



State of California Franchise Tax Board

Business Problem Analysis

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State of California
Franchise Tax Board



Executive Summary

The purpose of the California Franchise Tax Board (FTB) is to collect the proper amount of tax revenue at the least cost; serve the public by continually improving the quality of products and services; and achieve and maintain the highest degree of public confidence in FTB's integrity, efficiency and fairness. Achieving these goals lowers the burdensome process of paying taxes allowing California business and taxpayers to prosper.

Each year, FTB processes more than 15 million State personal and corporate income tax returns. Combined, these tax programs annually collect more than \$60 billion and comprise 64 percent of the California's general fund. To achieve these results, FTB utilizes proven filing, audit, collections, and investigations programs to collect the proper amount of tax.

In spite of FTB's efforts, estimates say State taxpayers still owe \$6.5 billion each year more in taxes than they pay. To target this gap, the FTB successfully completed the Business Problem Analysis (BPA) Project that developed an Enterprise Strategic Plan as the cornerstone of FTB's fifteen year Tax Systems Modernization initiative. The goal of the BPA effort was to deliver breakthrough performance by identifying enterprise-wide initiatives across FTB's core programs of Returns Filing and Validation, Audit, Collections, and Filing Enforcement. The BPA had three key findings:

- FTB is constrained by silo'd business operations. Eliminating these silos would make government operations more efficient and provide better services to California businesses and taxpayers. Six enterprise integration opportunities were identified that would increase revenue, reduce cost, and improve customer service: Data Management, Modeling, Workflow and Case Management, Taxpayer Folder, Common Services, and Business Process Reengineering.
- The financial benefits to the State of FTB implementing enterprise solutions are significant – estimated to range from \$20 to over \$120 million annually in increased revenue due to a higher level of compliance. Additionally, BPA initiatives will improve customer service, increase transparency, achieve operational excellence, and protect taxpayer information and privacy. These opportunities would not have been identified without the BPA.
- BPA opportunities require the implementation of innovative technology, business processes, organization structures, and management practices.

BPA gives FTB an opportunity to employ business solutions that make government more efficient, and lessen the burden of filing taxes for California taxpayers and businesses.



Description

There is an old adage that all comedy is based in tragedy. Whether or not that adage is specifically true is open for debate, but if we assume for a moment it is, it would certainly explain why some of history's great senses of humor – Will Rogers, Benjamin Franklin, Albert Einstein, Mark Twain – all have joked about taxes. We all remember the first time we picked up a W-2 form – that strange sense of pride and pain that coursed through us as we stood on the precipice of adulthood and dove, head-first into the first year of many as a taxpayer. It's an experience as universal and important as the first day of school. And, in California, when it comes to administering this process that is equal parts necessity and pain, roughly 64 percent of it is done by the Franchise Tax Board (FTB).

Each year, FTB processes more than 15 million state and corporate income tax returns. Combined, these tax programs collect \$60 billion annually. FTB is in the business of collecting revenues. To ensure that the maximum amount of revenue is collected, FTB has to make sure its tax collecting is done in a fair and equitable way that expends the least amount of money. So when FTB can find ways to improve services and reduce costs, it is imperative to pursue these modes.

Even with these goals in mind, FTB estimates that each year, nearly \$6.5 billion go unpaid in taxes. This represents a number of problems for a number of stakeholders, specifically California's businesses. \$6.5 billion unpaid every year means there is a tremendous amount of inefficiencies in the tax system. Paying taxes every year is a necessary but burdensome process, and finding ways to make the process more equitable and easier lessens the cost of doing business in California. So when efficiencies in FTB go unrealized, it means the burden of doing business is inflated beyond necessary levels.

To improve government operations and better the transaction between a business and the FTB, it is imperative for the FTB to find more efficient ways to advance department-wide goals of improving efficiency, increasing tax code compliance, and making government-to-business services more accessible. Unfortunately, in FTB's IT department, there was no process to identify enterprise-wide opportunities and align solutions that would meet these department-wide goals. FTB needed an analysis of business problems in order to realize operational efficiencies and better the delivery of services from the FTB to California's businesses and taxpayers.

Business Solution

To target the gap between taxes owed and taxes paid and to increase FTB's level of service to California's businesses, the FTB successfully completed the Business Problem Analysis (BPA) Project. This project developed an Enterprise Strategic Plan to serve as the cornerstone of FTB's 15-year Tax Systems Modernization initiative. The goal of the BPA project was to deliver breakthrough performance by identifying potential enterprise-wide efficiencies across FTB's core programs of Returns Filing and Validation, Audit, Collections, and Filing Enforcement.



The BPA project success required that it be business-driven with the active involvement of staff from all of FTB’s core programs. Additionally, FTB recognized that breakthrough improvements could only be achieved if the identified initiatives were strategically planned, with Business and Technology aligned. Each BPA opportunity provides direct value to both the individual program and the enterprise as a whole and supports the state’s technology direction. Figure 1 below shows the enterprise scope of the BPA program-specific opportunities. Each enterprise opportunity (the columns on the figure) supports all FTB programs (the rows on the figure) and vice versa. This approach also provides an incremental build-out of each enterprise initiative, reducing overall implementation risk.

Figure 1: BPA Program Opportunities Are Enterprise in Scope

Enterprise Opps. Program	Enterprise Modeling	Case Mgmt. & Workflow	Enterprise Data Mgmt.	Taxpayer Folder	Common Functions	Process Re-eng.
Collections	✓	✓	• New Data Sources • Data Exchange	✓	• Modeling (existing) • Liens, Levies, etc. • Locate/Address • Noticing	✓
Returns Filing & Validation	✓	✓	• Tax Forms • New Data Sources	✓	• Content Mgmt. • Tax Calculation • Noticing	✓
Filing Enforcement	✓	✓	• 3 rd Party Data Mgmt. • Data Exchange	✓	• Locate/Address • Outbound Comm. • Noticing • Tax Calculation	✓
Audit	✓	✓	• New Data Sources	✓	• Locate/Address • Noticing • Tax Calculation • E-services	✓

The BPA project, completed November 2007, was conducted in three phases: (1) Visioning, (2) Tax Business Opportunity, and (3) Enterprise Integration. The one-month Visioning phase validated and approved FTB’s Enterprise Business vision and identified tax opportunities for further analysis. The four-month Tax Business Opportunity phase identified and analyzed program-specific opportunities. Teams of subject-matter experts, supported by data and technical architects reviewed strategic business problems to identify improvement opportunities for Filing, Audit, Filing Enforcement, and Collections. This analysis documented the current business, technical, and organizational environments and created new business models, data and technical architectures, and organizational models for each opportunity.

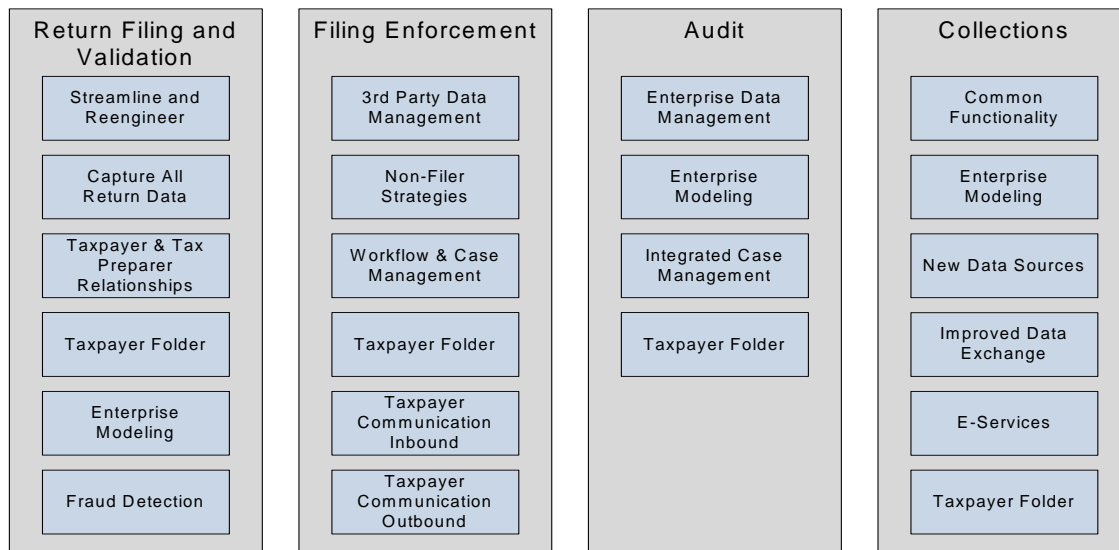
The Enterprise Integration phase maximized enterprise benefits by integrating program-specific opportunities. A key finding of the BPA project is that all program-specific opportunities are enterprise in scope. FTB recognized that the maximum benefits are achieved when program business opportunities are implemented across program boundaries. Enterprise integration opportunities build upon core program opportunities and work together to form a complete enterprise solution. As shown in Figure 1 above, six enterprise integration opportunities were identified by the BPA Team:



- Enterprise Data Management – provides FTB with the ability to consistently define, integrate, and retrieve enterprise data including all return data, internal FTB data, and third party data
- Enterprise Modeling – identifies non-compliance taxpayers and businesses to pursue resulting in increased compliance. Enterprise Modeling is optimally used when dynamically interacting with enterprise data and enterprise workflows
- Enterprise Workflow and Case Management – includes the opportunity to implement an enterprise-level inventory management system, helping FTB manage workloads through multiple programs and track the process of taking taxpayers from the identification of a tax debt to full collection
- Taxpayer Folder – displays enterprise information, modeling results, and case activities for a single business or taxpayer with user tools and customer self-services
- Enterprise Common Services – provides shared business functions (e.g., locate, address, noticing, tax calculations) that provide business value across the FTB enterprise. These services are available to all program functions without regards to organizational structure
- Enterprise Business Process Reengineering – reengineers key program business processes in order to maximize efficiencies and value to the entire FTB organization

Significance of FTB BPA

The BPA project is the first phase of FTB’s 15-year plan to align the Enterprise Business and Technology visions and modernize its tax systems. Without the best practices of problem analysis inherent in BPA the FTB would not be able to implement and own technology initiatives that improved its overall functions and processes. It provides the focus and roadmap on where the FTB needs to change from the perspective of business processes, technology, and organization in order to make tax collecting in California more efficient. The project identified specific opportunities for improving providing California businesses, taxpayers, tax preparers, and third party providers the tools and information they need to better meet their tax obligation. In total, 22 opportunities were identified in the BPA project as shown in Figure 2 below. *Figure 2: Detailed BPA Opportunities by Program Area*



FTB is currently analyzing each of these opportunities to identify the optimal implementation strategy – including the scope and priority of IT projects – to maximize success while mitigating risks. This analysis will be documented in subsequent Feasibility Study Reports and Budget Change Proposals.

The BPA project describes the future vision of how businesses and taxpayers interact with FTB’s internal processes, organization, and technology components, and how those internal processes, organization, and technology components support the customer and meet the FTB’s standards. Integration of business processes, organization structure, and technology is required to maximize performance improvements and minimize the burden of paying taxes for businesses.

The BPA project identifies enterprise processes that must be reengineered within FTB and throughout its programs. Successful implementation of each of the enterprise opportunities requires current business processes and practices to be analyzed, reengineered, and improved. The capabilities of technology must be included in this analysis. For example, it is not possible to reengineer Return Processing without considering Optical Character Recognition (OCR) and Intelligent Character Recognition (ICR) technology, image inspection, and the use of enterprise services such as automated workflow and modeling. The complications of using innovative and cutting edge technologies to improve government operations are reasons why FTB must have a formal analysis process in order to recognize efficiencies. Without the BPA’s formal analysis process, FTB could not use technology to better the services it provides taxpayers and taxpaying businesses.

Appropriate alignment of organization, including governance of enterprise functions, must also be established to manage the strategic improvements. Subsequent Tax Systems Modernization analysis must be made from an enterprise perspective to establish an integrated set of requirements across people, process, and technology. Only in this way



will FTB fulfill its goal of making tax paying less burdensome and better the business climate in California.

Public Benefit of FTB BPA

FTB analysis of the BPA findings, including current and future enterprise-wide business processes, identified additional annual collections ranging from \$20 million to more than \$120 million. These specific financial benefits result from the opportunity identification of the BPA project. Without BPA, these tangible fiscal incomes would not have been realized. These benefits are qualitatively summarized in Figure 3 below.

Figure 3: Opportunity Benefit Summary

Enterprise Opps. Program	Enterprise Modeling (w/Case Management & Workflow)	Enterprise Data Management & Common Functions	Taxpayer Folder
Collections	Improved Collection Strategies	New Data Sources Common Functions	Efficiency (research time)
Return Filing & Validation	Improved Fraud Detection and Complex Validation	Timely/Additional Data Process Re-engineering	Efficiency/Effectiveness (processing/refund time)
Filing Enforcement	New Enforcement Strategies	Improved Data Quality and Timeliness	Efficiency/Effectiveness (collections for cases on hold/under review)
Audit	Model Integration Enterprise Strategies	Data Availability, Timeliness and Quality	Efficient/Effectiveness (audit research time)

Administering taxes in California is difficult. California has the seventh largest economy in the world, which means there are a lot of businesses and taxpayers to collect from. Lowering the burden of paying taxes ensures that the businesses that make California great will continue to prosper. The possibilities identified in FTB’s BPA – improved modeling and case management, better use of internal and third party data, and access to a comprehensive taxpayer folder – will narrow the \$6.5 billion tax gap, increase filing compliance, generate sizable benefits, and modernize FTB’s tax systems – lessening the burden of doing business in California. The specific beneficiaries of the BPA project are:

- Californian’s businesses that rely on government services and infrastructure
- 14 million taxpayers who annually file personal income tax returns and expect fair and equitable tax treatment and service
- 1 million corporations and businesses that annually file tax returns and expect fair and equitable tax treatment and service
- Tax preparers
- Third Party Data Providers (e.g., Banks, Financial Institutions)
- FTB Executives, Management, and Staff.

The BPA project was a transferable process that provides FTB with the roadmap to move from a program-centric organization to an enterprise-wide organization focusing on delivering better services to businesses and taxpayers. The BPA project identified opportunities to improve the business processes, technologies, and organization of the FTB in order to more effectively and efficiently serve its constituents, particularly California’s businesses.