



## INDIANA DEPARTMENT OF REVENUE

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### **Response to the Indiana CPA Society Tax Resource Advisory Council (TRAC) Comments Provided by Ben Smith at DOR's 2024 Public Hearing**

We share our thanks to Sherrill and Ben for attending DOR's 2024 Annual Public Hearing and for providing comments from TRAC. As I shared in my public remarks, we truly appreciate our partnership and the collaborative working relationship we have with INCPAS staff, TRAC, and all INCPAS members.

Our teams work throughout the year to share information, research and resolve specific issues, identify improvements, and implement very complex legislation – like special credits, PTET, e-filing mandates, and a myriad of other tax administration challenges. We provide INCPAS staff and TRAC members with multiple channels to raise topics for discussion, have specific accounts researched, have questions answered, and to provide input on potential improvements.

This partnership has served both organizations, and all players within Indiana's tax system, very well. Our collaborative work makes us all better, and we look forward to keeping it going.

The 680 dedicated Hoosiers on Team DOR pour themselves into administering Indiana tax laws fairly, accurately, securely, and efficiently – and, as you have generously acknowledged, the levels and quality of service we provide have continuously reached new heights over the last few years. The nature of what we do provides a never-ending opportunity for improvement for all participants in the tax ecosystem. Thank you for staying on that journey with us.

#### **Notices**

The request to enhance recomputation notices with comparison data is an active DOR project. We have initiated the analysis to determine the feasibility of providing comparisons of submitted return information alongside the changes in certain scenarios. We are currently in the middle of a system upgrade, so this project will be considered for prioritization after the completion of that upgrade this fall.

While periodically we discover and correct rare/unique situations that impact a small number of accounts, we are not aware of any systemic issues generating “errant” notices.

We appreciate being immediately notified if a taxpayer receives a notice that they believe is in error – keeping in mind that believing the notice is in error is a common first reaction, and many times not accurate.

As we always do, we will research each report provided to us and determine the root cause(s), and work with the taxpayer or their representative to correct their filing and/or account. Of course, if we discover a system issue or improvement opportunity within DOR, we will take the identified action(s).

**Action Item:** We are interested in continuing discussions about your enhancement ideas of establishing a minimum threshold for adjustments before sending a notice and "rounding" adjustments to reduce changes and associated notices. Both suggestions have many complexities and will require data gathering, analysis, consideration of potential unintended outcomes, possible solution development, and ultimately, legislative support.

### **Additional Thoughts on “Notices”**

We have discussed notices and letters with TRAC members, DOR's Tax Advisory Council, and many other tax professionals many times over the last few years. We appreciate your acknowledgment that the number of notices issued has been significantly reduced during our modernization. As you also mentioned, many times notices that cause confusion are related to unique, one-off situations.

We have made numerous improvements to notices during our modernization work, and we will continue the never-ending quest to find ways to make them the best they can be while we ensure they are compliant with Indiana statute. Aligning on the ‘perfect’ wording for each specific scenario is not feasible as notices must be applicable to a variety of taxpayers and very diverse tax scenarios.

We acknowledge that tax notices from any tax agency are always a hot topic because they are communicating a required tax return correction or issue that needs additional attention when the taxpayer and/or the tax practitioner thought they were finished with the particular action. Sometimes they also include a bill that is unexpected and undesired. We understand that getting a notice can trigger frustration and anger. It also requires additional work by all parties, including DOR. But if it is determined that a filing or payment error has occurred and an adjustment is required, we must take that action, and we are required by Indiana statute to communicate that action.

We also understand that receipt of a tax notice can trigger the “*What did I do wrong*” question and accompanying emotion. While “doing something wrong” may or may not be the root cause that generated the adjustment and notice, most adjustments that trigger a notice are in fact generated because something in the filing was incorrect, late, missing, or in conflict with other information in our possession.

Tax administration is complex for all participants, including DOR, taxpayers, tax practitioners, and tax software companies. It is also executed within tight timeframes, with high volumes, and according to firm deadlines. Mistakes are made by all parties, and we believe firmly that no one makes mistakes on purpose. We should also recognize and celebrate that most transactions are accurate and flow through the tax ecosystem smoothly and swiftly, which is a testament to the skilled and dedicated work by everyone in our profession.

So, when a transaction requires additional attention, instead of thinking “*What did I do wrong?*”, we should continue working together to identify what occurred and quickly correct the underlying issue that generated the notice and requires corrective action. Then, every participant can enter continuous improvement mode to determine how to improve processes to avoid the error in the future.

## **Ability to accept PDF attachments with electronic returns**

We agree that implementing the ability to electronically attach supporting PDFs to e-filed returns and implementing the steps to identify when those PDFs are required, present, and accurate to support return credits, is an important enhancement.

We will be initiating a project to study all the associated systems and business processing requirements to safely and securely receive, store, and process electronically filed PDF attachments. This work will also include tax software vendor capability research and associated annual certification enhancements to support it.

We are also reviewing our current procedures and training across all service operations teams to ensure our credit supporting documentation review, approval, and denial procedures are accurate and consistent.

We also want to note, for e-filed returns it is critical that all required fields within the e-filing schema are included and entered accurately before filing for complete processing of a return. This includes entering required data for any schedules and credits that are applicable for that return.

E-filing dramatically improves the quality and speed of return processing. It also eliminates manual data entry by DOR staff. We do not have plans to implement a manual process for entering information from PDF attachments that must be included in the e-file schema for accurate processing.

**Action Item:** To assist us in our scenario research and solution design, we would appreciate specific examples of return adjustments (including credit denials) that occurred due to missing supporting documentation, that were later reversed when the supporting documentation was provided.

## **Denial of Credits**

As it relates to supporting documentation for credits that could be attached to an e-filed return, see the "Ability to accept PDF attachments with electronic returns" section.

Our team is committed to ensuring that all credits are received by eligible taxpayers and processed accurately. In fact, almost all requested special credits are approved during initial return processing. We do have automated processes in place to proactively receive and verify information from credit-sponsoring agencies. This information is utilized during credit verification processing.

For tax year 2023, 93.4% of electronically filed individual returns that requested a credit on Schedule 6 or Schedule G, received that credit during initial return processing. Only 6.6% of those returns received a recomp notice (and some of those required an adjustment notice for an issue not related to the credit). A single return can request multiple credits, which complicates the processing scenarios and potential resulting actions.

With specific regard to credits for taxes paid to other states for tax year 2023, 93.7% of individual returns that requested credit for taxes paid to other states, received that credit during initial return processing. Only 6.3% of those returns received a recomp notice (and some of those required an adjustment notice for an issue not related to the credit).

We have initiated work to analyze the frequency of denials, the reasons for denials, and explore form, guidance, education, training, and processing enhancements to reduce denials and adjustments that are later reversed due to the receipt of additional information.

**Action Item:** We would appreciate specific examples of denied or adjusted special credits that were incorrect and/or later reversed, so we can identify business rule, processing, or procedure improvements.

### **Special Credit Processing at DOR**

DOR has specialized system rules and business procedures to administer all special credits established by Indiana's General Assembly. In addition, we have a Service Operations team that manages special credit processing, provides customer support for these credits, and completes credit related research and resolution when required.

Each special credit has its own verification requirements, and some are complex. We collaborate with each credit-sponsoring entity to proactively obtain the rules associated with each credit and information about eligible recipients. This information is part of the verification process.

Some credit requests are correctly denied for reasons including ineligibility, exhaustion of available credit pool funds, and filing errors that result in incorrect credit eligibility verification information. There are also cases of attempted fraud that we work to identify and stop.

Sometimes during processing, information submitted by the taxpayer or received from the supporting entity indicates that a taxpayer is not eligible for the requested credit, and a denial is warranted. If additional information is provided after a denial that confirms credit eligibility, our team makes the necessary adjustments to reflect the approval.

## **PTET**

The Pass-Through Entity Tax (PTET) is a complex tax provision implemented in 2023 in compliance with Senate Enrolled Act 2, which was signed into law on February 22, 2023.

DOR worked collaboratively with stakeholders across the tax ecosystem, including INCPAS, to implement these provisions and provide all the systems, forms, training, and guidance required. Since that time, we have continued to introduce enhancements and identify ways to improve processing of this very complex area of tax law.

While most DOR customer service professionals across the state have a general understanding of PTET, it is a very complex area of tax law that requires a high level of expertise. DOR's Corporate Processing Team is best suited to provide assistance, especially for the example you shared of a multi-tiered corporate structure and the flow through of other credits within complex returns. The Corporate Team also includes auditors and has ready access to our senior Tax Policy staff, who help with complex questions like those referenced in your report.

The timing and contents of entity and shareholder returns, including supporting K-1s, has the potential of creating unintended confusion and processing errors, for all parties. If a specific case cannot reach resolution through working with our Corporate Team, please bring it to our attention so we can perform detailed research and determine if there is an underlying issue or opportunity for business rule, processing, or procedure improvement.

We are constantly updating our training, including the many facets of PTET processing. Based on your feedback, our senior Tax Policy staff, who are DOR's PTET experts, will be working with our Corporate Training team to develop training for multi-tier entities, K-1 requirements, and flow through credits.

This training will include how best to handle the unique example you shared in your report, including scenarios when partner and entity returns differ. This training will also be shared with Customer Service staff across DOR.

## **POA-1 and ePOA**

The ability to provide tax practitioners with taxpayer account access (when legally authorized) via the ePOA process, is a transformational enhancement introduced during our modernization project.

We have discussed and provided detailed information around the differences between the POA-1 and ePOA numerous times. Extensive tax practitioner and taxpayer ePOA information and help guides have been developed and are easily accessible on DOR's website. They are attached for reference.

We want to reiterate that we cannot provide full taxpayer account access to a tax practitioner without the taxpayer's explicit consent, which is not part of the current POA-1 form. We also cannot grant full ePOA access for existing POA relationships that were established utilizing the POA-1 for the same reason – the amount of taxpayer information accessible via INTIME is far greater than that which is authorized on the current POA-1 form. This is the very purpose behind the ePOA.

For taxpayers who are not interested in establishing an INTIME account (which is fast and easy) to acknowledge the ePOA relationship with their tax practitioner, we have developed a paper approval process that can be easily initiated by the tax practitioner within their INTIME account. This option was developed at the request of tax practitioners who had clients unwilling to set up an INTIME account. Information on that process is attached and readily available on our website.

## **INTIME and ePOA Information**

- Active INTIME accounts: 841K
- Business accounts linked to an ePOA: 197 K
- Individual accounts linked to an ePOA: 12 K

## **Electronic Filing e-Filing Penalty Abatement (for corporate returns that cannot be e-Filed)**

The system enhancements to implement this request were implemented in production on May 23, 2024. Taxpayers that are impacted will receive the attached letter.

Training on this penalty abatement action has been provided to all customer service staff.

## **Estimated Payment Training**

**Action Item:** For the specific example reported that involved a penalty being assessed due to confusion surrounding estimated payments, please provide the specific account information so it can be researched and corrected, if warranted.

We have initiated a project to refresh training on estimated payments across all of Customer Service. This will include what is, and is not required, and how carry forwards can impact the estimated payment process.

## **Quickly Report Poor (and Excellent) Service**

Please remind your members that if they ever receive service that does not meet their expectations or believe they have received an incorrect technical tax answer, they should escalate that experience to a Customer Service Supervisor immediately. We cannot address the issue if we do not know about it, and letting it continue without prompt resolution is not effective for anyone involved. It can also lead to incorrect information being provided to other taxpayers and practitioners.

We invest heavily in initial and ongoing training in all areas of Indiana tax law, our administration of it, customer service, listening, de-escalation, and problem-solving. Mistakes are made by all parties across the tax ecosystem, and we work hard to identify when they occur, research the root causes, and, when necessary, implement training or procedural enhancements.

We have over 250 customer service professionals assisting hundreds of thousands of Indiana taxpayers and their representatives each year. This work is high volume and high complexity, and it can be stressful for a variety of reasons, including negative communication and escalation of anger from the individuals we are attempting to serve. Unintended misunderstandings or miscommunications can also occur, leaving both parties with a different understanding of what transpired.

We record every call and will fully research what occurred, including listening to the call to gather the facts. We will then correct the individual issue and take the necessary steps to address the underlying cause(s). We may also reconnect with the caller if what they report is not correct or the call recording indicates they have a misunderstanding of the communication and/or answer provided (which is common).

We also encourage the reporting of instances of excellent service so we can recognize the individuals who provided it.

## **Enhancing Payment Processing Options**

We currently support both logged-in and non-logged-in options for making payments. For taxpayers with INTIME accounts, taxpayers can easily store their banking information and schedule future payments, including estimated payments.

Within a taxpayer's INTIME account, they can store their banking information and:

- Schedule a future return payment (by payment date)
- Schedule up to four estimated payments for up to a year
- Setup reoccurring payments in a payment plan

We have had great success to date with customers making INTIME payments. This tax year, over 243,000 payments for \$338 million dollars have been made through INTIME.

**Action Item:** Finding ways to make it easier to do business with DOR is our #1 2024 goal, so we welcome and truly appreciate any specific ideas you have to improve payment processing.