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2003 NASCIO Recognition Award Nomination

VATAX Online for Businesses- Executive Summary

THE VIRGINIA DEPARTMENT OF TAXATION

The Virginia Department of Taxation (TAX) has developed a series of Internet applications designed to offer the convenience and speed of electronic services to its business taxpayers. These Internet applications collectively referred to as VATAX Online, represent the most complete suite of electronic services provided by any revenue agency. In the three years since the first release in March of 2000, VATAX Online accounts for more than 50% of all new business registrations and has collected more than $ 430 million in business tax payments. Because of the ability of these applications to provide fast and error-free electronic services, and their early adoption and acceptance by the public, VATAX Online is an excellent example of Virginia's focus on e-government services.

In an unprecedented intergovernmental project, Virginia became the first state to offer integrated online tax services for state employment taxes. Now businesses can file and pay unemployment insurance taxes at the same time as they file and pay their taxes with TAX. This intra-government cooperation provides taxpayers with "one stop shopping" when it comes to paying business taxes in Virginia, even though the taxes are actually administered by two separate agencies.

VATAX Online for Businesses provides unprecedented flexibility and access to account information for business customers. A new business in Virginia can now register, file their returns, pay their taxes, and get assistance with account-related problems without filling out a single form or ever speaking to a Customer Service Representative. A core VATAX Online application is iFile for Businesses. The application allows taxpayers to file sales, use, withholding, and unemployment insurance taxes over the Internet. It also allows taxpayers to view the past twelve months of account history on-line, regardless whether the previous returns were filed on paper or through iFile. The history viewed by the taxpayer is not just the return information as it was submitted, but rather the current status of their account, including any adjustments made by TAX after it was received. Taxpayers can easily confirm which returns have been filed and payments made as well as specific information about those filings all online and without the need to call or write the Department. This level of account access was the first of its kind in the nation, and is consistent with the vision of providing a complete self-service channel for taxpayers.

Each Internet filing application performs all relevant mathematical calculations and edit checks to help ensure that each user submits a return that is nearly 'error free' and complete, minimizing any chance that returns will be subject to manual error resolution/correction and subsequent follow-up with the user. Each application also supports delayed payments, a feature that allows the return to be filed at any time during the relevant filing period, while payment is delayed for execution on the due date of the return. iFile's Q&A format, along with edits within the system, does not allow the taxpayer to make common mistakes and prompts the taxpayer for all additional information needed to complete the filing properly. Information about particular line items is available via icons embedded in the application. Automated mathematical calculations eliminate math errors as well. A lower error rate translates directly into faster and more efficient processing.

TAX's key objective was to create a dynamic environment for taxpayers to easily understand tax requirements and to file and pay in a timely, efficient, and convenient manner. Taxpayers benefit from gaining access to new services, while the Department of Taxation dramatically improved its operational effectiveness. "Placing the customer first in everything we do" is the underlying theme in the projects TAX is undertaking now and in the future.

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VATAX ONLINE FOR BUSINESSES PROJECT DESCRIPTION

VATAX Online for Businesses provides an online experience tailored to the needs of a business taxpayer. As part of TAX's vision to offer self-service options for taxpayers, and to make government more accessible to its citizens, TAX offers the most complete access to electronic tax services and information anywhere in the country.

The iReg for Business application, released in April 2001, allows new businesses to register online and allows existing businesses to add business locations, consolidate filings, and eventually to update address and contact information. It simplifies the registration process by reducing a complex registration form of several pages to a simple interactive paperless process.

In July 2001, TAX entered into an agreement with the Virginia Employment Commission (VEC) to expand online services and allow businesses to register for unemployment insurance taxes at the same time they register with TAX. This allows taxpayers to register for several taxes with two different state agencies simultaneously, eliminating a significant amount of redundant work and maintenance for the taxpayer.

At the end of an iReg session, new businesses are fully equipped to perform all their tax filing obligations. The iReg application assigns new account numbers, provides instructions on filing returns, and enables the business owner to print the required sales tax registration certificates for display at business locations. Any business that registers online is automatically eligible to file online and is encouraged to conduct all of their business with TAX online. Some other important features include a Q & A format that assists customers in completing items new businesses sometimes find confusing, such as which taxes they are liable for. It also uses an automated locality finder based on their ZIP code to suggest the correct locality that a business is located in. The final section of iReg is called "Next Steps" and features information and links to other agencies and organizations a new business may need. Since becoming available for public use it has exceeded TAX's expectations by capturing over 28,000 new business registrations.

A core VATAX Online application for Businesses taxpayers is iFile. First piloted in March 2000, the iFile for Business application allows taxpayers to file sales, use, withholding, and unemployment insurance taxes over the Internet. It also allows taxpayers to view the past twelve months of account history on-line, regardless of whether the previous returns were filed on paper or through iFile. The history viewed by the taxpayer is not just the return information as it was submitted, but rather the current status of their account, including any adjustments made by TAX after it was received. Taxpayers can easily confirm which returns have been filed and payments made as well as specific information about those filings all online and without the need to call or write the Department. This level of account access was the first of its kind in the nation, and is consistent with the vision of providing a complete self-service channel for taxpayers.

The iFile for Business application is integrated with the Virginia Employment Commission to allow businesses to file and pay unemployment insurance taxes at the same time as they file and pay their taxes with TAX. Fifteen quarters of Unemployment Tax history filed with the Virginia Employment Commission are available online for easy review by the taxpayer.

VATAX Online payments are made via Electronic Funds Transfer (EFT). The customer has the flexibility to determine the dollar amount of the payment, the date of the payment and the bank account that will be drafted. TAX does not charge a fee for using EFT as the method of payment. Payment Warehousing allows the taxpayer to file the return before the filing due date but arrange for payment to be withheld until the final deadline for filing.

Businesses can also request an extension of time to file their Corporate Income taxes online and make estimated payments for Corporate Income tax online. As with other VATAX Online applications, payments are made via Electronic Funds Transfer (EFT), and Payment Warehousing is available. This service provides businesses with the assurance that their request for an extension was received and is valid. Businesses can take advantage of the ability to warehouse payments and make a full year of payment without ever having to write a check.

Web Payments is the newest online service added to the VATAX Online suite. The Web Payment functionality allows businesses to make payments through VATAX Online via EFT. Customers log on to their Home Page and simply enter the bill number, payment amount and their bank and account information, and transmit the payment in a matter of seconds.

Historically, TAX has been unable to utilize conventional email to answer confidential tax account inquiries because traditional email is not secure. The January 2002 release of VATAX Online's Secure Message Center significantly changed the way customers communicate with TAX. Customers now have the ability to request and receive tax information electronically. Customers who want to contact TAX are directed to the Secure Message Center on the Contact pages of the TAX Web site. All contacts to TAX from iFile are automatically processed through the Secure Message Center. This is a significant improvement to the delivery of Customer Service and a tremendous opportunity to move customers to the Internet for all transactions with TAX.

At the Secure Message Center, the messages from and to customers are encrypted using the highest level of commercially available encryption. For this reason, secure messages are the only electronic means used to communicate confidential tax information with customers. Messages are simple to create and can be linked to prior messages or can be independent of previous messages. Customers also have access to a twelve-month history of their communications with TAX.

VATAX Online also includes the Tax Policy Library, a database of public documents that provides unprecedented access to Virginia tax policy information to the citizens of the Commonwealth. Developed with the assistance of Commerce Clearing House, Inc. (CCH), this searchable database includes not only the tax sections of the Code of Virginia, but the Virginia Tax Administrative Code, Rulings of the Tax Commissioner, Tax Bulletins, Attorney General Opinions, and Legislative Summaries. The library contains documents, particularly Rulings of the Commissioner, which historically were not readily accessible to the public. The Policy Library became available to the public late January 2001, and has received over 427,000 requests for documents. Its electronic library now contains all documents as far back as 1985.

VATAX ONLINE STRATEGY FOR IMPROVING THE OPERATION OF GOVERNMENT

VATAX Online promotes new and innovative services that reduce the burden of filing taxes while increasing transparency in state government. A primary focus of the VATAX Online is to provide operational efficiencies within the agency, as well as to provide our customers with

new tools that enhance the tax filing experience and change the way they manage their relationship with their government.

The Department's strategy to move customers to electronic channels for all interactions included customer communications. Traditional channels for interacting with customers (mail, telephone, courier services) are slow, inefficient, and potentially insecure. Online interaction is faster, easier, convenient and error-free for the customer, while improving our processing efficiency and enabling a level of responsiveness to our customer's needs that was unattainable in the past.

This Secure Message Center was developed to improve citizen access to agency services, improve efficiency at TAX, and reduce the time it takes to respond to a customer's inquiry. TAX receives over 125,000 letters from customers each year. Paper correspondence has traditionally been a favored channel for problem resolution, as it provides a mechanism for transmitting required supporting documentation from the customer, as well as a means to provide a customer with requested documents like tax forms. Because managing paper correspondence is slow and inefficient, it can take thirty to sixty days to prepare a written response to the customer with normal backlogs.

The Secure Message Center also addresses another problem customer's encounter when contacting TAX by conventional email. TAX receives hundreds of emails from customers every day. Historically, we have been unable to utilize conventional email to answer confidential tax account inquiries because traditional email is not secure. Because account specific inquiries cannot be answered via email, customers were asked to contact the agency by another method, generally by paper correspondence or telephone. In the end, we were requiring online customers to resort to slower traditional communication channels at the very time they needed us to be most responsive – when they had a question or a problem and needed our assistance. Requiring customers to resort to paper to correspond with TAX undermined the effort to move customers online, was contrary to our e-commerce strategy, and was frustrating for our customers.

Clearly, customers who could not consistently communicate with TAX electronically were less likely to remain online customers.   With the implementation of the Secure Message Center, TAX has seen a twenty percent reduction in the volume of traditional mail.

The Internet filing applications perform all relevant mathematical calculations and edit checks to ensure that each user submits a return that is nearly 'error free' and complete, minimizing any chance that returns will be subject to manual error correction and require subsequent follow-up with the user. TAX has seen over a five hundred percent reduction in the historical rate of exception processing for all Internet returns and payments over traditional processing channels. This has allowed TAX to reallocate staff formerly correcting commonplace errors to more complex tasks.

In an unprecedented intergovernmental project, Virginia became the first state to offer integrated online tax services for state employment taxes. TAX entered an agreement with the VEC to jointly develop, maintain and manage a suite of Internet services for the employer community.

As of July 2001, TAX's online business registration service (iReg) was integrated with VEC, enabling businesses to register for VEC taxes at the same time they register with TAX. This allows taxpayers to register for several taxes with two different state agencies simultaneously, eliminating a significant amount of redundant work and maintenance for the taxpayer. The business tax filing and payment application (iFile for Businesses) is also integrated with the Virginia Employment Commission to allow taxpayers to file and pay unemployment insurance taxes at the same time as they file and pay their taxes with TAX.

This intra-government cooperation provides taxpayers with "one stop shopping" when it comes to paying business taxes in Virginia, even though the taxes are actually administered by two separate agencies. In a cooperative environment, TAX and VEC staff worked closely on a daily basis to monitor and administer the growing Internet system.

BENEFITS REALIZED BY BUSINESS TAXPAYERS

Customer satisfaction is very high and for many users VATAX Online becomes their preferred method of doing business with TAX. This acceptance by users is attributed to features that make it easy to use and available 24 hours a day, seven days per week. Available from any Internet connection, customers rely on VATAX Online because it fits into their busy lifestyle. Customers can interact with TAX at their convenience in a safe and secure environment.

TAX has taken a unique approach in the ongoing expansion of online services. Honoring its "Customer First" philosophy, TAX makes extensive use of online surveys and customer usability reviews when planning and designing enhancements to online services. To date, almost two thousand Virginia businesses have provided valuable feedback. The responses to these surveys are reviewed, categorized and prioritized as part of the general software design process.

In designing VATAX Online, TAX made exceptional efforts to ensure that it met customer needs. The screen layout and navigation were carefully constructed to make it as simple, clear and non-redundant as possible. For taxpayers tentative about signing up and logging on to the actual system, sample screens are provided to allow taxpayers to get the "look and feel" before committing to filing online. Additionally, an optional online survey is offered to taxpayers to encourage customer involvement.

All VATAX Online services encourage users to subscribe to the automated email reminder and confirmation notices available. Through these emails, businesses and Individuals are alerted to approaching filing deadlines, receive filing and payment confirmations and receive notification when their refund is issued. VATAX Online also posts reminders to users on their personalized Home Page to indicate that some action may be required by the taxpayer.

The Secure Message Center is extremely easy to use and customers receive a response within 48 hours. Customers that use the Secure Message Center tend to make it their preferred channel of communication with TAX. Turnaround time for correspondence is greatly reduced because it is easier and faster for TAX to respond to Secure Messages.

Each application also supports delayed payments, a feature that allows the return to be filed at any time during the relevant filing period, while payment is delayed for execution on the due date of the return. Payments can be made by electronic funds transfer, check, or in some cases by credit card.

RETURN ON INVESTMENT, SHORT-TERM AND LONG-TERM PAYBACK

VATAX Online services have been extremely successful in improving the delivery of Customer Service. Since the initial release of VATAX Online, customer usage has climbed steadily. Customer satisfaction with online services averages in the high ninety percent ranges. TAX has also seen significant operational efficiencies, as the Internet becomes a practical alternative to the traditional resource intensive communication channels. In the Secure Message Center's first year of operation, and without any promotion, TAX has achieved a decrease in paper correspondence and traditional emails as a result of Secure Message Center usage.

Since becoming available for public use in April 2001, iReg has exceeded TAX's expectations by capturing approximately fifty percent of all new business registrations. On an

average day, between 60 and 100 new business registrations are conducted through iReg. Since Business iFile went live in March 2000, over 36,500 businesses have signed up to file online. These users have filed over 88,000 returns and made over $427 million in payments.

TAX can now leverage the existing technical platform to provide new services to customers and incur minimal or no additional hardware and software costs. The Secure Message Center, for example, running on the existing platform for transactional Internet applications, did not increase the Agency's annual operational costs for Internet Services. In July 2002, additional functionality was added to allow all users to attach and submit files to enhance the agency's ability to respond to customer inquires quickly.

Plans for future expansion of the Secure Message Center include using the service as a communication and file transfer channel between TAX and other government entities. A number of local and state government entities within Virginia communicate and conduct transactions with TAX on a daily or weekly basis. This new functionality will use the Secure Message Center to accept and securely send files to and from these government entities that are currently submitted on tape or paper. These files will be processed automatically, significantly increasing our processing efficiency at no additional cost to the Internet operation. The future savings to the agency are expected to be significant.

INFRASTRUCTURE AND SECURITY

The VA Tax Online hardware platform consists of three web servers, two application servers, two database servers, and two load balancing routers, all located behind a firewall. This configuration ensures that VA Tax Online is available even if a single application, database server, web server, or local director is offline. The operating system is Sun's Solaris 8, running Netscape iPlanet 4.1 Web server software, ATG Dynamo 4.5 application server software and Oracle 8.17 database. The VATAX Online system integrates with TAX's Seibel 6 Customer Relationship Management system and the mainframe legacy system. Internet system administration is facilitated by a variety of tools including SQL Navigator, Business Objects, and PVCS (Version Control Management). The VA Tax Online technical architecture provides for security at the network, application, and database access levels.

VATAX Online customers are not only protected by federal and state laws but by TAX's commitment to uphold both the spirit and the letter of those laws. TAX's commitment is described in the Web site Privacy Statement, accessible from every Web page of VATAX Online. All Internet applications meet the highest financial industry guidelines for security and protection of confidential information. To ensure that all Internet services will continue to meet the public's privacy and security expectations, TAX developed a comprehensive Internet security strategy. The strategy covers organizational security, network and platform security, application security, data security and comprehensive monitoring and reporting procedures.

All Internet, operational and data processing systems are in a secure environment that protects confidential tax account information from being accessed by third parties. The VATAX Online transaction services use industry-standard Secure Sockets Layer (SSL). All information is 128-bit encrypted so that it cannot be intercepted as the information travels over the Internet. 128-bit is the highest level of security available and is rapidly becoming the industry standard. This offers users a greater degree of confidence in our system.

VATAX Online for Business software was designed with security in mind. The authentication methodology was developed to ensure a high degree of confidence in the identity of the Internet user. Once authenticated, the taxpayer can set up three levels of access to the account, allowing different individuals throughout the business's organization to have different levels of access. This hierarchy lets the company manage the workflow of producing the return electronically, while providing safeguards against unauthorized filing or payment.