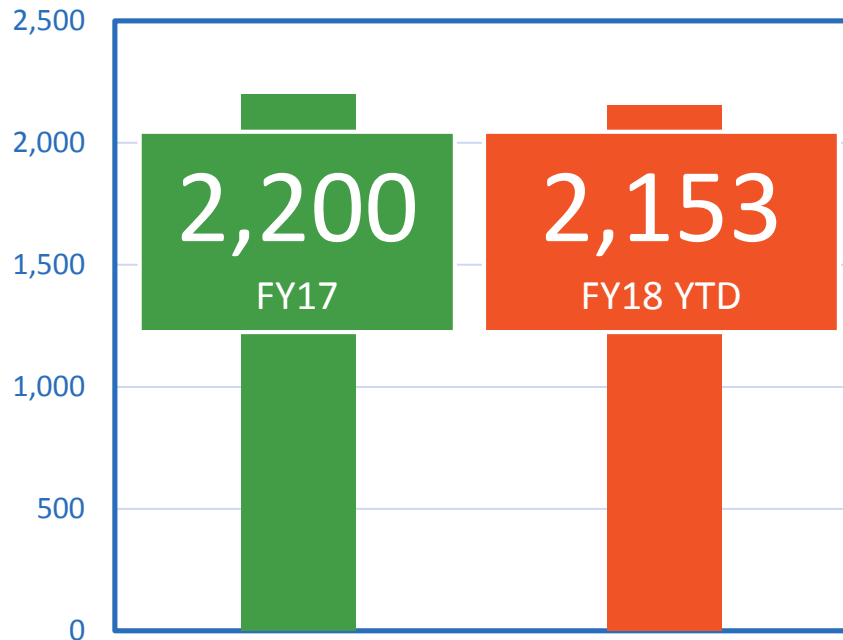
Individual refunds processed in 2017

\$914

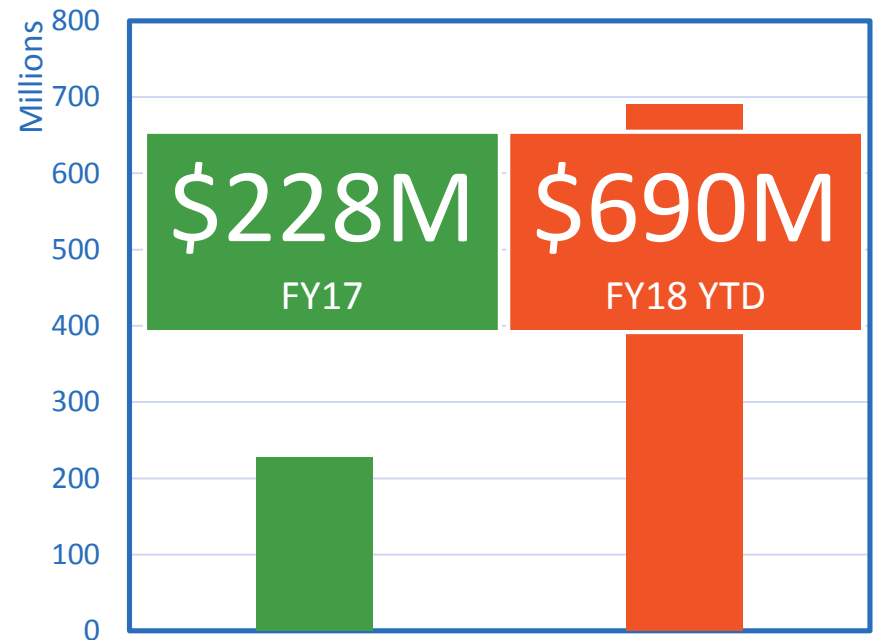
Average Individual Income Tax refund for tax year 2017 YTD

Audits & Appeals

Completed Audits

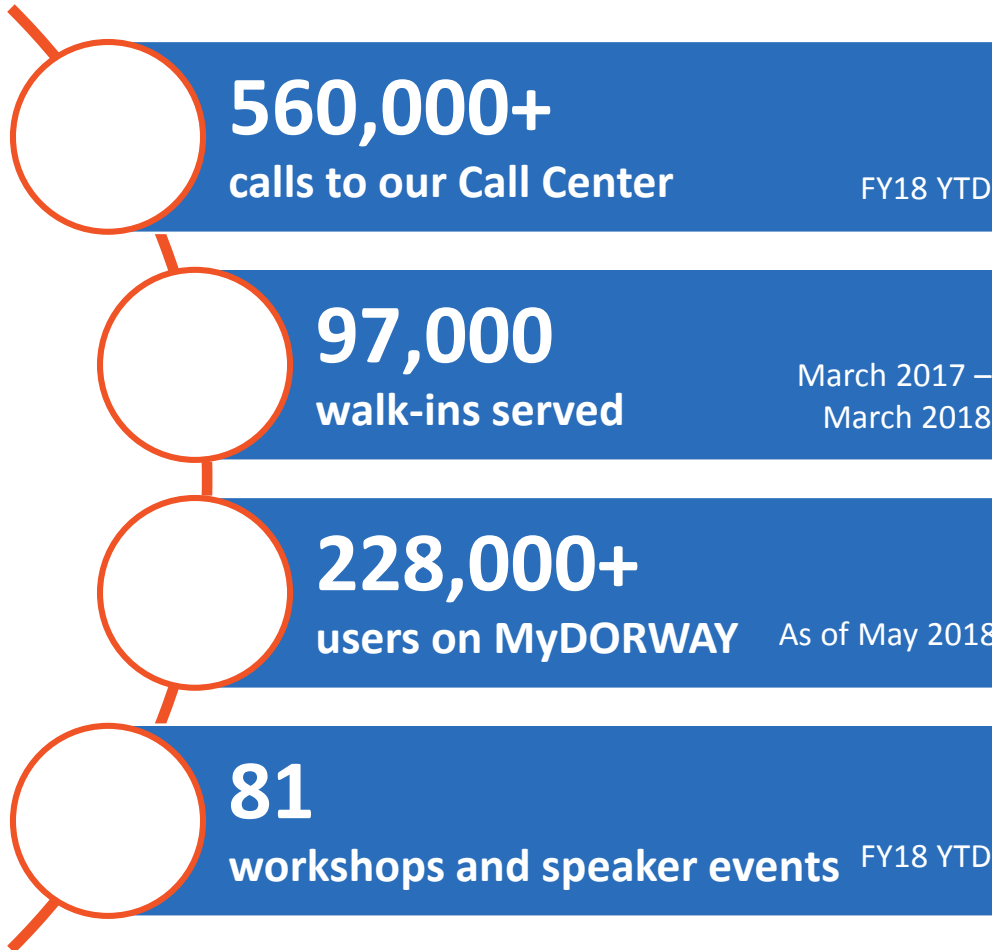


Assessments



70 Active Appeals

Taxpayers Served



1,500+
Taxpayer
Advocate

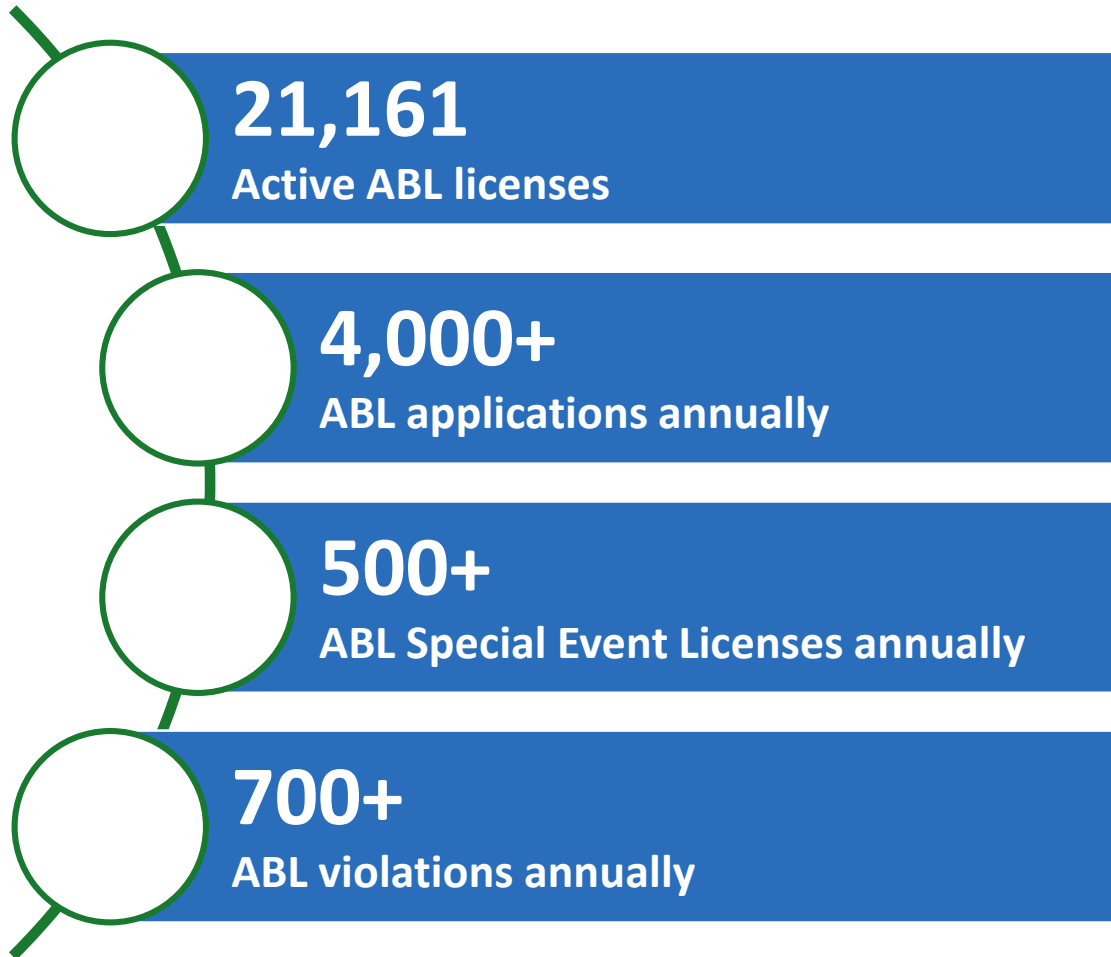
Managing
more than
550,000
tax accounts

Litigation & Policy

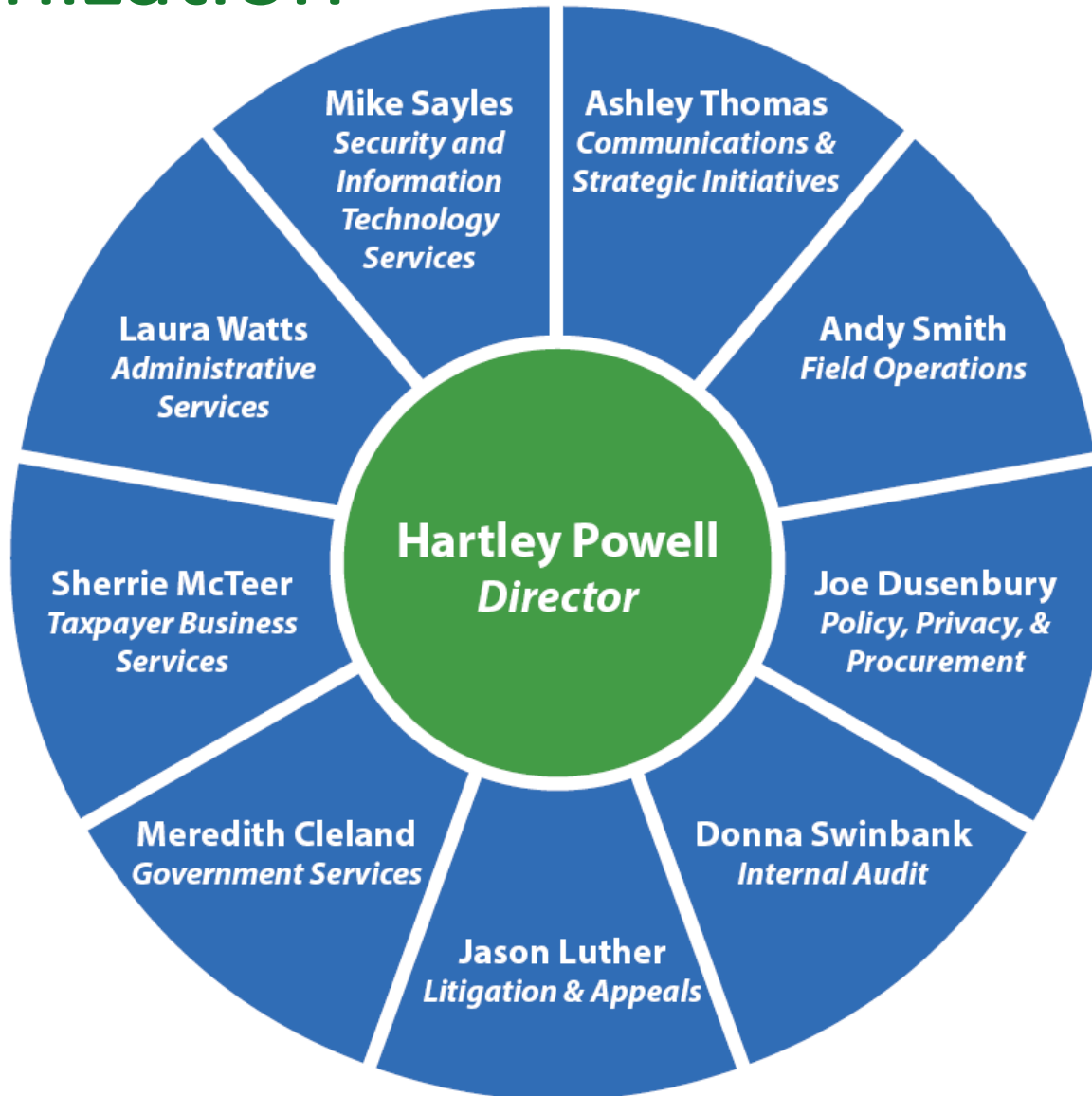


2017	6,106 Bankruptcy petitions
2017	1,529 Foreclosure actions
FY17	892 Legislative questions reviewed
FY17	730 TP issues resolved Advisory Opinions
FY17	120 Proposed statutes & regulations drafted

Licensing



Organization



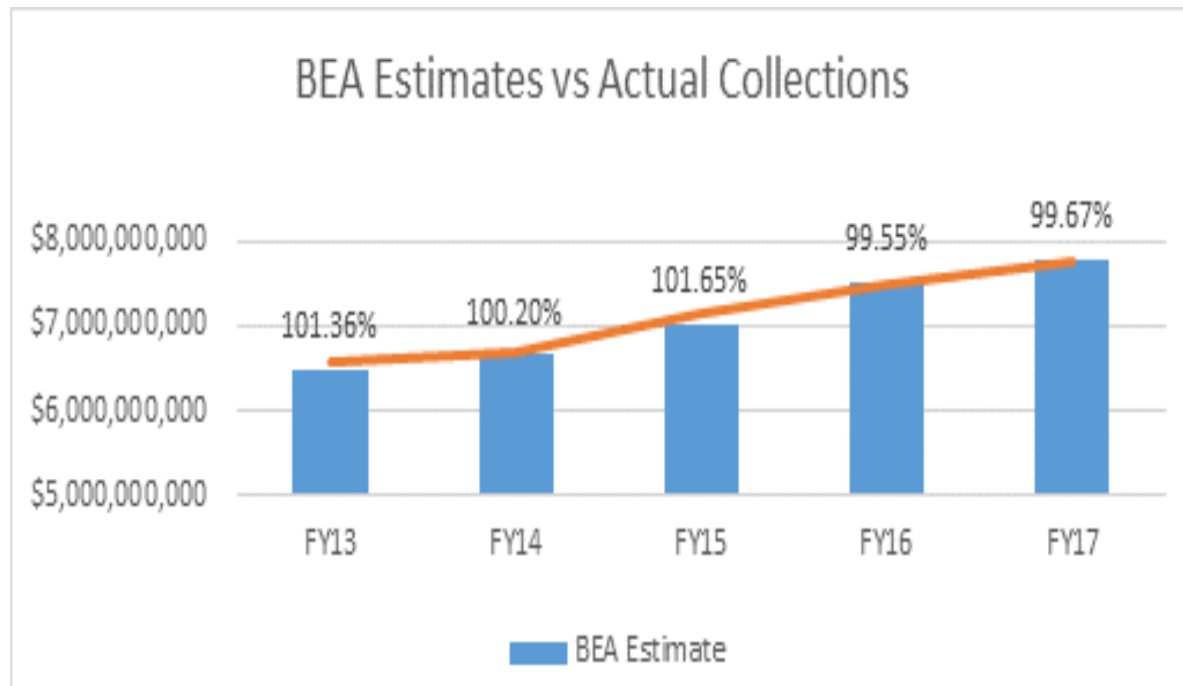
Internal Audit

1. **Unrestricted access to the entire Agency reporting directly to the Agency Director**
2. **6 Experienced Internal Audit professionals**
 - Recognized certifications: CPA, CIA, CBA, CISA, CGAP
 - Active participation: International, National, and State IA Associations
 - 4 board members: 3 state and 1 international
 - IRS selected our audit program as official template in 2016
3. **80+ Audits/reviews in last 5 years:**
 - Compliance – Security practices, IRS inspections, IT processes, user rights
 - Financial – P-Cards, petty cash, payroll, accounts payable, cell phone usage, travel expenses, tax collection process, employee tax compliance
 - Special Reviews – Richland County, Farm Aid, MUSC peer review, HR matters
 - Special Audits – IRS, State Auditor’s Office, State Financial Report (CAFR), credit card compliance (PCI DSS)
 - Risk Assessments – annual review of agency divisions (SWOT analysis) highlight risks, recommendations, and remedies

Successes, Challenges, & Emerging Issues

Success: Collections

- FY17 record year for total collections - \$11.7 Billion
- On track for another record year
- BEA sets annual goal for General Fund Collections
- BEA FY18 Goal = \$8.1 Billion
- Actual FY18 Collections YTD (through May) = \$7.4 Billion



Achieving Collections Success

- 1. Voluntary compliance accounts for majority of collections**
- 2. Achieve compliance through education, easy access, and personal interaction**
 - Policy documents
 - Call center
 - In-person assistance
 - Publications – traditional and digital
 - Website and social media
 - Training seminars and webinars
 - DORWAY – tax processing system

Achieving Collections Success

1. In 2016, evaluated collection efforts and identified 3 key strategies:

- Automated Routine Collection Cases
 - Focus time and efforts on complex, high value cases
- Established Performance Measures
 - Common measures across the state to track progress
- Increased Accountability
 - Tied goals to annual employee evaluations

2. Small number resisted the change, but majority embraced it

3. Changes are paying off:

- 95% of employees meeting/exceeding performance goals
- Closing an average of 38% more cases each month
- Monthly collection revenues have increased by 68%

Success: Modernized Tax Processing

1. **DORWAY is SCDOR's new state-of-the-art integrated tax processing system**

- Consolidated three legacy systems into ONE
- Designed with taxpayer at its center
- Security at its core
- Four-year design/implementation

2. **Online portal called MyDORWAY for public**

- Every taxpayer has personal account to file, pay, and manage all South Carolina taxes.
- Convenient, accurate, and secure – 24-7 access. Just like online banking – anytime, any day!

Success: Improved Security on All Fronts

- 1. Security at SCDOR is non-negotiable! Committed to protecting taxpayers and employees**
- 2. Physical Security – all SCDOR offices have:**
 - Full-time security law enforcement staff
 - Metal detectors installed in lobbies
 - Video camera monitoring
 - Badge swipe door entry for all employee entrances
- 3. Cybersecurity – “military-grade” controls**
 - Security architecture and protocols maintained beyond state and federal standards
 - Partner with DIS to coordinate security operations in concert with state’s IT strategic plan
 - Require year-round security training and certification
 - External reviews – IRS Audits, security consultants

Challenge: Mitigating Security Risks

- 1. Hacking methods are continuously changing, requiring:**
 - Continuous investments in staff training time
 - Technology improvements
 - Security oriented vendor management
- 2. Maintaining a skilled cybersecurity workforce is a continuous challenge**
 - Small talent pool and private industry competition
- 3. Negotiating and enforcing formal vendor agreements with strong contractual security terms is an on-going challenge**

Challenge: Fighting Tax Refund Fraud

- 1. Fighting tax refund fraud is a continuous challenge**
 - The IRS expects tax refund fraud to hit \$21B this year up from \$6.5B two years ago – a national epidemic
 - \$11.5M in Individual Income Tax refund fraud identified in 2016
- 2. Secured leading provider of fraud detection services to enhance our predictive analytics technology and strengthen efforts to fight fraud**
 - Enhanced fraud measures: identity verification quizzes and individual code verifications
- 3. Fraudsters continually employ new tactics, so we have to stay ahead of them**

Challenge: Conformity

- 1. Congress passed the Tax Cuts and Jobs Act end of 2017. Since 1985 - SC has conformed to the federal code.**
- 2. If nonconformity, then SC taxpayers need working knowledge of 2 sets of federal laws:**
 - A federal return using 2017 federal tax laws
 - A SC return using 2016 federal tax laws
 - No longer use federal taxable income as a starting point for SC return
 - Must recalculate current federal taxable income to comply with 2016 federal tax laws
 - May require up to 30 adjustments to begin SC return

Consequences of Nonconformity

1. SC taxpayers will no longer utilize IRS guidance to complete SC tax return
2. SC tax system moves from one of the simplest to one of the most complex in the US
3. SC taxpayers will be “stuck” in time relying on 2016 federal tax laws
4. Must prepare two federal returns – actual and dummy
5. SCDOR no longer able to utilize federal audit data to ensure compliance and collections

Increase Complexity = Decrease Compliance = Less Revenue

Emerging Issue: Taxation of Online Retail Sales

1. **38% of state budget funded by Sales and Use Tax**

- Online retail sales growing
- Brick and mortar declining
- Many online retailers avoid paying Sales Tax

2. **Amazon is a prime example**

- Currently in litigation over third-party sellers
- \$57 million in Sales Tax owed for 2016

3. **Need legislative change**

- Ensure online “marketplace” retailers collect/remit Sales Tax
- Arizona, Minnesota, Washington, and North Dakota enacted “marketplace” legislation

Emerging Issue: Technology Advancements

1. Taxpayers and employees - demanding innovative technology enhancements

- To ensure continued taxpayer compliance, must meet taxpayers where they are
- Tech-savvy generation of taxpayers
- They are demanding cutting edge technology

2. Technology tools

- Tablets for our field workers
- Completely mobile-friendly tax returns
- Mobile-first website
- Voice search optimization
- Online chat
- Secure online filing stations for taxpayers at every office

Emerging Issue: Alcohol Beverage License Regulation and Enforcement

- 1. Statutory scheme for regulating alcoholic beverages is 40+ years old**
- 2. Currently South Carolina judges have complete discretion to determine ABL penalties**
 - SCDOR Penalty Guidelines issued in 1995 often ignored
 - No statutory authority directing courts to follow Penalty Guidelines
 - Courts routinely impose more lenient penalties
- 3. Need legislative change**
 - Adopt minimum/maximum penalties to ensure consistency for all taxpayers

Recommended Law Changes

- 1. Financial Institutions:** Allow SCDOR to participate in the Financial Institution Data Match (FIDM) program.
- 2. Tax Liens:** Allow SCDOR to implement a centralized system of filing and indexing of tax liens.
- 3. Alcohol Beverage Modernization – Festivals:** Allow SCDOR to issue a single permit for all types of alcohol for the entire festival area.
- 4. Alcohol Beverage Modernization – Liability Coverage:** Allow lower insurance liability coverage for government entities protected under the Tort Claims Act.

Recommended Law Changes

- 5. Alcohol Beverage Modernization – Penalties:** Codify SCDOR Penalty Guidelines to ensure the Courts impose consistent penalties.
- 6. Credit for Energy Efficient Vehicles:** Provide clear guidelines to determine tax credit eligibility.
- 7. MarketPlace Facilitator:** Ensure online “marketplace” retailers collect/remit Sales Tax.

Questions?

Need Help?

More Questions?

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