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⇒ Designates that this item is a change item

Agency Purpose

The Department of Revenue's (DOR) mission is to "make the state's revenue system work well for Minnesota." Its tax information, filing and paying services, and its enforcement activities help ensure that citizens have the information and means to fulfill their tax obligations.

The department's vision:

- Everyone pays the right amount, no more, no less.
- Citizens have the services and information they need to meet their obligations and to be informed about the revenue system.
- Taxpayers have filing, paying and refund systems that are fast, convenient, easy to use, secure and accurate.
- The revenue system keeps pace with the changes in the economy and in technology.
- Employees perform meaningful and challenging work, and have opportunities to learn and grow.
- Taxpayers trust us to protect their data.

At a Glance

The Department of Revenue is structured into two separate but integrated programs:

Tax System Management

We serve:

- 3.7 million individual taxpayers
- 575,000 Corporate and Sales & Use Taxpayers
- 165,000 Withholding Taxpayers
- 3,300 local units of government

We respond to:

- Over 678,000 callers
- 41,000 e-mails

We process:

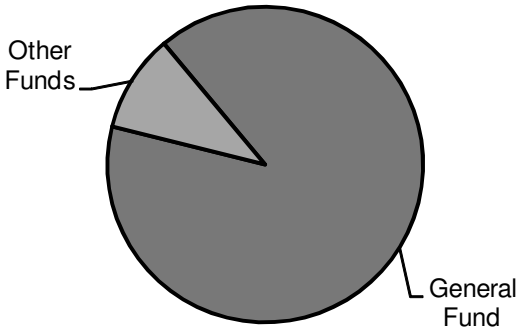
- 2.8 million income tax returns
- 1.6 million business tax returns
- 4.8 million tax payments
- 2.7 million tax refunds

Accounts Receivable Management

We collect:

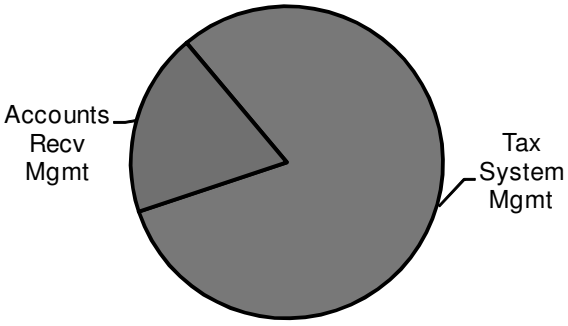
- $16.5 billion gross in compliance and non-compliance tax revenues and other sources
- $54.9 million from 167,300 offsets against state refunds
- Collected $276 million in delinquent tax debt in FY 2010
- $28.4 million in delinquent non-tax debt in FY 2010
- 155,392 delinquent tax debt cases closed in FY2010
- 18,720 delinquent non-tax debt cases closed in FY2010

Est. FY 2010-11 Expenditures by Fund



Source: Consolidated Fund Statement.

Est. FY 2010-11 Expenditures by Program



Source: Minnesota Accounting and Procurement System (MAPS) as of 08/23/10.

Strategies

The Department of Revenue oversees Minnesota's revenue system, which is made up of 28 state taxes, and state and local property taxes collected by local governments. State taxes include individual income, sales, corporate franchise, petroleum, environmental, gambling, cigarette and tobacco, alcohol, insurance and health care provider taxes.

The Department collects approximately $16.5 billion per year in state taxes, and oversees the uniform application of local property tax laws. Property taxes, which are administered by the counties, raise $7.9 billion annually for Minnesota's communities. The Department also pays out over $1 billion annually in state aid to counties, cities, towns and special taxing districts through 29 different state programs.

The strategies the department uses to fulfill its mission and vision include:

- identifying and addressing patterns of noncompliance;
- working in partnership with others to ensure that all citizens receive the best possible services and information;
- deploying systems and processes that helps keep pace with taxpayer and employee needs and expectations;
- identifying and recommending changes to align the revenue system with economic activity;
- creating a more flexible, supportive and rewarding environment for DOR employees;
- ensuring that DOR systems and practices protect the privacy and security of taxpayer information;
- evaluating changes in technology, the economy and demographics, and developing work plans for adapting to our changing environment; and
- integrating outcome measures into our goal-setting and decision-making processes.

Operations

Service, Audit and Enforcement Operations

The Department has six major business activities that focus on customer service, tax processing, audit and enforcement operations. These are:

- **Individual taxes:** serving the needs of 3.7 million individual income taxpayers, 165,000 businesses that withhold income tax, and 758,500 property tax refund applicants.
- **Business taxes:** serving the needs of 284,000 sales tax permit holders and 44,000 corporate franchise taxpayers. This program also administers the S corporation, partnership, fiduciary and estate taxes;
- **Special taxes:** serving the needs of thousands of petroleum tax, alcohol, tobacco, environmental, gambling, insurance, mining and Minnesota Care taxes.
- **Collections:** managing tax and non-tax debt collection on behalf of the State of Minnesota and other clients, including state agencies and other public entities. Services include locating and contacting debtors, billing, monitoring payment plans, locating and evaluating assets, issuing liens and levies, and seizing assets.
- **Criminal investigations** which probes possible tax crimes and refers cases to prosecutors; trains auditors and collectors to deal with threats from menacing taxpayers and acts as a liaison with local, state and federal law enforcement.
- **Property Tax** which monitors local assessor performance, ensures uniform application of Minnesota's property tax laws, gathers property tax data and computes state aid payments to local governments.

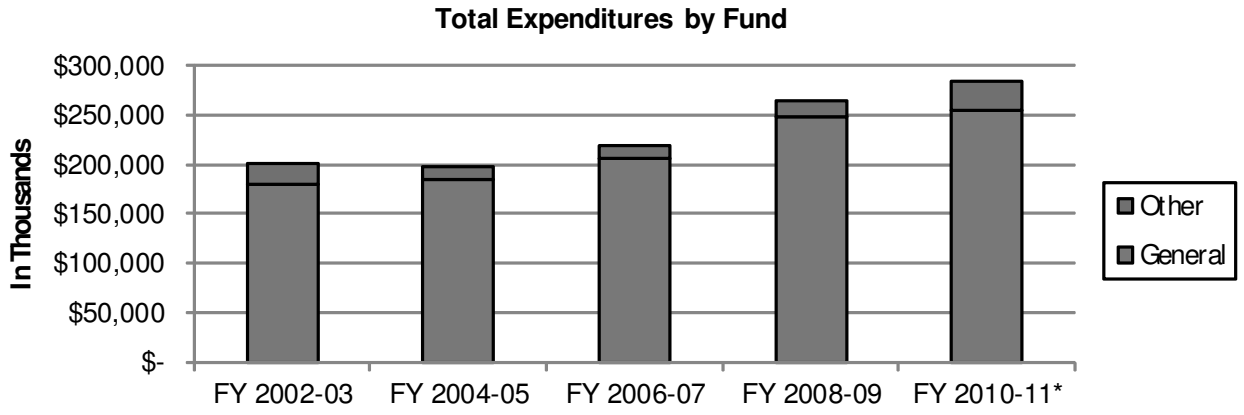
Tax Compliance Support Operations

The Department also has four major business activities that support tax auditing and enforcement operations. These are:

- **Information technology** activities which include strategic planning for developing and integrating technologies and systems into business operations; computer systems development; software management; and oversight and maintenance of the agency's computer network, systems and equipment.
- **Tax filing and payment** which involves processing nearly 9.2 million tax returns and payments, and issuing 2.7 million refunds annually; it also issues tax identification numbers to businesses, manages taxpayer accounts and ensures the security of taxpayer records.
- **Appeals, Legal Services and Tax Research** activities include providing legal support to the agency and resolving disputes between the Department and taxpayers; and forecasting revenue sources and aid expenditures for the state budget, and developing revenue estimates for proposed tax legislation.
- **Compliance support** which provides mail distribution and receiving services; forms design, public information, website management and printing services; financial management; human resource

management; and other administrative functions on behalf of the Department. These functions support tax auditing and enforcement operations.

Budget Trends



** FY 2010-11 is estimated, not actual. Source data for the previous chart is the Minnesota Accounting and Procurement System (MAPS) as of 08/23/10.*

In the coming FY 2012-13 budget biennium, the Minnesota Department of Revenue will continue to confront economic, demographic, technological, and global challenges.

Economic changes: Coming off the most severe economic slump since the great depression, Revenue will face increased tax delinquencies as taxpayers increasingly challenge tax assessments, including property tax assessments. In this environment Revenue will need to strike a delicate balance between creative and aggressive tax collection strategies and a more compassionate, understanding, and sometimes forgiving, relationship with taxpayers.

Demographic changes: As our workforce ages, DOR must find and train new employees to replace the large numbers of highly trained leaders who will be retiring in the next five years. Increasing numbers of replacement hires will come from non-English speaking cultures. By 2015, Minnesota's non-English speaking populations will more than double, enriching and challenging taxpayer and employee relations.

Technology changes: Persistent budget deficits have limited Revenue's ability to deploy state-of-art technical solutions to tax administration. Revenue has been fortunate to receive funding for a new integrated tax processing system, but DOR is continually challenged by the need to assure that DOR systems and confidential taxpayer information are completely secure. Investments in security and disaster recovery technology are critical.

Globalization of economic activity: Revenue and the revenue system will continue to be challenged by globalization. Long-standing institutional arrangements in taxation will need to change. Cyber-transactions lack "place", and challenge states' ability to apply traditional geographic apportionment formulas, for example. States continue to face stiff competition for jobs and investments from low-wage countries. To survive in this new environment we have deliver public services, including tax administration, more efficiently.

Contact

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Dollars in Thousands

	Current FY2010	Current FY2011	Governor Recomm. FY2012	Governor Recomm. FY2013	Biennium 2012-13
Direct Appropriations by Fund					
General					
Current Appropriation	123,487	133,225	134,726	134,778	269,504
Recommended	**123,487**	**133,225**	**136,257**	**139,996**	**276,253**
Change		0	1,531	5,218	6,749
% Biennial Change from 2010-11					7.6%
Health Care Access					
Current Appropriation	1,761	1,749	1,749	1,749	3,498
Recommended	**1,761**	**1,749**	**1,749**	**1,749**	**3,498**
Change		0	0	0	0
% Biennial Change from 2010-11					-0.3%
Highway Users Tax Distribution					
Current Appropriation	2,183	2,183	2,183	2,183	4,366
Recommended	**2,183**	**2,183**	**2,183**	**2,183**	**4,366**
Change		0	0	0	0
% Biennial Change from 2010-11					0%
Environmental					
Current Appropriation	303	303	303	303	606
Recommended	**303**	**303**	**303**	**303**	**606**
Change		0	0	0	0
% Biennial Change from 2010-11					0%
Expenditures by Fund					
Direct Appropriations					
General	115,125	140,094	132,348	132,398	264,746
Health Care Access	1,733	1,777	1,749	1,749	3,498
Highway Users Tax Distribution	2,037	2,329	2,183	2,183	4,366
Environmental	301	305	303	303	606
Open Appropriations					
General	1,184	1,930	1,925	1,925	3,850
Statutory Appropriations					
Miscellaneous Special Revenue	3,755	10,042	3,596	3,596	7,192
Building	2,381	14,069	0	0	0
Total	**126,516**	**170,546**	**142,104**	**142,154**	**284,258**
Expenditures by Category					
Total Compensation	100,296	113,962	110,561	110,561	221,122
Other Operating Expenses	26,022	55,684	30,643	30,693	61,336
Capital Outlay & Real Property	0	700	700	700	1,400
Local Assistance	198	200	200	200	400
Total	**126,516**	**170,546**	**142,104**	**142,154**	**284,258**
Expenditures by Program					
Tax System Management	102,004	138,813	112,365	112,415	224,780
Debt Collection Management	24,512	31,733	29,739	29,739	59,478
Total	**126,516**	**170,546**	**142,104**	**142,154**	**284,258**
Full-Time Equivalents (FTE)	**1,429.2**	**1,536.2**	**1,486.4**	**1,445.6**	

Dollars in Thousands

	FY2011	Governor's Recomm. FY2012	Governor's Recomm. FY2013	Biennium 2012-13
Fund: GENERAL				
FY 2011 Appropriations	**133,225**	**134,726**	**134,778**	**269,504**
Technical Adjustments				
One-time Appropriations		(60)	(60)	(120)
Operating Budget Reduction		(68)	(68)	(136)
Subtotal - Forecast Base	**133,225**	**134,598**	**134,650**	**269,248**
Change Items				
Operating Reduction	0	(2,184)	(2,184)	(4,368)
Tax Compliance Initiative	0	3,843	7,530	11,373
Total Governor's Recommendations	**133,225**	**136,257**	**139,996**	**276,253**
Fund: HEALTH CARE ACCESS				
FY 2011 Appropriations	**1,749**	**1,749**	**1,749**	**3,498**
Subtotal - Forecast Base	**1,749**	**1,749**	**1,749**	**3,498**
Total Governor's Recommendations	**1,749**	**1,749**	**1,749**	**3,498**
Fund: HIGHWAY USERS TAX DISTRIBUTION				
FY 2011 Appropriations	**2,183**	**2,183**	**2,183**	**4,366**
Subtotal - Forecast Base	**2,183**	**2,183**	**2,183**	**4,366**
Total Governor's Recommendations	**2,183**	**2,183**	**2,183**	**4,366**
Fund: ENVIRONMENTAL				
FY 2011 Appropriations	**303**	**303**	**303**	**606**
Subtotal - Forecast Base	**303**	**303**	**303**	**606**
Total Governor's Recommendations	**303**	**303**	**303**	**606**
Fund: GENERAL				
Planned Open Spending	**1,930**	**1,925**	**1,925**	**3,850**
Total Governor's Recommendations	**1,930**	**1,925**	**1,925**	**3,850**
Fund: MISCELLANEOUS SPECIAL REVENUE				
Planned Statutory Spending	**10,042**	**3,596**	**3,596**	**7,192**
Total Governor's Recommendations	**10,042**	**3,596**	**3,596**	**7,192**
Fund: BUILDING				
Planned Statutory Spending	**14,069**	**0**	**0**	**0**
Total Governor's Recommendations	**14,069**	**0**	**0**	**0**
Revenue Change Items				
Fund: GENERAL				
Change Items				
Tax Compliance Initiative	0	14,425	29,075	43,500

Fiscal Impact ($000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	$(2,184)	$(2,184)	$(2,184)	$(2,184)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$(2,184)	$(2,184)	$(2,184)	$(2,184)

Recommendation

The Governor recommends a reduction of $2.184 million in FY 2012 and $2.184 in FY 2013 to the Department of Revenue (DOR) general fund compliance support operating budget. The Governor intends that the DOR should focus its operating funds on maintaining its highest priority services. In addition, the Governor intends to provide as much flexibility as possible to the agency for the implementation of these reductions.

This proposal represents a five percent reduction to DOR's compliance support base general fund forecast budget.

Rationale

The DOR's total base forecast general fund operating budget is $132.4 million for FY 2012 and $132.4 million for 2013 and includes amounts budgeted for Tax System Management and Debt Collection Management programs. The DOR is proposing to reduce operating expenditures and positions during the FY 2012-13 biennium. Specifically, DOR will reduce operating budgets by the following amounts:

- Tax System Management – Reduction of $2.184 million in FY 2012 and $2.184 million in FY 2013

Cuts in services include:

- Eliminating approximately 22.7 positions through attrition or lay-off;
- Selectively reducing the following support services: informational and instructional services to taxpayers, employees, local government officials, and tax practitioners; data recording, analysis, and retrieval services; and legal, human resource, tax return processing services in ways that minimize impacts on tax compliance.
- Restricting the purchase of information technology to mission-critical needs and the mitigation of risks associated with older equipment and systems, while advancing our highest priority project, the completion of an integrated tax processing system;
- Saving office rent by shifting employees from smaller offices to telecommuting arrangements.

Statutory Change: Not Applicable.

Preliminary Budget Option

Fiscal Impact ($000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	$3,843	$7,530	$7,530	$7,530
Revenues	14,425	29,075	29,075	29,075
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$(10,582)	$(21,545)	$(21,545)	$(21,545)

Recommendation

The Governor recommends funding of $3.843 million in FY 2012 and $7.530 million in FY 2013 to fund 81 additional compliance employees to identify and collect tax liabilities from individuals and businesses that currently under report their tax liabilities or do not file and pay at all. With this effort, the Department of Revenue will collect $43.5 million in the FY 2012-13 biennium.

Rationale

- The first goal statement in department's Strategic Plan is that everyone pays the right amount of tax, no more, no less. However, there are a significant number of individuals and businesses with Minnesota tax liability that do not pay all that is owed or do not file or pay anything. To create a fairer tax system for all taxpayers and to level the playing field for all businesses, these "underreporters" and "nonfilers" will be identified and brought onto the tax rolls permanently. DOR wants to increase its focus on taxpayers that are furthest from compliance.
- Tax System Management - $2.187 million in FY 2012 and $4.278 million in FY 2013.
- Debt Collection Management - $1.656 million in FY 2012 and $3.252 million in FY 2013.

With the added resources, the DOR will collect $43.5 million in revenue in the FY2012-13 biennium and $29.1 million annually in the future.

Key Goals and Measures

- DOR's goal is to collect $43.5 million for this tax compliance initiative in FY 2012-13.

Statutory Change: Not Applicable

Program Description

The tax system management program provides the infrastructure that enables the revenue system to work well for Minnesota. This infrastructure includes tax information services, filing and paying services and enforcement activities. It helps ensure that citizens have:

- The information and means they need to easily and conveniently fulfill their tax filing and paying obligations.
- The confidence that everyone is paying the proper amount of taxes, no more or no less.
- Accurate, impartial and complete information to make informed decisions about the structure and operation of the state revenue system.

Budget Activities

- Compliance Support
- Appeals, Legal Services & Tax Research
- Tax Payment & Return Processing
- Tax Compliance & Enforcement (Individual and Business Taxes)
- Technology Development, Operations and Support
- Property Tax Administration & State Aid

Future Challenges

In this biennium, the agency will continue to face several major challenges that have developed in the wake of sweeping and rapid changes in the economy, demographics, technology and globalization of economic activity.

Economic changes: Coming off the most severe economic slump since the great depression, Revenue will face increased tax delinquencies as taxpayers increasingly challenge tax assessments, including property tax assessments. In this environment Revenue will need to strike a delicate balance between creative and aggressive tax collection strategies and a more compassionate, understanding, and sometimes forgiving, relationship with taxpayers.

Demographic changes: As our workforce ages, DOR must find and train new employees to replace the large numbers of highly trained leaders who will be retiring in the next five years. Increasing numbers of replacement hires will come from non-English speaking cultures. By 2015, Minnesota's non-English speaking populations will more than double, enriching and challenging taxpayer and employee relations.

Technology changes: Persistent budget deficits have limited Revenue's ability to deploy state-of-art technical solutions to tax administration. Revenue has been fortunate to receive funding for a new integrated tax processing system, but DOR is continually challenged by the need to assure that its systems and confidential taxpayer information are completely secure. Investments in security and disaster recovery technology are critical.

Globalization of economic activity: Revenue and the revenue system will continue to be challenged by globalization. Long-standing institutional arrangements in taxation will need to change. Cyber-transactions lack "place", and challenge states' ability to apply traditional geographic apportionment formulas, for example. States continue to face stiff competition for jobs and investments from low-wage countries. To survive in this new environment DOR has to deliver public services, including tax administration, more efficiently.

Contact

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Dollars in Thousands

	Current FY2010	Current FY2011	Governor Recomm. FY2012	Governor Recomm. FY2013	Biennium 2012-13
Direct Appropriations by Fund					
General					
Current Appropriation	98,990	105,884	107,385	107,437	214,822
Technical Adjustments					
One-time Appropriations			(60)	(60)	(120)
Operating Budget Reduction			(68)	(68)	(136)
Subtotal - Forecast Base	98,990	105,884	107,257	107,309	214,566
Governor's Recommendations					
Operating Reduction		0	(2,184)	(2,184)	(4,368)
Tax Compliance Initiative		0	2,187	4,278	6,465
Total	**98,990**	**105,884**	**107,260**	**109,403**	**216,663**
Health Care Access					
Current Appropriation	1,761	1,749	1,749	1,749	3,498
Subtotal - Forecast Base	1,761	1,749	1,749	1,749	3,498
Total	**1,761**	**1,749**	**1,749**	**1,749**	**3,498**
Highway Users Tax Distribution					
Current Appropriation	2,183	2,183	2,183	2,183	4,366
Subtotal - Forecast Base	2,183	2,183	2,183	2,183	4,366
Total	**2,183**	**2,183**	**2,183**	**2,183**	**4,366**
Environmental					
Current Appropriation	303	303	303	303	606
Subtotal - Forecast Base	303	303	303	303	606
Total	**303**	**303**	**303**	**303**	**606**
Expenditures by Fund					
Direct Appropriations					
General	92,398	110,983	105,007	105,057	210,064
Health Care Access	1,733	1,777	1,749	1,749	3,498
Highway Users Tax Distribution	2,037	2,329	2,183	2,183	4,366
Environmental	301	305	303	303	606
Open Appropriations					
General	0	30	25	25	50
Statutory Appropriations					
Miscellaneous Special Revenue	3,154	9,320	3,098	3,098	6,196
Building	2,381	14,069	0	0	0
Total	**102,004**	**138,813**	**112,365**	**112,415**	**224,780**
Expenditures by Category					
Total Compensation	79,444	91,064	88,311	88,311	176,622
Other Operating Expenses	22,362	47,549	23,854	23,904	47,758
Local Assistance	198	200	200	200	400
Total	**102,004**	**138,813**	**112,365**	**112,415**	**224,780**

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Activity					
Compliance Support	3,713	4,414	3,910	3,910	7,820
Appeals,Legal Serv & Tax Res	4,969	5,895	5,487	5,587	11,074
Tax Payment & Ret Processing	13,283	13,859	13,341	13,341	26,682
Tax Compliance & Enforcement	56,747	73,213	65,177	65,177	130,354
Technology Dev, Ops & Support	20,358	37,811	21,161	21,161	42,322
Property Tax Admin & State Aid	2,934	3,621	3,289	3,239	6,528
Total	**102,004**	**138,813**	**112,365**	**112,415**	**224,780**
Full-Time Equivalents (FTE)	**1,098.7**	**1,175.7**	**1,136.2**	**1,103.8**	

Activity at a Glance

- Write and design more than 300 tax forms and instruction booklets
- 15 million pieces printed and mailed
- 218,319 forms and instructions for individual income tax downloaded from website in April 2010
- 16,000 pages of information available on website
- Over 2,560 cases resolved last year by the Taxpayer's Advocate Office
- Manages facilities for nearly 1,500 employees in 16 locations
- Manages roughly 100 contracts amounting to over $12 million

Activity Description

This activity provides overall direction to the agency. Its services include human resource management, facilities and contracts management, budget planning, financial and performance reporting, tax policy development, and tax publication and informational services for taxpayers and employees.

Population Served

This activity serves the state's 3.7 million individual income tax filers and 644,000 registered businesses, the Department's nearly 1,500 employees and state policymakers, including the Governor and legislature.

Services Provided

The Compliance support activity includes six major categories of services:

Human resource management serves department managers, supervisors and employees in staffing, recruitment and selection; job classification; labor relations; policy administration and consultation; performance evaluation; compensation and benefits administration; personnel transactions; personnel records; workforce planning; and employee training and development.

Facilities management services include building security, office space planning and general building services.

Financial reporting and contract management services include coordinating the Department's biennial budget and annual spending plans; monitoring annual budget plans; preparing financial reports; overseeing all budget and accounting functions for the Department's operating budget; ensuring that adequate financial controls are in place; and conducting internal audits to ensure the integrity of internal financial and operating systems. Services also include the development of performance measures for the agency's activities; preparation of financial reports; transferring of funds to other agencies or funds; equipment, supplies and professional and technical service procurement; and negotiation of leases for the Department's facilities.

Tax forms and informational services activities include forms and instruction design for individual and business taxes; website design, maintenance and oversight; publication and report design and editing; printing coordination for all of the Department's publications, including forms and instructions; media relations; and internal communications.

Management leadership activities provide direction to the agency's work units through business planning, which includes the development of the agency's strategic plan, strategic information systems management plan, biennial budget, division business plans, and annual spending plans. It ensures that the agency's resources, support systems and training systems are aligned with the direction set through the business planning process. It also monitors agency performance through the development and use of performance measurements.

Tax policy support activities include developing policies for all tax types; identify obstacles to taxpayer compliance with tax laws; and identify unclear, ambiguous or conflicting provisions of tax laws. It also develops proposals to improve tax law understandability, fairness, ease of compliance and administration.

Historical Perspective

This activity provides informational services to taxpayers and policy makers and support to tax compliance functions within the agency. Specifically, it faces the following challenges:

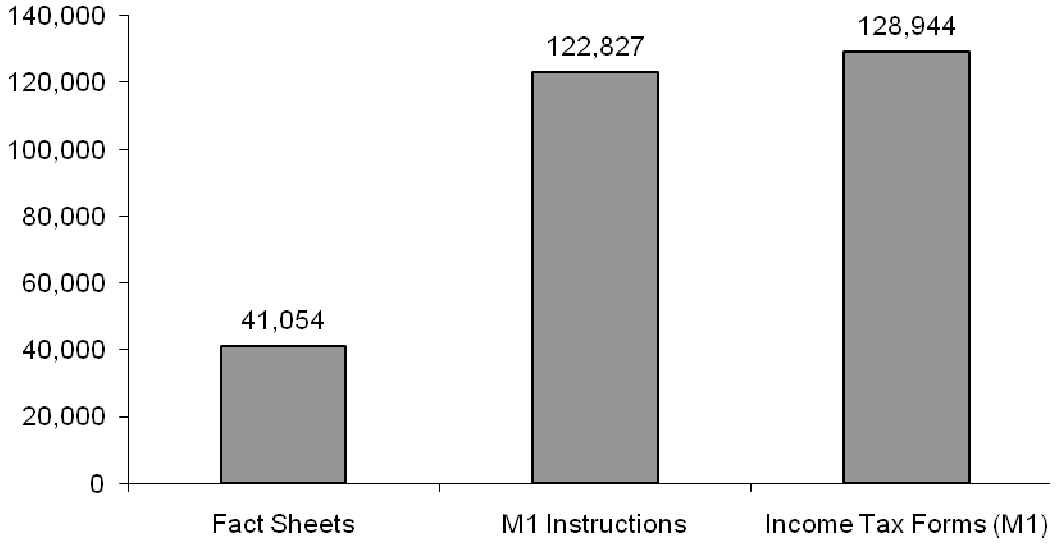
- an increasing exodus of experienced, knowledgeable workers;
- a more linguistic and culturally diverse population;
- higher service expectations;

- the growing erosion of the state tax structure; and
- the threat of workplace disruptions

Key Activitiy Goals & Measures

Taxpayers are relying heavily on the Department's website to obtain income tax forms, instructions and fact sheets. The more taxpayers use DOR's electronic services, the more resources are available for direct compliance and education efforts in the tax system.

Website Downloads for Income Tax
FY 2010



Activity Funding

The Compliance support budget activity constitutes 2.9% of the department's budget. Of the total budget for the biennium for the compliance support budget activity, 96.0% comes from general fund tax dollars, 2.0% comes from dedicated funds and 2.0% comes from special revenue funds for administering the local option sales tax and the revenue recapture program.

Contact

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Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	3,560	4,234	3,793	3,793	7,586
Health Care Access	75	91	83	83	166
Statutory Appropriations					
Miscellaneous Special Revenue	78	89	34	34	68
Total	**3,713**	**4,414**	**3,910**	**3,910**	**7,820**
Expenditures by Category					
Total Compensation	3,225	3,449	3,309	3,309	6,618
Other Operating Expenses	488	965	601	601	1,202
Total	**3,713**	**4,414**	**3,910**	**3,910**	**7,820**
Full-Time Equivalents (FTE)	**39.8**	**39.8**	**38.3**	**36.9**	

Activity at a Glance

In fiscal year 2009, this activity:

- Prepared 13 revenue notices and spent over 4,118 hours on preparing or analyzing legislative bills and over 9,970 hours providing legal advice to the agency
- Completed approximately 2047 administrative appeals
- Developed nearly 350 formal revenue estimates

Activity Description

This activity includes legal and legislative services, tax appeal services and tax research services.

Population Served

Taxpayers, tax administrators, legislators and staff, tax professionals, public policymakers, local elected officials, state agencies, local governments, nonprofit organizations, businesses, and professional and trade associations.

Services Provided

Legal Services

- Provides in-house legal counsel and conducts legal analysis and research of tax laws and policies.
- Provides updated information on law changes and court decisions to taxpayers, business trade organizations, and tax practitioner groups.
- Works with legislators, legislative staff, taxpayers, and practitioner groups in drafting legislation, interpreting tax laws and providing expert testimony at hearings.
- Drafts rules and revenue notices that communicate the Department's interpretation of tax laws.
- Provides support to the Attorney General's staff in tax litigation.
- Monitors federal tax changes that affect Minnesota's tax system.
- Negotiates and oversees state tax agreements with tribal governments.

Appeal Services

- Resolves taxpayer disputes over tax audit assessments and denials of tax refunds. It is an independent, impartial work unit that offers taxpayers an informal and inexpensive alternative to litigation in resolving disputes.

Tax Research Services

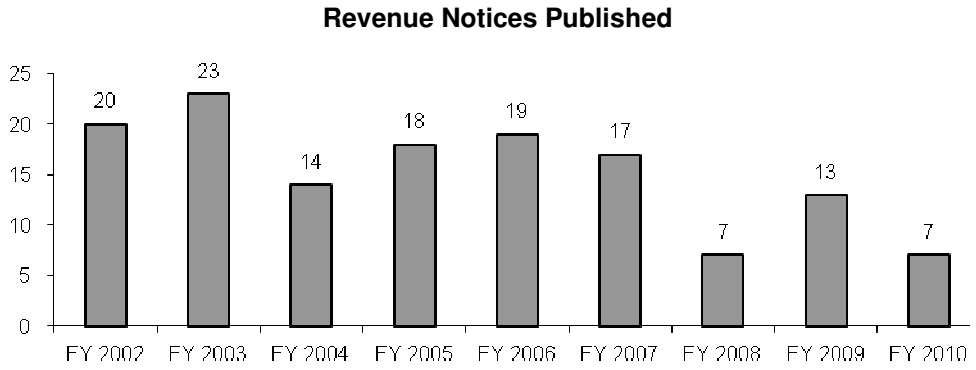
- Forecasts revenues from various taxes and property tax aids and credits for the state's November and February forecasts.
- Develops the state's official revenue estimates and analyses for proposed state tax legislation and the impact of federal law changes.
- Prepares legislatively mandated studies and reports, including the *Minnesota Tax Incidence Study* and the *Minnesota Tax Expenditure Budget.*
- Develops databases and tax simulation models for use by the legislature and the executive branch for revenue forecasting and for evaluating the effect of tax proposals.
- Assists in measuring tax compliance and identifying data sources for detecting noncompliance.
- Disseminates economic and tax information to legislative staff, administration officials, executive branch officials, businesses, associations, nonprofit groups, all of the agency's divisions, and the public.
- Maintains an in-house library for tax research and the study of tax laws.

Historical Perspective

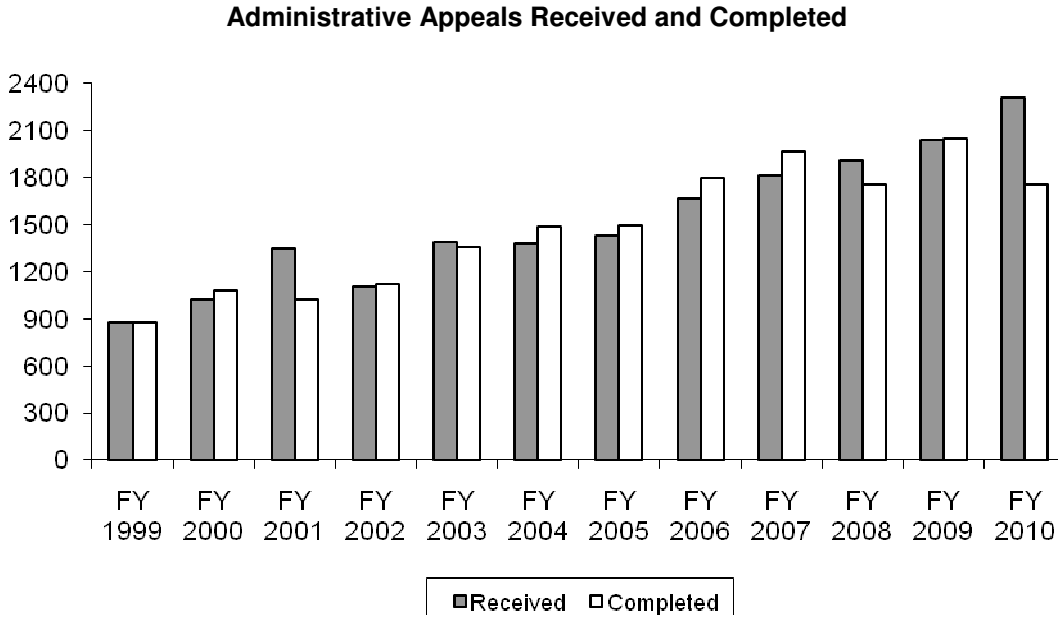
This activity continues to face high demand for its services due to the growing complexity of tax laws, the fast pace of state and federal tax law changes, increased challenges to tax laws, expanded compliance activities in all major tax types and numerous legislative proposals that require revenue estimates, drafts of legislation and legal analysis.

Key Activity Goals & Measures

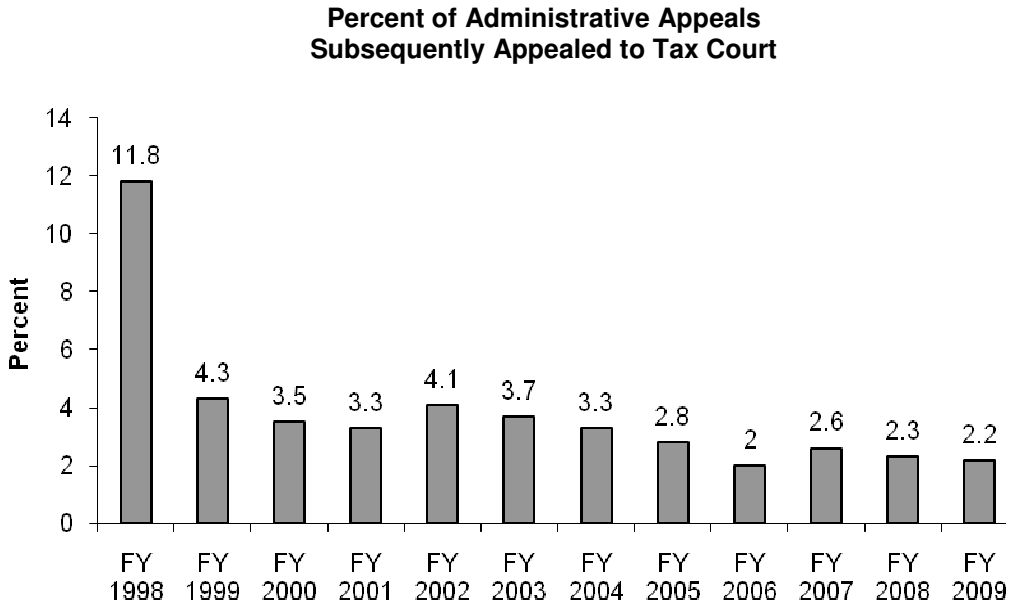
Legal: The department publishes revenue notices which advise taxpayers on how tax laws will be administered. The number of revenue notices are an indication of the volume of legal counsel provided to taxpayers by agency legal staff.



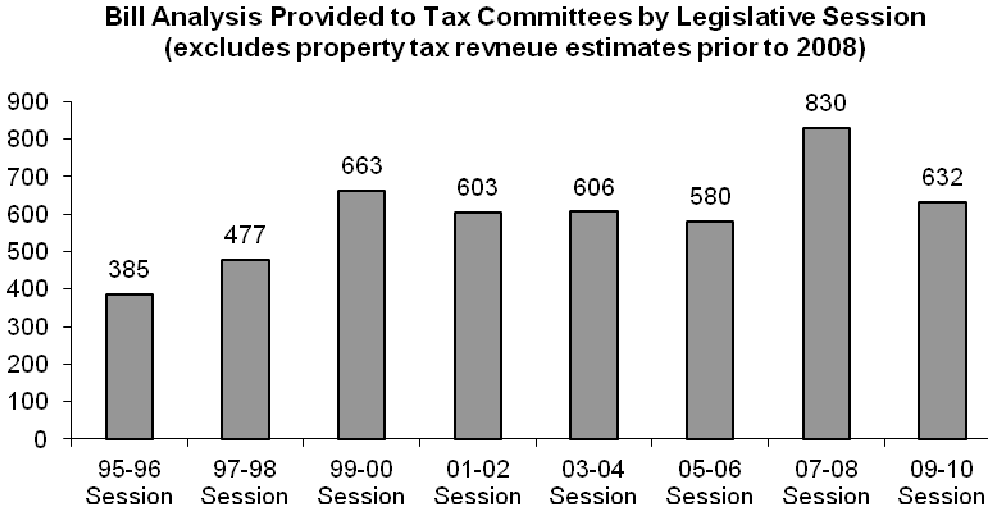
Appeals: The number of administrative appeals continues to increase as a result of the Department's expanded compliance activities and the increased complexities to the tax laws.



Taxpayers are becoming more assertive in challenging state tax laws. However, this activity attempts to resolve many of these challenges through a low-cost dispute resolution process rather than a formal, higher cost litigation process. The number of cases that are subsequently appealed to tax court is used to measure the effectiveness of the taxpayer dispute resolution process.



Research: The number of bill analyses prepared by the Research Division in connection with tax legislation has remained at a high level. This activity is the largest resource management issue for the division.



Activity Funding

This activity's biennial budget is about 3.8% of the department's total budget. Of the total budget for the biennium for the legal and research budget activity, 94.3% comes from General Fund tax dollars, 3.2% comes from dedicated funds and 2.5% comes from special revenue funds for administering the Local Option Sales Tax program.

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REVENUE DEPT
Program: TAX SYSTEM MANAGEMENT
Activity: APPEALS,LEGAL SERV & TAX RES

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	4,712	5,530	5,228	5,328	10,556
Health Care Access	170	174	172	172	344
Statutory Appropriations					
Miscellaneous Special Revenue	87	191	87	87	174
Total	**4,969**	**5,895**	**5,487**	**5,587**	**11,074**
Expenditures by Category					
Total Compensation	4,471	4,986	4,912	4,912	9,824
Other Operating Expenses	498	909	575	675	1,250
Total	**4,969**	**5,895**	**5,487**	**5,587**	**11,074**
Full-Time Equivalents (FTE)	**51.7**	**55.7**	**53.4**	**51.6**	

Activity at a Glance

- Processes 2.8 million income tax returns annually
- Processes over 1.58 million business tax returns
- Processes 4.8 million payments
- Issues 2.67 million refunds
- Registered 33,500 new businesses in FY2010
- Receives and sorts over 3.2 million pieces of incoming mail annually

Activity Description

This activity processes all state electronic and paper filed tax returns and payments; issues tax refunds; and manages taxpayer records. It also establishes tax accounts for new businesses, updates taxpayer records for changes, including address changes, and offsets income tax refunds for tax and non-tax debts owed to state agencies and local units of government.

Population Served

- 3.7 million individual income taxpayers who file 2.8 million individual income tax returns
- 165,000 employers and 806 third-party bulk filers who remit income tax withholding payments
- 758,500 property tax refund applicants
- 284,000 businesses that collect and remit sales and use tax
- 44,000 corporations and 99,000 S corporations and partnerships that pay corporate franchise and income taxes
- 48,000 fiduciary income taxpayers
- 1,700 estate taxpayers who pay and submit $149 million in estate taxes
- 649 petroleum product distributors who pay $760 million in gasoline, special and aviation fuel taxes and various fees
- 57 cigarette and 160 tobacco distributors who remit $432 million in cigarette and tobacco taxes and fees
- 59 wine and liquor distributors, 234 brewers and beer importers, 16 alcohol commercial carriers and 38 farm wineries, who pay approximately $75 million in liquor, wine and beer taxes
- 1,511 insurance companies who pay $269 million in gross premium taxes
- 7,826 hospitals, health care providers and prescription drug wholesalers who collect approximately $458 million in health care taxes
- 1,265 organizations licensed to conduct lawful gambling, 12 licensed gambling equipment distributors and seven licensed gambling equipment manufacturers who collect approximately $36 million in lawful gambling taxes
- 5,110 hazardous waste generators; 4,181 water quality and 2,247 air quality permit holders and 800 solid waste management services and 78 e-waste registrants who collect approximately $64 million in solid waste taxes and fees
- Seven mining companies that pay approximately $74.3 million in taconite production taxes.
- 174 dry cleaning facilities that pay dry cleaner taxes and three solvent distributors who pay approximately $109,000 in dry cleaner fees
- 87 counties that remit approximately $161 million in deed and mortgage registry taxes
- 1021 state and county agencies whose debts are collected through revenue recapture

Services Provided

This activity processes all electronic and paper state tax returns and payments. Services include:

- receiving and sorting over 3.2 million pieces of incoming mail annually
- scanning and imaging paper-filed individual income tax returns and correspondence
- recording and depositing tax payments
- verifying tax return accuracy
- auditing returns that exceed normal thresholds for credits, deductions and exemptions
- issuing refunds to individuals and businesses
- receiving and acknowledging electronic tax returns and payments
- offsetting refunds for tax and non-tax debt owed to government entities
- issuing tax identification numbers to new businesses
- recording address and name changes to individual and business tax accounts
- procuring and dispensing cigarette tax stamps

Historical Perspective

This activity continues to transform individual income tax and business tax filing and payment transactions from paper to electronic media. This activity now has in place:

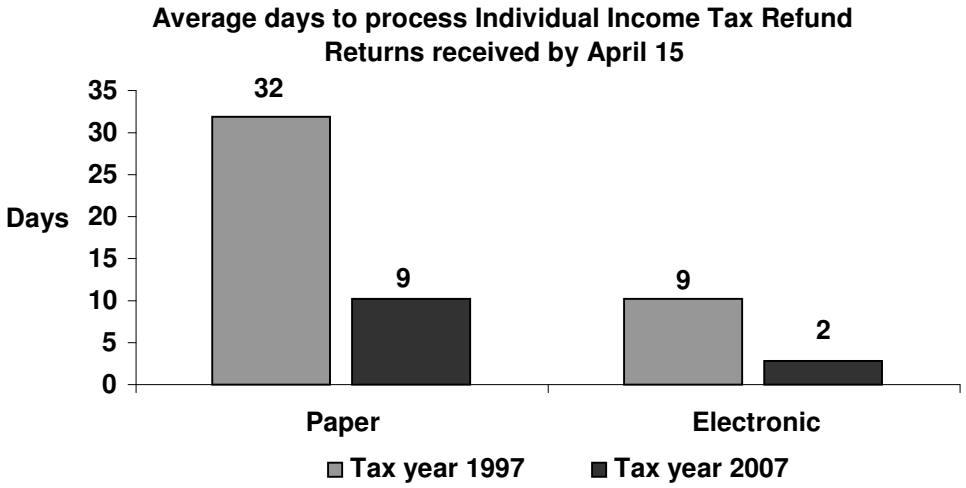
- electronic filing systems for sales and use tax, withheld income taxes, corporate franchise tax, S-Corporation tax, fiduciary tax, partnerships, Minnesota Care tax, and motor fuel taxes; and accepts payment for all tax types, including estimated individual income taxes;
- a web-based business registration system;
- a modernized individual income tax computer system that is regularly adding features that permit taxpayers to serve themselves;
- individual income tax and property tax forms that can be scanned, which has eliminated the need for storage of paper returns.

In CY 2009, over 1.91 million individual income tax returns were filed electronically, and over 1.39 million tax refunds were issued within five days. Over 1.37 million business tax filing transactions were processed electronically during CY 2009. In FY 2009, over three million payment transactions were processed electronically.

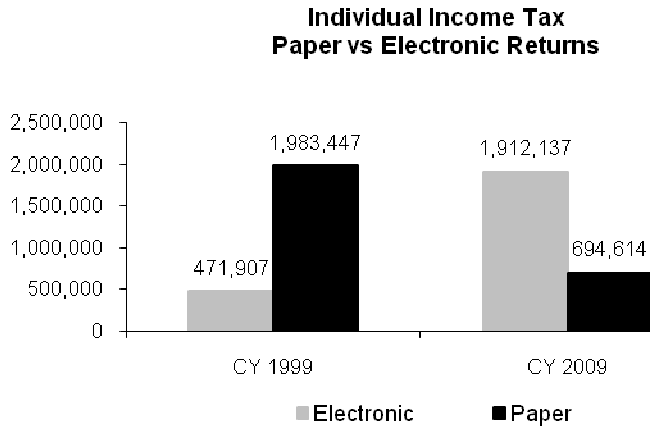
Key Activity Goals & Measures

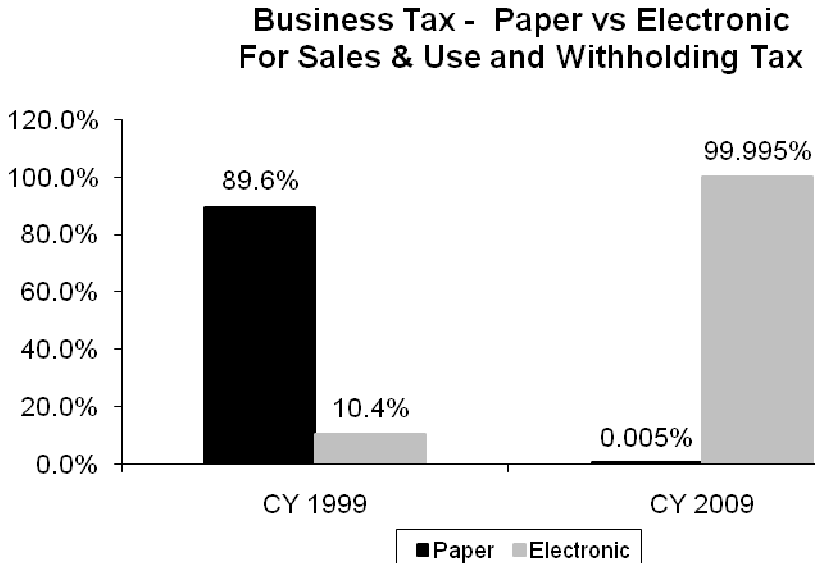
- Increase the speed, accuracy, convenience, and ease of tax filing and paying.
- Increase e-services for citizens.

Average days to process individual income tax refund returns calculated from the date the return is received to the date the refund is issued.



In FY 2010 66 percent of all tax payments representing 87 percent of the total dollar value were made electronically.





Activity Funding

This activity's biennial budget is about 9.7% of the department's total budget. Of the total budget for the biennium for the Tax Filing and Payments budget activity, 96.2% comes from General Fund tax dollars, 0.5% comes from dedicated funding, and 3.3% comes from special revenue funds for administering the Local Option Sales Tax and Revenue Recapture program.

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REVENUE DEPT
Program: TAX SYSTEM MANAGEMENT
Activity: TAX PAYMENT & RET PROCESSING

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	12,973	13,410	13,016	13,016	26,032
Health Care Access	61	63	62	62	124
Statutory Appropriations					
Miscellaneous Special Revenue	249	386	263	263	526
Total	**13,283**	**13,859**	**13,341**	**13,341**	**26,682**
Expenditures by Category					
Total Compensation	10,803	11,193	11,024	11,024	22,048
Other Operating Expenses	2,480	2,666	2,317	2,317	4,634
Total	**13,283**	**13,859**	**13,341**	**13,341**	**26,682**
Full-Time Equivalents (FTE)	**179.3**	**181.3**	**176.0**	**171.8**	

Activity at a Glance

- Respond to over 678,000 phone calls
- Perform approximately 120,000 tax audits
- Perform 102,000 pre-audit adjustments
- Provide tax forms, instructions, and other information to more than 4 million taxpayers
- Respond to 41,000 e-mail inquiries

Activity Description

The compliance activity administers and enforces Minnesota's 28 individual and business taxes. These taxes raise $16.5 billion gross annually, which amounts to 53.8% of the state's total revenue.

Population Served

- 3.7 million individual income taxpayers
- 758,500 homeowner and renter property tax refund applicants
- 8,000 professional tax preparers
- 284,000 businesses that collect and remit sales and use tax
- 48,000 fiduciary and 1,700 estate taxpayers
- 165,000 employers that withhold tax and over 800 third-party bulk withholding filers
- 44,000 corporations, 99,000 S corporations, and 61,000 partnerships
- 649 petroleum product distributors
- 57 cigarette and 160 tobacco distributors
- 59 wine and liquor distributors; 234 brewers and beer importers, and 16 alcohol commercial carriers and 38 farm wineries/vineyards
- 1,511 insurance companies
- 7,826 hospitals, health care providers, and prescription drug wholesalers
- 1,265 organizations licensed to conduct lawful gambling, 12 licensed gambling equipment distributors and seven licensed gambling equipment manufactures
- 5,110 hazardous waste generators, 800 solid waste management service providers and 78 e-waste registrants
- Eight iron ore mining companies
- 174 dry cleaning facilities, three dry cleaner suppliers, 2247 air emissions filers and 4181 water quality filers
- 7,600 unrelated business income tax (UBIT) filers
- 87 county treasurers and recorders
- County attorneys and other law enforcement agencies
- 900 individuals who file and pay consumer use tax
- 3,240 individuals and businesses who file sales and use tax refund claims

This activity also administers local option sales and use tax on behalf of 19 cities, two counties and one metro-wide transit tax.

Services Provided

This activity ensures that individuals and businesses pay the proper amount of tax by:

- informing taxpayers of their obligations and rights;
- providing paper and web-based forms and instructions;
- offering online access to free electronic income tax filing for low and modest income taxpayers, students, senior citizens and members of the armed forces;
- responding to e-mail, written and telephone inquiries;
- conducting audits to identify and resolve tax filing and payment discrepancies, identify non-residents and non-filers, detect tax evasion, and measure levels of compliance;
- interpreting laws and making recommendations for law changes; and
- providing training courses and seminars to tax preparers and businesses.

Historical Perspective

In 2002 and 2004, the Department of Revenue commissioned two separate landmark studies of the degree of tax compliance in Minnesota. The first study focused on sales tax compliance, and the second looked at individual income tax compliance. These academic studies used economic and demographic information to estimate the amount of sales taxes and income taxes that would be collected if taxpayers paid the correct amount of tax.

Resulting estimates were compared with actual collections to estimate the "tax gap" for the tax years studied (tax year 2000 for the sales tax, and tax year 1999 for the income tax). For the two taxes combined the total gap was over $1.3 billion. The findings of these studies prompted legislators to fund special compliance initiatives aimed at reducing the tax gap. Starting in FY2002, the Department of Revenue has undertaken seven compliance initiatives. It's important to note that tax gap estimates are theoretical, and not based on actual tax assessments.

Tax Compliance Initiative Summary:

(Amounts in Millions)			**Expected**	**Actual Tax**	**Actual**	**Actual**
Biennium	**Revenue Target**	**Appropriation**	**ROI**	**Revenue**	**Expenditures**	**ROI**
2002/03	$60.1	$10.3	5.8	97.2	9.7	10.0
2004/05	$59.8	$12.8	4.7	92.2	12.3	7.5
2006/07	$90.7	$17.8	5.1	114.3	17.8	6.4
2008/09	$102.4	$20.5	5.0	133.7	20.2	6.6
2009	$21.0	$7.0	3.0	29.8	6.8	4.4
2010/2011*	$41.5	$10.4	4.0	n/a	n/a	n/a
2011*	$26.9	$6.7	4.0	n/a	n/a	n/a

**** estimated revenues and expenditures***

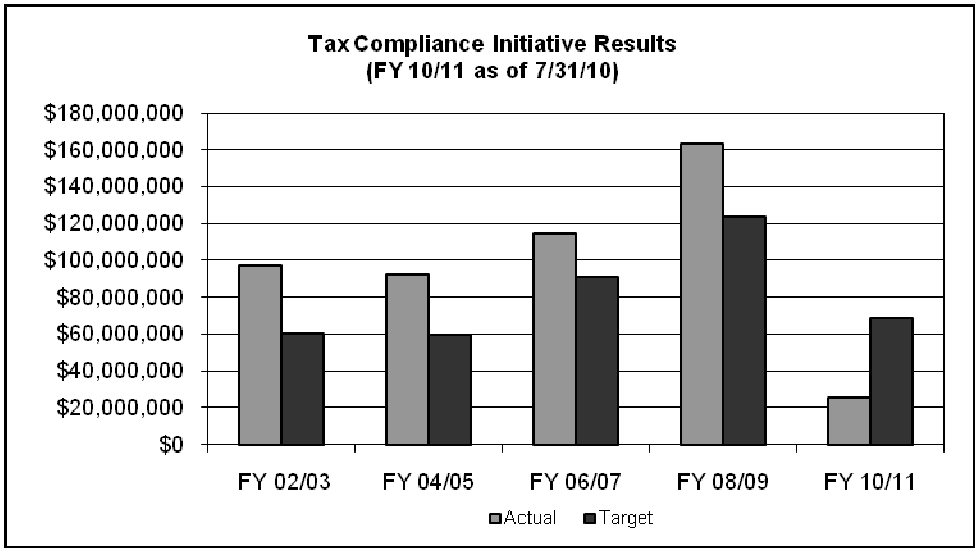
The increase in appropriations for stepped-up tax enforcement activities has been partially offset by budget cuts in all other agency activities, including those activities that provide direct support services to tax enforcement activities. Prior to 2002, about 48% of the agency's budget was devoted to tax enforcement, and the remaining 52% to tax processing and taxpayer services that promote voluntary compliance. As added funds have been appropriated for tax enforcement activities and funding decreases imposed on processing and service activities, the portion of the agency's budget now devoted to tax enforcement activities constitutes 67%, with the remaining 33% allotted to processing, education and service activities.

Although expanded tax compliance activities are generating substantial revenue, uncovering tax avoidance remains a difficult task. Here are some reasons why:

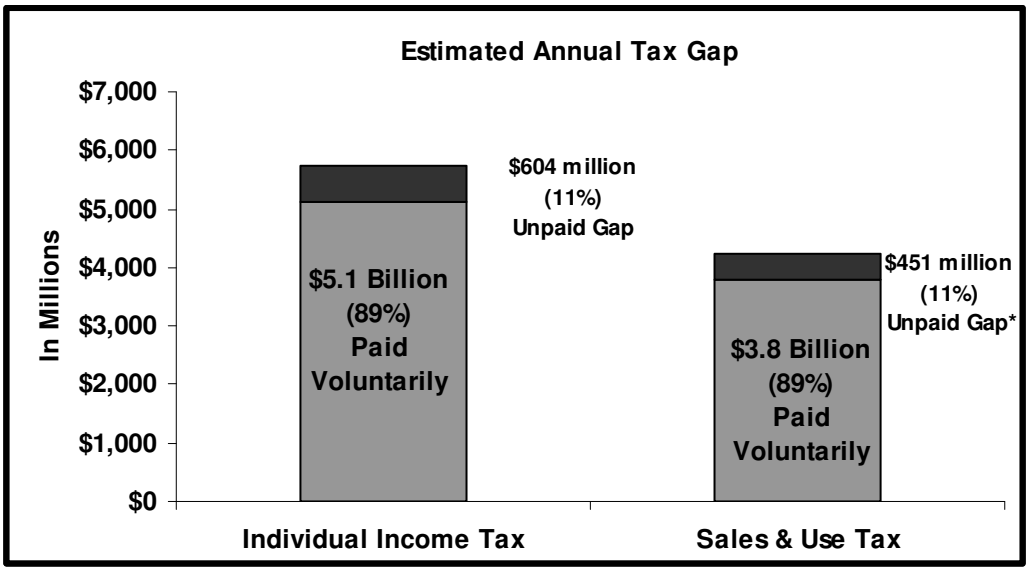
- As businesses move from paper to electronic records and transactions, the agency's employees need more training to enable them to understand and access various computer systems to ensure the accuracy of the systems, as well as the transactions.
- As taxpayers convert to electronic records, they are reducing the types of information included in the records. Therefore, less data is available for employees to review; increasing the difficulty of auditing taxpayer records.
- Consolidations and mergers among businesses have resulted in the merging of computer systems, making it more difficult to identify transactions and determine who is responsible for paying the tax.
- Globalization of commerce increases the number of transactions that cross state and national borders. As more transactions are made through mail-order firms and the Internet, it is more difficult and expensive for the activity to identify them and determine who is responsible for paying the taxes.
- Significant growth in the state's economy has increased the number of retail businesses from 178,000 in 1995 to 284,000 in 2009 – or 60%. This growth limits the activity's ability to redirect resources from taxpayer support services to more direct tax enforcement activities. This growth has also increased the number of applications for capital equipment sales tax refunds that must be processed and audited.
- Sales and use tax laws have not kept pace with changes in technology. Products such as musical recordings, software programs and books solely existed in the form of tangible personal property. Today these products are delivered electronically to customers, making it difficult for the agency to determine the taxability of the sale. Only a few court decisions have been rendered to guide the agency.
- The individual income tax does not always conform to the federal income tax, which leads to more complex state tax forms and additional calculations.

Key Activity Goals & Measures

- Improve compliance with the tax system.



The dollars collected have exceeded our targeted goals during each biennium; $37.1 million over target for FY 2002-03, $32.4 million over for FY 2004-05, $23.6 million over for FY 2006-07 biennium and $40.1 million over for FY 2008--09. As of 7/31/10, $25.3 million has been generated for FY 2010-11.



** Individual income tax statistics are for tax year 1999
** Sales & Use tax statistics are for calendar year 2000 and include motor vehicle sales tax
Source: Minnesota Department of Revenue, *Individual Income Tax Gap: Tax Year 1999* (June 7, 2004); American Economics Group, Inc., *Minnesota Sales and Use Tax Gap Project: Final Report* (Prepared for the Minnesota Department of Revenue, November 19, 2002).

Activity Funding

This activity's biennial budget is about 47.8% of the department's total budget. Of the total budget for the biennium for the tax compliance budget activity, 88.2% comes from General Fund tax dollars, 5.6% comes from dedicated funds, and 6.2% comes from special revenue funds for administering the Local Option Sales Tax, Revenue Recapture and Cigarette Stamp account activities.

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Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	51,769	61,995	59,961	59,961	119,922
Health Care Access	1,380	1,402	1,385	1,385	2,770
Highway Users Tax Distribution	1,978	2,270	2,124	2,124	4,248
Environmental	284	288	286	286	572
Statutory Appropriations					
Miscellaneous Special Revenue	1,336	7,258	1,421	1,421	2,842
Total	**56,747**	**73,213**	**65,177**	**65,177**	**130,354**
Expenditures by Category					
Total Compensation	49,642	58,234	56,342	56,342	112,684
Other Operating Expenses	6,907	14,779	8,635	8,635	17,270
Local Assistance	198	200	200	200	400
Total	**56,747**	**73,213**	**65,177**	**65,177**	**130,354**
Full-Time Equivalents (FTE)	**706.1**	**777.1**	**752.4**	**732.2**	

Activity at a Glance

- 1,500 employees served in 16 different office locations
- 221 business computer applications, and 322 software tools running on seven different platforms or operating systems
- Most agency provided service and information for citizens is available on-line or by other electronic means
- over 6.6 million electronic filing and payment transactions

Activity Description

This activity oversees the development and maintenance of computer systems for all major state taxes administered by the department. It maintains 221 business computer applications, and 322 software tools running on seven different platforms or operating systems that serve more than 1,500 employees. It is responsible for strategic planning for integrating technologies and systems into the agency's business operations; computer systems development; information security and data privacy; continuity of operations; emergency planning; and for managing day-to-day maintenance of the agency's computer infrastructure, including the overall network, operating systems and equipment.

Population Served

This activity serves policymakers, all citizens and businesses that interact with or are served by our tax systems, local units of government, other state agencies, and about 1,500 department employees.

Services Provided

The information technology activity is responsible for:

- strategic planning for aligning technologies and systems with the agency's business needs;
- systems planning, development, implementation and maintenance of computer applications;
- ensuring the security of all computer applications and privacy of data;
- ensuring that department information systems and networks are efficient, reliable, accessible and responsive;
- directing, coordinating and maintaining the continuity of operations (business continuation) and emergency response plans for the department;
- leadership of the agency's business systems planning team, which aligns and integrates business needs with computer systems and operations;
- establishing and maintaining standards for computer architecture and technology; and
- monitoring investments in computer applications, projects and systems.

Historical Perspective

Since the 1990s, the department has been transforming its tax processing from mainframe systems that supported internal, paper-based procedures to electronic filing and paying systems. For taxpayers, these new systems mean faster, easier, and more convenient and accurate filing and paying. To achieve this transformation, the department shifted funds from other activities in order to invest in technology. However, past funding reductions have reduced this activity's budget by about 7%. Yet, the demands for technology have increased as DOR has added audit and collection compliance personnel to meet agency compliance commitments.

To strengthen compliance, enhance taxpayer service and help address its constrained technology budget DOR was able to secure legislative funding for the procurement and implementation of a comprehensive Commercial-Off-The-Shelf (COTS) Integrated Tax system. With this $28.9 million appropriation and significant internal resource commitments DOR has begun to implement "GenTax" procured from Fast Enterprises. This funding will be used to complete the $40 million effort. DOR is currently preparing roll-out three, and the fourth and final roll-out is planned for February 2012. This effort is currently on time and within budget.

Key Activity Goals & Measures

To measure its success in implementing information technology applications, this activity uses a self-assessment process that evaluates effectiveness in four major categories, including the overall use and management of technology.

The agency was graded using a scale of one to five in the following categories as identified in *Government Reform through Technology.* (A grade of one is considered "below minimum standards" while a grade of five is deemed "world class excellence." The criteria associated with a specific score appear immediately after the grade.)

Electronic Government Services – **Grade: 4** – DOR leads the nation in Individual Income tax electronic filings and have a 99% e-file adoption rate for sales and withholding taxes. Most of DOR's core services for citizens, businesses, and governmental groups are available on-line.

Enterprise Orientation – **Grade: 4** – For the past two years DOR has been the most significant player in OET's data center consolidation initiative. The department has a standing team in place that promotes sharing and collaboration initiatives. Additionally, DOR actively leads or participates in the exploration of shared service opportunities with state agencies and other partners.

Customer Focus – **Grade: 4** – DOR develops strategic business technology and process improvement plans in collaboration with customers. DOR approaches the management of the agency and projects from a collaborative perspective and have successfully used a shared approach on projects. DOR has defined and consistently used processes for gathering business partner/customer (user) feedback. DOR continues to have many successes in the delivery of service within the agency and in collaboration with others.

Strategy and Standards – **Grade: 5** – Internally, DOR develops and supports strategies and standards designed to meet agency business needs. DOR also collaborate with the Office of Enterprise Technology in support of state-wide technology standards. DOR provides leadership and is recognized by its peers in the development and advocacy of architectural direction and standards for the greater good of the state enterprise.

Activity Funding

This activity's biennial budget is about 14.6% of the department's total budget. The sources of activity's total biennial budget are: 79.5% from General Fund tax dollars, 0.6% from dedicated funds and 19.9% from special revenue funds for administering the Local Option Sales Tax and the Revenue Recapture program.

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REVENUE DEPT
Program: TAX SYSTEM MANAGEMENT
Activity: TECHNOLOGY DEV, OPS & SUPPORT

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	16,450	22,238	19,745	19,745	39,490
Health Care Access	47	47	47	47	94
Highway Users Tax Distribution	59	59	59	59	118
Environmental	17	17	17	17	34
Statutory Appropriations					
Miscellaneous Special Revenue	1,404	1,381	1,293	1,293	2,586
Building	2,381	14,069	0	0	0
Total	**20,358**	**37,811**	**21,161**	**21,161**	**42,322**
Expenditures by Category					
Total Compensation	8,581	10,060	9,723	9,723	19,446
Other Operating Expenses	11,777	27,751	11,438	11,438	22,876
Total	**20,358**	**37,811**	**21,161**	**21,161**	**42,322**
Full-Time Equivalents (FTE)	**85.5**	**85.5**	**81.2**	**77.5**	

Activity at a Glance

- Administers over $1 billion in state aids to local governments and property tax credit programs
- Oversees the statewide property tax levy, which raised over $750 million payable in 2010
- Responsible for providing compliance and assistance to local government officials who assess and calculate property taxes for 2.6 million parcels of property and generates nearly $8 billion in tax revenue.
- Responds to 15,000 phone and 21,000 email inquiries from taxpayers and administrators

Activity Description

This activity ensures the uniform application of Minnesota's property tax laws, oversees the performance of local assessors, provides information to taxpayers and policymakers about the property tax system, and computes and disburses state aid to local governments.

Population Served

This activity serves 3,000 individual taxing jurisdictions and over 2.6 million property taxpayers each year. It also serves state policymakers and state agencies such as the departments of Education, Human Services, Economic Development, Agriculture and Corrections.

Services Provided

These activities cover two major programs: State and local property tax administration (valuation, classification, and tax calculations) and state aids to local governments.

Local property tax administration activities include:

- Assisting county and local assessors in the complete and accurate identification of taxable property, its proper classification and valuation, and equalization of assessments among taxing districts.
- Providing information to individual taxpayers, legislators and local government officials about the property tax system.
- Providing support to the State Board of Assessors, which is responsible for assessor education and licensing.
- Conducting annual assessment-to-sales ratio studies to measure assessment levels, ensure their uniformity, and determine the basis for state aid payments to school districts and cities.
- Staffing the State Board of Equalization which is responsible for monitoring assessment levels for accuracy and uniformity and for issuing corrective orders when necessary.
- Assisting and monitoring local governments in implementing the annual Truth in Taxation process.
- Educating county auditors and treasurers on requirements and procedures for tax computation and collection, and providing consultation as requested.
- Estimating the value of railroads, public utilities, and airflight properties on a statewide basis.

State aids to local governments activities include:

- Collecting and maintaining assessment and levy information from all local taxing authorities each year.
- Determining state aid and credit reimbursement payments for each county, city, town, and special taxing district under a variety of statutory formulas, including County Program Aid (CPA), Local Government Aid (LGA), Market Value Homestead Credit Reimbursement Aid, and many other smaller programs.
- Setting the statewide general fund property tax rates for business and cabin properties.
- Making aid payments by statutory deadlines each year.
- Issuing state deeds for tax-forfeited property.

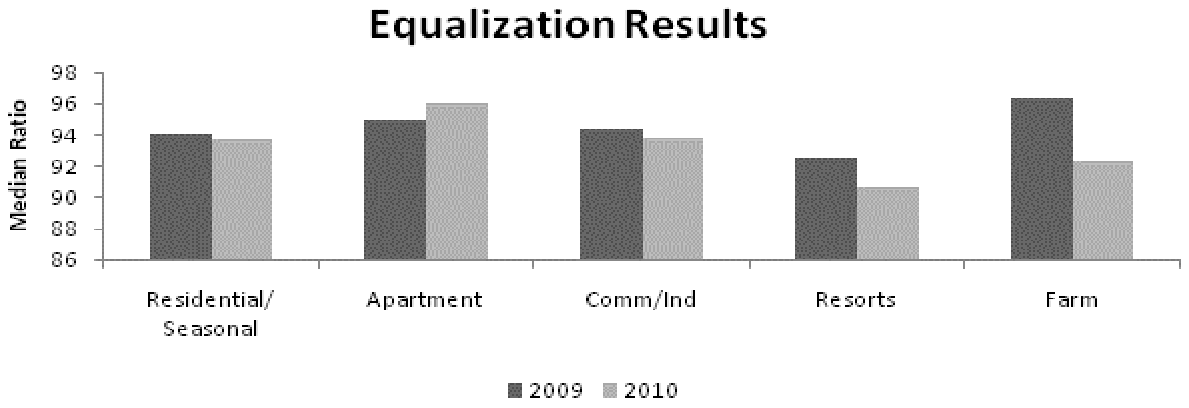
Historical Perspective

The activity's role in overseeing the performance of county and city assessors has taken on greater importance in recent years. As part of the property tax reform, the 2001 Legislature adopted a statewide property tax levy. This levy is imposed on properties that are classified and valued by a host of county and city assessors. The levy raises about $750 million annually in state funds, and has become an important component in the overall state revenue system. As a consequence the activity's role in ensuring business properties are correctly classified and valued has taken on critical importance.

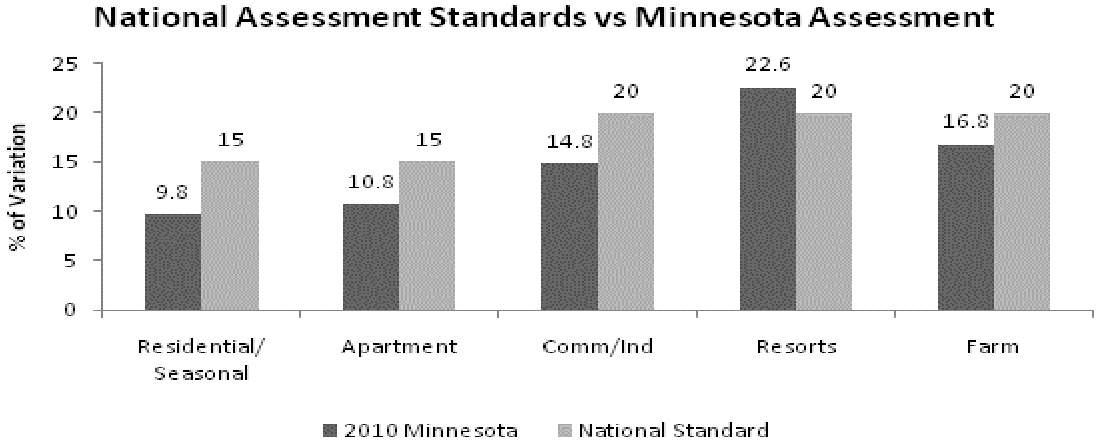
This activity's ability to gather property tax information quickly and efficiently is hampered by the failure of the division and local governments to invest in new technologies and computer systems. However, the division is in the process of aggressively modernizing business processes and computer systems that should result in the timelier gathering of property data and will lay the groundwork for improving property tax administration.

Key Activity Goals & Measures

The key measure for this activity is the assessment-to-sales ratio study. In valuing a property, assessors seek to estimate a value that is as close as possible to what the property would sell for in the current market. The division conducts an annual study for each of the state's 87 counties that compare the selling price of all properties sold with the assessor's estimated market value of the property. The following table shows that Minnesota assessors have been estimating the value of residential, farm and commercial property within the recommended range of 90 to 105 percent. The results for individual jurisdictions vary from these averages.



Using the sales ratio data, the following measure shows the degree of variation in individual assessments from the average for the various classes of property in Minnesota, and compares it to the national standard established by the International Association of Assessing Officers. Overall, Minnesota assessors are fairly close to the national standard on farm property, and actually beat the standard on residential and apartment properties. Commercial-industrial and timber sales are difficult to estimate because the value tends to differ according to the type and use of the property. With few resort properties (defined as commercial seasonal properties) in the state, the small sample size makes it difficult to accurately measure assessed value against actual sales.



Administration of Local Government Aids: The following table identifies the amount of payments made to local government for a variety of aid programs.

Aids and Credits Paid to Local Government Units
(Dollars in Thousands)

Payments to Cities, Counties, Towns and Special Jurisdictions	**2009**	**2010 Preliminary***	**2011 Budgeted***
Local Government Aid	$481,529	$426,535	$527,100
County Program Aid (incl. Court Aid Adj, Transition Aid)	194,883	164,887	197,455
Residential Homestead MV Credit	191,582	95,214	189,523
Agricultural Homestead MV Credit	19,107	17,899	17,960
DNR-PILT	21,824	21,584	26,612
Disparity Reduction Aid	10,163	10,914	10,943
Supplemental Taconite Aid Reimbursement	5,178	5,230	5,282
Border City Credit (DRC)	4,671	4,856	5,099
Indian Casino County Aid	669	669	669
Public Defender Costs	500	500	500
Disaster Credit/Revenue	151	38	0
Enterprise Zone Credit	0	0	0
Sub Total	$930,257	$748,326	$981,143
Payment to Schools			
Residential Hmstd MV Credit-School	$46,758	$52,378	$65,322
Agricultural Hmstd MV Credit - School	4,683	5,391	6,208
Disparity Reduction Aid-School	6,566	8,455	10,151
Border City Credit (DRC) - School	811	1,025	1,258
Disaster Credit/Rev - School	66	69	3
Enterprise Zone Credit - School	0	0	0
Sub Total	$58,884	$67,318	$82,942
Pension Related Payments (payments made to jurisdiction or pension plan)			
Police, Fire, & Ins. Sur. Aid	$80,492	$83,572	$86,988
PERA Rate Increase Aid	14,390	14,390	14,390
Sub Total	94,882	97,962	101,378
TOTAL	**$1,084,023**	**$913,606**	**$1,165,463**

Activity Funding

This activity's biennial budget is about 2.3 percent of the department's total budget. Of this total, 99.8 percent comes from the general fund and 0.2 percent comes from special revenue funds.

Contact

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Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Expenditures by Fund					
Direct Appropriations					
General	2,934	3,576	3,264	3,214	6,478
Open Appropriations					
General	0	30	25	25	50
Statutory Appropriations					
Miscellaneous Special Revenue	0	15	0	0	0
Total	**2,934**	**3,621**	**3,289**	**3,239**	**6,528**
Expenditures by Category					
Total Compensation	2,722	3,142	3,001	3,001	6,002
Other Operating Expenses	212	479	288	238	526
Total	**2,934**	**3,621**	**3,289**	**3,239**	**6,528**
Full-Time Equivalents (FTE)	**36.3**	**36.3**	**34.9**	**33.8**	

Program at a Glance

- Managed an average of 219,600 delinquent tax debts and an average of $648 million in delinquent tax debt in FY 2010
- Managed an average of 47,475 delinquent non-tax debts and an average of $127 million in delinquent non-tax debt in FY 2010
- Collected $276 million in delinquent tax debt in FY 2010

Program Description

This activity manages the collection of delinquent tax and non-tax debts on behalf of state agencies and other public entities.

Population Served

Taxpayers, tax administrators, legislators and staff, tax professionals, public policymakers, local elected officials, state agencies, local governments and other public entities.

Services Provided

This activity collects 171 types of fees, fines, taxes, and payments for:

- **Thirty-five State Agencies:** including the departments of Administration, Agriculture, Corrections, Commerce, Employment & Economic Development, Health, Human Rights, Human Services, Labor and Industry, Military Affairs, Natural Resources, Public Safety, Revenue, Transportation, Veterans Affairs, and the Pollution Control Agency.
- **Four State Boards:** the State Campaign Finance Disclosure Board, Minnesota Client Security Board, Iron Range Resource Rehabilitation Board, and the State Veterans Home Board.
- **Two Public Employee Retirement Associations:** the Minnesota State Retirement System and the Public Employees Retirement Association.
- **Six Independent State Government Entities:** the Attorney General's Office, the Secretary of State's Office, the Minnesota Indian Affairs Council, the Minnesota Office of Higher Education, the Minnesota State Lottery, and the Minnesota State Colleges and Universities system.
- **Ten Judicial Districts**: In August 2010, the Department of Revenue started collecting Court Debts. District Courts are located in each of the state's 87 counties and are divided among ten judicial districts for administration purposes. The debts are being referred by Judicial Districts and the process is expected to be completed by November 2010.

Services include locating debtors, billing, contracting debtors by phone, arranging and receiving payment, monitoring payment plans, locating and evaluating assets, issuing liens and levies, and seizing assets. Other services to agencies include consulting on effective debt management and productive collection practices, and evaluation of the potential for debt collection.

Historical Perspective

This activity has always been responsible for collecting delinquent taxes owed to the Department of Revenue. Starting in 1994, its responsibilities were expanded to include the collection of debt owed to other state agencies and boards. Today, of the total $304.4 million collected during FY 2010 by this activity, approximately $28.4 million was collected on behalf of non-tax debt clients. The collection costs for non-tax debt are recovered through fees assessed against the debtors. Currently, the fee is 20% when the debt is referred to the Department of Revenue.

The average tax debt portfolio managed by this activity has climbed from $439 million in FY 2005 to about $648 million in FY 2010. About $266 million of the $648 million is being collected through payment plans or is considered uncollectible. Uncollectible debt includes bankruptcies, amounts owed by deceased debtors, debts for which the statute of limitations has expired, or debts for which all collection efforts have been exhausted. The activity collected about $276 million of the $648 million tax debt managed during FY 2010 – up from $181 million collected in FY 2005.

Other factors that have contributed to the rise in the tax debt portfolio include the recent deterioration of economic conditions, worsening personal and business income statements and balance sheets, and increased bankruptcies.

This activity has been able to make significant gains on debt collection as a result of several developments, including the appropriation of added funds by the legislature to expand collection activities, law changes to streamline the collection process, the automation of manually intensive processes, the expansion of databases, and reorganization to improve work processes.

Key Program Goals and Measures

One of DOR Debt Collection Management's key measures is the amount of revenue collected from delinquent taxpayers and the number of cases closed per fiscal year. The more revenue collected helps the state's general fund balance. The more cases closed allows the department to focus on more delinquent taxpayers throughout the fiscal year.

FY 2010	
Delinquent tax collections	$ 265.7 Million
Delinquent Non-tax collections	$ 28.4 Million
Tax Compliance Initiative	$ 10.3 Million
Total dollars collected	$ 304.4 Million
Delinquent tax cases closed	155,392
Delinquent non-tax cases closed	18,720
Total cases closed	174,112

Program Funding

This activity's biennial budget is about 18.8% of the department's total budget. Of the total budget for the biennium for the Collection budget activity, 97.5% comes from general fund tax dollars, and 2.5% comes from special revenue funds for administering the local option sales tax and the revenue recapture program.

Contact

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Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
Direct Appropriations by Fund					
General					
Current Appropriation	24,497	27,341	27,341	27,341	54,682
Subtotal - Forecast Base	24,497	27,341	27,341	27,341	54,682
Governor's Recommendations					
Tax Compliance Initiative		0	1,656	3,252	4,908
Total	**24,497**	**27,341**	**28,997**	**30,593**	**59,590**
Expenditures by Fund					
Direct Appropriations					
General	22,727	29,111	27,341	27,341	54,682
Open Appropriations					
General	1,184	1,900	1,900	1,900	3,800
Statutory Appropriations					
Miscellaneous Special Revenue	601	722	498	498	996
Total	**24,512**	**31,733**	**29,739**	**29,739**	**59,478**
Expenditures by Category					
Total Compensation	20,852	22,898	22,250	22,250	44,500
Other Operating Expenses	3,660	8,135	6,789	6,789	13,578
Capital Outlay & Real Property	0	700	700	700	1,400
Total	**24,512**	**31,733**	**29,739**	**29,739**	**59,478**
Expenditures by Activity					
Ar Mgmt	24,512	31,733	29,739	29,739	59,478
Total	**24,512**	**31,733**	**29,739**	**29,739**	**59,478**
Full-Time Equivalents (FTE)	**330.5**	**360.5**	**350.2**	**341.8**	

Dollars in Thousands

	Actual FY2010	Budgeted FY2011	Governor's Recomm. FY2012	FY2013	Biennium 2012-13
Non Dedicated Revenue:					
Other Revenues:					
General	(34)	71	71	71	142
Total Non-Dedicated Receipts	**-34**	**71**	**71**	**71**	**142**
Dedicated Receipts:					
Departmental Earnings:					
Miscellaneous Special Revenue	779	570	570	570	1,140
Other Revenues:					
Miscellaneous Special Revenue	3,838	3,026	3,026	3,026	6,052
Other Sources:					
Building	16,450	0	0	0	0
Total Dedicated Receipts	**21,067**	**3,596**	**3,596**	**3,596**	**7,192**
Agency Total Revenue	**21,033**	**3,667**	**3,667**	**3,667**	**7,334**