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Senate Finance and Budget and Taxation Committees
3 West Miller Senate Office Building
11 Bladen Street
Annapolis, MD 21401

House Health and Government Operations Committee
House Office Building Room 121
6 Bladen Street
Annapolis, MD 21401

Re: 2019 SB 802, 2019 HB 814 Report on the Integrated Tax System as it relates to the Maryland Health Insurance Program

Dear Chairman and Chairwomen:

Pursuant to the requirements of the 2019 SB 802 and HB 814, the Comptroller of Maryland is submitting its report for the Integrated Tax System (ITS) Major Information Technology Development Project as requested, relating to its capacity to collect Individual Responsibility Amounts, progress made in transitioning to the ITS, and the costs and time needed to include this functionality.

Background

The ITS being implemented by the Compass Program provides the functionality to allow the Comptroller's Office to fulfill its Constitutional responsibilities related to tax processing, collections, and enforcement initiatives while also supporting the following three primary objectives of the agency:

- 1) Provide public services in ways that achieve the highest level of individual and business customer satisfaction;
- 2) Take advantage of existing information technology applications to enhance business processes that currently use little or no technology, and improve the infrastructure for efficient implementation of these new technologies; and
- 3) Vigorously enforce tax laws essential to the fair treatment of taxpayers.

The ITS solution will replace essential functionality currently existing in the State of Maryland Tax System (SMART) and the Computer Assisted Collections System (CACs), and integrate other taxes currently not processed by these existing systems while working in concert with the COM's existing data warehouse technology to maximize the COM's ability to utilize its data for querying, auditing, reporting, scoring, and forecasting. The

COM is also interested in expanding its automated functionality to the processing of all tax and fee types coupled with the ability to make legislatively mandated changes in a more effective and efficient manner.

Because of the age of the legacy systems, the agency's IT division is less agile. With the implementation of the Compass system, the agency will be more responsive to the needs of taxpayers and the legislature. As a result, the agency will improve its tax administration efforts.

Program Status

The Compass Program is a multi-year, multi-vendor, multi-project Program whose goal is to implement an Integrated Tax System that replaces all existing integrated and distributed tax systems currently in use by the COM. The Program is in its third year and is currently in the development and implementation phase. The Compass Program will be implemented through five iterative releases, the first release R1A for alcohol tax and licensing went live on July 6, 2020. Part of the success of this release is attributed to both the internal and external stakeholder meetings that were held and the enthusiastic support and feedback received from all parties. The program team is completing the release R1B corporate income tax activities (scheduled for a Q1, 2021 release). Data from legacy systems required for the R1B release have been identified, are being tested and will be loaded to the new system. All R1B end-users identified to work in the new system are currently undergoing training and Production Support procedures are being finalized. While the program team is also beginning design and development tasks for release 2 (scheduled for a Q1, 2022 release), the program management team is focused on planning for all future releases. The entire program team continues to focus on the schedule and has remained within budget with the first release all while working in a full-time telework environment due to the COVID-19 pandemic.

Functionality to Process and Collect Individual Responsibility Amounts in the ITS

Revisions were made to HB 814 during the 2019 legislative session, and the individual responsibility amounts proposed in the original version of the bill were removed from the version that was ultimately enacted (see CH423, 2019 Laws of Maryland). In the event the legislature enacts additional legislation with provisions similar to those included in the original version of HB814, the ITS can be designed and configured to process and collect the individual responsibility amounts, subject to the necessary lead time and funding for such configuration.

Individual income tax is scheduled to be implemented in the 4th quarter of 2022, so that tax year 2022 returns can be processed in the ITS in calendar 2023. Assuming individual responsibility amounts would be identified on an individual income tax return, tax year 2022 returns would be the earliest the Comptroller could implement this functionality. While the ITS is being designed to accommodate data capture from the individual income tax form, detailed requirements about the individual responsibility amounts cannot be included in the design without knowing the legislative requirements for such amounts. If legislation were passed once design work was already underway, a change order would need to be submitted to the vendor. The impact on the implementation schedule and the

cost to perform the work necessary to effect such a change would depend on the specific requirements.

The ITS includes functionality to collect income taxes from both businesses and individuals. The collections functionality for corporation income taxes is scheduled to be implemented in January 2021. Individual collections functionality will be incorporated in Release 3 (implementation 4th quarter 2022) to support the liabilities that will result from processing individual personal income tax returns. Questions such as whether an individual responsibility amount is collected as part of the personal income tax liability or as a separate liability reported on the personal income tax return, how a taxpayer's payments should be allocated when a taxpayer owes both individual income tax and an individual responsibility amount, and distribution of the revenue collected from individual responsibility amounts (and impact on current income tax distribution processes) would need to be addressed in legislation, and the answers would inform the design requirements. Collections of individual responsibility payments from taxpayers whose income tax refunds were insufficient to cover the individual responsibility amounts would likely require the creation of new collection notices or modification of existing notices. Interfaces with income tax offset partners would likely need to be modified. The earliest the Comptroller's Office could implement the functionality to collect individual responsibility amounts would be in calendar year 2023 for those liabilities identified on tax year 2022 returns. Detailed requirements about the collection of individual responsibility amounts cannot be included in the design without knowing the legislative requirements for such amounts. If legislation were passed once design work was already underway, the implementation schedule could be impacted, and the cost to perform the work necessary to effect such a change could result in an increased cost to the Compass Program.

Cost Projections

The Compass Program remains within budget and the projected cost for current scope is approximately \$117,400,000 through 2028.

The ability to collect individual responsibility amounts as requested in SB 802 and HB 814 is functionality included in current scope for the project, assuming that:

- The individual responsibility amounts are reflected as a standard penalty that follows the normal Individual Income Tax process
- The collection, case flow and noticing flow follow the normal Individual Income Tax process if the taxpayer is non-compliant

Additional costs above the current scope may be incurred if the legislature requires the ability for the ITS to interface with (exchange files to and from) external partners such as Maryland Health Benefits Exchange and Maryland Department of Health and/or to separately account for and distribute funds collected from individual responsibility amounts.

Cost above existing scope to accommodate interfaces with each external partner is estimated at \$60,102 per external partner.

Timeline for the ITS

On April 16, 2018, the Comptroller of Maryland issued a Request for Proposals (RFP) in order to procure a COTS Integrated Tax System Solution and on December 19, 2018, the Board of Public Works approved the ITS contract to Revenue Solutions, Inc. for the period of 1/3/2019 – 12/19/2028 (10-year base w/ one 5-year option) 12/20/2028 – 12/19/2033 (5-year option period).

The Compass Program's first release, R1A alcohol tax and licensing, went live on July 6, 2020. The Compass team is completing the release R1B corporate income tax activities, scheduled for a Q1 2021 release. Three additional releases are planned for remaining business taxes: individual income taxes, taxpayer portal, IFTA, abandoned property, content management, and data warehouse to be completed by Q3 2023. The release most directly related to individual responsibility amounts is R3 is scheduled for implementation in the 4th quarter of 2022. All implementation dates referenced in this letter are subject to change in the event of further impacts due to the ongoing pandemic and/or federal legislation.

Sincerely,



Peter Franchot
Comptroller of Maryland

cc: Department of Legislative Services