



MONTANA DEPARTMENT OF REVENUE IMPLEMENTS ENHANCED COMPLIANCE SOLUTION FROM FAIRFAX IMAGING

Overview

Challenge

Montana DOR wanted to gain efficiencies in processing in order to move employees from processing to compliance and to improve revenue collection.

Solution

Fairfax Imaging implemented its awarded winning *Quick Modules* software to perform recognition of w2/1099 data and convert paper documents into electronic images with associated metadata which could then be stored and retrieved.

Benefits

Increased revenue collection, earlier detection of compliance issues and improved processing efficiencies.

In 2009, the Montana Department of Revenue (DOR) began a project as part of a long-range information technology program designed to improve departmental efficiency by enhancing compliance activities through imaging technology. The Department has over 100 different individual forms that need to be processed and it is essential to capture W-2 and 1099 information accurately and in a timely manner. Because this was being done manually, DOR sought to acquire a solution that would image their tax forms and collect related information through Intelligent Character Recognition (ICR).

It was desired that solution would not only address the issues created by a paper-based environment but would also provide the means to capture information earlier in the cycle. Thus, the objective of the initiative was to implement an image-based processing solution that would act as a bridge in the transition to electronic tax filing. Educating both state employees, and tax preparers and filers on the advantages and benefits of technology while providing greater efficiency to the processing area are among the project goals.

OBJECTIVE: GAIN EFFICIENCIES

According to Margaret Kausak, Administrator of Information Technology and Processing, for the Montana DOR, "We have two objectives. The first is to gain processing efficiencies so that we will be able to reallocate employees from processing into compliance and other revenue-generating positions. The second is to change the way Montana DOR does business." Ms. Kausak views the project as a long-duration transition, taking place over several tax seasons.

The image-based solution is addressing multiple processing challenges faced by Montana's DOR. Among them is having one of the most complicated individual tax returns in the country, as well as the fact that many of the taxes, especially those on the business side, are not available for electronic filing.



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*-Margaret Kausak,
Administrator of Information
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for the Montana DOR*

Additionally, not only did electronic filings nearly double from 2004 to 2009 (195,880 to 373,103), paper filings did so as well (655,502 to 1,453,650). Montana's tax experience is unusual in that, unlike most states that have seen a decline in tax returns, Montana has had a dramatic increase in processing volumes. This is partially attributable to additional legislation and increased diligence in tax collection.

TIMELY REVIEW AND COMPLIANCE

One of Montana's larger revenue concerns was that the State was not capturing data from W-2s and cross checking employee and employer filing records in a timely manner. Because processing priorities and limited resources delayed the capture of W-2 information until the late fall of each year, it was then often 10 to 12 months before the Department was able to begin reviewing W-2 information submitted for compliance. Due to this processing delay, it was a year later before the Department began attempting to contact employers and employees. By this time, a number of the companies had gone out of business or moved from the state. Tracking down individual employees proved to be an even greater challenge.

To clarify the problem, Ms. Kauska explained, “For example, from the Department's experience some employers, when in financial difficulty, use employees' withholding to cover other debt obligations. By the time the Department can review these withholding accounts, many of the businesses with financial difficulties have gone out of business and thereby the state is unable to collect the taxes it is owed by these businesses, which, in turn, affects the general fund. Imaging paper W-2s would allow the Department to begin reviewing potential noncompliant situations earlier, and thereby increasing the likelihood of collecting delinquent withholding taxes before an employer goes out of business.”

In response to Montana DOR's request for proposals, responses were received from eight vendors: Fairfax Imaging, Information Capture Solutions, J&B Software, Scan-Optics, Siemens Industry, Specialized Business Software, Viking Software Solutions and Wausau Financial Systems.

After a highly competitive evaluation process, DOR selected Fairfax Imaging based upon factors that included the company's ability to support the DOR's objective of a more efficient operation through a number of features in Fairfax's solution. Fairfax provides a reduction in pre-sorting time and effort; the ability to capture tax forms in an intermixed mode, which reduces labor requirements; an easy application setup that reduces the IT commitment,

freeing up resources for other projects; and the ability to process W-2 and 1099 forms. These were deciding factors in the selection of Fairfax Imaging.

The imaging installation has been divided into multiple phases, with the project scheduled for completion before the 2012 tax processing season. A major focus for the 2011 tax processing season is the ability to capture and process both W-2 and 1099 tax forms on the imaging system.

Solution Components:

- *Fairfax Imaging Quick Modules*
- *IBML ImageTrac 3ex High Speed Scanners*

FINANCIAL BENEFITS

DOR estimates that the financial benefits to the State to be \$3.65 million and \$4.47 million for FY2011 and FY2013 biennium, respectively. These savings would be based on the ability to address noncompliant W-2 situations in a timely and efficient manner, and identify unreported and unremitted withholding taxes.

When asked about the lessons learned from the project thus far, Ms. Kauska observes that, "We thought we were pretty knowledgeable, but the RFP process taught us that there were a number of questions that we should have asked and requested more detail on. We got off to a bit of a slow start as both we and Fairfax had varying understandings on experience and development efforts. If we had discussed these topics in greater detail during the proposal process it would have made for a timely project start. Fairfax has stepped up to and is delivering everything we have requested. We both understand that we are partners in the effort and are both working for a successful completion."

MS. Kauska states that it is too early to provide detailed information on savings from image processing capabilities. However, she is encouraged by the current operational results and hopes that by the end of the year she will be able to validate her business forecast and provide a revised estimate of the enhanced compliance revenue for the FY2012 and FY2013.

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