Fiscal Year 2013 Achievements

Department of Revenue
Washington State

Message from the Director

Greetings,

I'm pleased to present highlights of the Washington State Department of Revenue's many accomplishments over the past fiscal year.

These accomplishments provide the groundwork that will help us work through future challenges. They provide a solid foundation for our continued growth, demonstrating our commitment to excellence while supporting our agency's vision, mission, and values.

Vision: *To achieve the highest level of voluntary compliance and customer service through collaboration and innovation.*

Mission: *To fairly and efficiently collect revenues and administer programs to fund public services, and advocate sound tax policy.*

Values: *Open communication; cooperation; respect; integrity; professionalism; accountability; excellence.*

Our vision statement reflects our aspirations and serves as a guiding principle for our collective efforts. Our culture of continuous improvement, collaboration, and innovation is reflected in the achievements noted in this document. Many of these improvements directly support our Lean management and customer-focused service priorities.

Thank you for your interest in our work!

Cordially,

Carol K. Nelson

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Note: *Denotes improvement following application of Lean principles.*

Building partnerships

The Department of Revenue works to maintain good relationships with a wide variety of stakeholders across the state. Working with local government and improving tribal relations are important priorities for Revenue.

Increasing online business license renewals

The Department's Business Licensing Service (BLS) serves about 40,000 businesses each month. Thanks to our outreach efforts during the past fiscal year, 68 percent of businesses renewed online, paying through a new echeck service. This effort has reduced costs by eliminating paper handling and cut the time it takes to issue renewals. In the first 12 months, 111,969 echeck payments were received, totalling $10.3 million – all submitted without the additional expense of credit card processing fees.

The Department to-date supports 56 city partners state-wide. Spokane is the largest, with more than 16,000 participating businesses. In addition, the Department:

- Created and implemented licensing and renewal processes for businesses applying for the new spirits licenses created under Initiative 1183, which privatized liquor sales.
- Implemented an automatic password-retrieval process, allowing customers to more easily renew their corporate license. This process significantly reduced the number of calls fielded by the Secretary of State's Office and BLS staff from businesses needing their passwords. BLS processes about 290,000 corporation and LLC annual reports on behalf of the Secretary of State.

Proactive communication with legislators

Emphasizing a customer-focused communication strategy has helped strengthen the Department's credibility and rapport with the Legislature. This strategy has three main components:

- Reaching out to legislators at the beginning of each session to establish relationships and identify each lawmaker's values and priorities.
- Sending briefings to legislators on emerging tax issues to ensure they have the background needed to make informed decisions.
- Continually improving existing revenue proposals by working with stakeholders and legislative staff. This allows the Department to effectively assist the Governor and Legislature as they develop their budget proposals.

Ensuring transparency in applying tax laws

The Department's Legislation and Policy Division spearheaded a workgroup tasked with making the Department's application of Washington's tax laws more transparent. The workgroup's report identified opportunities for transparency that wouldn't compromise the Department's duty to protect confidential taxpayer information. Implementing those opportunities prevented legislation that would have adversely affected the Department.

Partnering with local governments

The Department is committed to improving services to and communications with local governments state wide. During the past fiscal year, the Department held Local Government Partnership meetings in Eastern and Western Washington and saw a significant increase in participation. Other local government initiatives included:

- Quarterly tax forums for cities with a local business and occupation (B&O) tax.
- Improved delivery of monthly tax distribution reports online.
- Enhanced and expanded business licensing services.

Maintaining relationships with tribes

The Department works to foster relationships with each of Washington's 29 tribes. Achievements this year include:

- Executed two cigarette compacts, began negotiations on a new compact and continued to administer 24 existing compacts.
- Conducted outreach to Indian and non-Indian businesses that do business with tribes and their citizens.
- Launched a Web page designed to answer tribal citizens' tax questions.
- Updated the Department's Tax Rate Lookup Tool to include more tribal land data.

Department highlight

The Research & Fiscal Analysis Division is focused on customer service. Providing timely and accurate information is a priority. The division published the following reports during Fiscal Year 2013:

- Descriptive Statistics
- Hospital Benefit Zone
- Local Revitalization Financing
- Patient-Lifting Devices
- Tax Statistics
- Property Tax Statistics
- Comparative State and Local Taxes
- Local Sales and Use Tax Distributions
- Quarterly Business Review
- Detailed Tax Data by Industry and Tax Classification
- Tax data provided via the "Create a Report" online tool
- Streamlined Sales Tax Mitigation Payments
- City/County Distributions
- Calculation of the State Levy

Efficiencies and customer-focused service

Customer-focused service is a top priority for the Department. Staff is committed to responding to the evolving needs of Washington taxpayers, delivering important tax information using the appropriate vehicle, whether it's a tax due-date reminder sent by email or accurate, location-specific sales tax rates delivered via smartphone app.

Delivering information via mobile

Few measures of customers' changing needs are as vivid as the shift from desktop computers to mobile devices such as smartphones and tablet computers. Mobile visits to the Department's website grew from just 2,909 visits in 2009 to 286,506 in 2012 – an increase of 9,749 percent. To expand information and services available via mobile, the Department developed and launched its first native application: The Tax Rate Lookup App. The iPhone version was released in July 2012 and the Android version in January 2013.

The app dramatically simplifies how businesses find the correct sales tax rate and code when they make deliveries or provide retail services at different locations across the state. It leverages the GPS function on mobile devices to find the rate and code at the exact spot where the delivery person is standing – with one tap on the device screen.

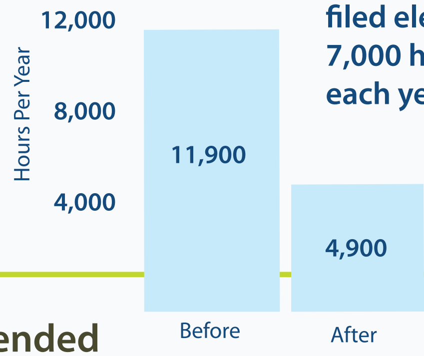
During Fiscal Year 2013, there were 6,224 worldwide iPhone downloads (6,105 in the U.S.). Since January, there have been 2,721 downloads of the Android version.

The national Federation of Tax Administrators awarded the Department its 2013 Award for Outstanding Compliance Program for the app. One FTA judge wrote, "All the states have been looking for ways to use those apps, and this is a great way. They took technology and applied it to a need. And, they clearly did some design work by incorporating GPS so it starts with your location."

The Mobile App Team

Simplifying online forms

Making transactions easier for taxpayers is a key element of customer-focused service. The Taxpayer Account Administration Division revised the online Annual Reconciliation of Apportionable Income form, making it much easier to use. The change reduced the frequency of math errors and follow-up calls required, and made review of submitted forms faster and easier.



42,000 amended returns filed electronically saves 7,000 hours of work each year.

Online amended return system is resounding success

When it comes to developing a customer-focused Lean approach to delivering government services, it's important first to find out what your customers want. The Department's new online Amended Return tool lets businesses amend previously filed state excise tax returns electronically.

The change makes the filing process easier for taxpayers, improves accuracy and provides a more efficient way for staff to review and verify taxpayer requests. With an average of 40,000 amended returns submitted each year, the new system reduced by half the amount of staff time spent following up with taxpayers to address errors or missing information.

The system allows taxpayers to pay their taxes electronically and receive refunds more quickly. The new service was a hit, with taxpayers filing more than 1,100 amended returns in the first two weeks. Among the first to use the new amended return system was an accountant in Puyallup who was so happy with it, she sent a thank-you message.

"We just wanted to let you know how great we think the new amendment procedure is," she wrote. "So much better than before, when it was all through writing. I just used it for the first time and loved it."

The online system fielded 5,023 amended returns from April through June 2013.

Continuing education for local government

The Property Tax Division partners with county assessors, treasurers and boards of equalization to improve the administration of property tax. The Department provided guidance and assistance through onsite visits and trained more than 600 representatives of local government through 18 in-person classes and webinars. The division also is expanding the number of valuation and administrative tools available to assessors—tools related to mass appraisal, technology acquisition, public relations and data standards.

Converting applications to electronic filings

During the past fiscal year, the Property Tax Division completed the nonprofit renewal phase of its conversion to electronic filings. Using an improved Nonprofit Electronic Annual Renewal System (NEARS), along with extensive staff training, a total of 10,036 nonprofit groups —a record 82 percent—completed their property tax exemption renewals electronically.

Enhanced property tax utilities apportionment using GIS

The Department collects property data from utility companies and assesses appropriate taxes based on their property values. It utilized GIS technology to automate and validate what was previously a manual process. This application of GIS for data collection is the first of its kind in the country.

Providing tax information online

The online Tax Research Index is a comprehensive search tool used by taxpayers, tax consultants and Department employees to access state laws, rules, advisories and special notices. The index is updated periodically as rules change or information is added and features an interactive table of contents that makes finding information easier. In Fiscal Year 2013, the site had more than 35,000 visits.

Department Highlight

Appeals Division

- Received 1,009 appeals in Fiscal Year 2013.
- Cleared 90 percent of mainstream (most common) appeals within one year.
- Cleared 93 percent of reconsideration appeals within six months.
- Cleared 97 percent of small claims appeals within 90 days.
- Reduced mainstream appeals intake processing time by 58 percent.
- Increased guidance by publishing 27 percent more Washington Tax Decisions (WTDs).

Streamlining customer service

January is the busiest month of the year for the Department's Telephone Information Center (TIC), with tax return due dates for monthly, quarterly and annual filers all occurring at the same time. A few adjustments made throughout the year resulted in a faster response time for taxpayers calling in for assistance. The change was made as a result of collaboration among several divisions, including Taxpayer Services, Taxpayer Account Administration, Compliance and Special Programs.

These critical changes were made before the January 2013 filing crunch:

- Directed Unclaimed Property calls to Special Programs to reduce calls in the TIC, and asked Taxpayer Account Information (TAA) to provide backup on E-file calls when call volumes spike.
- Implemented technology that provided callers with estimated hold times and offered them the opportunity to leave a message requesting a return call if the hold time was 10 minutes or longer.
- Updated hold messages to help callers find answers to their questions via the website, where we added more information addressing frequently asked questions.
- Trained the Compliance Initial Contact Team to take calls.
- Increased the number of incoming phone lines and updated routing configurations to reduce busy signals.
- Enhanced the ability to add optional messages to the phone system "on the fly."
- Made the E-file tax return available online earlier and mailed tax returns to paper filers earlier.
- Developed a communication plan that proactively encouraged businesses to call early in the month and to file "no business" returns online or through the automated phone system.
- Adjusted the Department mailing calendar to shift mailings to other times of the year when the TIC is fielding fewer calls.

Small changes, big results

The results of these changes helped the Department exceed performance expectations for January 2013:

- A total of 41,313 calls were answered —a 24 percent increase over January 2012.
- Average speed to answer declined to 68 seconds—a 59 percent decrease from 2012 and close to our goal of 60 seconds.
- 74 percent of calls were answered in one minute or less—a 15 percent improvement from 2012. The goal is 80 percent.

Even during this busy time, both the TIC and all our field offices received many compliments from taxpayers.

Serving the public

Resolving compliance issues through voluntary disclosure

The Department's Voluntary Disclosure Program, administered by the Audit Division, encourages businesses to comply with Washington state tax laws by allowing them to voluntarily resolve unreported tax liabilities or avoid penalties.

When accepted into the program, unregistered businesses are registered and report and pay any outstanding tax. Penalties are partially or fully waived and interest is imposed at the statutory rate. Unregistered businesses that have been contacted by the Department for enforcement purposes are not eligible to participate.

Through this program, the Department promotes registration of businesses for future payment of taxes and gives taxpayers an opportunity to resolve past oversights of their tax obligations. In Fiscal Year 2013, 238 businesses participated in the Voluntary Disclosure Program.

Department Highlight

Audit Division meets customer service goals

- 94 percent of audit assessments were issued within 30 days.
- 85 percent of refund request verifications were completed within 90 days.
- 3.7 percent of active reporting accounts were contacted; Priorities of Government goal is 3.5 percent.

Collecting and enforcing taxes

The Department is responsible for the fair, efficient and uniform administration of state tax law. At its headquarters and field offices, the Department conducts a variety of activities such as taxpayer registration, tax return processing, collection and distribution of state and local tax revenues, and promotion of voluntary compliance through taxpayer education.

Switching to annual property revaluation

Over the past fiscal year, four counties converted to annual revaluation, bringing the total to 35 of the state's 39 counties. The four remaining counties are committed to converting by the January 1, 2014 deadline mandated by the Legislature in 2009. Annual revaluation provides greater uniformity and consistency in property tax assessments and distribution of property taxes among property owners within a jurisdiction. The Annual Revaluation Grant Program, funded by a fee on real estate transactions, helps counties convert to annual revaluation. So far, the Department has distributed more than $1.2 million in grants to 17 counties. This $1.2 million in grant reimbursements is cumulative, with the first payments made in April 2011.

Communicating streamlined sales tax

The Audit Division continued to represent the Department on the Streamlined Sales Tax Certification and Audit Committees. The Certification Committee, part of the SSUTA Governing Board, was developed as part of the Streamlined Sales and Use Tax Agreement in 2007 and is responsible for the technical aspects of streamlined sales tax, such as the procedures regarding electronic returns filed by Certified Service Providers, the taxability matrix and the proper way to send and receive electronic data.

Department highlight

Positive auditor reports

For the 20th consecutive year, the Department received no audit findings or formal recommendations in our mainstream business processes from the state Auditor's Office (SAO).

For Fiscal Year 2013, SAO examined the controls and financial activity for:

- Retail sales and use tax
- Tax receivables
- Business and occupation tax

Proper application of tax law

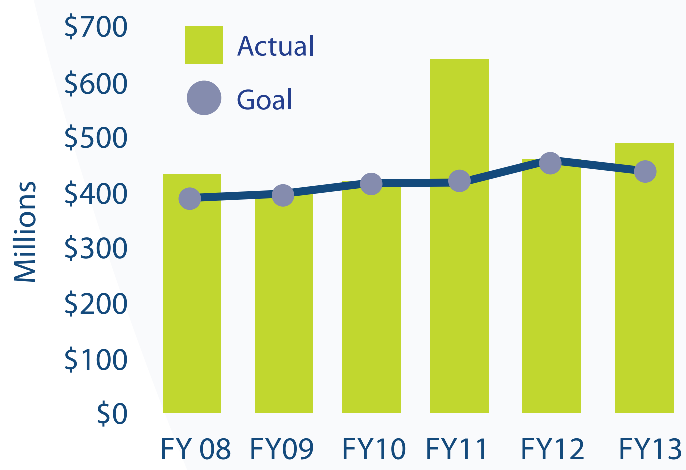
Of the average 8,000 audits issued by the Audit Division each year, about 4 percent are appealed. Some seek relief from interest or penalties rather than contest how we applied tax law. More than 90 percent of the appeals are ruled in the Department's favor, while 30 to 40 appealed audits were remanded back to the Audit Division for updates or adjustments.

Achieving cash commitment goals

To achieve its cash commitment goal, the Compliance Division continued its work with taxpayers through education, investigation and enforced collection.

In Fiscal Year 2013, the Compliance Division collected more than $482 million – 114 percent of its goal.

Compliance Division actual dollars collected



Maintaining a level playing field

The Compliance Division continued its efforts to address the underground economy and create a fair playing field for businesses operating in Washington. These efforts included:

- Sharing information with the departments of Employment Security and Labor and Industries to develop cross-agency referrals.
- Investigating fraud referrals reported through a toll-free number and an online form on the Department's website. These tools were further promoted through the website SuspectFraud.wa.gov as well as coordinated advertising campaigns on local television and radio. The agency received 1,583 fraud referrals in Fiscal Year 2013.
- The division's Criminal Litigation Unit investigated and referred 16 tax evasion cases to the state Attorney General's Office. These cases had a 100 percent rate of prosecution.

Enforcing spirits taxes

The Compliance Division has worked cooperatively with the state Liquor Control Board in establishing procedures for enforcement of collection of spirits taxes. The policies developed ranged from education early in the delinquency process to establishing a procedure for revocation of liquor licenses for uncooperative taxpayers.

Since July 2012, 376 spirits accounts have been referred to Compliance as delinquent. Of those, 349 have paid or been cleared, resulting in collections of nearly $4.3 million.

The majority of referred accounts have been cleared through education by the Compliance Division. Only 22 judgments were issued. To date, only one taxpayer has remained uncooperative to the point where revocation of their spirits license is anticipated.

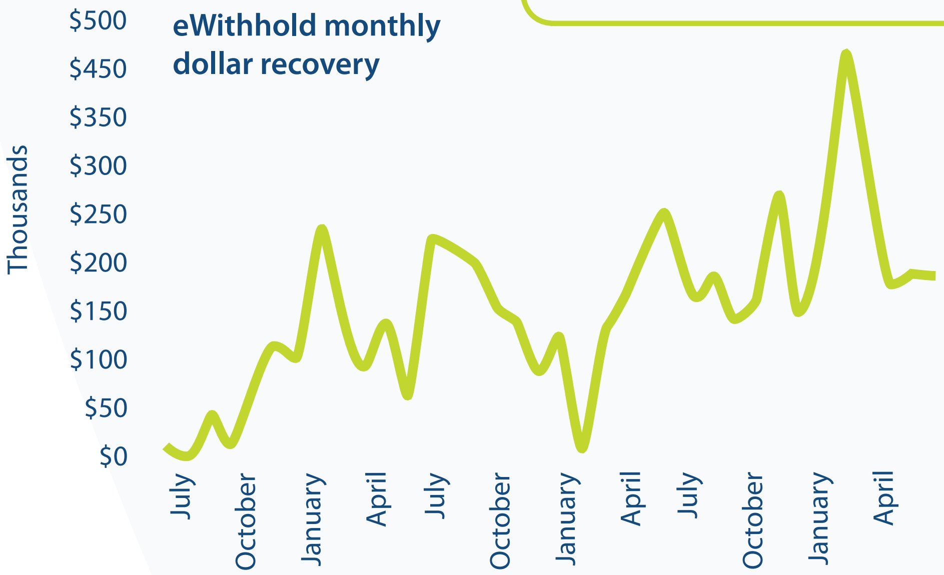
Improving the eWithhold system

The Compliance Division's eWithhold group continues to become more efficient and reduce the cost of enforced collection processes. Since its implementation in 2010, the program has recovered more than $6 million.

In Fiscal Year 2013, the eWithhold group served more than six million levies electronically and recovered more than $2.8 million, exceeding Fiscal Year 2012 by more than $500,000. The group also helped the state Department of Labor and Industries with its legislative request to allow electronic levy service.

A number of system enhancements have been achieved, and the group continues to work cooperatively with financial institutions, providing 10 Web-based training sessions during the past fiscal year. The group works with more than 200 financial institutions to improve and enhance the eWithhold process.

eWithhold monthly dollar recovery



Implementing legislation

During each legislative session, the Legislature, Governor and other stakeholders call on the collective wisdom and expertise of the Department to provide guidance on a variety of issues.

Developing legislative alternatives to address the budget shortfall

Using the Governor's budget priorities, the Department's Legislation and Policy and Research and Fiscal Analysis divisions worked together to analyze more than 600 tax exemptions to provide the Governor with a refined list of 150 possible tax exemptions to consider for repeal. In addition, the Legislation and Policy Division focused on specific legislative revenue options to help address the state budget shortfall.

Targeting sales suppression

The Department's Audit Division played an important role in the recent passage of legislation targeting those who commit tax fraud by using automated sales-suppression software, commonly known as "zappers." As of July 2013, using or selling such devices is a Class C felony offense. Audit staff provided a presentation on the topic to the Louisiana Multiparish Tax Commission. Shortly thereafter, Louisiana adopted legislation similar to Washington's.

Department highlight

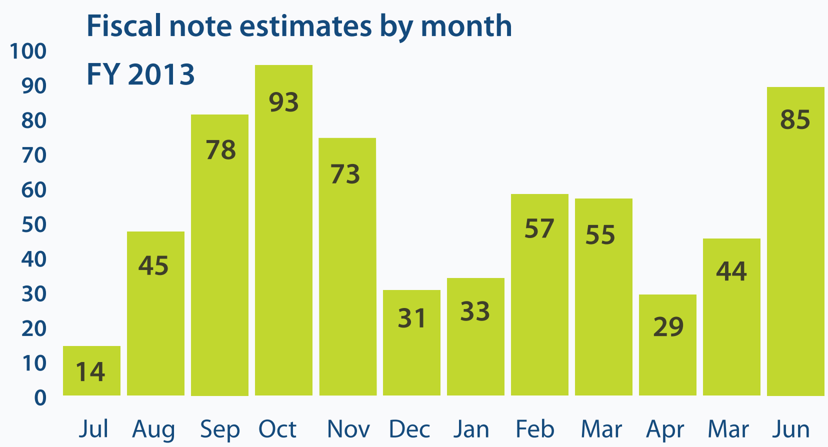
Interpretations and Technical Advice (ITA)

- Answered 749 technical advice requests from the Department's operations and policy divisions.
- Provided 10 training seminars for internal and external stakeholders.
- Represented Washington and provided leadership to state tax organizations in developing national tax policy affecting the states. Topics included:
  - Streamlined sales tax
  - Multi-State Tax Commission
  - Digital products national legislation
  - Marketplace Fairness national legislation

Responding to fiscal note requests

During the recent legislative session, the Research and Fiscal Analysis Division responded to 351 fiscal note requests from the state Office of Financial Management.

The division also completed more than 90 percent of all fiscal notes within four hours of a hearing, and nearly 80 percent of all fiscal notes were transmitted to the Office of Financial Management within 72 hours. The division completed 637 revenue estimates for various tax proposals, including 129 received during the Legislature's two special sessions.



Department Highlight

Legislation & Policy

- Analyzed more than 800 legislative tax bills, proposals and amendments.
- Of the 453 bills that received hearings, 412 (84 percent) were analyzed at least four hours before the hearing.
- Drafted 61 bills.
- Worked with the Legislature to pass four of six agency-request bills.
- Resolved 96 constituent issues on behalf of legislators, nearly all of which received initial response within 48 hours of receipt.

Other achievements

Implementing remote deposit

Each workday, the Business and Financial Services Division's Cash Management Office is responsible for processing, reconciling and reporting the Department's cash receipts and electronic deposits. Before 2012, the number of paper checks it received was so large that the division had to contract with a major bank for lockbox services.

Legislation passed in 2009 and 2011 required monthly and quarterly taxpayers to file and pay their taxes electronically. By 2012, the number of taxpayers paying by paper check had dropped to the point that the Cash Management Team began exploring ways to process the checks themselves. With the help of Information Services, the team identified and created a solution, which launched October 2012. By December 1, all excise tax payments were directed to Cash Management for processing, eliminating the costly contracted banking services. The new system saves the Department about $6,000 per month.

Department highlight

Unclaimed Property

The Department's Unclaimed Property Program successfully negotiated the reporting of $1.3 million in uncashed rebate checks from a major Washington state retailer. The reporting included all of the owner's names, addresses, and rebate amounts, which are now listed and available for refund on the Department's Unclaimed Property website.

Safeguarding IRS data

The IRS Annual Safeguard Activity Report had no outstanding findings and recognized the Audit Division's and Information Services' solid performance in protecting IRS information. The review evaluates how well Audit conformed with IRS recordkeeping requirements, storage, access, computer security, disposal of confidential federal tax Information, employee training and awareness of rules and penalties.

Training staff in economic nexus/apportionment

Legislation in 2010 resulted in significant changes in nexus standards and apportionment methodology. The Department provided initial staff training on these changes, but more in-depth training was needed. The Audit Division assembled a team to develop and provide comprehensive training for staff state-wide, as well as employees based out of state.

The training also was later made available to other divisions.

Continuing the migration from the IBM mainframe

The Department continued to reduce the cost of processing and data storage, moving more information technology processes from the IBM mainframe hosted at Consolidated Technology Services. This effort saves more than $100,000 a year.

Server virtualization saves money, energy

Virtualizing multiple servers into one physical server helps pool memory, processing and other resources that minimizes power consumption and reduces the support infrastructure.

- 39 physical servers were virtualized, bringing the total to 163 out of 193 servers (84 percent) virtualized.
- Revenue added 33 virtual workstations to accommodate staff using older legacy applications that are not compatible with Windows 7.

Strengthening cultural competency

The Department's Diversity Advisory Committee developed and conducted a cultural competency assessment to establish a baseline of cultural competency within the Department and to create an action plan to address gaps identified in the survey. The committee is assessing the survey results to determine priorities.

Promoting and enhancing safety

The Department is committed to enhancing employee safety and strengthening internal communications about safety issues. A plan developed this year includes these elements:

- Established the Strategy Team Safety Subcommittee to help improve the review of safety recommendations. The group works with the Agency Safety Committee, which has members from throughout the Department.
- The Agency Safety Committee developed a voluntary notification system called FlashAlert. In the event of inclement weather or other emergency, employees can receive alerts via cell phone instead of calling to find out whether offices are operating on a normal schedule.
- The Agency Safety Committee co-chairs visited each Department facility throughout the state to review safety survey results with staff and respond to questions about safety and emergency plans.

Simplifying records preservation

The Department's electronic records management effort helps employees understand their responsibilities for managing their email and use of the email vault. Reports show that employees are better managing their email and retaining business records in the vault.

Managing email and centralizing email in the Vault improves access to business records, protects public records and makes them easier to find. The system meets statutory and regulatory requirements addressing archival, audit and oversight activities. It provides protection and support in the event of litigation and protects the rights of the Department, its employees and its customers. It also provides continuity in the event of a disaster.

Email was migrated to Consolidated Technology Services using a phased approach that included detailed communication to employees. The same strategy is used for ongoing data management. The Email Vault and Management page on the Department's Intranet site serves as a resource for staff, and the Department's Help Desk, along with contacts in Taxpayer Services, are available to help employees as needed.

Promoting return of unclaimed death benefits

During Fiscal Year 2013, the Special Programs Division's Unclaimed Property (UCP) Program realized audit recovery of more than $12.3 million in unclaimed death benefits from various life insurance companies. The recovery is a result of a nationwide effort by state unclaimed property programs and state insurance commissioners to compel life insurance companies to report the proceeds of policyholders who are known by their companies to be dead. The Department and the Attorney General's Office actively participated in realizing the audit recovery.

Encouraging good ideas

The Human Resources Division piloted HR Idea Day to provide staff with additional skills and tools for increasing incremental improvements and supporting the concept of Lean principles in everyday thinking. The six-week pilot resulted in more than 70 ideas, many of which incrementally improve individual and collective productivity. This allows time for greater customer-focused service.

Department earns honors

National recognition:

The Department received two national awards during the past year:

- Janet Shimabukuro, Assistant Director of Taxpayer Services, received the Federation of Tax Administrators (FTA) 2013 Award for Leadership and Service in State Tax Administration. This was the second year in a row that a Revenue manager was honored with this award.
- The Department also received the FTA's 2013 Outstanding Compliance Program Award for its development of a mobile app that helps taxpayers determine the proper sales tax rate for specific locations.

Washington State awards:

Governor's Leadership in Management Award Recipient

Assistant Director of Legislation and Policy Drew Shirk is pictured with Governor Jay Inslee, who recently honored 20 state agency managers for demonstrating outstanding leadership.

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