



Income and Withholding Matching for Fraud Protection

Wisconsin Department of Revenue

Project Objectives

- Increase to 100% systematic matching of individual income tax (IIT) returns against payer submitted W-2s/1099s in real-time to:
 - Reduce withholding fraud
 - Identify reporting errors
 - Improve employer compliance

Project Objectives

- Improve data quality of W-2s & 1099s submitted electronically
- Store all W-2s & 1099s in same place for easier querying

Multiple Solutions

- **Technology:** hardware, integrated tax processing system & external applications
- **Operations:** policies, statutory penalty, and reporting requirements
- **Outreach:** employers/payers, payroll service providers, tax practitioners & individual income taxpayers

Background

- W-2s/1099s with withholding due January 31st
- 1099s with NO withholding due February 28th
- 148,504 active withholding accounts

Background

- W-2s & 1099s must be filed electronically if sending 50 or more
- Matching was done manually to a subset of W-2s/1099s received based on internal business rules

Background - Paper

- Previously, DOR accepted paper W-2s/1099s in a variety of formats
- W-2s/1099s were stored for image only
- Data regarding number filed was from a transmittal page prepared by the payer

Background – Electronic

- Electronic submission methods were SSA PDF files, EFW-2 format, and *My Tax Account*
- W-2s/1099s were stored in various data stores
- No validation was done as files were received to ensure data quality

Matching Needs

- DOR had to enforce reporting requirements to help combat fraud
- DOR had to capture the data from the source documents rather than rely on payer supplied summary
- Data quality of employer/payer submitted information returns MUST improve
- Information return data had to be readily available to query during IIT return processing

Funding

- Received \$7 million in 2013-2015 biennial budget for fraud prevention
- Funding was used for:
 - High speed scanners & software to data capture paper information returns
 - Fraud manager component in GenTax (used for identity verification, initially)
 - Additional staff for fraud prevention

Technology Solutions

- Created standard data stores for W-2s & 1099s within GenTax data warehouse, regardless of filing method
- Implemented new scanners & scanning software to capture data from paper-filed information returns and load into standard data store

Technology Solutions

- Developed validation processes to ensure FEIN, Legal Name & Wisconsin Tax Account Number (WTN) matched withholding account
 - Reject e-filed W-2s & 1099s mismatches for filer to self correct and resubmit
 - Suspend paper-filed W-2s & 1099s for filer to correct mismatches before loading into data warehouse
- FEIN from IIT returns used to query data stores for wage/withholding data

Operational Solutions

- Implemented standard specifications for "state use" areas of W-2s & 1099s to require 15-digit WTN in state account number field
- Created "dummy" WTN for payers who did not have withholding account (ex: agriculture, domestic help)

Outreach – Reporting Requirements

Wage and Information Return Reporting Requirements

Required information	Send information	Required format for paper filers	Do not send
<ul style="list-style-type: none"> • 15 digit Wisconsin withholding number (those who did not withhold, are not required to withhold and never held a Wisconsin withholding number must use 036888888888801) • Nine digit federal employer identification number (FEIN) • Legal name must match numbers above • Nine digit payee tax identification number • Wisconsin as top state (if possible) <p>Before filing:</p> <ul style="list-style-type: none"> • Register, if required, or make any name changes • Verify the first three items above using our account look-up 	<p>Electronic</p> <ul style="list-style-type: none"> • If you file 50 or more wage statements or information returns, you must file them electronically. See Publication 117 for "How to File." <p>Paper</p> <ul style="list-style-type: none"> • If you file less than 50, we encourage you to file electronically. Otherwise, mail them to the following address: <p>Wisconsin Department of Revenue PO Box 8920 Madison, WI 53708-8920</p> <p>Do not send to any other address</p>	<ul style="list-style-type: none"> • Data must be in similar location of federal form on IRS website • Must be in form format. We will not accept text lists. • No more than four statements or returns per page • Page no larger than 8.5"x11" • Page no smaller than 2.75" high or 4.25" wide • Send only one statement or return per employee/payee (no duplicates) • Use blue or black ink 	<ul style="list-style-type: none"> • 1096-federal transmittal form • 1099-DIV or 1099-INT if no Wisconsin withholding (do not include on WT-7) • CDs, magnetic tapes or transmit non-SSA PDFs • Carbon copies • Correspondence • Duplicate W-2s with no change (if change made, file W-2c only) • Forms W-2 with no Wisconsin connection if paper filing • Old version of WT-7 • WT2 • WT-7 already electronically filed

Outreach

- Published guidance for paper filed W-2s & 1099s - DOR website, listserv articles, tax bulletins, presentations, *My Tax Account* notices, etc.
- Worked with payroll service providers to ensure proper filing
- Sent letters to employers/payers filing 50 or more information returns on paper; must e-file
- Promoted online lookup & data exchange to verify FEIN, Legal Name & WTN

Outreach Solutions

- Set new expectations for IIT taxpayers; can take 8-12 weeks to process return
- Communications team re-branded refund and fraud messages

Protecting Your Refund

Identity and refund theft are on the rise. The Wisconsin Department of Revenue is safeguarding you and your refund from identity theft, fraud and errors.

- Our strong fraud and error safeguards could delay some returns up to 12 weeks
- We won't hold a refund if we can verify all the information

Outreach Solutions

Four Reasons Your Refund Might Be Delayed

1. If your homestead credit claim was selected for review

There are several reasons a homestead credit claim may be selected for review. It does not necessarily mean something is wrong with your claim. [Review this page](#) for more information about why your claim may be under review.

2. If your earned income credit claim was selected for review

If your earned income credit is selected for review, it may be because we need more information. It does not necessarily mean something is wrong with your claim. [Review this page](#) for more information about why your claim may be under review.

3. If you were selected for identity verification

Identity theft and tax refund fraud are two of the top cybercrimes that target individuals. The identity quiz is an extra tool we're using to prevent identity theft and protect taxpayers. This extra layer of protection may delay some refunds. [Review this page](#) for more information.

4. If we found errors in matching wage information

We want to verify the income information you included on your return with the information your employer and other payers provided. It may not mean something is wrong with your return. [Review this page](#) for more information.

Early Lessons Learned

- Additional temporary staff hired and work reprioritized in mailroom, scanning, data capture & processing areas to give W-2s top priority in late January & early February
- Dedicated group of customer service employees to support e-file submissions that were rejected

Technology Solutions - Fraud

- In 2016, 95% of W-2s were in our system by the end of February – time to use the data!
- In 2017, created new action to "hold" IIT returns claiming withholding if no employer/payer submitted W-2 or 1099 to verify

Technology Solutions - Fraud

- Held returns are evaluated nightly against newly filed W-2s & 1099s and processed if match is found
- If returns are held for defined time period with no W-2s & 1099s filed, work items are created to review return manually
 - Staff ask IIT taxpayer to provide W-2s, 1099s and relevant pay stubs to support withholding being claimed

Results

- 98.2% of information returns were on our system by March 1, 2017 and available for matching

YEAR	E-Filed W-2s	Paper W-2s	E-Filed 1099s	Paper 1099s	Total
2014	4,210,395	480,015	1,048,744	101,630	5,409,572
2015	4,218,228	450,031	1,055,655	317,209	6,041,123
2016	4,554,933	470,721	1,165,236	332,705	6,523,595
2017 (as of 3/1)	4,777,241	306,839	1,122,310	219,648	6,426,038

Technology Solution – Income Reconciliation

- Example: Taxpayer claimed \$4,600 of withholding, but employer-submitted W-2 showed only \$3,479.91

DASHBOARD IDENTITY VERIFICATION INCOME RECON QUERIES							
Current Year Sources				Current and Prior Sources			
W2							
***.	JULIE	On Return	:Yes	THE LAI	23,482.00	881.00	
		2016 DWH:	:Employer W2	THE LAI	23,482.82	881.38	
***.1	PETER	On Return	:Yes	DAVES	61,182.00	4,600.00	
		2016 DWH:	:Employer W2	DAVE'S	61,453.43	3,479.91	

Results – 2017 Season

- \$11.8 million in TOTAL adjustments made for processing fraud
 - \$6.0 million from Criminal Investigations
 - \$5.8 million from Tax Operations
- These adjustments are in addition to the approximately \$9.3 million stopped due to analytics / ID verification

Results – 2017 Season

- 89,054 IIT returns were held for wage/withholding match
- 6,399 returns were manually reviewed for wage matching action
- \$1.12 million in adjustments made (part of \$11.8 million in processing fraud)

Results – 2017 Season

- 7,650 employers/payers failed to submit W-2s or 1099s and will be penalized
- 7,861 employers/payers failed to file their annual withholding reconciliation (WT-7) AND W-2s or 1099s
 - Some businesses may have ceased without notifying DOR
 - Follow up is being done to request W-2s or 1099s AND penalize, if appropriate

Next Steps

- Adopt MeF schema for W-2 & 1099 filing to improve rejection rules
- Potential legislation to reduce e-filing threshold from 50 to 10 for W-2s/1099s

Next Steps

- Implementing penalty for employers/payers who fail to submit W-2s/1099s
- Following up with employers/payers who are not submitting correctly; put more emphasis on employee/payee data fields
- Address issues in withholding processing

The logo of the Wisconsin Department of Taxation is located in the top right corner. It features a circular emblem with a central figure holding a scale and a sword, surrounded by the text "WISCONSIN DEPARTMENT OF TAXATION".

Contact Information

Erin Egan

Director of Tax Operations

608/261-5235

erinb.egan@wisconsin.gov