



Maryland's Concentration on Compliance

- Historically the Maryland Comptroller's Office has concentrated its compliance efforts on identifying non-filers and following up on under-statement of income after the return has been filed and processed.
- Use of the federal extract file each year has been extremely beneficial in our efforts to identify non-filers and under-reporters.

Maryland's More Recent Focus on Real Time Processing

- In recent years we have also begun to focus on identifying taxpayer errors and outright fraudulent returns before they are processed and the refund issued.
- In these cases, especially the instances of outright fraud, it is generally very difficult to collect the monies due once the refund has been issued.
- Every improper refund stopped is the equivalent of revenue generated by our office.
- Several years ago we began to verify all primary and secondary social security numbers through a cooperative effort with the IRS. First year results identified thousands of SSN's that were invalid and millions of dollars in apparently improper refunds stopped.
- This year we have expanded this verification to dependent SSN's. We expect that moving forward we will uncover similar results.
- In recent years as we edit the paper returns coming into our agency, if a taxpayer claims withholding but does not include a copy of the W-2 we either send the return back to the taxpayer with a request for the W-2 or, if close to the filing deadline, process the return and deny the withholding and send the taxpayer a notice asking for verification.

- Effective this year, all employers with at least 25 employees must send their annual withholding reconciliation and employee W-2's electronically. This will enable our agency to have this information easily available for these withholding checks and eliminate the need to contact most taxpayers to obtain copies of their W-2's when they fail to provide them. With electronic returns this will provide a mechanism for us to cross check what taxpayers enter with the records employers file with us.

Data Warehouse

- This year using our data warehouse we have implemented two models to assist in identifying questionable returns. The first deals with addresses that we know historically have been connected to fraudulently filed returns. The second deals with miscellaneous fraud.

Benefits of These Actions

- Saves us from identifying these discrepancies later and billing the taxpayer. Reduces audit and collection work.
- It is easier to collect a liability when it is established with the processing of the return—rather than 1-2 years later.
- Stopping improper refunds is the equivalent of collecting revenue.
- Taxpayers quickly become aware of action our agency is taking and modify their behavior.

Issues Moving Forward

- IRS needs to make us a partner in this effort. The statute of many states is closely aligned with the IRC. For instance, Maryland's return begins with the federal adjusted gross income.

- If the IRS modifies a taxpayer's return before processing, how will the states be made aware of this change? If we have to wait for the extract for that year, this Real Time processing is of little benefit to us and will provide a real source of irritation for taxpayers dealing with us.
- A current example in Maryland is the EIC. When the IRS denies the taxpayer's claim during the processing of the return, we are not aware of it when we process the Maryland return. Taxpayers are entitled to claim on their Maryland return 50% of their federal EIC. We don't know that this has not been allowed by the IRS until the extract arrives and we do a match.
- We need to discuss possible solutions as you proceed with more Real Time processing.

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Comptroller of Maryland