

Pennsylvania Dept. of Revenue's Pass Through Business Office



FTA Annual Meeting
June 7, 2004

Presentation Overview

- Background
- Current status
 - _ Pass Through Business (or PTB) Office
 - _ Case Tracking System
- Key features of the system
- Looking ahead

Requirements for Deployment of New Technology

Practical directive from
Commonwealth of Pennsylvania CIO
Art Stephens

New applications must:

- Deliver results
- Be the product of collaboration
- Focus on customer needs

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Program Problem Definition

- Respond to the growing use of pass through entity business forms
- Match and reconcile PTB entity information with owner tax filings
- Use K-1s to identify non-filers and under-reporters for personal income tax and business taxes

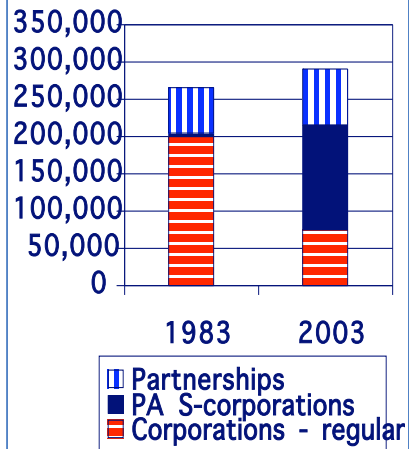
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Pass Through Businesses

- Basic definition _ owners rather than entities are directly taxed (on income)
- Historical milestones
 - _ PA S corporations
 - _ Creation of Limited Liability Companies (LLCs)



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PTB Program Background

- Prior to 2002 _ very limited PTB and owner compliance
 - _ One part-time examiner
 - _ PA S corporation K-1 tracing
- November 2002 _ PTB Office established
 - _ 9 person examination unit filled
 - _ 4 person audit/analysis

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System Problem Definition

- Implement basic case tracking and control **within 3 months** to support the PTB Office roll-out
- Create a fully functional system to support PTB Office activities **within 6 months**

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Solution Overview - Technology

- Integrates the 'new' K-1 process with legacy systems
- Incorporates legacy systems without having to change them (XML and MQSI)
- Frees user to 'tax' _ not remember transactions
- Re-uses proven mainframe legacy system enforcement processes and notices

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Solution Overview _Technology (continued)

- Web-based _ accessible anywhere
- Relies upon mainframe (RACF) and web-based (e-Signature) security
- Developed business model with wide potential application

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Application Development Tools & Environment

- IMS & CICS legacy systems on IBM mainframe
- Web application developed using Visual Basic
- Middleware _ IBM MQSI was used to link web application with legacy systems

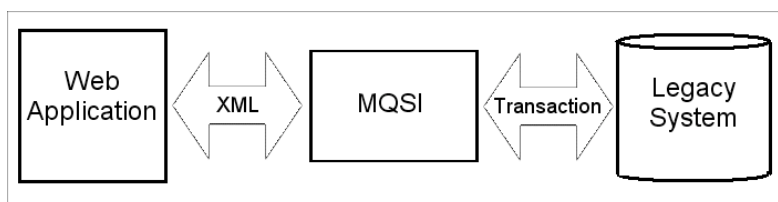
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Integration of Legacy Systems

- Web application collects data and sends it to MQSI in XML format
- MQSI formats transaction and sends it to Legacy System (IMS/CICS)
- Legacy System processes the data and MQSI picks up the response
- MQSI converts the transaction back into XML and it is picked up by the Web Application



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System Overview (Taxation User Perspective)

- Immediate access to tax return images
- Direct links to live legacy systems data (personal income and corporation taxes)
 - _ Review current data
 - _ Update demographic information
 - _ Issue notices and adjust accounts
- Connects related taxpayers

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Demonstrating the Features of the Case Tracking System

- [Case search](#)
- Legacy system transaction
 - [Inquiry](#)
 - [Update/notice](#)
- Adjustment
 - [Using PDF fill-in form](#)
- [Connecting relationships](#)
 - Owned by
 - Owns
- Case history
 - [Audit trail](#)
 - [Correspondence](#)

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Looking Ahead for PTB Compliance Activities

- Build routine refresh/update cycles for each tax year
- Continue to expand links to our business tax legacy systems
- Continue to expand links with other Department business units
- Explore links with other state agencies

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Looking Ahead for PTB Compliance Activities (continued)

- Provide online reference to our complete IRS data repository
 - _ Individual federal Form 1040 data
 - _ Business Form 1065, 1120, 1120S and 1041 data
 - _ Information returns W-2, 1099, and K-1
- Incorporate IRS and other external data in PTB case selection

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The Success Story Results of the PTB Unit

- As of 5/21/04, 6,220 individuals have been assessed for \$16.7 million in personal income tax, with \$4.9 million in collections to date from 4,616 payments/credits applied.
- 750 non-filer notices have been issued to large PA-addressed partnerships
- Approximately 150 non-filer notices are being prepared for corporate partners

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Looking Ahead _ Broader Use of this Business Model

- Routine clerical processes _ e.g, return check processing _ implemented this year
- Combined delinquent case tracking system for personal income tax and business taxes
- Response to new legislative or executive proposals

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