Addressing a Taxing Problem

Texas uses Identity Systems technology to ensure everyone pays a fair share

It's a challenge faced by governments of every size: how do you fund necessary programs while balancing the budget?

In Texas, this challenge is faced by the Comptroller of Public Accounts. The Comptroller is responsible for preparing the state's biennial budget estimate, which is required by the Texas Constitution to be balanced. The Comptroller's responsibilities also entail monitoring and accounting for state spending and collecting revenues, including taxes.

That's a big job. The Comptroller's office must administer 50 different state taxes, processing more than 3.8 million tax returns annually. Ensuring that these taxes are administered in a fair and equitable manner is the mission of the Audit Division. Among other tasks, the division is charged with identifying companies doing business in Texas without a tax permit and identifying companies and individuals that owe sales and use taxes.

This is a critical mission. "We have no income tax in Texas," points out Lisa McCormack, Area Manager for the Audit Division. "So, the sales and use taxes are major components of the state budget." In fact, sales and use taxes account for nearly 25% of the state's revenue.

Hidden in plain sight

In order to identify those who owed the state money, the division tried to cross-check taxpayer records against information from outside sources. "We might get a list of companies that have participated in a trade show," McCormack explains. "We'd want to match that against our tax files to identify anyone doing business without a permit." These external files include databases maintained by the Federal Aviation Administration, US Customs Service and the IRS.

Unfortunately, this approach had a number of shortcomings: differences in the way the information was formatted in the different databases, unavoidable errors and variations such as misspellings and abbreviations, and incomplete information that resulted in missed matches and false matches. That meant the division was expending time and resources pursuing companies that were properly registered while missing those that weren't.

What the division needed was a technology that could compensate for the unavoidable errors and differences in the data. After discussions with a number of vendors, the Audit Division implemented a pilot program using the Data Clustering Engine (DCE) from Identity Systems. "DCE proved to be a much better solution than any of the other methods we have tried," McCormack says.

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> Audit Division, Texas

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Meeting your match

Identity Systems products are specifically designed to search, find, match and group identity data. The software emulates an intelligent business user's ability to determine a match based on a variety of factors, overcoming spelling, phonetic and other errors and omissions in the data. And it offers the speed and scale to perform high-volume searches quickly against very large databases.

The Audit Division installed DCE as part of a larger Advanced Database System project in 2001. The system is used to generate leads for the auditors. Two statisticians developed a system for scoring the matches that offer the highest potential for successful action. The auditors then follow up, starting with a letter. Not only is this approach more efficient, allowing better use of time and resources, it's also returning much more revenue. "Using this system, we're generating an additional $70 million per year for the state," McCormack says. Overall, the project has returned more than $500 million to the state.

As an example of how the system works, the division cross-checks 1099 forms filed for Texas residents against the tax system. That allows them to identify companies that are doing business in the state but that have not registered for the Texas Franchise tax. In the same way, the division can cross-check the FAA's quarterly report of aircraft registered in Texas to identify cases where the proper sales and use taxes have not been paid.

Perhaps most noteworthy is the relatively minor investment required by the system. There is a single server, managed by two employees from the Audit Division—one UNIX administrator, one database administrator — on a part-time basis.

There is one more significant benefit to the system, according to McCormack — fairness. "More accurate identification of those who haven't paid their taxes means less intrusion on those who do," she points out. "And when everyone pays their fair share, the entire state benefits."

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> *Audit Division, Texas*

About the Texas Comptroller of Public Accounts

The Texas Comptroller of Public Accounts (CPA) is the state's chief tax collector, accountant, revenue estimator and treasurer. The Comptroller collects the state's revenue and monitors and accounts for all state spending. The Comptroller also is responsible for the budget estimate each biennium, as the Texas Constitution requires a pay-as-you-go, no-deficit spending budget.

The Comptroller's office has one of the nation's most modern audit and enforcement operations, including 17 audit offices in Texas and offices in New York, Los Angeles, Chicago and Tulsa. In addition to field staff, the Comptroller's office also uses sophisticated technology and statistical techniques to help auditors recover tax revenue legally due the state.

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Identity Systems is the pioneer in enabling organizations to build and maintain high-quality identity data search and matching software solutions.

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