

MINNESOTA • REVENUE

09 - 0178

**Financial Institution Tax
Debtor Data Match:**

Reimbursing Financial Institutions for their expenses

Study and Recommendations

**presented to the Governor
and Legislature of the State of Minnesota**

February 1, 2009

This report was prepared in accordance with the Laws of Minnesota 2008, Chapter 363, article 13, section 14, subdivision 7.

Minnesota Department of Revenue
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St. Paul, Minnesota 55146
651-296-3403
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The estimated cost to prepare this report is \$3,000 and 200 hours.

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February 1, 2009

To the Members of the Legislature of the State of Minnesota:

It is my pleasure to submit to you a report on Financial Institution Tax Debtor Data Match, as required by Minnesota Statutes, Section 13B.07.

The purpose of this report is to provide background information on the Tax Debtor Data Match program, to present findings from data collected from participating financial institutions regarding their expenses incurred, and to make recommendations for future applications of the matching fee administered to compensate the institutions.

This report contains information that can be used to evaluate whether fees paid to financial institutions provide adequate compensation for data-matching expenses incurred, and to determine whether the amount appropriated to the Department of Revenue for administering the data-match program is sufficient to cover costs incurred by the department.

Minnesota Statutes, Section 3.197, specifies that a report to the Legislature must include the cost of its preparation. The approximate cost of preparing this report was \$3,000.

Sincerely,



Ward Einess
Commissioner

Cc: Secretary of State
Chief Clerk of the House
Legislative Reference Library

Financial Institution Tax Debtor Data Match

Introduction	1
Background	2
Data-matching process	2
Data-matching system	2
Data-matching fee	3
Data collection	3
Findings	4
Department of Revenue Expenses	6
Recommendations	7
Appendices	8
Appendix A - Sample Financial Institution Data Match Agreement	8

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State law requires the Minnesota Department of Revenue (hereafter referred to as “the department”) and financial institutions in the state to work together to identify accounts of delinquent tax debtors. The goal of Tax Debtor Data Match is to increase tax compliance by collecting delinquent tax debt.

In 2008, The Minnesota Legislature enacted the legislation necessary to implement Tax Debtor Data Match. This legislation introduced a quarterly fee that financial institutions could charge and collect from the state for costs incurred while conducting data matches for Tax Debtor Data Match. It also required the department, along with an advisory committee representing financial institutions, to evaluate the reasonableness of the fee and to submit a report to the legislature by February 1, 2009:

M.S. 13B.07 Tax Debtor Data Matches.

Subd.7. [fees] A financial institution may charge and collect a fee from the commissioner for providing account information to the commissioner. The commissioner may pay a financial institution up to \$150 each quarter. The commissioner shall develop procedures for financial institutions to charge and collect the fee. Payment of the fee is limited by the amount of the appropriation for this purpose. If the appropriation is insufficient, or if fund availability in the fourth quarter would allow payments for actual costs in excess of \$150, the commissioner shall prorate the available funds among the financial institutions that have submitted a claim for the fee. No financial institution shall charge or collect a fee that exceeds its actual costs of complying with this section. The commissioner, together with an advisory group consisting of representatives of the financial institutions in the state, shall evaluate whether the fees paid to financial institutions compensate them for their actual costs, including start-up costs, of complying with this section, and shall evaluate whether the amount appropriated to the commissioner for the costs of administering the data match system compensates the commissioner for the costs incurred by the department. The advisory group shall submit a report to the legislature by February 1, 2009, with a recommendation for retaining or modifying the fee.

This report provides background information on Tax Debtor Data Match and the quarterly matching fee, presents findings from data collected from financial institutions regarding their costs, and makes recommendations for future application of the fee.

Background

Tax Debtor Data Match is similar to the Financial Institution Data Match (FIDM) authorized by Minnesota legislation in 2000 and 2001 for the collection of child support.

In 2008, Minnesota Legislature adopted legislation necessary for implementing Tax Debtor Data Match. Minnesota Statute §13B.07 defines the process for identifying cases eligible for Tax Debtor Data Matches and for reimbursing financial institutions for their costs.

Data-matching Process

Financial institutions are required to conduct data matches with the department on a quarterly basis. They may choose from two methods of data-matching:

- Matched Accounts Method: The department electronically sends a file of eligible obligors to the financial institutions. The financial institution matches the file against its account records, and submits any matched account information to the department.
- All Accounts Method: The financial institution electronically sends a file of all account holders to the department. The department matches the file against its record of eligible obligors to identify any matched accounts.

In both matching processes, all unmatched account information is deleted and/or destroyed following completion of the match process. Unmatched account information may not be retained, published, or in any way made available to the public. Access to all data collected is governed by the Minnesota Data Practices Act.

If account assets of delinquent tax debtors are identified through the matching process, they may be levied and applied to the delinquent tax debt. Currently, the department conducts bank levies with financial institutions where bank assets have been identified. The levy process used by the department for many years is the same process used for a bank asset identified through the Tax Debtor Data Matches.

Financial institutions are expected to incur some on-going expenses for facilitating the data-matching process. To assist them in recovering these costs, the Minnesota Legislature approved a fee that financial institutions can collect from the state.

Data-matching System

Minnesota Statute 13B.07 requires that - “the commissioner, in consultation with representatives from the financial institutions, shall develop an implementation and administration plan for the data-match system that attempts to minimize financial burdens on financial institutions for start-up and compliance costs and will take into consideration the financial institutions’ existing data match system.”

The department met with several members of the financial industry, who requested that the department explore the possibility of implementing the same data-matching system used by the Department of Human Services to collect child support. The department expanded upon this request by making an offer of partnership to the Department of Human Services to create one matching process for both departments.

The Department of Human Services agreed to the partnership, and one unified financial institution data-matching process was implemented. This enabled institutions currently conducting financial institution data-matching with Human Services to use their existing process to compare records with the Department of Revenue.

Utilizing this process met much of the need of the financial institutions. However, several multi-state banks reported using the federal child support process to conduct their matching for child support. These multi-state banks had to adopt an additional process for conducting the matching process for Minnesota tax debtors. Fortunately, the department was able to adapt the process for these multi-state banks to make it more user-friendly for them.

Data-matching Fee

The fee proposed and approved by the legislature was identical to the fee for the Department of Human Services' Financial Institution Data Match program (FIDM). The same fee structure was proposed after considering the following information:

- Review of actual fee reimbursement requests and pay outs to financial institutions under the FIDM program.
- Review of the FIDM legislative report completed in 2002 by the Department of Human Services.

Based on this information, the department chose to implement this program with similar costs for the financial institutions. The fee is a flat quarterly rate of \$150 per institution. Financial institutions may charge and collect up to that amount from the state, not to exceed their actual costs. Financial institutions must enter a signed agreement with the department indicating intent to cooperate with the requirements of Tax Debtor Data Matches as outlined in state law. An invoice documenting the quarterly data-matching costs must be submitted for reimbursement within 15 days of the end of each calendar quarter.

Payment of the fee is limited by the amount of the allocation for this purpose (\$250,000). If this allocation is insufficient, or if the fund availability in the fourth quarter is sufficient to allow payments for actual costs in excess of \$150 per quarter, the department will prorate the available funds among the financial institutions that have submitted a claim for the fee.

Data Collection

To evaluate whether the financial institutions are being adequately compensated for their data-matching costs, the department asked each participating institution to complete a Legislative Report form, requesting information regarding start-up and recurring expenditures incurred. This form is attached in Appendix A.

Legislative Report forms have been collected for costs incurred from October 2008 through December 2008. Reported costs are summarized in the following section. Some of the financial institutions may have estimated their costs or utilized their existing costs for matching with the Department of Human Services because the Tax Debtor Matching legislation was just starting at the time this report was completed. Survey results and invoiced and reimbursed costs cannot be compared at this time, as no actual invoices have been submitted to the department by the financial institutions.

Findings

As of January 27, 2009, financial institutions had completed and returned 273 surveys. The responses are broken down into four categories:

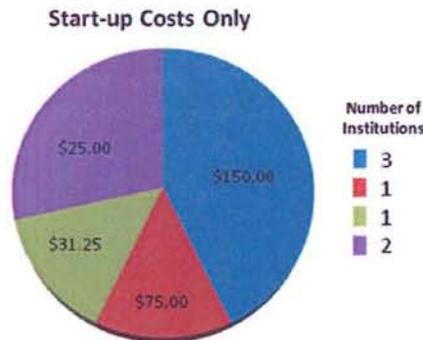
- No additional costs.
- Start-up costs only.
- Data match/extracting costs only.
- Start-up costs and data match/extracting costs.

No Additional Costs:

48 financial institutions reported having incurred no additional costs. Comments indicated that the institutions already had the software and programs in place for child support, and thus did not need to incur any additional costs.

Start-up Costs Only:

7 financial institutions reported incurring start-up costs only. Comments indicated that the costs were incurred for labor used for set up. Start-up costs ranged from \$25 to \$150.



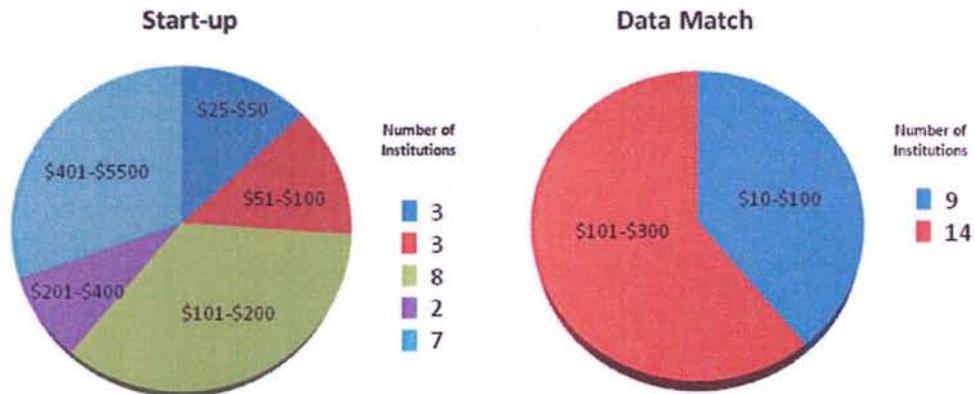
Data Match/Extracting Costs Only:

195 financial institutions reported incurring quarterly data match/extracting costs only. There were no additional comments indicating the reason for having these costs only. One assumption can be made that these institutions were already performing this task for the Department of Human Services, and thus did not need to incur any start-up costs. Reported data-match/extracting costs ranged from .59 to \$300. There were several respondents who indicated that they were receiving payments from the Department of Human Services.



Start-up Costs and Data-matching/Extracting Costs:

23 financial institutions reported incurring both start-up and quarterly data-match/extracting costs. There were no additional comments indicating a reason why both costs were incurred. Some of the surveys in this category were submitted by multi-state financial institutions who are not currently working with the Department of Human Services to submit child support. As a result, these institutions incurred greater start-up costs. Start-up costs ranged from \$25 to \$5500. Data-match/extract costs ranged from \$10 to \$300. There were several respondents who stated that they were receiving payments from the Department of Human Services for their data-matching/extracting costs.



Ongoing Expenses for Computer Processing and Labor

Financial institutions reported a total of \$72,582.92 annually for ongoing expenses. This number may vary depending upon the actual number of invoices received.

Invoices Paid Compared to Expenses Reported

The legislation was enacted on January 1, 2009. Financial institutions have been given until March to conduct their first matches and submit their invoices. As of the date of this study, the department has not received any invoices. It is anticipated that the actual number of invoices submitted in the future may be a lesser amount, as most financial institutions will be combining processes for both the Department of Human Services and for the department into one unified process.

Department of Revenue Expenses

The department was given two appropriations to manage this legislation. One appropriation was in the amount of \$250,000 and was dedicated to paying the fees to financial institutions. The second appropriation was in the amount of \$110,000 and was to be used for staffing expenses associated with managing the program.

We believe that we have successfully met the needs of the financial institutions. However, as a result, additional expenses have been incurred by the department. We contracted with the same vendor used by the Department of Human Services, and incurred one-time fees of \$153,000 for necessary system changes to allow for the use of one Web portal for both the Department of Human Services and the Department of Revenue.

In addition, the vendor charges fees based upon the number of financial institutions enrolled in the data-match process. The department has identified an estimated 800 possible financial institutions to be enrolled. This fee is charged on a quarterly basis and increases slightly over the course of four years.

Fees for the next three years are estimated at:

- Year one = \$115,200
- Year two = \$121,600
- Year three = \$128,000

Recommendations

Based on the analysis, the department, in consultation with our advisory group of financial institution representatives, makes the following recommendations for the data-matching fee:

- Maintain the current \$150 matching fee. The amount allowed for reimbursement under Minn. Stat. 13B.07 is adequate to cover the invoiced ongoing expenses which financial institutions will incur to conduct the matching process.
- Allow the department to use some of these funds to offset the additional costs of the vendor that are not covered by the \$110,000 appropriation.
- If necessary, the department will review invoiced fee amounts and propose modifications to the fee or funding.

Appendices

8. Appendix A - Financial Institution Data Match Agreement

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Name of F.I.
Address 1
Address
City, State Zip

Date Submitted: _____

Quarter Ended: _____

The quarter start-up costs were incurred: _____

**INFORMATION FOR
2009 LEGISLATIVE REPORT**

Minnesota Department of Revenue

FINANCIAL INSTITUTION DATA MATCH AGREEMENT

The Department of Revenue is required to submit a report to the Minnesota Legislature regarding the adequacy of the funds available for compensating financial institutions for the actual costs of performing tax debtor data matches. (See 2008 Minnesota Statutes 13B.07 Subd. 7) The data you provide will assist the Department in preparing the report.

1. Start-Up Costs: If you incurred start-up costs in this quarter, please detail them here.

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
Total Start-up Costs	\$ _____

2. Data Matching/Extract Costs:

a. Labor time to process match/extract	_____ (hour/minutes)
b. Hourly labor rate, including fringe benefits	\$ _____
Total labor cost to process match/extract	\$ _____
c. Computer processing costs	\$ _____
d. Postage, mailing, and other supplies	\$ _____
Total computer and supplies cost	\$ _____

Upon completion, please send this document to:
MDOR FIDM Invoice Clerk
Minnesota Department of Revenue
P.O. Box 64447
St. Paul, MN 55164