

DEPARTMENT OF REVENUE, 1999

**GUIDE TO**

**M I N N E S O T A**

*Department of  
Revenue*

*1999*

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November 1998

# **Minnesota Department of Revenue**

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# STATE OF MINNESOTA

OFFICE OF THE GOVERNOR  
130 STATE CAPITOL  
SAINT PAUL 55155

ARNE H. CARLSON  
GOVERNOR

To the Incoming Administration:

As you begin your term, I am pleased to report that Minnesota's state and local tax system is in sound condition. Over the past eight years, we have limited growth of government spending to less than the growth in Minnesotans' incomes—so that the state's price of government has declined from 18.1 percent in FY 1994 to 17.5 percent in FY 1998, with a current forecast of 17.1 percent by FY 2001. Even with this restraint, strong and sustained economic growth has been sufficient to increase state tax collections by \$2.4 billion annually over the same period, increase the amount returned to local governments, schools and individuals for property tax relief by over \$1 billion, and rebate another \$1 billion dollars in state surplus collections directly back to taxpayers in 1998 and 1999.

Over the same period, Minnesota has made major progress in reforming tax policy and administration:

- Property tax reform to improve business competitiveness, encourage affordable rental housing and increase the state support level for K-12 education to 70 percent was enacted during the 1997 and 1998 legislative sessions after years of debate.
- The sales tax on replacement capital equipment was phased out, making Minnesota a more attractive place for businesses to invest—and reinvest—to create and keep jobs here.
- K-12 Education, Working Family, and other income tax credits and deductions provide greater resources directly to families so they can make their own choices about how those dollars are spent.
- Minnesota successfully negotiated with the state's Indian bands revenue-sharing agreements that acknowledge tribal taxing authorities under federal law while ensuring that the state's tax laws are upheld—providing a sharp contrast to other states that have suffered intractable litigation and threats of violence over these issues.
- The sales tax computer and administrative systems, once obsolete, inefficient, ineffective and at risk of collapse, were reengineered by the Department of Revenue during 1992-94. Today Minnesota's sales tax administration system is a model for other states.

Great challenges remain in tax policy and administration, but a strong foundation has been laid over the past eight years. I wish you and your administration much success as you work to ensure a tax system that is fair, efficient, reliable and understandable and keeps Minnesota competitive both nationally and globally.

Warmest regards,

ARNE H. CARLSON  
Governor



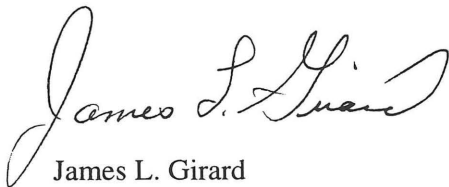
**Welcome to the Minnesota Department of Revenue!**

I hope this brief overview of the department's activities and resources will give you a sense of the high quality work performed by the employees of the Department of Revenue. Their outstanding professionalism and commitment to service has made the department a nationally recognized leader in state tax administration for over a decade.

The department is also a leader in offering consistent, customer-focused services to the state's citizens and their representatives, to other levels of government, and to all customers in the public and private sectors.

I'm proud of the high level of professionalism of staff throughout the agency, and I encourage you to make use of their tremendous capabilities as you begin your tenure. Their knowledge and skills will serve you and the citizens of Minnesota very well in the years to come.

Sincerely,



James L. Girard  
commissioner

# Summary

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# Summary

## Short history

Minnesota's tax system is older than the state itself. In 1849, nine years before statehood, the first territorial assembly passed a levy on property held in the territory; the funds were used to support schools. Property taxes remained the state's main source of revenue for decades.

It was the Great Depression that forced state lawmakers to shift their reliance away from property-based sources of revenue. As wages fell and jobs disappeared, property taxes became harder to collect, and between 1929 and 1933, property tax delinquencies doubled. At the same time, the demand for services to help alleviate the growing economic hardships increased dramatically, and Minnesota adopted individual and corporate income tax systems in 1933.

The shift toward income tax and away from property tax as the major source of state revenue continued in the 1950s and 1960s, and in 1967, the property tax became a purely local tax. The department continues to assist local government officials in administering the property tax system, but the primary responsibility for the assessment of property, verifying homesteads and collecting taxes is at the local level. The 1967 shift from property tax was part of a larger plan for property tax relief, and included the establishment of the sales tax system.

In recent years, the most fundamental changes in the department and how it does its work have been a result of, and enabled by, rapid changes in information technology. Traditionally, departments of revenue have been among the biggest paper factories in government. During 1992-94, the department successfully re-engineered the sales tax system and transformed both the computer systems and employee roles and responsibilities to achieve better taxpayer service, reduced processing times and error rates, and new ability to target and deliver customized education, service, and enforcement activities to distinct customer sets. The department received its first electronically-filed income tax return in 1990; by the 1998 filing season, that figure had climbed to 396,000—17 percent of all returns—and our one-year

increase in electronic filing volume during 1998 was the best of any state. Much work remains, however, particularly in rebuilding the 1960s-era income tax system to meet today's demands for electronic commerce.

In FY98, Department of Revenue activities funded 60 percent of total state government spending (77 percent of "own source" revenues), primarily through the state's income, sales, corporate franchise, and petroleum taxes.

## Vision, mission

*The mission of the Department of Revenue is to achieve compliance with the state's tax laws in order to fund the activities of state government.*

The agency also plays an increasing role in the direct funding of local governments through a variety of direct transfer payments to cities and counties, administering local sales taxes, and helping collect debts owed to other levels of government through refund offset and direct collection activities.

The department's vision is for a state and local revenue system in which:

- every taxpayer pays the right amount of tax, no more and no less (tax compliance)
- taxpayers are satisfied because they are treated as customers and their needs are met (taxpayer satisfaction)
- the revenue system is fair, efficient, reliable, understandable, and economically competitive (operational excellence)

To achieve these outcomes, the agency must ensure that:

- our employees have the skills and tools they need to do their jobs.

# Key legislators and legislative committees

## Key legislators

	<b>Senate</b>	<b>House</b>
Majority Leader	Roger Moe	Ted Winter
Asst. Majority Leader	Ember Reichgott Junge	Rob Leighton Sharon Marko Betty McCollum David Tomassoni
Majority Whips	Carol Flynn John Hottinger Steve Murphy Deanna Weiner	
Minority Leader	Dick Day	Steve Sviggum
Asst. Minority Leaders	Tom Neuville Dave Knutson Steve Dille Dennis Frederickson Gen Olson	Ron Abrams Hilda Betterman Kevin Goodno LeRoy Koppendrayner Carol Molnau Dennis Ozment Todd Van Dellen Phil Carruthers
Speaker of the House		

## Legislative Committees

### Senate

K-12 Education Budget Div.	Larry Pogemiller, Chair	Arlene Lesewski (lead Republican)
Health & Family Security Budget Div.	Don Samuelson, Chair	Sheila Kiscaden (lead Republican)
Human Resources Finance	Linda Berglin	Roy Terwilliger (lead Republican)
Judiciary	Jane Ranum, Chair Don Betzold, Vice-Chair	David Knutson (lead Republican)
Local & Metro Government Property Taxes & Local Government Budget Div.	Jim Vickerman, Chair Sandy Pappas, Chair	Pat Pariseau (lead Republican) Pat Pariseau, (lead Republican)
State Government Finance Taxes	Dick Cohen, Chair Doug Johnson, Chair	Dennis Frederickson (lead Republican) Bill Belanger (lead Republican)

### House

K-12 Education Finance Div.	Becky Kelso, Chair	Kevin Knight (lead Republican)
Government Operations	Phyllis Kahn, Chair	Phil Krinkie (lead Republican)
State Government Finance Div.	Tom Rukavina, Chair	Kevin Goodno (lead Republican)
Health & Human Services Finance Div.	Lee Greenfield, Chair	Dave Bishop (lead Republican)
Judiciary	Wes Skoglund, Chair	Steve Dehler (lead Republican)
Local Government & Metro Affairs Taxes	Ann Rest, Chair Dee Long, Chair	Ron Abrams (lead Republican)
Property Tax & Tax Increment Financing Div.	Edgar Olson, Chair	Ron Abrams (lead Republican)
Sales & Income Tax Div.	Alice Johnson, Chair	Ron Erhardt (lead Republican)
Ways & Means Div.	Loren Solberg, Chair	Tim Finseth (lead Republican)



## Key issues and constituencies

### Information technology

The rapid growth in information technology and electronic commerce is a major factor in the Department of Revenue's activities, and is affecting nearly every area of tax policy, operations and planning. Some of the challenges include:

- more "traditional" taxable transactions occurring in cyberspace, with no obvious location or paper trail.
- new types of industries and business practices that 20<sup>th</sup> century tax policy did not anticipate
- taxpayers who expect a growing array of electronic methods to deliver information and service.
- information to evaluate taxpayer compliance is increasingly accessible only in electronic form.
- rapid growth in IS costs, especially labor, which consumes a growing share of total agency resources and reduces staff available for taxpayer service and compliance activities.
- the rapid obsolescence of computer systems supporting the income tax limit flexibility and performance, and pose increasing risk of degradation or failure.

**Y2K readiness:** The department has focused considerable attention and resources at Year 2000 readiness at both the executive and information systems management levels, and expects all major systems to be Y2K compliant by December 31, 1999. External reviews of DOR's assessment and remediation planning processes have rated them among the very best of state agencies plans. We expect to be ready for large scale, integrated compliance testing by March 1999.

## Tax policy

### Electric Utility Deregulation

The department has been working with the **Electric Deregulation Task Force** and with policy officials from the electric industry, chambers of commerce, and local governments on selected tax issues associated with the potential deregulation of the electric industry. In general, the major concern to the department is measuring the Minnesota tax burden on the electric utility industry and how it affects the state's relative competitiveness with other states. Of particular concern is the relatively high property tax rates imposed on the industry by the state's classification system and the taxation of personal property (e.g., generation machinery). The department has also evaluated potential changes in tax policy, particularly with respect to the possible elimination of the personal property tax, and the impact that would have on local governments.

As it appears now, the task force will probably not take action this legislative session on this issue. However, they will continue to meet and learn more about the economic impact of deregulation on Minnesota. In addition to the tax policy implications, the task force is concerned with issues of distribution and reliability of electricity in a deregulated environment.

### Taxation of Electronic Commerce and Telecommunications

Advancements in technology are raising significant issues for state sales tax policy. With increased economic activity conducted over and through the internet, cable television, and wireless telephones, concern is growing over issues of economic neutrality, tax assignment and intergovernmental responsibilities. Important questions include: How is nexus determined? How is the tax base defined, and by whom? Who sets the rates? Who administers the tax?

Over the past year, the department has worked with several interstate policy associations (FTA, NTA, MTC, NCSL, NGA) in helping to evaluate these issues and develop appropriate policy positions. Currently we are monitoring very closely the NTA Communications and Electronic Commerce Tax Project, which has become the primary vehicle for the states to coordinate and lobby the congress with

respect to several versions of the "Internet Tax Freedom Act."

In Minnesota, the legislature directed the Legislative Coordinating Commission (LCC) to establish a task force for the study of taxation of telecommunications services. The authorizing legislation directed the task force to examine four issues:

1. Study existing and emerging tax policies that apply to the telecommunications and computer industries and identify any inequities in the current system;
2. Identify potential for erosion of the sales tax base as a result of evolving telecommunications and computer technologies;
3. Consider methods of addressing potential impediments to extension of state taxes to emerging technologies; and
4. Suggest options for changing the tax system or broaden the sales tax base and to provide equitable tax treatment for users of existing and emerging technologies.

The department is currently working in close cooperation with this legislative task force which will probably meet and discuss these issues throughout this legislative session.

### **Firststar/Hercules Court Cases**

One issue that the department has been working on and will continue to address through the next legislative session is the fallout from the recent **Firststar** and **Hercules** Minnesota Supreme Court decisions. These court cases involved defining the tests to be used in determining business/non-business income. Minnesota's interpretation of what constitutes business income appears to be broader than that of the court.

The effect of this decision is to assign more business income to the domicile of Minnesota-based corporations instead of apportioning income among the states. The reverse is true for non-Minnesota-based corporations.

Many of our in-state companies are concerned about the revenue impact this may have on their business for both open years and future years. The department has been working with a group led by the Minnesota Chamber of Commerce and legislative staff to arrive

at a possible solution both for prior years and future years.

### **Income Tax Reform Account/Surplus**

The department is also involved in discussions about how to spend \$200 million that is earmarked for income tax reform. Last session, the legislature created a reserve account (contingent upon a surplus balance in the upcoming November forecast) to be used for income tax reform/relief. The availability of these dollars, along with any additional surplus dollars, and the election of a new governor will result in a great deal of involvement by this department in providing research and feedback about various proposals. Some of the ideas currently being proposed include elimination of the marriage penalty, reductions in income tax rates, child tax credits, and expansion of the education tax credits.

### **Business Activity Tax (BAT) Study:**

The 1997 legislature directed the LCC to prepare a study of alternative methods of taxing business. The study is to analyze the following Minnesota business taxes: (1) Corporate Franchise Tax; (2) Sales Tax on Capital Equipment and other business inputs; (3) Personal Property Tax on Utility Property; and (4) Real Property Tax on Commercial and Industrial Property. The study will primarily consider the impact of a Business Activities Tax as an alternative method to tax business, analyzing it with respect to the basic tax principles of fairness, efficiency, simplicity, elasticity, and stability.

Four members of the LCC will have oversight function (Rep. Ron Abrams, Rep. Dee Long, Sen. Bill Belanger, Sen. John Hottinger). The Barents Group was hired as principle consultant for the study. The Department of Revenue's Research Division will have primary responsibility to build the business tax data and work with the consultant and legislative staff with selected analytical tasks.

The study needs to be completed by January 2000.



# **Boards, Commissions and Task Forces**

## **Multistate Tax Commission**

The Multistate Tax Commission is an organization of state governments that works with taxpayers to administer, equitably and efficiently, tax laws that apply to multistate and multinational enterprises.

Created by an interstate compact, the commission:

- encourages tax practices that reduce administrative costs for taxpayers and states alike,
- develops and recommends uniform laws and regulations that promote proper state taxation of multistate and multinational enterprises,
- encourages business compliance with state tax laws through education, negotiation and enforcement, and
- protects state fiscal authority in Congress and the courts.

Forty-three states (including the District of Columbia) participate in the Commission, as Compact Members (21), Sovereignty Members (1), Associate Members (17), and Project Members (4). Minnesota is a Compact member.

## **National Tax Association**

The National Tax Association was originally founded in 1907, and in 1973 merged with the Tax Institute of America, continuing to operate under the name of the National Tax Association. This is a nonpolitical, nonpartisan, nonprofit association dedicated to advancing understanding of the theory and practice of taxation at all levels of government.

## **Federation of Tax Administrators**

The Federation of Tax Administrators (FTA) was organized in 1937. Its mission is to improve the quality of state tax administration by providing services to state tax authorities and administrators.

These services include research and information exchange, training, and intergovernmental and interstate coordination. The Federation also represents the interests of state tax administrators before federal policymakers where appropriate.

The principal tax collection agencies of the 50 states, the District of Columbia, and New York City are the members of the Federation of Tax Administrators.

The work of FTA is directed and governed by a 15-member Board of Trustees composed of tax administrators representing all regions of the country. The Commissioner of the Internal Revenue Service is an ex-officio board member. Special committees or task forces are regularly appointed to consider specific issues and problems. The FTA staff consists of 10 full-time positions, headed by an Executive Director appointed and removable by the Board of Trustees.

## **State Board of Assessors**

The State Board of Assessors monitors assessment levels for accuracy and uniformity, is responsible for assessor education and licensure, and directly assesses railroads, public utilities and airflight property on a statewide basis as required by law.

## Activity summary

The Department of Revenue administered 28 different taxes for 3.4 million individual and more than 220,000 business taxpayers in FY98, and oversaw property tax aids and levies for 3,400 local tax districts. It relies on partnerships with the IRS, other state agencies, local government, tax practitioners, accountants, and collection agencies, civic and volunteer organizations, and the commercial software industry to deliver services to its customer base.

The department is composed of three tax systems:

- Income
- Business Excise and Consumption
- Property Tax and State Aids

These systems are supported by a common foundation of:

- Tax Operations
- Legal and Research Services
- Administrative Support

The department's strategy to achieve balanced tax compliance and taxpayer satisfaction is to apply the "achieve compliance" cycle of good policy, education, service, feedback, and enforcement in ways that reflect a sophisticated understanding of taxpayer needs, and then most effectively leverage partnerships, technology, and unique departmental capabilities to ensure that the vast majority of taxpayers who want to comply with the tax laws get the support and service they need to be successful and stay that way.

## Tax systems

The **Income Tax System** administers the individual income, withholding, corporate franchise, small business, partnership, fiduciary, estate, and limited liability company taxes. Refund administration for property taxes is also included.

The Income Tax System serves over 3 million taxpayers annually, including 2.3 million individual income tax filers, 120,000 withholding tax filers, 55,000 corporate franchise tax filers, 52,000 small business tax filers, 32,000 partnership tax filers, 46,000 fiduciary tax filers, and 1,500 estate tax filers. These taxpayers account for over half of the state's total tax collections each year.

The **Business, Excise, and Consumption Tax** system administers the state sales and use, petroleum, cigarette, tobacco, alcohol, MinnesotaCare, insurance premium, and lawful gambling taxes, and hazardous waste taxes and fees.

This activity's customer base includes 222,000 businesses that are responsible for collecting and remitting sales and use tax, 8,000 hospitals, health-care providers and wholesalers of prescription drugs, 70 cigarette and 200 tobacco distributors, 35 wine and six liquor distributors and 120 brewers and importers of beer, 10,000 payers of hazardous waste fees, 1500 lawful gambling organizations and 15 distributors of pulltabs and tipboards, 1700 insurance companies, and 1,000 distributors of petroleum products. It also collects and distributes local options sales and use taxes.

**The Property Tax and State Aid system** includes support, evaluation, and oversight over Minnesota's locally administered property tax system; computation and payment of state-paid property tax relief payments to local governments; and administration of minerals taxes.

The property tax and state aid system serves 3,400 local units of government and 2.2 million property tax payers each year.

## Supporting operations

**Legal and Research** activities include the legal services, appeals, criminal investigations, and tax research functions that support both tax administration and the development of state and local fiscal policies.

*Legal services* provides research and analysis of tax laws and policy, and represents the department at contested administrative and rule making hearings. It also works closely with the legislature and legislative staffs and taxpayer and practitioner groups, drafts legislation, administrative rules and revenue notices, and provides support to the Attorney General in tax litigation matters.

*Administrative appeals* are provided to taxpayers to ensure that tax assessments and claims for refund denials are accurate and conform to the law. The mission of appeals is to provide an efficient, impartial



forum for reconsideration of tax determinations. The administrative appeals process is available to taxpayers as an informal, less costly alternative to litigation.

*The criminal investigation unit* investigates potential tax crimes and determines whether the facts warrant referral to a prosecutor. It also assists the rest of the department in managing threat/assault risks against our staff.

**Tax Research** is involved in the development of sound tax policy through objective research, analysis, and dissemination of economic and tax information. It carries out legislative and executive required studies, develops shared databases for use by legislative and executive agencies for revenue forecasting and analysis, and analyzes tax proposals and bills during the legislative session. Major studies include the Tax Expenditure Budget and the Tax Incidence Report that are directed at policy makers to help them evaluate Minnesota's tax system. The individual income tax sample provides a common platform for the Departments of Revenue and Finance and the legislature to forecast and evaluate changes to the state's largest revenue source. Tax Research also forecasts a number of revenue sources that fund a portion of state-provided services.

## Tax Operations activities

**Communications**, which produces tax forms and instructions, provides taxpayer education through the media and other mass communication, and develops and manages the department's world wide web services to taxpayers.

**Forms distribution and mail receiving** mails tax forms to taxpayers and processes other outgoing mail; it also receives and sorts millions of pieces of incoming mail annually.

**Taxpayer registration** registers new businesses and makes changes to business registrations; manages registration of individual taxpayers with 250,000 changes annually; manages the confidentiality and protection of taxpayer data; and stores and provides access to taxpayer returns

**Processing and taxpayer accounting** processes paper and electronic returns and payments; accounts for \$11.4 billion in receipts; issues individual income tax refunds; processes and distributes local option tax receipts for local governments; and administers revenue recapture for federal, state and county agencies.

**Collection** identifies and collects from known taxpayers who failed to file returns, which last year resulted in \$12.6 million in revenue; and identifies, verifies and collects unpaid individual and business taxes, which last year resulted in \$108 million in revenue.

**Information systems management** manages computing systems for administering the tax system, including more than 1,300 workstations, and maintains the tax system portfolio of more than 130 computer applications on 15 different platforms.

## Priority project— Income tax re-engineering

Re-engineering the state's income tax system is our top priority project. The system, with 3 million taxpayers and \$5 billion in annual receipts, affects the lives of nearly every citizen and consumes a major part of department resources each year. However, this vital cornerstone of Minnesota's public finance system depends largely on antiquated processes and old, fragile computer systems, and our ability to provide good service and information to taxpayers and policymakers is at serious risk.

### Why we must update the income tax system

The income tax system's core processes and information systems are nearly 30 years old, and cannot meet our shared needs for:

**Taxpayer service.** The current system prevents us from meeting taxpayer demand for electronic filing and payment options and for problem resolution. It is slow and unreliable, and cannot produce the timely, accurate and complete information that we and our customers depend on.

**Tax and budget policy implementation.** Our experience with last year's rebate program demonstrated how difficult it is for our systems to respond to changes in tax law. Delays and errors in capturing return and payment information affect the quality of state revenue forecasts.

**Compliance.** Late or inadequate data seriously hinder our ability to achieve compliance through audit, information and service activities. The "compliance gap" between taxes owed and actually paid is growing, while our ability to identify non-filers and tax evaders is crippled by our processing and data management problems.

**Risk and cost management.** Operating costs continue to rise as system performance declines, as seen in the rebate and political contribution refund delays. Worse still, the risks of system failure continue to grow; keeping the old systems running and modifying programs written in obsolete program languages has become more and more difficult in the last

decade. We can continue to patch as best we may, but all of our patches and modifications may not be enough to prevent a major system failure, with extremely serious consequences.

The computer systems that form the heart of this tax system are simply obsolete. All of our processes and workflows—and more important, our contacts with taxpayers—depend on 1960s technologies and paper-based processes. One way or another, this system must be replaced, and soon.

We believe the responsible course of action is to streamline and improve our entire system by a total redesign of the critical processes that support our mission and meet taxpayers' needs.

Our re-engineering plan calls for a complete system redesign. We know it isn't enough simply to fix the current problems or to speed up old practices. Instead, we want to use new technology both to improve performance immediately and to help us anticipate future needs. Completing the design and implementing it will take several years.

We are following the redesign model used in our successful sales tax re-engineering effort in 1992-94. The knowledge gained from that experience will be invaluable in this project.

The work will be accomplished in three stages:

- I. Predesign explores the needs of our customers and the agency; reviews best practices in comparable public and private sector enterprises, and identifies the specific cost, capability and performance targets for the new system. This step is well under way, and builds on the comprehensive systems plans completed last year.
- II. Design will identify the processes needed for a successful tax system. We will choose the technologies and workflow approaches that will yield the best mix of overall system performance, flexibility, scalability and cost management.
- III. Implementation will proceed in separate steps, called releases, that will provide immediate improvements in various parts of the system. This plan gives us a measure of risk management with rapid payback and cost control.

We expect the predesign to be finished early in 1999. This phase will define solutions to the problems, identify the best technologies available to accomplish them, and give us a schedule for delivery. Implementing the releases and the biennial cost of those releases will depend on the strategy for development adopted in the next biennium.

## **Upcoming events/important dates**

**Early January : Income tax filing season kick-off**



# Strategic plan

## Introduction

The Department of Revenue serves the citizens of Minnesota. As a leader of our state revenue system, we influence our state's economic environment and directly affect the lives of our citizens. As a collector of public revenues, we collect money to pay for the government services that citizens have come to expect. As an agency of state government, we must be responsive, effective and accessible.

### Mission

A mission statement describes an organization's fundamental purpose. It answers the question "Why do we exist?" The answer is more than just a slogan. Through the mission statement, employees and customers alike come to understand our organization's primary reason for existence.

The Department of Revenue's mission statement:

*"Our mission is to achieve compliance with the tax laws."*

To do this, we develop sound revenue policy and operations, educate all citizens about their tax rights and responsibilities, deliver quality service, provide feedback to our customers, and use appropriate enforcement for those who choose not to comply.

### Vision

A vision describes what we want to be. It's the ideal we strive for. Even though we may never fully reach our vision, it helps us set our direction and lets us know when we're off course.

The four elements in the Minnesota Department of Revenue's vision:

*Everyone is paying what is owed, no more or no less.*

*Our customers are satisfied because we deliver services that meet their expectations.*

*We are receiving the support and training needed to effectively perform our work.*

*The revenue system is fair, efficient, reliable, competitive and understandable in structure and operation.*

Our vision becomes reality through the efforts of each and every employee in the department. We move toward our vision by implementing our strategies, which are reflected in a number of more detailed plans and documents. These include, but are not limited to, division business plans, annual performance report, annual budget and spending plan, Code of Conduct, diversity plan, the Model Revenue System and individual performance plans.

### Customer Profile

We define our customers as those who receive our products and services. We consider taxpayers, both individually and collectively, to be our primary customers. Our customers also include the governor, the legislature and other government entities. All Minnesota citizens are our key stakeholders and it is for their benefit that we exist.

### Values

The values listed here work together to form the foundation for all of our actions and decisions. They are not listed in any order of priority; no single statement is more important than another. They reinforce and support one another.

These are the values we uphold, individually and collectively, as we strive to earn the public confidence necessary to carry out our responsibilities.

### We Value Each Other

We demonstrate mutual trust, respect, caring and courtesy with one another and the public.

We are honest, fair and ethical. We are involved in decisions that affect us.

We listen to others with the intent to understand their views.

We respect differences and recognize the inherent dignity of each person.

### We Embrace our Priorities and Responsibilities

We focus on results that benefit our customers and further our mission.

We believe that clarity, completeness, accuracy and timeliness in our products and services are individual and organizational priorities and responsibilities.

## **We Strive For Leadership**

We are leaders in achieving efficiency and effectiveness in government.

We continually invest in the knowledge, skills and initiative of our employees.

We promote the innovation and adoption of new and improved technology and processes to better serve our citizens and achieve compliance.

## **We Use Public Resources Responsibly**

We practice sound fiscal management by the wise use of public resources with which we have been entrusted.

## **We Hold Ourselves Accountable**

We are committed to openly measure and continuously improve our individual performance.

We assume personal responsibility for achieving our department's mission and vision.

## **Strategic Objectives**

Strategic objectives describe an organization's goals for a five-year period. They are clear statements of where we want to be in the future, reflect our agencywide priorities and specifically indicate how we intend to accomplish our mission and vision.

The Minnesota Department of Revenue has seven objectives in its strategic plan; they are listed below, and are in no order of priority. Each objective supports our mission, and is linked to our vision and values. These objectives are supported by our business plans, which provide details and explain how the objectives will be measured.

*We will seek out, listen to and respond to our customers' needs and expectations.*

We need to communicate with our customers on a continuous basis to understand their needs and expectations so we can provide services that will make it easier for them to comply. We will actively seek customer input.

*We will exchange information with our customers based on our mutual needs and expectations.*

Customers need clear, concise, consistent, timely, relevant information in order to comply. And we need to receive information from customers that is timely, accurate and complete in order to properly collect taxes and provide appropriate tools for our customers.

*We will simplify the tax laws, rules and procedures to make it easier for customers to comply.*

We will continue to look for ways to simplify forms, instructions, documentation requirements, data collection and other procedures. We will publish revenue notices to provide our interpretation of tax laws, and enact rules to clarify complicated or significant tax issues. We will continue to recommend to the governor and legislature improvements in tax policy, and provide feedback to them about the tax laws.

*We will improve procedures to provide equal treatment for equally situated taxpayers.*

We strive to be fair in our dealings with each of our customers and to ensure that each is paying what is owed, no more or no less.

*We will improve and make more visible our enforcement programs.*

Our enforcement efforts show compliant taxpayers that we expect everyone to pay what is owed and remind all taxpayers of the consequences of noncompliance.

*We will have the skills and knowledge we need to perform our work effectively, now and in the future.*

In order to meet our customers' needs, our employees must be prepared to effectively perform their work. We will develop training plans that will provide opportunities for employees to acquire the skills and knowledge they need.

*We will measure the cost and effectiveness of our activities and manage accordingly.*

We are accountable to taxpayers for spending their money prudently. By putting measurement tools in place, we can manage our resources based on accurate information.



## **The Compliance Cycle**

Our revenue system depends on citizens voluntarily complying with the tax laws. We believe that most people will try to meet their tax obligations if they understand their responsibilities, are properly supported in their efforts to comply, are reasonably sure that others also are complying and are aware of consequences of not complying.

We accomplish our mission of achieving compliance with the tax laws by administering the five stages common to all tax systems. Together, these stages make up what we call the compliance cycle.

We:

- develop sound revenue policy and operations;
- educate all citizens about their rights and responsibilities;
- deliver quality service;
- provide feedback to our customers; and
- use appropriate enforcement for those who choose not to comply.

## **Develop sound revenue policy and operations**

As a leader of our state revenue system, we are responsible for influencing and developing sound revenue policy and operations. To encourage greater compliance with our tax laws, we work to develop a revenue system that is understandable, fair, competitive, reliable and efficient. Sound revenue policies and operations help achieve greater compliance and maintain a healthy Minnesota economy.

To make the vision of a sound revenue policy a reality, we work both internally with our own department's policies and rules and externally with the governor, Legislature and other decision-makers. Interaction with our customers helps us improve our internal policies as well as suggest improvements to external policies and laws.

## **Educate all citizens about their tax rights and responsibilities**

We promote voluntary compliance by helping citizens understand their rights and obligations under the tax laws, as well as the consequences of not complying with them. We seek to influence citizens in a positive way. We clearly communicate our expectations and taxpayers' rights and responsibilities. When citizens have questions, we provide answers. In all that we say and do, we strive for understandability.

## **Deliver quality service**

Our customers come first, and our top priority is to deliver quality service. We emphasize two-way communication. We try to learn what our customers need and aim to put their needs ahead of ours. We work to develop and maintain effective and efficient administrative processes to serve our customers.

## **Provide feedback to our customers**

We help our customers understand how well they have complied with the law by reviewing returns, conducting audits and using other evaluation tools. We let our customers know how to correct any errors, as well as how to prevent those errors in the future.

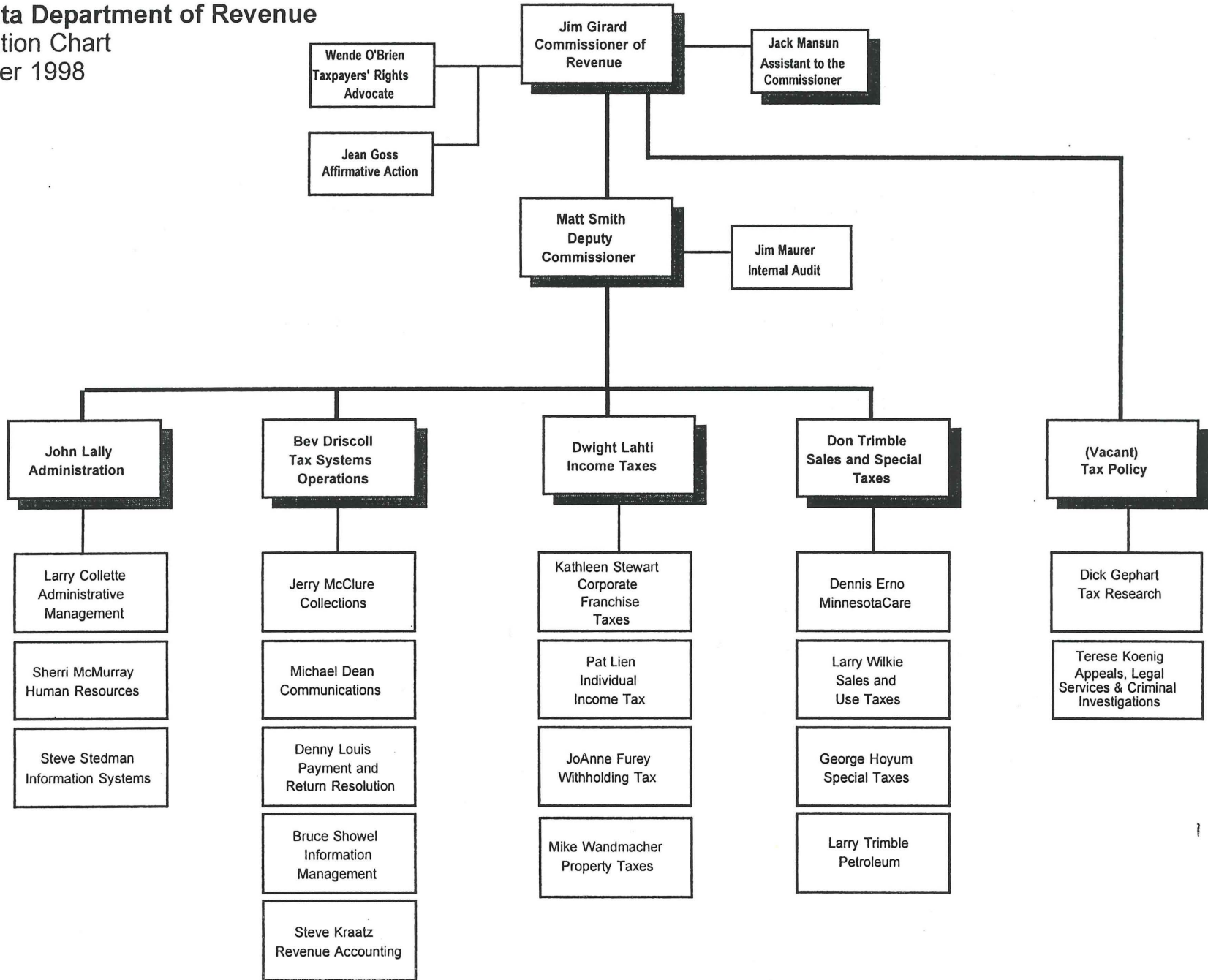
We estimate the extent of collective taxpayer compliance and openly share this information. We also provide information on other measures of performance of the revenue system.

## **Use appropriate enforcement**

We match our responses to the actions or inactions of customers who do not meet their tax obligations. Our approach to enforcement involves a combination of tax evasion detection, nonfiler detection, collection activity, and the use of other civil and criminal enforcement tools. Our enforcement priority is the customers who have knowingly or repeatedly evaded their obligations, not those who are in substantial compliance. In all cases, we will treat respectfully those with whom we come into contact.

*Strategic plan, third edition. Revised September, 1995.*

**Minnesota Department of Revenue**  
**Organization Chart**  
**September 1998**



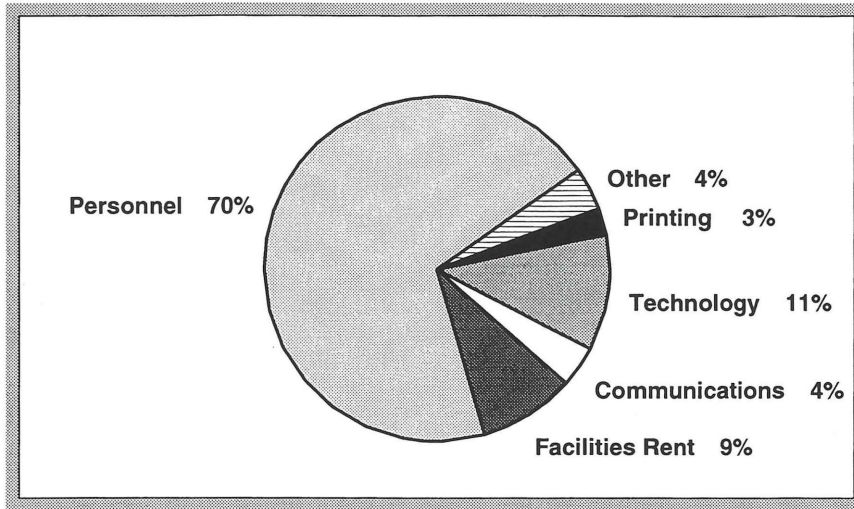
**Organization chart**



# Budget and personnel overview

## 1998-99 Expenditures by Category

Total \$173.69 million

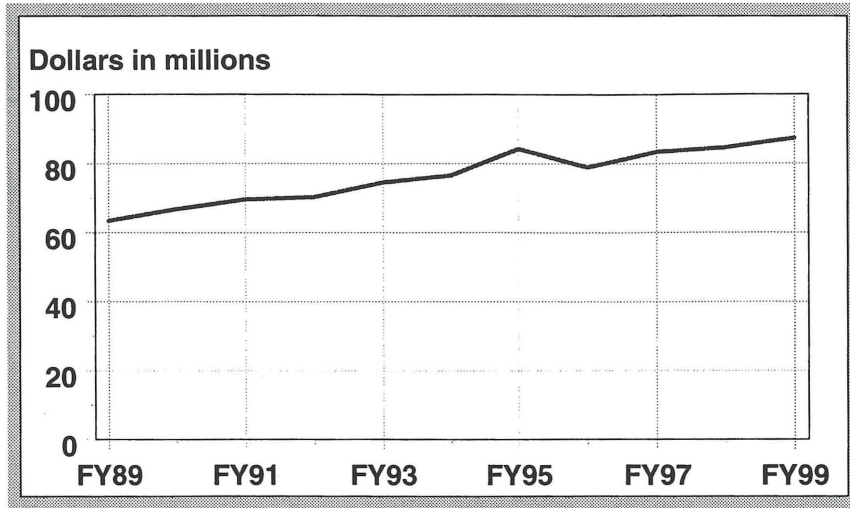


## Department of Revenue Staff Positions\*

	--- Actual ---			Projected	
	FY94	FY96	FY98	FY00	FY01
<b>Tax System Mgmt.</b>					
Income Tax	235	245	211	200	189
Business, Excise	260	233	226	220	213
Property Tax	52	50	47	45	44
Legal & Research	63	58	58	56	56
Tax Operations	628	574	578	565	549
Admin. Support	64	79	72	68	65
<b>Total Tax Sys. Mgmt.</b>	<b>1,302</b>	<b>1,239</b>	<b>1,192</b>	<b>1,154</b>	<b>1,116</b>
<b>Accts. Rec. Mgmt. (MCE)</b>	<b>0</b>	<b>29</b>	<b>39</b>	<b>39</b>	<b>39</b>
<b>Total</b>	<b>1,302</b>	<b>1,268</b>	<b>1,231</b>	<b>1,193</b>	<b>1,155</b>

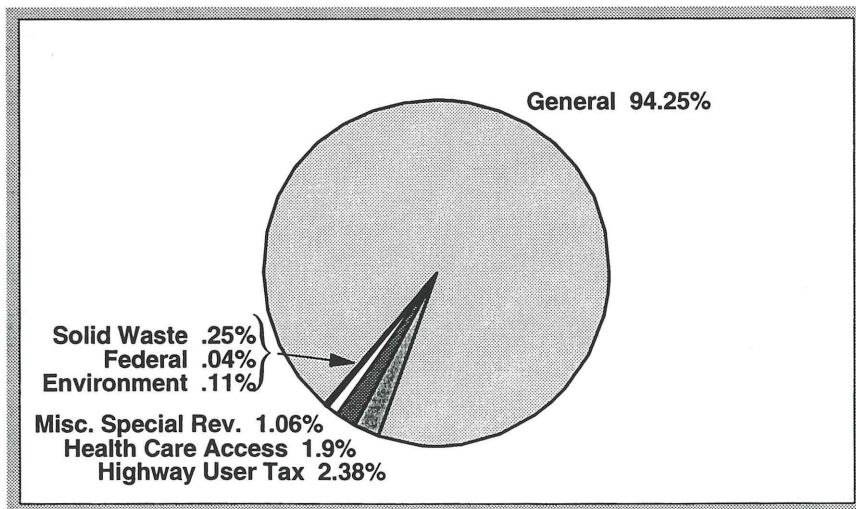
\* Full time equivalents as of 6/30 payroll

## Total Expenditures - All Funds



## 1998-99 Expenditures by Fund

Total \$173.69 million





# Description of divisions

## Executive team

**Commissioner**  
Jim Girard 296-3403

**Deputy Commissioner**  
Matt Smith 297-5859

**Assistant Commissioners**  
Bev Driscoll 296-1913  
*Tax system support, planning and communications*

(Vacant) 215-3582  
*Tax policy, legal affairs and legislation, research, criminal investigations*

Dwight Lahti 297-2656  
*Income-related taxes (individual, business, payroll), property tax, and state aids*

John Lally 296-1507  
*Information systems, human resources, financial services, administrative support and planning*

Don Trimble 297-2165  
*End user and commodity taxes (including sales tax, petroleum and special taxes)*

*Assistant to the Commissioner*  
Jack Mansun 282-5778

**Commissioner's Staff**  
*Affirmative Action Officer*  
Jean Goss 296-5339  
*Taxpayer Rights Advocate*  
Wende O'Brien 296-0989  
*Budget Coordinator*  
Kristi Schroedl 297-1884  
*Internal Audit Manager*  
Jim Maurer 297-2321

## Divisions

**Administrative Management**  
Larry Collette 296-3466  
*Payroll, department accounts payable, facilities management, mail service, procurement*

**Appeals, Legal Services and Criminal Investigations**  
Terese Koenig 296-1022  
*Taxpayer appeals, legal and legislative support, criminal investigations*

**Collections**  
Jerry McClure 296-1895  
*Office and field collection activity and non-filer detection; MCE*

**Communications**  
Michael Dean 296-1942  
*Forms and publications design, media relations, printing*

**Corporate Franchise Taxes**  
Kathleen Stewart 297-2168  
*Corporate and small business income tax information, education, taxpayer service, policy and audit*

**Human Resource Management**  
Sherri McMurray 296-3414  
*Personnel administration, labor relations, employee development*

**Individual Income Tax**  
Pat Lien 296-7025  
*Income tax and property tax refund information, education, taxpayer service, policy and audit*

**Information Management**  
Bruce Showel 296-0545  
*Taxpayer registration; information management, access and security*

**MinnesotaCare**  
Dennis Erno 296-0432  
*MinnesotaCare tax information, education, taxpayer service, policy and audit*

**Payment and Return Resolution**  
Dennis Louis 296-3464  
*Cash and document processing, data capture, machine audit, error resolution*

**Petroleum Taxes**  
Larry Trimble 296-0889  
*Petroleum tax audit, licensing, fees*

**Revenue Accounting**  
Steve Kraatz 296-3431  
*Taxpayer accounts management, tax refunds, revenue recapture and vendor intercept; tax receipt reporting*

**Property Taxes**  
Mike Wandmacher 296-0185  
*Property tax; state aids programs and equalization; minerals tax*

**Revenue Information Systems**  
Steve Stedman 296-7060  
*Information system management and development, systems support*

**Sales and Use Taxes**  
Larry Wilkie 296-6948  
*Sales and use tax information, education, taxpayer service, policy and audit*

**Special Taxes**  
George Hoyum 297-2151  
*Alcohol, tobacco and gambling tax audit and regulation; environmental taxes; insurance and gross earnings taxes*

**Tax Research**  
Dick Gephart 296-3425  
*Fiscal Analysis, econometrics, property tax analysis, library*

**Withholding Taxes**  
JoAnne Furey 297-4004  
*Payroll withholding tax information, education, taxpayer service, policy and audit*



