



Revenue Laws Study Committee

April 11, 2018



Increased fraud and non-compliance

- Refund Fraud
- Identity Theft Refund Fraud
- Cash Intensive Businesses
- Collection of Trust Taxes with no remittance
 - Withholding tax
 - Sales tax

Complete and timely Information Reporting with enhanced data analytics are the critical building blocks to effectively and efficiently identify those taxpayers not in tax compliance



Strategy Overview

- **Information Reporting – General Assembly**
- **Leverage statistical expertise and technology of vendor relationships- (SAS/GDAC) with the Agency's own Business Intelligence Group**
- **Implement specialized audit programs within our overall Audit Program**



Information Reporting

- **NC-3 – G.S. 105-163.7 – real time data**
 - **Refund fraud/identity theft refund fraud**
 - **Employee inflated withholding**
 - **Employer non-filer/under-reporter for taxes withheld**
- **Alcohol vendor – G.S. 105-251.2 – annually**
 - **Cash Intensive Business Audit Program**
 - **Unreported taxable transactions**
 - **Collection of sales tax held in trust without remittance**
- **1099K – G. S. 105-251.2 – annually**
 - **Cash Intensive Business audit Program supplement**
 - **1099K Audit Program for multiple business classifications**
 - **Unreported taxable transactions**
- **Franchisor – needed to aid in detection of unreported transactions**



Refund Fraud/Identity Theft Refund Fraud

- **FYE 2016 – FYE 2017**
 - **Cases – 43,145**
 - **Tax Savings - \$57,996,769**
- **Attributable to information reporting/SAS/GDAC for same period**
 - **Cases – 7,484**
 - **Tax Savings - \$11,391,238**
- **18% uptick in cases**
- **20% uptick in Tax Savings**



Cash Intensive Businesses

Comprised of four specialized audit initiatives

- **Period January 1, 2017 – December 31, 2017**
 - **Incomplete and missing data**
 - **147 cases**
 - **\$5.4 million in assessments**

Withholding Trust tax cases

- **Incomplete and missing data**
- **81 cases**
- **\$6.8 million in assessments**



Issues

- Information returns are not filed
- Information returns are not filed electronically
- Data fields within the returns are omitted or not formatted in accordance with schema published by DOR
- The programs are not 100% effective in determining identity theft refund fraud and non-compliance of other trust taxes if information returns are not filed and/or not filed in the prescribed manner



Requested Solution

- Penalty would apply to information returns only
 - Failure to File an information return
 - Failure to File in the Proper Format
- Penalty application would aid in DOR's efforts to secure information timely and accurately to efficiently determine identity theft refund fraud and increase tax savings, identify non-compliance within other trust tax schedules, and recover taxes owed the State.

