New York State Department of Taxation and Finance

Advanced Analytics for Audit Case Selection

Presented by:

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New York State Department of Taxation and Finance

Audit Case Selection

Putting a scientific approach to selection into the Auditors hands

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Goals of this Presentation

ỿGain an understanding of how TACS got started, the theory of normal taxpayers within peer groups and outliers, and how models and features are designed

ỿGain an understanding of peer group selection and the process for model creation

ỿLearn how "values" and "scores" are created

ỿUnderstand how to interpret these values and scores using various graphical presentations of the data along with canned reports and how an understanding of these scores leads to the selection of an audit case.

ỿLearn how TACS was further developed for scoring and ranking pre-processed returns

ỿUnderstand the term CISS

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The project business objective was to maximize the return of the DTF investment in tax return audit programs.

- Target tax returns with greatest potential payback

- Provide information to support investigation, litigation, and settlement functions

- Provide information to counter/prevent loss in the future

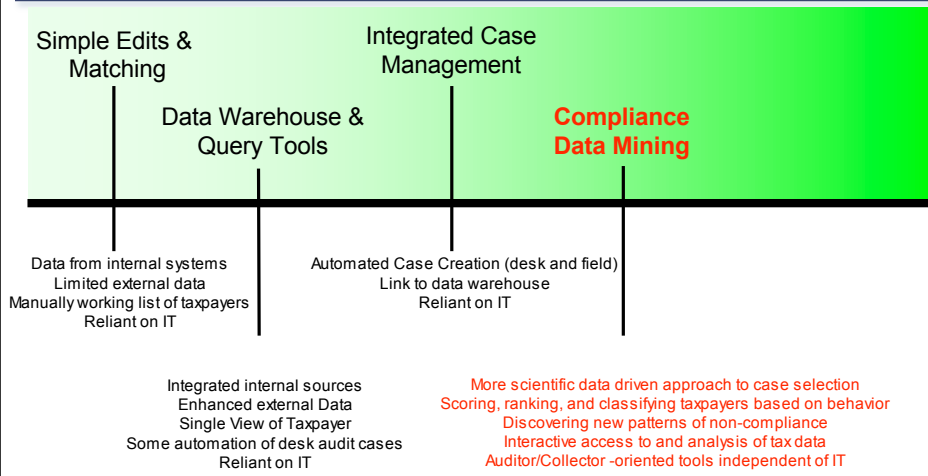## New York State Department of Taxation and Finance

The Audit Division wanted a better way to select cases and manage and/or prioritize their inventory

- **Reduce screening time by focusing on attributes of non-compliant returns**

- **Identify characteristics of successful and unsuccessful audits**

- **Target tax returns that resemble those that historically produced successful audits**

- **Assist with assignment and management of cases by estimating…**

  - **case complexity**
  - **confidence in the selection**
  - **additional revenue**
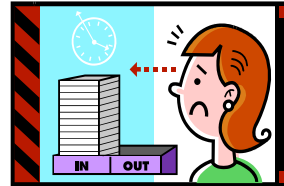
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To accomplish these objectives NY realized it needed to take a more scientific approach to case selection

Simple Edits & Matching

Integrated Case Management

Data Warehouse & Query Tools

Compliance Data Mining

Data from internal systems
Limited external data
Manually working list of taxpayers
Reliant on IT

Automated Case Creation (desk and field)
Link to data warehouse
Reliant on IT

Integrated internal sources
Enhanced external Data
Single View of Taxpayer
Some automation of desk audit cases
Reliant on IT

More scientific data driven approach to case selection
Scoring, ranking, and classifying taxpayers based on behavior
Discovering new patterns of non-compliance
Interactive access to and analysis of tax data
Auditor/Collector -oriented tools independent of IT

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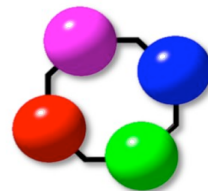# Tax Audit and Compliance System (TACS)

A New Way to Select Audit Cases

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TACS is a solution that enables taxing authorities to detect and investigate the fraudulent and abusive practices of taxpayers.

- **Sorts through information on tens of thousands of tax returns in minutes**

- **Ranks taxpayers in relation to their peers**

- **Results are displayed in a variety of graphical formats that easily identify taxpayers who fall outside norms**

- **Supports further investigation**
  - **enables users to drill down into detailed information**

- **Integrated data mining, interactive data visualization and ROLAP drilldown reporting enable the system to display results as**
  - **reports**
  - **spreadsheets**
  - **bar graphs**
  - **two and three dimensional scatter plots**
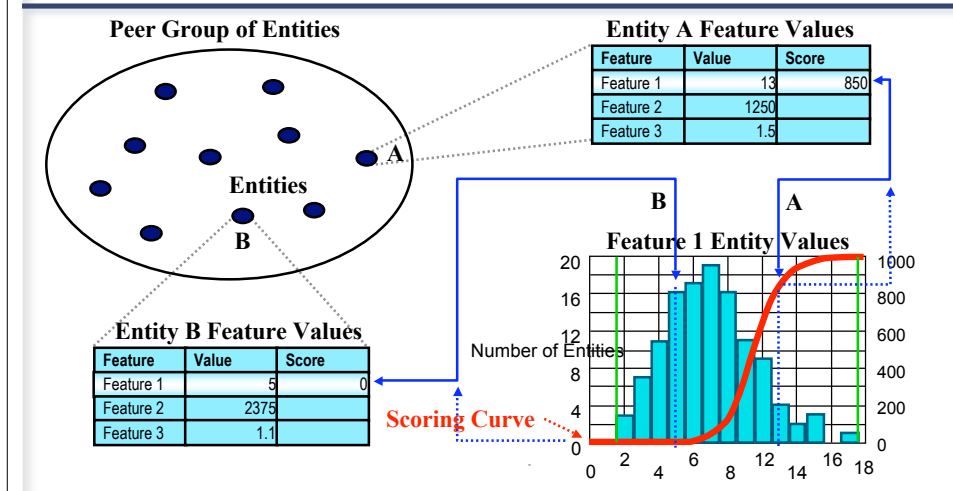 - **various other presentations**
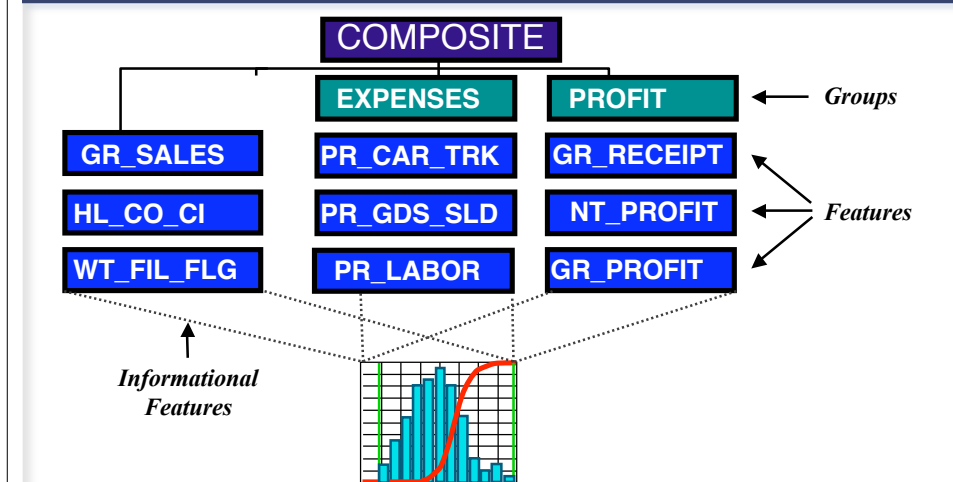
TACS – IBM's Tax Audit and Compliance System

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The foundation of TACS deviation detection is peer group profiling of similar entities using feature values and their profile scores.

Peer Group of Entities

Entities

A

B

Entity A Feature Values

Feature	Value	Score
Feature 1	13	850
Feature 2	1250	
Feature 3	1.5	

Entity B Feature Values

Feature	Value	Score
Feature 1	5	0
Feature 2	2375	
Feature 3	1.1	

Feature 1 Entity Values

Number of Entities

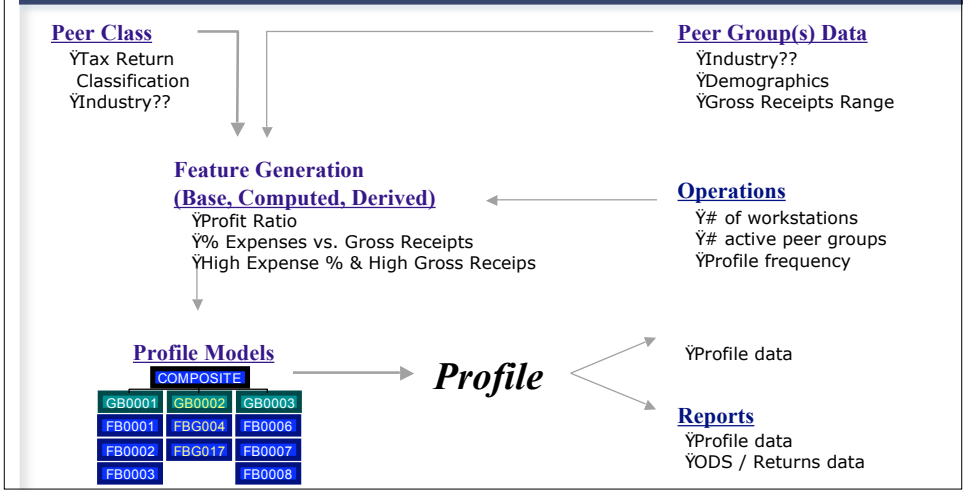*Scoring Curve*

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The profile model defines the content and structure of the profile. Scores for features roll up to groups, and groups to the composite.

COMPOSITE

EXPENSES

PROFIT

← *Groups*

GR_SALES

PR_CAR_TRK

GR_RECEIPT

HL_CO_CI

PR_GDS_SLD

NT_PROFIT

← *Features*

WT_FIL_FLG

PR_LABOR

GR_PROFIT

Informational Features

5

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The profile model Objective: Who, How, When, What to Profile and What to Report

Peer Class
- ŸTax Return Classification
- ŸIndustry??

Peer Group(s) Data
- ŸIndustry??
- ŸDemographics
- ŸGross Receipts Range

Feature Generation (Base, Computed, Derived)
- ŸProfit Ratio
- Ÿ% Expenses vs. Gross Receipts
- ŸHigh Expense % & High Gross Receipts

Operations
- Ÿ# of workstations
- Ÿ# active peer groups
- ŸProfile frequency

Profile Models

COMPOSITE		
GB0001	GB0002	GB0003
FB0001	FBG004	FB0006
FB0002	FBG017	FB0007
FB0003		FB0008

Profile

- ŸProfile data

Reports
- ŸProfile data
- ŸODS / Returns data

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The metrics of the distribution of all entity values for a given feature are used to define the transformation of values into scores.

Sample Feature, "Average Dollars per ...."

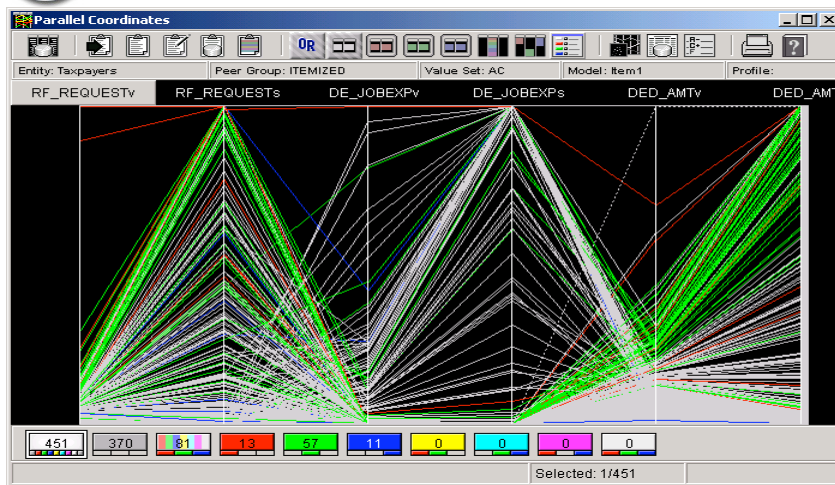Number of Entities — Feature Score — 370

Feature Value 1820
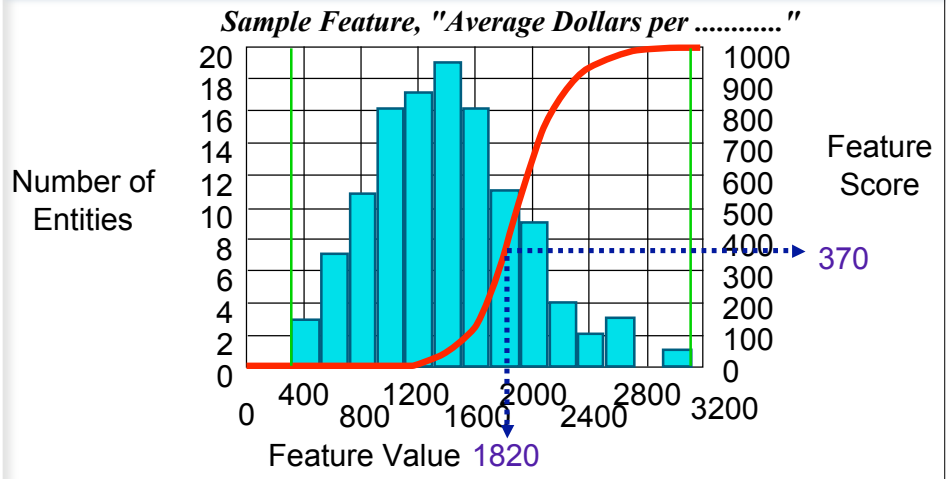
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Interactive visual data mining is provided by the integration of data visualization into the profile mode and into the report wizard.
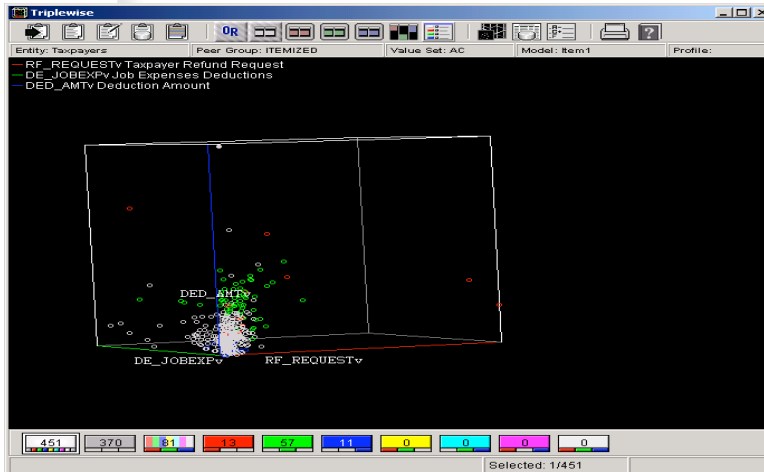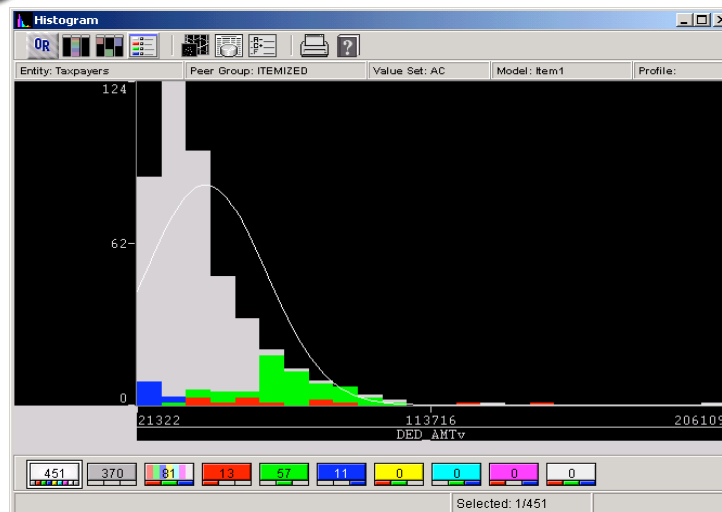

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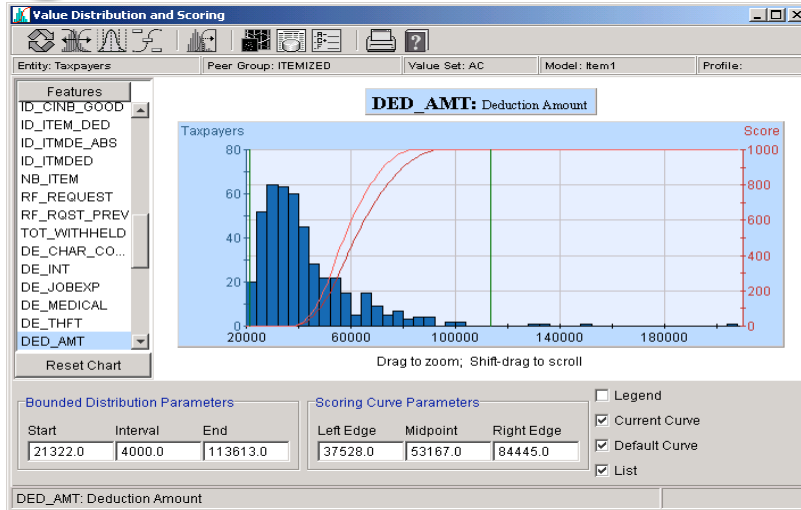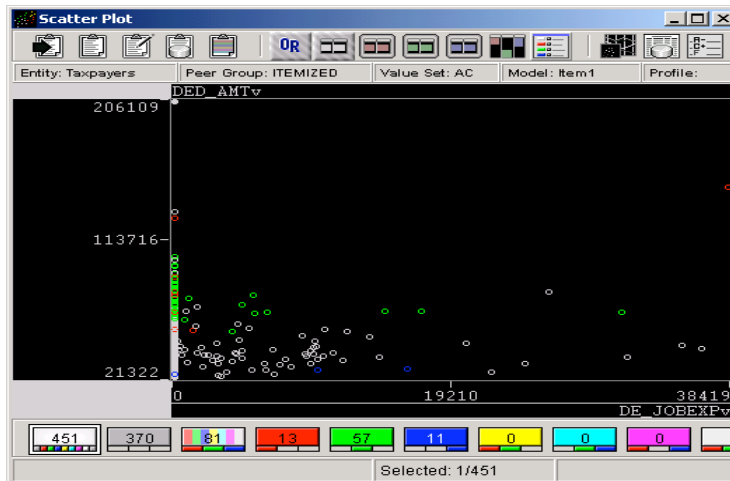
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Value Distribution and Scoring

Entity: Taxpayers | Peer Group: ITEMIZED | Value Set: AC | Model: Item1 | Profile:

Features
- ID_CINB_GOOD
- ID_ITEM_DED
- ID_ITMDE_ABS
- ID_ITMDED
- NB_ITEM
- RF_REQUEST
- RF_RQST_PREV
- TOT_WITHHELD
- DE_CHAR_CO...
- DE_INT
- DE_JOBEXP
- DE_MEDICAL
- DE_THFT
- DED_AMT

Reset Chart

DED_AMT: Deduction Amount

Taxpayers | Score

Drag to zoom; Shift-drag to scroll

Bounded Distribution Parameters

Start	Interval	End
21322.0	4000.0	113613.0

Scoring Curve Parameters

Left Edge	Midpoint	Right Edge
37528.0	53167.0	84445.0

☐ Legend
☑ Current Curve
☑ Default Curve
☑ List

DED_AMT: Deduction Amount

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Scatter Plot

Entity: Taxpayers | Peer Group: ITEMIZED | Value Set: AC | Model: Item1 | Profile:

DED_AMTv

206109

113716

21322

0 | 19210 | 38419

DE_JOBEXPv

451 | 370 | 81 | 13 | 57 | 11 | 0 | 0 | 0 | 0

Selected: 1/451

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Crystal Reports is the integrated report engine accessed through the extensible table / token / data driven Report Wizard.

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Cluster IDs from profile data segmentation are dynamically added back to profile data in memory for iterative analysis and discovery.
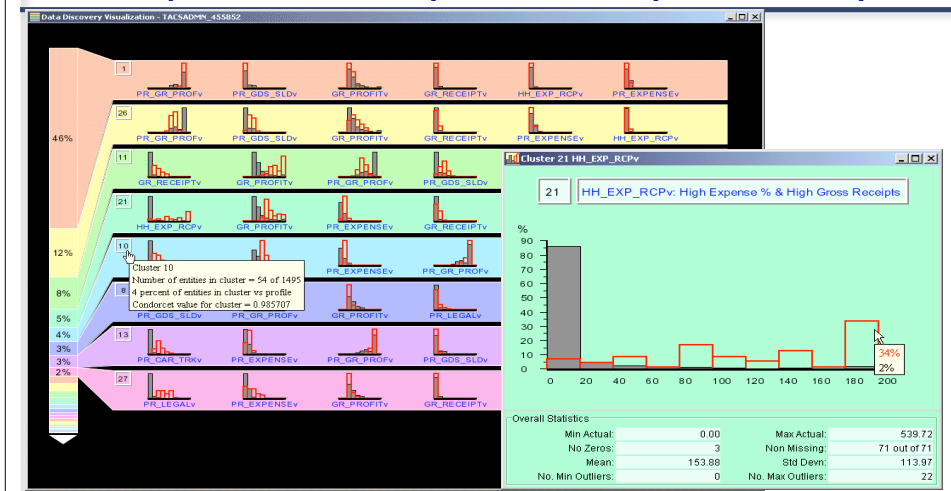
Case Identification and Selection System (CISS)

Taking Audit Case Selection to Pre-processed Returns

Business Background

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There are 3 major programs for the questionable refund detection unit

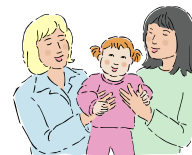**Categories of Questionable Returns**

- **Earned Income Tax Credit (EITC)**
- **Itemized Deductions**
- **Wage / Withholding**
- **Other**
  - **Dependent Child Care Credit**
  - **Real Property Credit**
  - **Suspect DB's (Prisoner, Identity Theft, Preparer, Bad Address)**

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The EITC audit issues mainly stem from the misrepresentation of income and/or dependents to maximize the credit.

- **Potential Fraud – Maximizing the EITC Claim**
  - **Questionable Business Income Gains/Losses -Schedule C**
  - **Questionable Wages And Withholdings**
  - **Ineligible Dependents**
  - **Preparer Fraud**
  - **Multiple Claims**

- **Domestic Issues**
  - **Custody Disputes**
  - **Duplicate Claims**
  - **Math Errors**
  - **Social Security Number Verification**

EITC Scale

- 0 Dependents
- 1 Dependent
- 2 Dependents

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2 Children, Max $4,300
1 Child, Max $2,604
0 Children, Max $390

Single
Married

- Credit phases out as income increases
- Claiming children raises the limit on income eligibility and increases the value of the credit
- If married, income eligibility increases up to $1,000
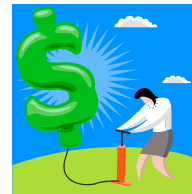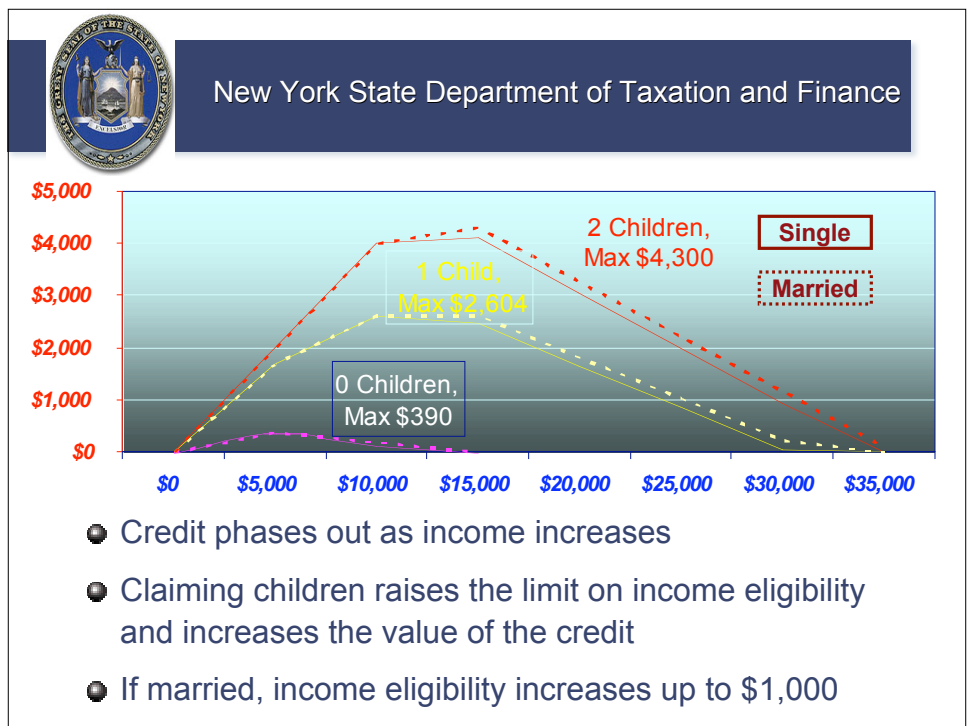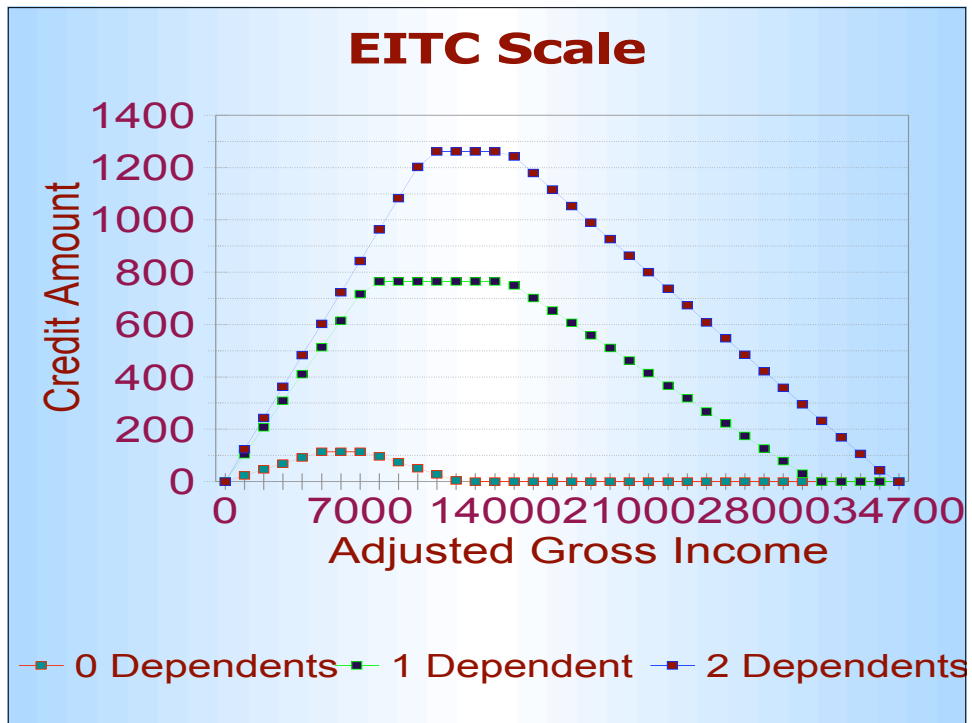
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As always, Itemized Deduction audit issues stem from the overstating of deductions to wipe out AGI and are hard to verify

➢ **Taxpayers claiming high deductions in areas of**
- **job expenses**
- **personal mortgage interest**
- **contributions**

➢ **Hard to verify deductions at the time of filing**
- **No requirement to provide proof of deductions claimed on Schedule A**
- **Schedule A data not available at review time for paper filers**
- **Limited third party data**

➢ **Most audits are performed post processing**
- **Deductions like job expenses and cash contributions need to be verified by correspondence with the taxpayer**
- **Very labor intensive process**

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Falsifying employer withholding is a rapidly growing area of concern for the department and validation is difficult.

➢ **Stolen social security numbers**

➢ **Fabricated wage and tax statements**
- **Easy to obtain W-2 statements with a valid employer EIN**
- **Print their own W-2 on a computer to be submitted with their return**

➢ **Limited employer withholding information available at time of filing**

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Past enforcement efforts were not keeping up with the ever-changing compliance environment

- ➤ **"Early warning" compliance detection was rudimentary**

- ➤ **Existing strategy was limited to "deferred detection" and "pay and chase"**

- ➤ **Batch selection systems were inflexible and difficult to change**

- ➤ **Case workflow was disjointed and mostly manual**

- ➤ **Auditors did not have the complete picture of why a case was selected**

- ➤ **Limited capability to analyze the effectiveness of the audit programs**

- ➤ **Limited capability to detect or predict new schemes**

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The project objective was to build a system to enhance existing audit case selection methods to detect questionable returns before processed

The Questionable Refund Detection unit wanted…
- ➤ **A better way to identify questionable returns**
- ➤ **To question suspect returns before issuing refunds**
- ➤ **To improve the ability to collect on additional tax audit cases**
- ➤ **To issue refunds in a timely manner**
- ➤ **To make program management more flexible**
- ➤ **To leverage investments in data warehousing and business intelligence technologies**
- ➤ **To scientifically predict good audit candidates utilizing return filing patterns, case history, and other external indicators**
- ➤ **To improve their ability to detect new areas of fraud**

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NY realized it needed to find a way to detect a questionable return before issuing the refund avoiding a the "pay and chase" procedure

Simple Edits & Matching	Integrated Case Management	**Predictive Compliance**
Data Warehouse & Query Tools	Compliance Data Mining	

Data from internal systems
Limited external data
Manually working list of taxpayers
Reliant on IT

Automated Case Creation (desk and field)
Link to data warehouse
Reliant on IT

Case selection at time of returns processing
Predict fraud based on historical behavior
Early detection of deviant non-compliant trend
Strong voluntary compliance effect
Independent of IT

Integrated internal sources
Enhanced external Data
Single View of Taxpayer
Some automation of desk audit cases
Reliant on IT

More scientific data driven approach to case selection
Scoring, ranking, and classifying taxpayers based on behavior
Discovering new patterns of non-compliance
Interactive access to and analysis of tax data
Auditor/Collector -oriented tools independent of IT

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CISS is an end-to-end system for audit case selection, resolution, and post processing year analysis

- **Business rules and predictive models are applied to categorize and score returns received nightly**
  - **Determine the "next best case"**
    - **Based on all returns received not on a batch or daily basis**
    - **Dynamic re-ranking of all potential cases nightly**
  - **Identify screener and auditor focus area**
  - **Trigger automated downstream processes**
    - **Accept Refund Request**
    - **Automatic Stop**
    - **Audit Case Creation**
    - **Informational Letter**
    - **Manual Screening**
- **Provides a web based application for return screening, audit case resolution, and answering taxpayer inquiries**
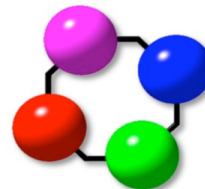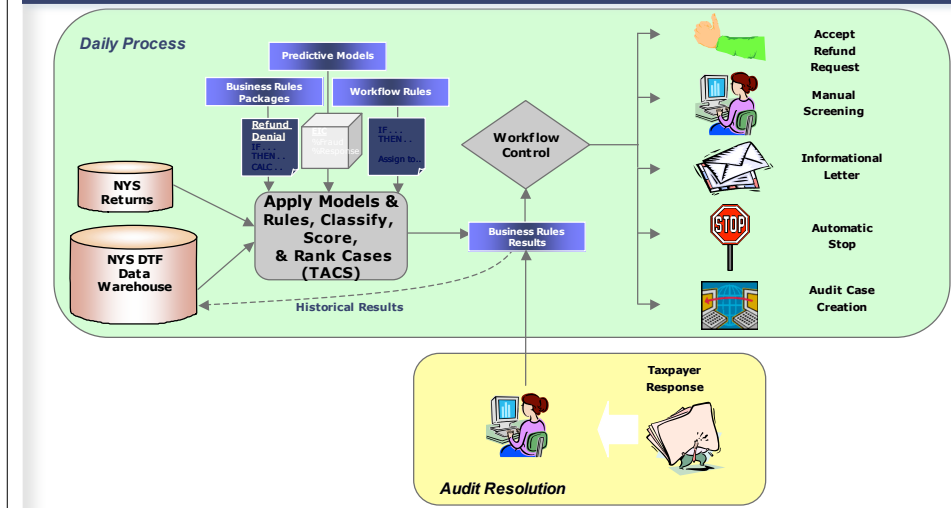
Powered by TACS – IBM's Tax Audit and Compliance System
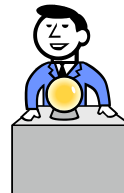
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Process flow for CISS

Daily Process

Predictive Models

Business Rules Packages

Workflow Rules

Refund Denial IF... THEN.. CALC...

IF... THEN.. Assign to...

NYS Returns

NYS DTF Data Warehouse

Apply Models & Rules, Classify, Score, & Rank Cases (TACS)

Historical Results

Business Rules Results

Workflow Control

Accept Refund Request

Manual Screening

Informational Letter

Automatic Stop

Audit Case Creation

Audit Resolution

Taxpayer Response

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The Rules Engine applies the business logic and predictive models to score returns and set workflow controls for downstream processes

- Business rules
  - **Business logic that evaluates data from each current tax return, previous returns, audit history and other sources to make A determination about the action to be taken by the department regarding each return**

- Predictive modeling
  - **Predictive models utilize historical case results to predict such things as probability of fraud or taxpayer response**
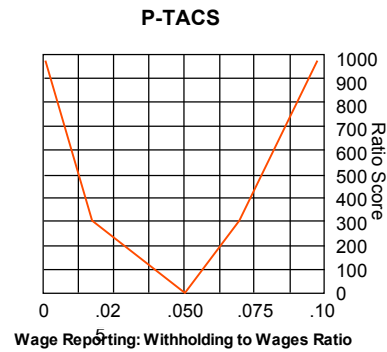
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The Rules Engine scoring curve differs from the profile model scoring curve in that the user pre-defines the scoring curve points
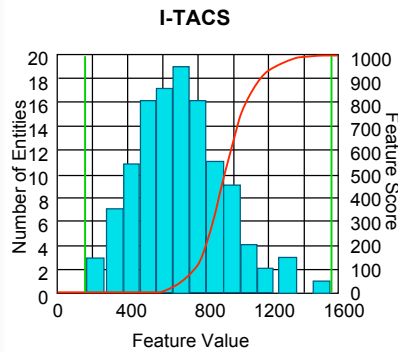
I-TACS

I-TACS Scoring – system derived based on data distribution of the peer group

P-TACS

P-TACS Scoring – user defined based on data analysis

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The Rules Engine scoring process prioritizes cases to ensure the auditors and screeners are continually working the "Next Best Cases."

- Identify "next best case"

  - **Selection of the best case based on all returns received not on a batch or daily basis**

  - **Dynamic re-ranking of all potential cases nightly**

  - **Browser based front end which provides a single point of entry for case identification, screening, analysis, selection, creation, and reporting**

Externalized rules allow the user to manage the inventory and keep the volume of cases at a level that can be worked by the audit staff.

- Improved Program Management
  - **Management of selection thresholds based on predicted resource availability**
  - **Current year case analysis capabilities to identify new areas of fraud with immediate implementation.**
  - **Externalized business rules provide greater flexibility in modifying existing edits and creating new ones**
  - **Post-year analysis of system edits to improve business rules, identify new areas for case review, and enhance the predictive model**

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Users now have the ability to implement business logic from existing compliance methods as well as "discover" new deviant patterns

- **Advanced analytics takes detection to the next level**

  - **Augments return data with comprehensive indicators and scores to be used in rules engine**

  - **Utilizes predictive modeling to discover patterns in historical data for application to current returns**

  - **Utilizes profile modeling to identify new patterns and relationships in current returns**

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CISS incorporates a web based information portal to support the return screening, audit resolution, and customer service processes.

- Improved user application for screening and auditing cases
  - **Enhanced System Screens**
    - **Placing Needed Case Information In One Spot**
    - **Quick Access To Other System Screens**
    - **Reduced Clerical Support time**

  - **Automation Of Screening And Case Closing Functions**

  - **Improved Taxpayer Correspondence**
    - **Taxpayer Inquiry Letters Now Target The Specific Audit Issues**
    - **Utilized By Call Center For Refund Status Inquiries**

An Example of a Case on an Auditor's Worklist
To begin review process auditor would click on "Review" button

DB01MEF/ALBWSUAT11/10.67.102.124 GUIDE - New York State Department of Taxation and Finance - Microsoft Internet Explorer

CISS Build: 2.1.9

GUIDE

Current Org Unit:
BAD

Org Unit Select
OICS
CM Image Viewer
CISS
  Search
  Worklist
  Retrieve Case
  Reply Received
  Reset Menu
02/18/05 10:25:53

Retrieve/Work Case - Search for Return

Search Type: FRN

Search Input: 13777311

Search   Clear

Action	TP Name	SSN	Tax Year	Return Type	FRN	Status	Run Date	Address
Review	EXAMPLE-ANN	110-44-1040	2003	IT-201	13777311	Awaiting Screening	07/23/2004	190 25-WOODHALL AVE 3G HOLLIS NY 11423

Start | Applications | Marie Fariel... | Microsoft E... | InfoMaker -... | IBM WebSp... | http://albw... | DB01MEF/... | Microsoft P... | 10:25 AM

Summary screen shows case scored 806 in the withholding category. Note key identifiers shows T/P not found on previous RP file and prime T/P filed another return this year.

DB01MEF/ALBWSUAT11/10.67.102.124 GUIDE - New York State Department of Taxation and Finance - Microsoft Internet Explorer

CISS Build: 2.1.9

GUIDE

FRN: 13777311   Tax Year: 2003   TP SSN: 110-44-1040   Spouse SSN:
Name(s): EXAMPLE-ANN

| No Audit Action | Select for Audit |
| Deny Refund | Unable to Work |

Current Org Unit: BAD

| Summary | Rule Results | Results | Return Filed: 07/07/2005   Earliest Exp: 01/01/2054   Status: Awaiting Screening

Org Unit Select
OICS
CM Image Viewer
CISS
  Search
  Worklist
Retrieve Case
Reply Received
Reset Menu
02/18/05 10:27:15

Form IT-201 Resident Income Tax Return

General
Federal AGI NY Col:	42120
NY AGI NY Col:	42120
Filing Status:	Head of House
Exemptions:	1
Deductions:	15905
Taxable Income:	25215

Refund / Tax Due
Refund Requested:	1149
Tax Due:	0
Payment with Return:	0

Taxes
NY State:	1210
New York City:	802
Yonkers:	0
Other Taxes:	0
Tax Claimed:	2012

Credits
EIC Requested:	0
DCC Requested:	0
Real Property Tax:	0
STAR Credit:	62
Other Credits:	0

Withholding
NY State:	1962
New York City:	1137
Yonkers:	0
Estimated:	0

Dependent SSN
EIC Dependent 1:
EIC Dependent 2:
DCC Dependent 1:
DCC Dependent 2:

Additional Information
| Preparer SSN/PTN: | 115366230 |
| Preparer EIN: | 0 |

Category Summary
Category	Tax Potential	Score	
EIC DCC Category	0	0	
Withholding Category	0	806	
Itemized Deductions Category	0	0	

Key Taxpayer Indicators
Prime not found on the Previous RP Database
Prime filed another return this year

Audit Maintained Databases
	Bad	Neutral	Good
	☐ Identity Theft	☐ Prev. Bad Addr. - Rev	☐ Previous valid EIC claim
	☐ Quest. Dir. Dep. Acct. - Rev.	☐ Prev. Protester Database	☐ Prev Validated Withldg Claim
	☐ Prev. Denied EIC Claim (EDPM)		
	☐ Prev. Fraud - SSN		

Processing Exceptions
n/a   EIC Dep1 SSN invalid vs SSA tbl
n/a   EIC Dep1 SSN used on other DTF return
n/a   EIC Dep1 age not w/in EIC range per SSN
n/a   EIC Dep1 age not w/in EIC range per TP
n/a   Prime/Spouse SSN matches EIC Dep1 SSN
n/a   EIC Dep2 SSN invalid vs SSA tbl
n/a   EIC Dep2 SSN used on other DTF return
n/a   EIC Dep2 age not w/in EIC range per SSN
n/a   EIC Dep2 age not w/in EIC range per TP
n/a   Prime/Spouse SSN matches EIC Dep2 SSN
n/a   Prime SSN claim EIC invalid vs SSA tbl
n/a   Spouse SSN claim EIC invalid vs SSA tbl
n/a   Investment income yearly limit exceeded
n/a   DCC Dep1 SSN invalid vs SSA tbl
n/a   DCC Dep1 SSN used on other DTF return
n/a   DCC Dep1 age not w/in DCC range per SSN

Rule results screen shows which edits taxpayers return met and by clicking on the rule auditor gets a summary of data about the case.

DB01MEF/ALBWSUAT11/10.67.102.124 GUIDE - New York State Department of Taxation and Finance - Microsoft Internet Explorer

CISS Build: 2.1.9

GUIDE

FRN: 13777311   Tax Year: 2003   TP SSN: 110-44-1040   Spouse SSN:
Name(s): EXAMPLE-ANN

| No Audit Action | Select for Audit |
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Current Org Unit: BAD

| Summary | Rule Results | Results | Return Filed: 07/07/2005   Earliest Exp: 01/01/2054   Status: Awaiting Screening

Org Unit Select
OICS
CM Image Viewer
CISS
  Search
  Worklist
Retrieve Case
Reply Received
Reset Menu
02/18/05 10:27:59

Category Summary
Category	Tax Potential	Score	
EIC DCC Category	0	0	
Withholding Category	0	806	
Itemized Deductions Category	0	0	

Current QRDT Edits
Not Met	Prev. Fraud - SSN
Not Met	Prev. Denied EIC Claim (EDPM)
Not Met	Questionable EIC/DCC Dependent Claim
Not Met	Federal Questionable EIC Claim DB (EDPO)
Not Met	Questionable EIC/DCC - Deceased Dep
Not Met	Prior Yr.CINB and Adjustment Made
Not Met	Questionable Item.Deductions - Reviewed
Not Met	RPTC - Multiple to Same Address
Not Met	RPTC - Nursing Home
Not Met	RPTC - Public Housing
Not Met	RPTC - Match to Fraud DB
Not Met	RPTC - Match to Prisoner DB
Not Met	RPTC - Dupe Filing with 1st One Denied
Not Met	RPTC - Out of State Add Curr + Prior Yr.
Not Met	RPTC - Zip Code Match
Not Met	RPTC - Out of State Add 1st Time Filer
Not Met	RPTC - Yes on Line 5 of IT-214
Not Met	Prisoner DB - Reviewed
Not Met	Prisoner DB - Reviewed
Met	Questionable Taxpayer - Reviewed
Not Met	Questionable Wthldg - Reviewed
Not Met	Questionable Wthldg - Reviewed
Not Met	EDPE (Not in use)
Not Met	Questi. Sch C With EIC/DCC Claim (EDPF)
Not Met	EDPJ1 (Not in use)

Relevant data about the return is displayed: Note wages were found on our withholding system. however this is the second filing for the ID

Rule Details - Microsoft Internet Explorer

Code Description:
Withholding Category

Full Rule Description or Calculation:

Every return is evaluated for a variety of withholding issues based on scores received for various ratios. Returns that score high for each of the following ratios have a high category score for potential fraud. Scored ratios include the Wage Ratio (Wage reporting Wages / NY AGI (less suspicious as it approaches 100%)), Withholding Ratio (Wage Reporting Withholding / TP Claimed Withholding (less suspicious as it approaches 100%)),

Relevant Data:

Wage Reporting System Wages:	42526
Wage Reporting System Withholding Amount:	3213
Total Withheld:	3099
NYS Tax Withheld:	1962
Total tax withheld Yonkers:	0
Total tax withheld NYC:	1137
NYS AGI:	42120
Taxpayer Refund Request:	1149
NYS EIC Claimed:	0
DCC Amount:	0
Withholding Category:	806.818
Withholding Category Potential:	0.000
Withholding Cat Next Best Case Value:	806.818

Close

Results Screen shows that the case is in Process, Once the auditor works the case the results will be posted here. Auditor will click on 'Deny Refund' button to continue

DB01MEF/ALBWSUAT11/10.67.102.124 GUIDE – New York State Department of Taxation and Finance – Microsoft Internet Explorer

CISS Build: 2.1.9

GUIDE

FRN: 13777311   Tax Year: 2003   TP SSN: 110-44-1040   Spouse SSN:
Name(s): EXAMPLE-ANN

No Audit Action	Select for Audit
Deny Refund	Unable to Work

Current Org Unit: BAD

Summary | Rule Results | **Results**   Return Filed: **07/07/2005**   Earliest Exp: **01/01/2054**   Status: **Awaiting Screening**

Org Unit Select
OICS
CM Image Viewer
CISS
 Search
 Worklist
Retrieve Case
Reply Received
Reset Menu
02/18/05 10:29:22

Form IT-201 Resident Income Tax Return

General
Federal AGI NY Col:	42120
NY AGI NY Col:	42120
Filing Status:	Head of House
Exemptions:	1
Deductions:	15905
Taxable Income:	25215

Refund / Tax Due
Refund Requested:	1149
Tax Due:	0
Payment with Return:	0

Taxes
NY State:	1210
New York City:	802
Yonkers:	0
Other Taxes:	0
Tax Claimed:	2012

Credits
EIC Requested:	0
DCC Requested:	0
Real Property Tax:	0
STAR Credit:	62
Other Credits:	0

Withholding
NY State:	1962
New York City:	1137
Yonkers:	0
Estimated:	0

Dependent SSN
EIC Dependent 1:	
EIC Dependent 2:	
DCC Dependent 1:	
DCC Dependent 2:	

Additional Information
Preparer SSN/PTN:	
Preparer EIN:	0

Screening Results

In Process...

Results should be posted by the Earliest Expiration Date listed above.

Auditor has selected to deny the refund because the W/H was claimed by someone else and has selected to send an auto letter to T/P denying refund

Deny Refund - Microsoft Internet Explorer

Reason to deny refund (Select at least one)

☐ EIC - Income not substantiated
☐ EIC - Dependant(s) not substantiated
☐ EIC - Federal disallowance
☐ DCC - Dependant(s) not substantiated
☐ DCC - Qual expenses not substantiated
☐ DCC - Care provider not substantiated
☑ Withholding - Employer/wages not valid
☐ Itemized Deductions - Casualty Loss
☐ Itemized Deductions - Charitable Contributions
☐ Itemized Deductions - Job Expenses
☐ Itemized Deductions - Medical

Function Code / Letter

Select One

Select One
CODB: DTF-973.51 Wage/Withholding scheme denial
COME : No Automatic Letter IT-210 NYC Star Credit Scheme
COMQ : No Automatic Letter Misc. Questionable Returns
COCA : No Automatic Letter IT-216 Chid Care Credits
CNCU : No Automatic Letter
CNGF : No Automatic Letter IT-214 Previous Real Prop. Fraud

Enter Additional Tax Amount [   ]

OK   Cancel

Auditor is assigning a Scheme number to the case and has entered an additional tax due amount of $1947, a bill will be sent to the T/P

Deny Refund - Microsoft Internet Explorer

Reason to deny refund (Select at least one)

☐ EIC - Income not substantiated
☐ EIC - Dependant(s) not substantiated
☐ EIC - Federal disallowance
☐ DCC - Dependant(s) not substantiated
☐ DCC - Qual expenses not substantiated
☐ DCC - Care provider not substantiated
☑ Withholding - Employer/wages not valid
☐ Itemized Deductions - Casualty Loss
☐ Itemized Deductions - Charitable Contributions
☐ Itemized Deductions - Job Expenses
☐ Itemized Deductions - Medical

Function Code / Letter

CODB: DTF-973.51 Wage/Withholding scheme denial

Scheme (Optional) 115

Comments (Optional)

Test Case - Example of a Deny Refund with Additional Tax Due

Enter Additional Tax Amount 1947

OK   Cancel

New York State Department of Taxation and Finance

The audit division has increased revenue by approximately $31 million from the previous year due to the implementation of CISS

Tax Year	2002	2003
Inquiry Letters Issued	55,776	78,000
Response Rate (%)	41%	35%
Refund Denials (%)	80%	80%
Cases Completed Per Day Per Auditor	8	8
Denied Refunds ($)	$49 Million	$80 Million

New York State Department of Taxation and Finance

CISS provides the capability of adjusting thresholds such as the number of letters to send based on staffing limitations.

Tax Year	2003	2004
Inquiry Letters Expired	27,458	49,966
Potential Denied Refunds ($)	$30.6 Million*	$70 Million **

•These cases were selected into the pool of potential letters to be sent, however were not sent due to the limitations of Audit to handle the additional potential responses

** On the assumption that the Category score were reduced to 500 and the probability of fraud were reduced to .74

New York State Department of Taxation and Finance

Next Steps…..

New York State Department of Taxation and Finance

Build on our success from the previous years.

Future Compliance Initiatives

- ➢ **Enhanced Refund Denial**
  - ● **Filing Status**
  - ● **Demographics Data**
  - ● **Preparer Analysis**
- ➢ **Expansion into other Audit Programs**
  - ● **Non-resident**
  - ● **Tax Shelters**

future?

New York State Department of Taxation and Finance

Develop TACS for the Tax Compliance Division to aid in collection enforcement, risk analysis, and selection of next best collection case

➢ **Understand the make up and complexity of cases**
- **Determine what cases have the highest and lowest probability of being collected.**
- **Determine the most effective and efficient collection path to assign to a case to maximize the chances of collection**

➢ **Streamline current risk assessment processes**

➢ **Enable managers to make smart and timely mission critical business decisions**

New York State Department of Taxation and Finance

Questions?

TACS Data Presentation

Interactive visual data mining is provided by the integration of data visualization into the profile mode and into the report wizard.