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| Agency Name | Wisconsin Department of Revenue |
| Name your program, idea, or project: | Software Registration and Approval Process for XML Filing of Withholding and Information Returns |
| What is the problem that you wanted to solve? | Wisconsin has an Employer's Annual Reconciliation of Wisconsin Income Tax Withheld (WT-7) for withholding. In 2019, we received 93% of the WT-7s electronically. 46% of the WT-7s are filed with our online taxpayer portal, My Tax Account or via our TeleFile system. 47% of the returns were filed via XML.   WT-7s filed via XML had missing/incorrect data such as: • Taxpayers used "applied for" instead of their Wisconsin tax account number, causing returns to suspend • Taxpayers submitted files that didn't pass schema validation and could not be processed, resulting in late filing fees and bills.  This also generated many appeals and additional phone calls, requiring staff time to resolve. • Withholding software vendors sent files with hundreds of WT-7s that rejected, and we had no way of knowing who submitted the files.  Sometimes, these files had submission IDs that were all zeroes or blanks for each WT-7 in the file, making it difficult for the vendor to correctly interpret the reject messages for each WT-7 return in the file. • Taxpayers were not required to put a software ID on their withholding submissions.  As such, when a payroll service provider recently ceased operation unexpectedly, we had a difficult time knowing if we'd identified ALL their clients.  Wisconsin was the first state to use the employer annual filing (EAF) XML schema developed by the E-STANDARDS group for information returns.  In 2019, there was a pilot project with one vendor to support the XML filing of W-2s.  The vendor used a secure FTP server to drop the files during the pilot.  In 2020, we wanted to accept W-2s and 1099s from additional vendors by using the EAF XML schema. However, to expand this process, we had to know who was sending files via the secure FTP server.  We used a software id to control access to the production system, which ensured that files from approved vendors files were accepted. Wisconsin has an e-file mandate for information returns.  The employer's/payer name, employer identification number and Wisconsin tax account number must match our records or the W-2/1099 files reject.    Prior to adopting the EAF XML schema, information returns were sent via EFW2 or IRS Formatted 1099 files. These were text files transferred via our website or sent directly from payroll software.  It was difficult to send meaningful rejection messages for the text files when there was a problem with the file. As such, we received many contacts from taxpayers to help them diagnose their file transmission errors.  The XML schema allows much better acceptance/rejection messages to be provided.  Finally, the withholding and information returns contain personally identifiable information (PII), particularly for the employee/payee. It was not clear what the software providers were doing to protect taxpayer data and notify the department of data breaches. |
| Who was involved in addressing the problem? | A team comprised of business staff, technical staff as well as vendors worked on this project.  DOR representatives on the team included representatives from the Income, Sales & Excise Tax Division, Bureaus of Tax Operations and Customer Service as well as members from the Division of Technology Services, Applications Services Bureau.  We also worked with the withholding software industry via the Payroll and Information Reporting Committee (PIRC) of the National Association of Computerized Tax Processors (NATCP). |
| How did they go about finding a solution? | FTA's motto is "Let No Good Idea Go Unstolen." That philosophy was applied to this project. To solve this problem, we looked at the existing Letter of Intent and software testing protocols for Individual Income, Fiduciary and Business Tax returns and copied the process for Withholding Tax returns. This includes the use of FTA's secure State Exchange System (SES) for sharing information with the withholding software providers.  Wisconsin's Letter of Intent (LOI) for withholding/payroll service providers was modelled after the National Security Summit's LOI. We used the Wisconsin LOI for Individual, Fiduciary and Business returns and adapted it for Withholding.  A separate LOI was created for withholding because the due dates for Wisconsin’s annual reconciliation form and information returns is January 31st, much earlier than the due dates for other tax types. As such, the LOIs and software testing needed to be done earlier as well.     We worked extensively with the Payroll and Information Reporting Committee (PIRC) of the National Association of Computerized Tax Processors (NATCP) on the LOI for withholding software providers.  A draft of the LOI was first presented to the PIRC committee chair on April 24, 2019.  There were several more contacts on the LOI, including conference calls, e-mails and an in-person meeting with the PIRC on August 15, 2019.  We incorporated many of their suggestions into the final version of the LOI. |
| Describe the outcome. What is the new idea, approach, program, or activity? | Once the LOI for withholding/payroll service providers was finalized, it was posted to FTA's State Exchange System and shared with industry via the PIRC. DOR also did outreach via our e-mail listservs and annual withholding publications as well. The withholding/payroll service provider LOI developed is included with the nomination for review.  After the software provider completed the LOI, they downloaded testing scenarios from FTA's State Exchange System.  Eight scenarios were used for the withholding and information returns.  A few of the scenarios are included with the nomination, for review.  Software providers had to provide a self-assigned software identification number on the LOI. This number is required in all XML submissions for withholding and information returns, or the file will reject.  As scenarios for each withholding or information return type passed testing, the software ID was enabled in our system to receive e-filed returns via XML in production.  The final LOI included provisions on data breach reporting and taxpayer data protection. Withholding software providers are required to sign up for our e-mail alert listservs and must use our data exchange program to ensure they have accurate information to prepare returns for their clients. |
| What has changed since this was implemented? How have your operations improved? Include any data, analytics or metrics that would show the value of your program. Don't forget management advantages such as improved morale. | Here is the data supporting this project, as of February 25, 2020: • 37 vendors are approved to file WT-7s return via XML.  • 80,500 WT-7s have been filed via XML this year.  This is 54% of the total returns, an increase of 7% from last year.    • 2 vendors (representing 5 unique products) have been approved to submit W-2s via XML using the employer annual filing (EAF) schema.  1 vendor has been approved to submit 1099s via XML. • 583,260 information returns (8.6%) have been submitted via XML in 2020, compared to 117,571 (1.7%) at this point last year. • 6.73 million information returns received to date. Our information return load is 96% complete for the year, with an e-file rate of 98%. • The 2020 filing season for withholding has been very smooth, despite implementing this major change. Withholding unit staff have capacity to take on another project instead of processing suspended returns and appeals! • By law, we are required to hold individual income tax returns until March 1st if an employer hasn't filed either their information or withholding returns.  Because we have the WT-7s and information returns already in the system, we have fewer individual income tax returns suspended AND our average return processing time for IIT is 0.4 days better than last year!  The most beneficial change for DOR is better communication and tracking with withholding software providers.  Now that the software ID is required on the XML filings, we know which vendor is submitting files.  We can also use LOI to find contact information for that vendor, if we have issues and need to contact them. We can also use the software IDs to identify all the clients using this software if there are issues with the payroll service provider. Finally, we are using the contact information provided in the LOI to update our email lists, to ensure better communication of withholding tax issues related to their software products. |
| Is this an in-house project, or did you partner with an outside vendor or service-provider? | Our idea, but we used a publicly available software or service for at least part of the implementation |
| Additional information or comments about your usage of outside vendors or service providers. | One suggestion that NACTP/PIRC made was to publish a list of approved withholding software providers to our website.    We also implemented this – see <https://www.revenue.wi.gov/Pages/Withholding/third-party.aspx>. |
| What comes next — will you be adding to your program, rolling it out more widely, trying additional approaches? | It is our hope that this program is rolled out nationwide.  To that end, we plan to do the following: • Continue to promote the XML filing of W-2s and 1099s with vendors & other states. To facilitate this, a national channel for submitting W-2s and 1099s via XML should be developed like the MeF gateway for individual income and business tax returns. • Work with FTA to develop a nationwide LOI for withholding software providers.  One important lesson learned was that we need vendors to provide a NACTP # on the LOI to ensure they are also getting industry communication.  In Wisconsin, we plan to refine the software testing process for withholding returns next year.  We implemented automated rejects for certain software testing scenarios on individual income tax returns during the 2019 testing project.  For our 2020 testing project, we will implement automated rejects on our withholding test returns as well. |
| Website/Documentation URL (Must be publicly accessible) | <https://www.revenue.wi.gov/Pages/Withholding/third-party.aspx> |