

## **ANNUAL PERFORMANCE REPORT**

### **Part 1: Agency Summary**

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#### **Agency: Revenue**

##### **Mission Statement:**

The Minnesota Department of Revenue's mission is to win taxpayer compliance with Minnesota's revenue system.

In administering this system, the department is responsible for supporting both citizens and the revenue system itself. To do so, we have developed a five-stage "winning compliance cycle" that begins with sound policy and includes education, service, feedback, and progressive enforcement:

- We work to develop sound revenue policy, based on principles of fairness, efficiency, reliability, competitiveness, and understandability.
- We educate citizens about their rights and responsibilities under the law.
- We serve our customers--citizens--to help them comply with the law.
- We give feedback to citizens through auditing and other means to let them know how they are doing as individuals; we also develop and share information on the extent of collective compliance and on the performance of the revenue system.
- We use progressively tougher enforcement measures as necessary when taxpayers fail to meet their obligations, individually tailoring our responses as much as possible.

##### **Outcomes**

The purpose of the winning compliance cycle is to achieve the following outcomes, which we believe are essential to winning compliance:

- A revenue system that is fair, efficient, reliable, competitive, and understandable in structure and operation.
- Taxpayers who are individually complying with the tax laws, each paying his or her fair share of taxes—neither more nor less than is owed.
- Departmental systems that allow us to perform our work with speed and accuracy, at the least cost, and with minimal burden on our taxpayers.
- Our customer's needs have been identified and met.
- Citizens and elected officials have confidence in and an understanding of Minnesota's revenue system.

##### **Priority populations**

Our goal is to produce long-term increases in voluntary compliance as well as dollar yields and "ripple effects" among other taxpayers. To accomplish that goal, we have identified three target populations among taxpayers:

1. Businesses and individuals in situations with long-term, system-wide, high-dollar impacts;
2. Those who make serious mistakes or are unaware of their obligations;
3. Those who intentionally underpay their taxes.

**Using outcome information to help improve state programs and their outcomes**

Our future goals, operational priorities and resource allocations will be based on what we learn from our performance measures.

**Requests for statutory flexibility**

On the tax administration side, we now have significant authority and flexibility to accomplish our mission. However, we would like to see the tax laws simplified. This would make it easier for taxpayers and ourselves to understand the intent of the law and how the laws are applied. The current tax laws are so complex that they make it difficult for us to educate and support taxpayers who want to comply. Further, they offer loopholes and ambiguity that shields those who do not. Instead of more flexibility, we need simplification and clarity of intent and applicability.

On the agency administrative side we, as do other state agencies, need responsive and flexible financial management and human resource systems.

**Outcome information from new data collection systems**

Externally, we need more information on customer needs, capabilities and attitudes so that we can better tailor our services and define targets. Currently, information on taxpayer motivation, behavior and attitude is largely derivative or very subjective. A network of surveys, focus groups and customer service reviews will yield better information and permit better decisions. Developing this network would not necessarily require an investment in new technology, although it does require a significant investment in resources. We have already begun survey work and customer service reviews, but even more remains to be done.

Internally, we need to leverage what we have learned from re-engineering the sales tax system as we move on to re-engineer all of the department's processing systems, which will give us timely, detailed and accurate data on the performance of our operations.

**Performance measures**

We have developed measures of effectiveness for the revenue system and for each of the nine tax systems. These are eight indicators of how well the department and each tax system are performing. In general, the department has developed or is in the process of developing the following measures:

1. Customer Satisfaction. We will be measuring the appropriateness of the information we provide to taxpayers, units of local government, the Governor, members of the Legislature and other state agencies; our timeliness in providing the information; and its accessibility, understandability and completeness. We are also measuring the degree of courtesy that characterizes our written, phone and in-person contact with taxpayers.
2. Departmental administrative costs. We are measuring our costs of generating revenues as well as the costs of specific activities such as cost of providing printed materials per taxpayer, per-transaction cost of depositing tax payments, per-return costs of data-entering information, and the benefits of auditing and collection activities.
3. "Compliance gap." We will be developing an estimate of the number of taxpayers who are required to file returns for all of the various state taxes but are not filing, and the amount of tax they owe. We will be measuring how well our efforts help close this gap. This indicator includes both filers and non-filers.
4. "Payment Gap." We will be measuring how well our efforts help close the gap between the amount of delinquent tax owed by taxpayers and the amount they ultimately pay, the effectiveness of various collection tools, and the effect of economic conditions on our compliance efforts.
5. Policy. We will be measuring our progress in creating sound tax policies. This will include comparisons to the Model Revenue System and comparisons of actual revenues received to revenues forecasted.
6. Timeliness. We will be measuring our efficiency in administering the revenue system. This indicator will tell us how long it takes to get information to taxpayers and employees, to issue refunds, deposit payments, record information

from returns and deposits, and resolve errors.

7. Accuracy. We will be measuring errors, both our own and those made by taxpayers.
8. Employee Satisfaction. We will be measuring the degree to which employees are satisfied with their jobs and with the policy and operations of the revenue system.

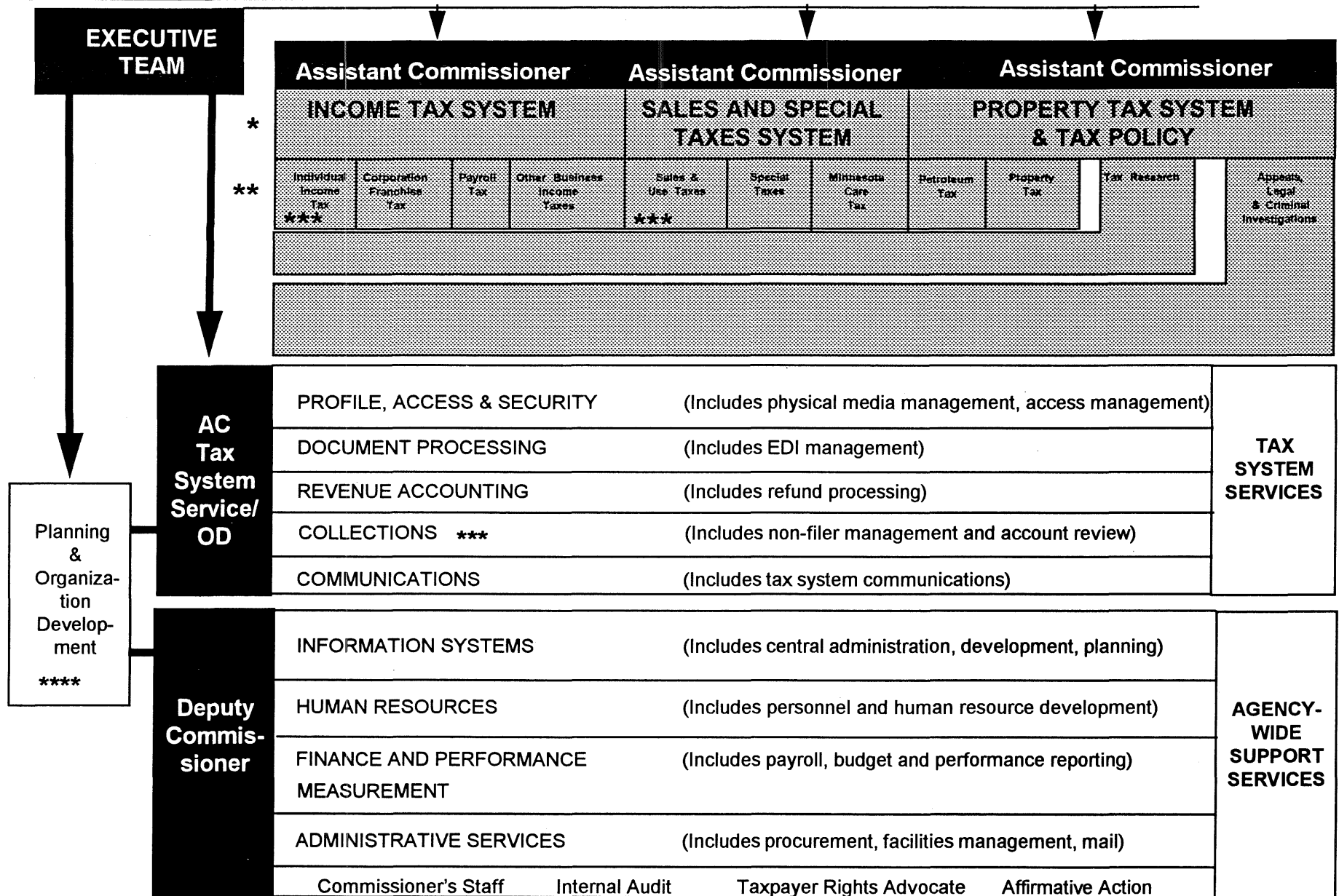
**Model Revenue System.** The department's performance measures stem in large part from the model revenue system. This model defines the ideal relationships and mechanisms of the major tax-related elements of our state and local fiscal base. It does not address the *level* of taxation, but rather the interaction and structure of the tax systems and appropriate applications. The department also uses this model to promote discussion among citizens and policy-makers about the direction for future tax policy.

#### **Department organization**

We have identified nine subsets, or tax systems, of the revenue system. They are individual income tax; corporate income tax; payroll tax (withholding); partnership, S-corps and fiduciary taxes; sales and use tax; MinnesotaCare tax; petroleum tax; special taxes; and property tax and state aid. Each tax system is led by a division director who reports to one of three assistant commissioners.

Five divisions provide functional services to all the tax systems: registration and profiling; filing and payment processing; taxpayer accounting; collections; and communications. Their directors report to a fourth assistant commissioner. Four other divisions provide support services to the agency: information systems; human resource management; administrative services; and financial services and performance measurement. These four directors report to the deputy commissioner. These nine divisions also contribute to tax system performance.

Commissioner of Revenue



\* Staff includes tax system manager and decentralized internal business analysts and agency service/legal/information staff

\*\* Includes tax type policy, taxpayer information, education, service and feedback functions and staff, plus assigned criminal and legal staff

\*\*\* Supervise Regional Service Centers

\*\*\*\* Includes training, organization development and support planning, quality and reengineering projects.

## **ANNUAL PERFORMANCE REPORT**

### **Part 2: Program Information**

**Agency:** Revenue

**Program:** Individual Income Tax

**Program Purpose:** The individual income tax program exists to win the widest possible compliance among Minnesota's approximately 2.1 million individual income tax filers with the individual income tax system.

Taxpayers need ready access to information to voluntarily comply and fulfill their obligations. Each year the department distributes over 3 million forms and instruction books and encourages taxpayers to call for more information and assistance. Once a taxpayer has filed a return the department is obligated to process it as efficiently and economically as possible. The department is looking to available technology, in this case electronic filing, as a means to achieve this goal. Further, electronic filing provides immediate feedback to the taxpayer by identifying math errors and acknowledging that the department has received the return.

To date the department has relied on a manual system of storing and retrieving taxpayer data. This system is both costly and inefficient.

The individual income tax division has chosen to focus on these three goals in this biennium:

1. Improve taxpayer access to information over the telephone
2. Increase accuracy and timeliness in filing and processing for both taxpayers and the department
3. Reduce data storage and retrieval costs

#### **Performance Objectives and Measures:**

##### **1. CUSTOMER SATISFACTION.**

Increase the number of taxpayers' telephone calls for information or assistance that the department answers.

**Measure:** Number of busy signals as a percent of total incoming calls relating to individual income tax.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

**Measure:** Number of taxpayers who call us, determined by adjusting the total number of in-coming calls for repeat attempts.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

##### **2. ADMINISTRATIVE COSTS.**

Increase the number of electronically filed individual income tax returns from 27,000 to 200,000, which will lessen the paperwork burden for taxpayers, and cut our processing, storage and document handling costs.

**Measure:** Number of electronically filed returns.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

Sixty percent of electronically filed returns that claim a refund, and 40 percent of paper filed returns that claim a refund will be deposited by electronic funds transfer to taxpayer accounts, which cuts our document handling and mailing costs.

**Measure:** Number of refunds transferred electronically to bank accounts.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

Increase the use of local area networks (LAN) to access taxpayer data that has been stored electronically after processing both paper and electronic returns. In this way we will be able to control costs in manually intensive areas of data entry, storage and document handling.

**Measure:** Reduce data retrieval costs by 50%.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

### 3. COMPLIANCE GAP.

### 4. PAYMENT GAP.

### 5. POLICY.

### 6. ACCURACY.

Increase the number of electronically filed individual income tax returns from 27,000 to 200,000. Electronic filing increases our processing accuracy since it eliminates missing data and simple math errors on the part of the taxpayer, and cuts our error rate in data entry and verifying computations.

**Measure:** Number of electronically filed returns.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

### 7. TIMELINESS.

Sixty percent of electronically filed returns that claim a refund, and 40 percent of paper filed returns that claim a refund will be deposited by electronic funds transfer to taxpayer accounts, which speeds the refund to the taxpayer.

**Measure:** Number of refunds transferred electronically to bank accounts.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

Increase the number of electronically filed individual income tax returns from 27,000 to 200,000, which increases our processing speed and shortens the time it takes to issue taxpayer refunds.

**Measure:** Number of electronically filed returns.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

**8. EMPLOYEE SATISFACTION.**

**Agency:** Revenue

**Program:** Corporate Income Tax

**Program Purpose:** The corporate income tax program exists to achieve the widest possible compliance among Minnesota's approximately 51,000 corporate income tax filers with the corporate income tax system.

The corporate income tax division has chosen to concentrate on the following goals in this biennium:

1. Increase customer satisfaction
2. Identify and move towards sound tax policy

**Performance Objectives and Measures:**

1. CUSTOMER SATISFACTION. Make account status information available to taxpayer service employees and to taxpayers by having accounts receivable information and refund processing done in 30 days.

**Measure:** Average number of days to process all returns and refunds.

						Objectives		
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>	
Actual								

2. ADMINISTRATIVE COSTS.

3. COMPLIANCE GAP.

4. PAYMENT GAP.

5. POLICY. Identify sound corporate tax policy and incorporate into Model Revenue System by end of FY 94.

**Measure:** Completed by proposed time.

6. ACCURACY.

7. TIMELINESS. Make account status information available to taxpayer service employees and for taxpayers themselves by having accounts receivable information and refund processing done in 30 days.

**Measure:** Average number of days to process all returns and refunds.

						Objectives	
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

8. EMPLOYEE SATISFACTION.



**Agency:** Revenue

**Program:** Income Tax for Partnerships, S-Corps, Fiduciaries and Estates

**Program Purpose:** This tax program exists to achieve the widest possible compliance among Minnesota's approximately XXX filers with the income tax system for partnerships, S-corps, fiduciaries and estates.

The division has two primary goals for the biennium:

1. Increase customer satisfaction
2. Increase timeliness of department response to taxpayer filings

**Performance Objectives and Measures:**

**1. CUSTOMER SATISFACTION.** Make account status information available to taxpayer service employees and to taxpayers by having accounts receivable information and refund processing done in 30 days.

**Measure:** Average number of days to process and issue refunds.

							Objectives	
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>		<u>1995</u>	<u>2000</u>
Actual								

**2. ADMINISTRATIVE COSTS.** Increase the number of electronically filed returns and electronic tax payments, which will lessen the paperwork burden for taxpayers, and cut our processing, storage and document handling costs.

**Measure:** Increase the percentage of taxpayers who file and pay electronically.

							Objectives	
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>		<u>1995</u>	<u>2000</u>
Actual								

**3. COMPLIANCE GAP.**

**4. PAYMENT GAP.**

**5. POLICY.**

**6. ACCURACY.** Increase the number of electronically filed, which increases our processing accuracy since it eliminates missing data and simple math errors on the part of the taxpayer, and cuts our error rate in data entry and verifying computations.

**Measure:** Number of electronically filed returns.

							Objectives	
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>		<u>1995</u>	<u>2000</u>
Actual								

7. **TIMELINESS.** Increase the number of electronically filed returns, which increases our processing speed and shortens the time it takes to issue taxpayer refunds.

**Measure:** Number of electronically filed returns.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

8. **EMPLOYEE SATISFACTION.**

**Agency:** Revenue  
**Program:** Payroll Tax

**Program Purpose:** The payroll tax program exists to achieve the widest compliance by Minnesota's approximately 130,000 businesses with the payroll tax system, which asks employers to withhold income tax from their employees' wages and salaries, and deposit those funds with the state.

The payroll tax division has three primary goals in this biennium:

1. Increase customer satisfaction
2. Increase accuracy and timeliness

**Performance Objectives and Measures:**

1. CUSTOMER SATISFACTION. Make all filing information available to taxpayer service employees and to taxpayers by processing returns in 30 days or less.

**Measure:** Percent of filing information available for use in 30 days or less.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

2. ADMINISTRATIVE COSTS.

3. COMPLIANCE GAP.

4. PAYMENT GAP.

5. POLICY.

6. ACCURACY. Identify the issues affecting accuracy in processing and entering data on the system, and take steps to address any deficiencies.

**Measure:** A baseline for accuracy will be established during the coming year, and appropriate measures identified at that point.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

7. TIMELINESS. Identify the issues affecting the timeliness of processing and entering data on the system, and take steps to address any deficiencies.

**Measure:** A baseline for timeliness will be established during the coming year, and appropriate measures identified at that point.

	Objectives						
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>2000</u>
Actual							

**8. CUSTOMER SATISFACTION.**

**Agency:** Revenue

**Program:** Sales and Use Tax

**Program Purpose:** The sales tax system exists to provide sound administration of sales tax law, and to achieve compliance from the approximately 140,000 registered businesses who collect sales tax.

The sales tax division has the following goals for the biennium:

1. Taxpayers are individually complying with the sales tax laws.
2. The department is performing its sales tax work with timeliness and accuracy.
3. Our customers' needs are identified and met.

**Performance Objectives and Measures:**

**1. CUSTOMER SATISFACTION.**

Gather citizen input on sales tax system performance and ease of compliance with the sales tax laws to determine if there is a need for and to provide a wider range of services (e.g. fact sheets, newsletters, workshops) tailored to specific business groups.

**Measure:** Customer satisfaction surveys.

Customer satisfaction surveys are currently in process and once the results are compiled, the department will evaluate the results to see what changes should be made.

**Measure:** Focus groups will be used to evaluate satisfaction with sales tax system performance.

Focus groups with taxpayers, chambers of commerce and others have been conducted over the past two years for strategic planning and sales tax re-engineering work.

**Measure:** Number of complaints/problems from customer contacts received in the sales tax division, Commissioner's office, and Taxpayer Rights Advocate office. Since data for previous years is not available, the baseline for complaint levels will be established during the coming year

**2. ADMINISTRATIVE COSTS.** Expand the options we offer to businesses to file returns electronically. Beginning in FY95 the department will offer electronic filing via telephone, fax, and computer to 90% of businesses who remit sales tax.

**Measure:** Increase in the percentage of taxpayers who file and pay electronically.

	Objectives						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

**3. COMPLIANCE GAP.** Determine whether there are compliance gaps within selected industries and if so, tailor compliance activity to reduce those gaps.

**Measure:** Estimate the dollar amount of the gap within specific industries through sampling and audits. After we compile the data for the sample, we will tailor a compliance project to address the industry as a whole.

**Measure:** Track whether the gap is increasing or decreasing in percentage terms and in dollar size by industry.

SIC # Business Size (by payroll)	Objectives	
	Sales Tax <u>F.Y. 1991</u>	Use Tax <u>F.Y. 1991</u>
Less than \$10,000		
\$10,000-\$25,000		
\$25,000-\$100,000		
\$100,000-\$300,000		
More than \$300,000		

**4. PAYMENT GAP.** Resolve all cases of tax under-payment in 90 days or less.

**Measure:** Number of cases resolved in 90 days or less after the accounts receivable has been created.

	Objectives						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

**5. POLICY.**

**6. ACCURACY.**

Create up-to-date personalized taxpayer profiles.

**Measure:** Number of accounts that had changes made to them within 60 days of account creation.

Preliminary information has revealed that three out of every ten new accounts in the central registration unit require changes to their profile information because of business changes or incomplete information, not department errors. Once baseline measures have been made, change rate goals will be established on a per unit basis in the department.

**Measure:** 100% of accounts will be verified for the accuracy of their profile information on a regular basis, depending on their filing frequency.

Monthly filers: every 12 months

Quarterly filers: every 24 months

Annual filers: every 36 months

Since this is a new component of re-engineering, there is no prior data. Once the profile system is operational, the profile accuracy rate will be tracked.

**7. TIMELINESS.** Make filing and account status information available to employees in one business day of receipt of returns; other taxpayer information will be available in seven business days.

**Measure:** Number and percent of total returns filed that were processed and critical information made available to employees in 24 hours; complete line item return information made available in 7 days.

	Objectives						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

**8. EMPLOYEE SATISFACTION.** With better access to information and increased authority to resolve taxpayer questions, determine the degree to which employee productivity and effectiveness correlates to increased employee satisfaction.

**Measure:** Employee surveys to establish current employee satisfaction rates. Once that task is completed, goals will be established.

**Agency:** Revenue  
**Program:** MinnesotaCare Tax

**Program Purpose:** The division exists to achieve compliance among the state's 160 hospitals, 21,000 health care providers, and 20 wholesalers of prescription drugs with the law for the MinnesotaCare tax. The revenue obtained from the MinnesotaCare taxes--\$224 million in the 1994-95 biennium--will be used to fund health care insurance for more than 150,000 Minnesotans who have no health insurance.

(MinnesotaCare taxes on hospitals and surgery centers went into effect on January 1, 1993. The MinnesotaCare taxes on health care providers, wholesalers of prescription drugs, and retailers of medical supplies, equipment and appliances goes into effect on January 1, 1994.)

The MinnesotaCare Tax division has chosen to focus on the following goals for the biennium:

1. Ensure taxpayers have accurate, timely, complete and understandable information with which to fulfill their obligations under the tax law.
2. Process taxpayer returns accurately and in a timely manner, and maintain complete taxpayer records.
3. Ensure that employees are effectively and efficiently performing their jobs.

**Performance Objectives and Measures:**

1. **CUSTOMER SATISFACTION.** The majority of taxpayers required to pay the MinnesotaCare taxes will rate the usefulness, accuracy, timeliness and understandability of the information they receive as 'very good' or 'adequate'. Most taxpayers will also rate the responses they are given to their questions as helpful, courteous, and accurate.

**Measure:** In FY95 the division will develop a survey to measure how well it is providing taxpayer service. The survey will measure the percentage of health care providers who rate the following items as 'good' to 'very good':

- Completeness of written instructions
- Understandability of written instructions
- Timeliness of instructions received
- Courteousness to callers
- Helpfulness of answers provided to callers
- Understandability of answers provided to callers

2. **ADMINISTRATIVE COSTS.** The costs of depositing payments per transaction and data entry costs will be among the lowest of the state's tax systems.

**Measure:**

3. **COMPLIANCE GAP.**

4. **PAYMENT GAP.**

5. **POLICY.**



**6. ACCURACY.** Tax payments will be rapidly deposited and the information from returns and deposits will be timely and accurately recorded.

**Measure:** Measurement activity cannot start until the second half of FY94 and FY95. In FY95 the division will review the accuracy of deposits and time to deposit payments after receipt.

**7. TIMELINESS.** Tax payments will be rapidly deposited and the information from returns and deposits will be timely and accurately recorded.

**Measure:** Measurement activity cannot start until the second half of FY94 and FY95. In FY95 the division will review the accuracy of deposits and time to deposit payments after receipt.

**8. EMPLOYEE SATISFACTION.** Employees will feel they have the freedom, information, equipment and computer systems necessary to perform their jobs fully, with a sense of participation in the decisions that involve their work.

**Measure:** In FY95 the division will conduct an employee survey.

Agency: Revenue  
 Program: Special Taxes

**Program Purpose:** The purpose of the Special Taxes System to win compliance with state tax law. The special taxes include the taxes on cigarettes and other tobacco products, and on alcoholic beverages, insurance, lawful gambling, and waste collection and disposal, among others. In FY93 taxes and fees administered by the Special Taxes System produced over \$500 million in state revenue. Several types of special taxes and fees are dedicated to fund specific programs.

The special taxes division has chosen to focus on the following four goals in this biennium:

1. Increase accuracy and timeliness.
2. Increase compliance.
3. Identify and move toward sound tax policies.
4. Increase taxpayer service.

**Performance Objectives and Measures:**

**1. CUSTOMER SATISFACTION.**

Promote the use of paperless mechanisms for filing and payment of special taxes, which encourages voluntary compliance and reduces the administrative burden for taxpayers.

**Measure:** Increase in the percentage of electronically filed returns and informational reports.

	Objectives						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

**Measure:** Increase in the percentage of EFT remitters.

	Objectives						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

Review all special tax laws to ensure they reflect sound tax policy. We will focus on ease of compliance; efficiency of administration; understandability; correction of inconsistent penalty provisions, statutes of limitation and other provisions of law; and on taxpayer rights. We will also examine existing statutes to determine if they are easily applicable to the industry or industries subject to them.

**Measure:** All special tax laws will be reviewed, with specific changes recommended by the noted deadline.

	Objectives						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

**2. ADMINISTRATIVE COSTS.**

Increase the number of electronically filed returns and electronic tax payments, which will lessen the paperwork burden for taxpayers, and cut our processing, storage and document handling costs.

**Measure:** Increase the percentage of taxpayers who file and pay electronically.

	Objectives						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

Increase use of a Local Area Network (LAN) to access taxpayer files stored electronically containing data derived from paper and electronic returns. In this way we will be able to respond more efficiently to taxpayer inquiries in a timely and accurate manner, facilitate audits and enforcement efforts, measure compliance, and reduce paper return storage costs and space requirements.

**Measure:** Percentage of taxpayer data that division employees access electronically.

	<u>Objectives</u>						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

### 3. COMPLIANCE GAP.

### 4. PAYMENT GAP.

**5. POLICY.** Complete a review of all special taxes laws to ensure they reflect sound tax policy. We will focus on ease of compliance; efficiency of administration; understandability; correction of inconsistent penalty provisions, statutes of limitation and other provisions of law; and on taxpayer rights. We will also examine existing statutes to determine if they are easily applicable to the industry or industries subject to them.

**Measure:** All special tax laws will be reviewed, with specific changes recommended by the noted deadline.

	<u>Objectives</u>						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

### 6. ACCURACY.

Identify and analyze the issues affecting accuracy and timeliness of returns filed. Develop and implement a plan to address any deficiencies, and to use new strategies for increased tax return accuracy and timeliness.

**Measure:** Plan completed and implemented.

	<u>Objectives</u>						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

Promote the use of paperless mechanisms for filing and payment of special taxes, increasing the accuracy and timeliness of payments to DOR.

**Measure:** Percent of returns filed accurately.

	<u>Objectives</u>						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

**7. TIMELINESS.**

Identify and analyze the issues affecting accuracy and timeliness of returns filed. Develop and implement a plan to address any deficiencies, and to use new strategies for increased tax return accuracy and timeliness.

**Measure:** Percent of timely filed returns.

	<u>Objectives</u>						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

Promote the use of paperless mechanisms for filing and payment of special taxes, increasing the accuracy and timeliness of payments to DOR.

	<u>Objectives</u>						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

**8. EMPLOYEE SATISFACTION.**

Agency: Revenue

Program: Petroleum Tax

**Program Purpose:** The petroleum tax system exists to provide sound administration of the state laws relating to petroleum taxes, and to win compliance from the approximately 2,000 licensed distributors of petroleum products.

The petroleum division will focus on the following goals in this biennium:

1. Reducing the compliance gap
2. Increasing accuracy and timeliness in filing and payment
3. Improving cooperation with other state and federal agencies, including uniform reporting

**Performance Objectives and Measures:**

**1. CUSTOMER SATISFACTION.**

Move toward uniformity with other states in our reporting requirements, which has been requested by businesses who report and pay taxes in more than one state.

Measure:

							Objectives
<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>	

Enhance the department's working relationships with Public Safety, PCA, Public Service, MnDot, and other state and federal agencies in areas of common concern.

Measure:

							Objectives
<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>	

**2. ADMINISTRATIVE COSTS**

Move toward uniformity with other states in our reporting requirements, which eases the administrative burden on taxpayers who report and pay in more than one state.

Measure:

							Objectives
<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>	

Increase the number of electronically filed returns and electronic tax payments, which will lessen the paperwork burden for taxpayers, and cut our processing, storage and document handling costs.

Measure: Increase the number of taxpayers who electronically file and pay.

							Objectives
<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>	

Actual

**3. COMPLIANCE GAP. Identify willful tax evaders and work to win compliance.**

Measure: Decrease the number of nonfilers and underreporters by 20% by 1995.

							Objectives
<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>	

Actual

## 4. PAYMENT GAP.

## 5. POLICY.

6. ACCURACY. Promote the use of paperless mechanisms for filing and payment of petroleum taxes, increasing the accuracy and timeliness of payments to DOR.

Measure: Increase in the percentage of taxpayers who file and pay electronically.

	Objectives						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

7. TIMELINESS. Promote the use of paperless mechanisms for filing and payment of petroleum taxes, increasing the accuracy and timeliness of payments to DOR.

Measure: Increase in the percentage of taxpayers who file and pay electronically.

	Objectives						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual							

## 8. EMPLOYEE SATISFACTION.

**Agency:** Revenue  
**Program:** Property Tax and State Aid

**Program Purpose:** The purpose of this program is to administer the state role in the complex, integrated system of local property taxes and state property tax relief payments to local governments and individuals.

The property tax program has three primary goals:

1. Ensure uniform and accurate property tax classification, valuation, computation, and notification by local governments (MS chapters 124, 272 and 273).
2. Determine and make timely and accurate payments of state aid to local governments (MS chapter 273 and other authorities).
3. Make property tax refunds to homeowners and renters (MS chapter 290A).

The property tax provides 96% of local government taxes, and pays for 25% of local government spending. It represents more than 31% of all state and local taxes. In FY92 the program determined and distributed state property tax relief payments of \$735 million to 3,000 local units of government and \$144 million in direct refunds to 550,000 homeowners renters.

**Performance Objectives and Measures:**

1. Administration of the local property tax system will be uniformly accurate throughout the state.

**Measure:** Statewide median assessment to sales ratio by property type

Property Type	Objectives							
	1984	1990	1991	1992	1993	1994	1995	2000
Residential	90.6	92.5	92.8	91.1	NA	90-105	90-105	90-105
Apartment	79.8	95.6	97.2	96.2	NA	90-105	90-105	90-105
Recreational	79.6	90.8	90.6	89.1	NA	90-105	90-105	90-105
Farm	97.1	91.0	90.4	91.8	NA	90-105	90-105	90-105
Commercial/Indust	76.5	94.6	93.9	97.2	NA	90-105	90-105	90-105

**Measure:** Percentage of county auditors and treasurers agreeing that the department's responses to their inquiries are complete and understandable.

	Objectives						
	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 2000
Actual	NA	NA	82%	82%			

**Measure:** Number of counties receiving no state change orders to their assessment.

	Objectives						
	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 2000
Actual	26	28	36	28			

2. State-paid property tax relief payment to local governments are computed accurately and paid on time.

**Measure:** Percentage of state aid to local governments paid timely.

	Objectives						
	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 2000
Actual	100	100	100	100	100	100	100

3. Eligible property tax refund claimants file and are paid accurately.

**Measure:** Percentage of eligible taxpayers filing for property tax refunds.

Data for this measure will come from a survey undertaken this summer by the department, and will be available for next year's performance report.

**Measure:** Percentage of property tax refund claims needing correction due to errors.

	<u>Objectives</u>						
	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 2000</u>
Actual	13.6	12.	10.5	10.0(est.)	100	100	100



## **ANNUAL PERFORMANCE REPORT**

### **Part 3: Substantiating the Performance Measures**

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**Agency:** Revenue  
**Program:** Individual Income Tax

**Objective 1. CUSTOMER SATISFACTION.**

Increase the number of taxpayers' telephone calls for information or assistance that the department answers.

**Measure:** Number of busy signals as a percent of total incoming calls relating to individual income tax.

**Definition:** Busy signals divided by total call attempts.

**Measure:** Number of taxpayers who call us, determined by adjusting the total number of in-coming calls for repeat attempts.

**Definition:** Service levels defined by IRS formulas to adjust the total attempted calls into a meaningful "caller" count. These formulas take into account speed redialing and other technology that allow phone callers to recall the phone number automatically as well as estimates of numbers of times the same people will try again

**Rationale:** We are attempting to measure how satisfied our customers will be if they can get through to us with their tax questions. This is one of the most memorable communications a taxpayer has with us. We are assuming that taxpayers who can talk to us and get the information they need quickly will be better able to comply with the requirements of the tax system.

**Data Source:** Numbers of busy signals and attempts is provided by US West and the phone system. Formulas to adjust those counts to service levels are provided by the IRS and private industry sources.

**Factors Beyond Agency's Control That Affect Performance:** As we start to answer more phone calls more quickly and more people find out about the quick service, more people will call. The technological world has allowed people to become accustomed to instant communication and this is likely to increase our customers' demand even as we are increasing our responses to them.

**Objective 2. ADMINISTRATIVE COSTS.**

Increase the number of electronically filed individual income tax returns from 27,000 to 200,000, which will lessen the paperwork burden for taxpayers, and cut our processing, storage and document handling costs.

**Measure:** Number of returns filed electronically.

**Definition:** electronically filed returns

**Rationale:** Electronic filing is beneficial to the department because we are able to process these returns efficiently with little need for shuffling paper or storing paper. Increasing the number of electronic filers will also directly affect customer satisfaction. Electronically filed returns are more correct because many taxpayer errors are caught by electronic filing edits before the document is even transmitted to the department. Taxpayers also reap the benefit of a speedy refund.

**Data Source:** A count from the income tax processing system of all returns coded with an electronic filing account number.

**Factors Beyond Agency's Control That Affect Performance:** The way taxpayers are treated by the preparers could influence numbers of people using electronic filing. If the charges for the transmission service are perceived to be too high, estimated numbers could be unattainable. Also these numbers could be affected by IRS decisions on electronic filing marketing.

Sixty percent of electronically filed returns that claim a refund, and 40 percent of paper filed returns that claim a refund will be deposited by electronic funds transfer to taxpayer accounts, which cuts our document handling and mailing costs.

**Measure:** Number of refunds transferred electronically to bank accounts.

**Definition:** The count of refunds directly deposited into bank accounts

**Rationale:** The state saves money on check printing and mailing costs.

**Data Source:** The EFT system will count the refund transfers automatically.

Increase the use of local area networks (LAN) to access taxpayer data that has been stored electronically after processing both paper and electronic returns. In this way we will be able to control costs in manually intensive areas of data entry, storage and document handling.

**Measure:** Reduce data retrieval costs by 50%.

**Definition:** The cost of current return retrieval is measured by counting total number of paper returns retrieved and calculating those average people minutes/salary spent on that process. Costs will be compared to the number of returns retrieved by the LAN system, the desks of the requesters, and calculating the average computer maintenance costs spent on those retrievals.

**Rationale:** Currently it is a costly, time-consuming process to retrieve the information stored on paper returns. There may still be times when DOR staff needs to see the original return, but most questions can be answered by looking at the electronically stored information on a computer screen at one's desk. We are attempting to measure the efficiency created by changing how we do the return retrieval process.

**Data Source:** Numbers of returns requested by the current process and by the new process (TRIPOD) will be kept track of by the supervisors of the process with current electronic tracking systems. The costs for people doing the manual retrieval are gathered by the supervisors of that function using budget numbers about salaries. The cost of accessing the new system will be calculated by taking the total amount of investment and the annual maintenance amounts and then dividing the five-year amortized investment by the numbers of system requests for the year. LAN costs will not be included because we already have the LAN available to department employees.

**Factors Beyond Agency's Control That Affect Performance:** This program depends on cooperation from the IRS and continued sharing of electronic federal data.

#### **Objective 6. ACCURACY.**

Increase the number of electronically filed individual income tax returns from 27,000 to 200,000. Electronic filing increases our processing accuracy since it eliminates missing data and simple math errors on the part of the taxpayer, and cuts our error rate in data entry and verifying computations.

**Measure:** Number of electronically filed returns.

#### **Objective 7. TIMELINESS.**

Sixty percent of electronically filed returns that claim a refund, and 40 percent of paper filed returns that claim a refund will be deposited by electronic funds transfer to taxpayer accounts, which speeds the refund to the taxpayer.

**Measure:** Number of refunds transferred electronically to bank accounts.

Increase the number of electronically filed individual income tax returns from 27,000 to 200,000, which increases our processing speed and shortens the time it takes to issue taxpayer refunds.

**Measure:** Number of electronically filed returns.

**Agency:** Revenue  
**Program:** Corporate Income Tax

**Objective 1. CUSTOMER SATISFACTION.**

Make account status information available to taxpayer service employees and to taxpayers by having accounts receivable information and refund processing done in 30 days.

**Measure:** Average number of days to process all returns and refunds.

***Definition:*** The average number of days is measured from the date the return is received to the date the refund check is mailed to the taxpayer.

***Rationale:*** We do not have enough staff to communicate with all the corporate taxpayers within the target of 30 days, but we do think that reordering priorities and improving computer systems can allow us to improve our turn-around time on those taxpayers who get refunds or who cannot pay with their return. The sooner we get back to the taxpayers, the easier it is for them to respond. In the past we have taken six months to a year and even longer to get refunds back to taxpayers. The state pays interest on those refunds mailed past 90 days.

***Data Source:*** The corporate tax system and the taxpayer accounting system keep track of number of days to refund.

***Factors Beyond Agency's Control That Affect Performance:*** None.

**Objective 5. POLICY.**

Identify sound corporate tax policy and incorporate it into the Model Revenue System by the end of FY94.

**Measure:** Completed by the proposed time.

***Definition:*** The Model Revenue System is updated to include sections on the corporate income tax.

***Rationale:*** Most of the problems with this tax occur because of the extremely complicated law. Our first step is to do something about that; to "go public" with what makes up sound corporate tax policy. Then we will be able to measure how well we are doing with our efforts to get such legislation passed.

***Factors Beyond Agency's Control That Affect Performance:*** After we set up the standard for good corporate tax policy, we may not have enough legislative support or resources to make the necessary changes.

**Objective 7. TIMELINESS.**

Make account status information available to taxpayer service employees and to taxpayers by having accounts receivable information and refund processing done in 30 days.

**Measure:** Average number of days to process all returns and refunds.

**Agency:** Revenue  
**Program:** Income Tax for Partnerships, S-Corps, Fiduciaries, and Estates

**Objective 1. CUSTOMER SATISFACTION.**

Make account status information available to taxpayer service employees and to taxpayers by having accounts receivable information and refund processing done in 30 days.

**Measure:** Average number of days to process and issue refunds.

***Definition:***

***Rationale:***

***Data Source:***

***Factors Beyond Agency's Control That Affect Performance:***

**Objective 2. ADMINISTRATIVE COSTS.**

Increase the number of electronically filed returns and electronic tax payments, which will lessen the paperwork burden for taxpayers, and cut our processing, storage and document handling costs.

**Measure:** Increase the percentage of taxpayers who file and pay electronically.

***Definition:*** Count of electronically filed returns and payments compared to the total number of payments and returns.

***Rationale:*** We will serve our fiduciary customers more quickly and more correctly as more fiduciary taxpayers use the electronic option.

***Data Source:*** The EFS and EFT system will provide total number of users.

***Factors Beyond Agency's Control That Affect Performance:*** Because we are trying to make this a desirable filing option on the merits of accuracy, less expense, and timeliness, we are attempting to achieve usage of the electronic filing without a law change requiring it. Negotiations with involved banks could break down; they have to invest time and money to get the project going.

**Objective 6. ACCURACY.**

Increase the number of electronically filed, which increases our processing accuracy since it eliminates missing data and simple math errors on the part of the taxpayer, and cuts our error rate in data entry and verifying computations.

**Measure:** Number of electronically filed returns.

***Definition:***

***Rationale:***

***Data Source:***

***Factors Beyond Agency's Control That Affect Performance:***

**Objective 7. TIMELINESS.**

Increase the number of electronically filed returns, which increases our processing speed and shortens the time it takes to issue taxpayer refunds.

**Measure:** Number of electronically filed returns.

***Definition:***

***Rationale:***

***Data Source:***

***Factors Beyond Agency's Control That Affect Performance:***

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Agency: Revenue  
Program: Payroll Tax

**Objective 1. CUSTOMER SATISFACTION.**

Make all filing information available to taxpayer service employees and to taxpayers by processing returns in 30 days or less.

**Measure:** Percent of filing information available for use in 30 days or less.

*Definition:* We can keep track of how much work is completed from each filing period within 30 days from the date of receipt.

*Rationale:* We have historically been very slow in processing the payroll tax returns. We are hoping to re-align priorities and update systems to improve our turn-around time. If we can get back to the taxpayers in a more timely fashion, it is easier for them to reconstruct their records and answer requirements for filing.

*Data Source:* Withholding system and TPA

*Factors Beyond Agency's Control That Affect Performance:* Costs of making the system work better may be more than the present budget will allow.

**Objective 6. ACCURACY.**

Identify the issues affecting accuracy in processing and entering data on the system, and take steps to address any deficiencies.

**Measure:** A baseline for accuracy will be established during the coming year, and appropriate measures identified at that point.

**Objective 7. TIMELINESS.**

Identify the issues affecting the timeliness of processing and entering data on the system, and take steps to address any deficiencies.

**Measure:** A baseline for timeliness will be established during the coming year, and appropriate measures identified at that

Agency: Revenue  
Program: Sales and Use Tax

**Objective 1. CUSTOMER SATISFACTION.**

Gather citizen input on sales tax system performance and ease of compliance with the sales tax laws to determine if there is a need for and to provide a wider range of services (e.g. fact sheets, newsletters, workshops) tailored to specific business groups.

**Measure:** Customer satisfaction surveys.

**Measure:** Focus groups will be used to evaluate satisfaction with sales tax system performance.

**Measure:** Number of complaints/problems from customer contacts received in the sales tax division, Commissioner's office, and Taxpayer Rights Advocate office.

**Definition:** Customer satisfaction with the performance of the sales tax system.

**Rationale:** Providing a wider range of services that are tailored to a taxpayer's specific needs will allow the department to provide pertinent information to those who need it. This data will enable the department to focus on areas of customer dissatisfaction and work to improve its performance.

**Data Source:** Taxpayer profile information kept on computer; survey groups; phone questionnaires.

**Factors Beyond Agency's Control That Affect Performance:** Profile information will depend on taxpayers informing the DOR when there is a change in their profile information such as address, business activity, etc. The legislature will also affect customer satisfaction to the extent it passes unpopular or complex tax laws.

**Objective 2. ADMINISTRATIVE COSTS.**

Expand the options we offer to businesses to file returns electronically. Beginning in FY95 the department will offer electronic filing via telephone, fax, and computer to 90% of businesses who remit sales tax.

**Measure:** Increase in the percentage of taxpayers who file and pay electronically.

**Definition:** The DOR will offer electronic filing capability to at least 90% of the taxpayers who are required to remit sales tax.

**Rationale:** This objective will increase accuracy and timeliness in filing returns and paying taxes. This will reduce generation and processing of paper documents, thus saving taxpayers and the department time and money. Money will be transferred more efficiently. Late filings and payments due to mail delays will not be a factor.

**Data Source:** 1) Number of taxpayers who are using electronic means to file.  
2) Percent of taxpayers who have access to electronic filing and payment options.

**Factors Beyond Agency's Control That Affect Performance:** Generally, the ability to offer these options should not be affected by external factors. The taxpayer's ability to use them could be affected by things such as the unavailability of touch tone phone service, power outages, busy signals, financial institutions capabilities to handle peak busy periods, etc. If all taxpayers attempt to use electronic means at the same time, DOR could not handle the overload on the phone or FAX system.



**Objective 3. COMPLIANCE GAP.** Determine whether there are compliance gaps within selected industries and if so, tailor compliance activity to reduce those gaps.

**Measure:** Estimate the dollar amount of the gap within specific industries through sampling and audits. After we compile the data for the sample, we will tailor a compliance project to address the industry as a whole.

**Measure:** Track whether the gap is increasing or decreasing in percentage terms and in dollar size by industry.

**Definition:** This objective will attempt to measure the difference between how much tax is paid by those who file and the total amount that should have been paid by those filers by industry type. Once the gap is measured we will use selected tools to decrease the gap and then evaluate the effectiveness of those tools through cost-benefit analysis.

**Rationale:** This measure will give the DOR an estimate of the dollar size of the gap and allow us to track whether the gap is expanding or contracting within an industry. The compliance gap will be measured by selected industry because of resource problems and the inability to derive useful compliance information when done on a larger scale. It will give DOR information on the problems that specific industries are encountering and help us to target our compliance efforts on those areas. It will enable DOR to measure the effectiveness of various compliance activities. This means we can devote our resources to the most effective activities.

**Data Source:** Audit results, the compliance system, the profile and filing systems.

***Factors Beyond Agency's Control That Affect Performance:***

- Taxpayer turnover (new or existing businesses going out of business)
- Complexity of the sales tax law, both the administration of the law and how its understood by business
- State of the economy, which affects taxpayers ability to pay
- Law changes that alter the sales tax base or rate and affect the department's ability to accurately measure compliance

**Objective 4. PAYMENT GAP.**

Resolve all cases of tax under-payment in 90 days or less.

**Measure:** Number of cases resolved in 90 days or less after accounts receivable has been created.

**Definition:** This will measure the number of taxpayers who have resolved (paid, payment agreement, bankruptcy, permit revocation process started, or charged off) collection cases 90 days after their liability is first recognized by the department.

**Rationale:** The Department's experience has revealed that the longer a taxpayer's account goes unresolved, the less likely it is that the taxpayer will pay the debt. This makes it important for delinquent accounts to be resolved quickly.

**Data Source:** TPA Computer Database, CACS

**Factors Beyond Agency's Control That Affect Performance:** Ability of taxpayers to come up with the money to settle their accounts. The state of the economy also affects taxpayers ability to pay.

**Objective 6. ACCURACY.**

Create up-to-date personalized taxpayer profiles.

**Measure:** Number of accounts that had changes made to them within 60 days of account creation.

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**Definition:** An up-to-date profile system contains accurate business names, addresses, SIC codes and DOR contact history.

**Rationale:** These measures will highlight possible educational opportunities as they relate to taxpayers and employees understanding of DOR administration of the sales tax system. The chances of having a timely and correct return filed by a taxpayer will be increased by sending them a return with the correct filing and profile information already on it. This objective will improve communications and customer service by getting the right information to the right taxpayer. Profile information is used in department enforcement efforts and current information makes those efforts more effective and efficient.

**Data Source:** Profile system kept on computer.

**Factors Beyond Agency's Control That Affect Performance:**

- Taxpayers using incorrect information to describe their business activity.
- Taxpayers incorrectly filling out forms or not using the prescribed form.
- Taxpayers failing to inform DOR of changes in business status.
- Taxpayers failing to respond to department requests to update and verify their profile information.

**Objective 7. TIMELINESS.**

Make filing and account status information available to employees in one business day of receipt of returns; other taxpayer information will be available in seven business days.

**Measure:** Number and percent of total returns filed that were processed and critical information available to employees in 24 hours; complete line item return information made available in 7 days.

**Definition:** This will measure how quickly the information from a taxpayer's return is entered into the department's computer system and is available to be accessed by employees.

**Rationale:** This will demonstrate how proficient the DOR is in processing returns. Current information enables DOR employees to provide better service to taxpayers in an education or audit situation. Return information is needed to answer taxpayer questions on the status of their accounts and to generate demands if a taxpayer has underpaid their liability.

In the past, it has taken the department months to process returns and enter relevant information onto the system. This meant that if an error was detected the taxpayer wasn't sent a bill or notified of the delinquent filing until months after the due date of the tax return. By this time, past due penalties and interest would have begun to accrue. The lateness of bills decrease the chances of DOR collecting the money owed because by that time the taxpayer may owe a large amount and have difficulty paying it.

**Data Source:** Sales tax filing and processing computer system

**Factors Beyond Agency's Control That Affect Performance:**

- Vendor problems with processing equipment- vendors unable to live up to their contractual obligations to provide service within the designated contract time.
- Computer system problems
- Taxpayers incorrectly filling out returns or not using prescribed forms.

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**Objective 8. EMPLOYEE PRODUCTIVITY.**

With better access to information and increased authority to resolve taxpayer questions, determine the degree to which employee productivity and effectiveness correlates to increased employee satisfaction.

**Measure:** Employee surveys to establish current employee satisfaction rates. Once that task is completed, goals will be established.

**Definition:** This objective will reveal the rate of employee satisfaction with the tools and training they have available to do their jobs.

**Rationale:** This will help to identify whether employees have the tools and training they need to be effective; how well DOR is doing in empowering work groups to make changes; if employees feel they are part of the decision-making process and have the opportunity to learn new skills. Once problems areas are identified, DOR can work to enhance the training or tools that are currently available.

**Data Source:** Employee surveys.

***Factors Beyond Agency's Control That Affect Performance:***

Factors within the agency but outside the sales tax system may affect employee satisfaction with the tools and training they have available to do their jobs.

Agency: Revenue  
Program: MinnesotaCare Tax

**Objective 1. CUSTOMER SATISFACTION.**

The majority of taxpayers required to pay the MinnesotaCare taxes will rate the usefulness, accuracy, timeliness and understandability of the information they receive as 'very good' or 'adequate'. Most taxpayers will also rate the responses they are given to their questions as helpful, courteous, and accurate.

**Measure:** Percentage of taxpayers who rate service as 'adequate' to 'good'.

**Definition:** Number of respondents who rate services as 'adequate' to 'good' divided by the total number of respondents.

**Rationale:** This data will let the division know whether its written information and telephone services meet taxpayers' needs. Based on the results of the survey, the division can take steps to modify its instructions and service. Subsequent surveys will permit the division to know if these modifications resulted in meeting taxpayers' needs.

**Data Source:** Survey to be developed by the division.

**Factors Beyond Agency's Control That Affect Performance:** None

**Objective 2. ADMINISTRATIVE COSTS.**

Tax payments will be rapidly deposited and the information from returns and deposits will be timely and accurately recorded. Also, the costs of depositing payments per transaction, and data entry costs will be among the lowest of the state's tax systems.

**Measure:** Measurement activity cannot start until the second half of FY94 and FY95. In FY95 the division will review the accuracy of deposits and time to deposit payments after receipt.

**Definition:** Number of deposits made in one day divided by the total number of deposits.

**Rationale:** This data will let the division know whether it is making timely deposits of the payments it receives. The sooner the funds are deposited the sooner they will be available for use in the MinnesotaCare insurance program.

**Data Source:** Department payment deposit records.

**Factors Beyond Agency's Control That Affect Performance:** None

**Objective 6. ACCURACY.**

Tax payments will be rapidly deposited and the information from returns and deposits will be timely and accurately recorded.

**Measure:** Measurement activity cannot start until the second half of FY94 and FY95. In FY95 the division will review the accuracy of deposits and time to deposit payments after receipt.

**Objective 7. TIMELINESS.**

Tax payments will be rapidly deposited and the information from returns and deposits will be timely and accurately recorded.

**Measure:** Measurement activity cannot start until the second half of FY94 and FY95. In FY95 the division will review the accuracy of deposits and time to deposit payments after receipt.

**Objective 8. EMPLOYEE SATISFACTION.**

Employees will feel they have the freedom, information, equipment and computer systems necessary to perform their jobs fully, with a sense of participation in the decisions that involve their work.

**Measure:** In FY95 the division will conduct an employee survey.

**Definition:** Number of respondents who answered 'good' to 'very good' divided by the total number of respondents.

**Rationale:** This data will tell division managers and supervisors the percentage of employees who feel they have the support, information and freedom to do their jobs. Based on the results of the survey, managers and supervisors can take steps to ensure that employees have the necessary means to perform their jobs effectively and efficiently.

**Data Source:** Survey to be developed by the division.

**Factors Beyond Agency's Control That Affect Performance:** None

Agency: Revenue  
Program: Special Taxes

**Objective 1. CUSTOMER SATISFACTION.**

Promote the use of paperless mechanisms for filing and payment of special taxes, increasing the accuracy and timeliness of payments to DOR, thus easing voluntary compliance and reducing the administrative burden for taxpayers and ourselves.

**Measure:** Increase in the percentage of electronically filed returns and informational reports.

**Rationale:** Increasing the use of paperless systems, and promoting electronic means of filing tax returns and paying taxes, will directly affect customer satisfaction in a positive way. Taxpayers will be able to comply with tax laws more easily and efficiently. The department and its employees will also benefit by increased efficiency. Less storage of paper and ease of data retrieval are two other immediate benefits to the department.

**Data Source:** A division-wide analysis of tax types utilizing electronic filing and payment mediums.

**Factors Beyond the Agency's Control That Affect Performance:** Many taxpayers served by the Special Tax System are small businesses. Resources, both human and economic, may prevent many from using electronic mediums to file. Technology cost and availability may also be factors. Many of the division's taxpayers do not meet established thresholds for mandatory electronics funds transfer, and certain tax types are not required to do so at all.

**Objective 2. ADMINISTRATIVE COSTS.**

Increase the number of electronically filed returns and electronic tax payments, which will lessen the paperwork burden for taxpayers, and cut our processing, storage and document handling costs.

**Measure:** Increase the percentage of taxpayers who file and pay electronically.

Increase use of a Local Area Network (LAN) to access taxpayer files stored electronically containing data derived from paper and electronic returns. In this way we will be able to respond more efficiently to taxpayer inquiries in a timely and accurate manner, facilitate audits and enforcement efforts, measure compliance, and reduce paper return storage costs and space requirements.

**Measure:** Percentage of taxpayer data that division employees access electronically.

**Definition:** Amount of return and customer account information which is available electronically. Many of the tax types in the Special Taxes system currently have some information available through an electronic medium, either filed in that way or data entered by DOR.

**Rationale:** Increasing the availability of taxpayer information on a LAN system will greatly benefit the department and the public. First, we will be able to respond to taxpayers' requests for information more promptly. Also, information will be more reliable, accurate, and readily available for our own uses. For example, information gathered electronically is useful in meeting the audit and enforcement goals of the division, as well. Sorting information electronically enhances audit selection criteria. Therefore, among the primary benefits of improved information access are increased compliance, and the improved ability to provide more rapid and accurate responses to individual taxpayer account inquiries.

**Data Source:** Includes identification of information needs, and an analysis of what percentage of this information can be accessed via electronic means.

**Factors Beyond the Agency's Control That Affect Performance:** Smaller taxpayers may not be capable of submitting information in a form that can be readily adapted for use an electronic database. Availability of sufficient programming expertise and technological limitations are also considerations.

**Objective 5. POLICY.**

Review Special Taxes law to ensure that they reflect sound tax policy.

**Measure:** All special tax laws will be reviewed, with specific changes recommended by the deadline noted.

**Definition:** Percent of all "Special Taxes laws" which have been reviewed, and for which all necessary changes have been drafted.

**Rationale:** While responding to the needs of the taxpayers, we strive to win compliance with our tax systems. One way to achieve this is by encouraging the legislature to enact laws which reflect sound tax policy. Laws which are fair, consistent, and understandable yield greater compliance and reduce administrative burden. Ease of compliance, efficient administration of tax law, correction of inconsistent penalty provisions where those inconsistencies have no rational basis, taxpayer rights, and inconsistent statutes of limitation are areas of immediate concern.

**Data Source:** Feedback from taxpayers will be solicited and considered as to the necessity of legislative changes and refinements. Changes and review of laws will be tracked internally by the tax system, as well.

**Factors Beyond the Agency's Control That Affect Performance:** Any proposed changes to the laws of the State of Minnesota must, of course, follow the legislative process. The process of developing and implementing laws which reflect sound tax policy includes providing expert testimony before the legislature as to the merits of proposals. In doing so, we will strive to see that new laws are administerable, and that the department is allowed sufficient implementation time frames.

**Objectives 6 & 7.**

**ACCURACY AND TIMELINESS.** Identify and analyze the issues affecting accuracy and timeliness of data, developing plans to address any deficiencies. The result will be increased taxpayer compliance and improved accuracy.

**Measure:** Percent of returns filed accurately and timely.

**Definition:** All tax types administered by the division will be examined for areas where improvements can be made in our reporting and processing systems.

**Rationale:** In order to "win compliance", we must be cognizant of what works with the system, and what doesn't work. If we educate taxpayers regarding proper reporting, we expect to have compliance and accuracy by the compliant majority. By developing the compliant population, giving them all necessary tools, education and resources to properly and accurately report taxes due, the department is able to use its remaining resources to firmly enforce the tax laws, collecting no more and no less than taxpayers owe. The audit and enforcement programs will be focused on those taxpayers who, through various measures and selection criteria, warrant that attention.

**Data Source:** The development of more focused taxpayer service and education will work hand in hand with the development of office edit, audit selection and enforcement actions. The data source, therefore, will be the program itself.

**Factors Beyond the Agency's Control That Affect Performance:** Limited resources may affect our ability to respond to setbacks, complications. Ongoing programs must continue to be administered during the development of new programs. With regard to lawful gambling taxes, persons responsible for return preparation are often unpaid volunteers with limited expertise, and the turn-over rate for return preparers is high. This impacts tax return accuracy and timeliness negatively, and is difficult to control or address. Also, it must be recognized that certain taxpayers will not voluntarily comply with tax laws, despite our best efforts, and their lack of compliance will negatively affect our attempts to meet goals in this area.

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**Agency:** Revenue  
**Program:** Petroleum Tax

**Objective 1. CUSTOMER SATISFACTION.**

Move toward uniformity with other states in our reporting requirements, which has been requested by businesses who report and pay taxes in more than one state.

**Measure:**

*Definition:*

*Rationale:*

*Data Source:*

*Factors Beyond Agency's Control That Affect Performance:*

Enhance the department's working relationships with Public Safety, PCA, Public Service, MnDot, and other state and federal agencies in areas of common concern.

**Measure:**

*Definition:*

*Rationale:*

*Data Source:*

*Factors Beyond Agency's Control That Affect Performance:*

**Objective 2. ADMINISTRATIVE COSTS**

Move toward uniformity with other states in our reporting requirements, which eases the administrative burden on taxpayers who report and pay in more than one state.

**Measure:**

Increase the number of electronically filed returns and electronic tax payments, which will lessen the paperwork burden for taxpayers, and cut our processing, storage and document handling costs.

**Measure:** Increase the number of taxpayers who electronically file and pay.

*Definition:*

*Rationale:*

*Data Source:*

*Factors Beyond Agency's Control That Affect Performance:*



**Objective 3. COMPLIANCE GAP.**

Identify willful tax evaders and work to win compliance.

**Measure:** Decrease the number of nonfilers and underreporters by 20% by 1995.

***Definition:***

***Rationale:***

***Data Source:***

***Factors Beyond Agency's Control That Affect Performance:***

**Objective 6. ACCURACY.**

Promote the use of paperless mechanisms for filing and payment of petroleum taxes, increasing the accuracy and timeliness of payments to DOR.

**Measure:** Increase in the percentage of taxpayers who file and pay electronically.

***Definition:***

***Rationale:***

***Data Source:***

***Factors Beyond Agency's Control That Affect Performance:***

**Objective 7. TIMELINESS.**

Promote the use of paperless mechanisms for filing and payment of petroleum taxes, increasing the accuracy and timeliness of payments to DOR.

**Measure:** Increase in the percentage of taxpayers who file and pay electronically.

***Definition:***

***Rationale:***

***Data Source:***

***Factors Beyond Agency's Control That Affect Performance:***

Agency: Revenue  
Program: Property Tax and State Aid

**Objective 1.** Administration of the local property tax system will be uniformly accurate throughout Minnesota.

**Measure:** Statewide median assessment and sales ratio by property type

**Definition:** Statewide median ration of assessor's estimated market value (EMV) divided by actual selling price after adjustment for any personal property included in the sale, concessionary financing terms, and date of sale. Computed from 12 months of sales data, from the October before the January assessment date through the following September.

**Rationale:** A critical first step in the property tax is the valuation of all taxable property. it is essential that valuations are accurate and uniform across various types of property so that tax budgets are distributed uniformly within each property type and in accordance with the statutorily-set relative distribution of taxes among different types of property.

The assessment to sales ratio measures the accuracy of valuations by comparing the assessor's estimate of market value on which taxes are based against actual selling prices of property that changes hands.

**Data Source:** The department's annual assessment to sales ratio study, based on Certificates of Real Estate Value that are required to be filed for each transfer of real property and assessment data that is provided by assessors.

**Factors Beyond Agency's Control That Affect Performance:** None

**Measure:** Percentage of county auditors and treasurers agreeing that the department's responses to their inquiries are complete and understandable.

**Rationale:** County government officials play a critical role in the actual administration of the local property tax. For state requirements to be met completely and accurately in this extremely complex system, requirements and interpretations must be clearly and uniformly understood.

While the department communicates with and trains local tax administrators in many different ways, practical issues are resolved mainly by calling the department for information and assistance. Therefore the level of satisfaction with our response to phone calls from local officials is a good indicator of the extent to which we provide effective assistance to local tax administration.

**Data Source:** Annual department survey of county auditors and treasurers.

**Factors Beyond Agency's Control That Affect Performance:** Because the procedural requirements for local tax administration are largely set by state law and are often extremely complex, it will always be difficult to provide completely satisfying, easily understood answers to questions posed by local authorities.

**Measure:** Number of counties receiving no state change orders to their assessment.

**Definition:** Number of counties for which the State Board of Equalization had to order no changes to assessors' estimate of market value in order to bring them into compliance with state equalization goals.

**Rationale:** The property tax assessment (classification and valuation) system is locally administered under state oversight. When the system is administered properly at the local level, no state-ordered corrections are necessary.

Each year in the assessment to sales ratio study, the department measures the median level of assessment in each taxing district by property type. Wherever the measured level of assessment in the previous January does not fall within the required range of 90 to 105% of market value, the State board of Equalization issues orders changing the assessment level within that jurisdiction and applying to the appropriate property types to bring them into compliance. This ensures that a correct, uniform level of property tax assessment will be achieved statewide.

**Data Source:** Annual summary of state Board of Equalization orders prepared by the department.

**Factors Beyond Agency's Control That Affect Performance:** For some county and city governments, local pressures can exist not to achieve the required assessment level of their own, but to "pass the buck" by forcing responsibility for value increases (and the taxpayer dissatisfaction that results) on to the state. For this reason it is probably not realistic to think that the need for state ordered changes can ever be eliminated completely.

**Objective 2.** State-paid property tax relief payments to local governments are computed accurately and paid on time.

**Measure:** Percentage of state aid to local governments paid timely.

**Definition:** Percentage of state payments made by the department to local units of government (counties, cities, townships, and special taxing districts) made within the statutory or administrative deadlines.

**Rationale:** A fundamental objective of the property tax program is that state aid to local governments is paid accurately and on time. Local units of government depend heavily on these payments in determining their budgets and property tax levies and in meeting their cash flow needs. Having state dollars on hand by the date promised is critical. This measure simply reflects whether those requirements are being met.

For the largest state aid programs (HACA, LGA) there are no filing requirements on the part of local governments; aid is simply computed at the state level and then paid according to statutory deadlines. The major outside factor that can potentially affect these payments are when substantial formula changes are enacted at the end of the legislative session in late May to take effect in the aid payments due the following July.

For other aid programs, such as aid to local police and fire associations, some information is required to be provided to the department by the local government before aid can be computed, and a release has to be granted by the State Auditor before payments can be made. Delays in either process can delay issuance of aid in these cases. However, delays from the scheduled payment dates in these cases are in accordance with statutory requirements, and these payments are considered to be timely on the part of the department.

**Data Source:** Internal reports compiled by the Property Tax Division.

**Factors Beyond Agency's Control That Affect Performance:** As described above.

**Objective 3.** Eligible property tax refund claimants file and are paid accurately.

**Measure:** Percentage of eligible taxpayers filing for property tax refunds.

**Definition:** Homeowners and renters who file for property tax refunds as a percentage of the total number who are eligible to file.

**Rationale:** Broad participation in the property tax refund program is important to meeting the objectives that have been established for it: to reduce the burden that high property taxes (paid either directly or through rents) place on citizens with relatively low incomes. To meet these policy goals effectively, participation in the program must be high, particularly among the lowest income groups who stand to gain the most from the program.

**Data Source:** This measure is being developed through a survey of potentially eligible homeowners identified from department data, matched against other department records of known refund claimants to identify apparent eligible non-filers. The survey is designed not only to measure the extent of participation among eligible citizens, but also to identify reasons for non-participation and potential means to overcome them.

**Factors Beyond Agency's Control That Affect Performance:** The property tax refund claim requirements are extremely complex due to a variety of statutory requirements. This complexity may deter some potential claimants (particularly the elderly and the lowest income groups) from filing.

**Measure:** Percentage of property tax refund claims needing correction due to errors.

**Definition:** Percentage of M-1PR property tax refund claims requiring adjustment in the refund amount paid due to errors.

**Rationale:** To receive the correct amount of refund, claimants must file accurately. Errors on the claim form increase department processing costs, may cause slowing of the refund payment, and cause frustration to citizens when their refund amounts are adjusted by the department.

**Data Source:** Department monthly document processing reports, summarized for end of the calendar year data.

**Factors Beyond Agency's Control That Affect Performance:** The property tax refund claim requirements (and thus the forms themselves are extremely complex due to a variety of statutory requirements. This complexity probably makes it unlikely that the error rate for property tax refund claims could ever be lowered to the level of state individual income tax returns, for which the filing requirements and forms are much simpler.

## **ANNUAL PERFORMANCE REPORT**

### **Part 4: Improving Programs and the Reporting Process**

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#### **Agency: Revenue**

**Process Used:** The department has worked with its existing tax system teams to prepare this performance measurement report. The tax system teams are comprised of employees that represent the functional areas of the department that deal with a particular tax system. Tax system team members come from all employee bargaining unions which also ensure a broad base of operational input.

The mission statement in part 1 comes from the department's strategic plan, which was revised in November, 1991 and is still current for the agency.

The tax system teams have reviewed the performance objectives and measures described in the 1994-95 biennial budget and determined that they are still relevant. In many cases the tax system teams are identifying additional measures that will better allow the department, executive agencies and the legislature to determine if we are meeting our performance outcomes.

The department has also established a Performance Measurement Group (PMG) that will work with the tax system teams and department divisions on performance evaluation and measurement projects.

**Ways to Improve Program Outcomes:** (Begin typing here.)

## **Part 4: Improving Programs and the Reporting Process**

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