

Offsets Matter

TOP's News for State Agencies

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States Recover Nearly \$500 Million of Tax Debt in 2013 Tax Season



With tax season now over, the Treasury Offset Program's (TOP) State Income Tax (SIT) program has recovered nearly \$497 million since October 1, 2012. The SIT program allows states to recovery delinquent state income tax obligations owed by federal tax refund payment recipients.

The Internal Revenue Service (IRS) began processing federal tax returns for tax year 2012 on January 30, 2013. Taxpayers had until April 15, 2013, to file a tax return unless they had filed for an extension. This year, forty states, along with the District of Columbia, submitted delinquent state income tax debts to TOP collection through federal tax refund payment offset.

To date, during the first seven months fiscal year 2013, the SIT program has recovered \$497 million. The three states with the highest SIT recoveries were New York, with \$65 million; Georgia, with \$52.8 million; and California with \$49.2 million. These three states were followed by Maryland, Illinois, Ohio, Louisiana, Alabama, New Jersey, and Missouri. Ten states recovered \$330.6 million collectively, accounting for 66.5% of the total dollar volume recovered through SIT.

Participation in SIT requires states to send a 60-day notice to debtors by certified mail, return receipt requested, informing the debtors of their intent to collect the state income tax debt through TOP. In addition, taxpayers must reside in the state to which the tax obligation is owed (based on the address on their federal tax return for the year of the refund). If these two criteria are not met, state income tax debt is not eligible for offset for TOP collection.

Through the continued partnership between the states and the Bureau of the Fiscal Service, TOP has been able to recover millions of dollars in state income tax debt portfolios. This partnership has contributed a great deal to the successful implementation of the SIT program throughout the country. The federal government is committed to continue assisting states in the recovery of these funds wherever possible.

For more information about this program and ways to increase your recovery opportunities, please contact Becky Park at (202) 874-9451 or via email at Becky.Park@fms.treas.gov.

Tennessee UIC Debt Collections Make the News

The Tennessee Department of Labor and Workforce Development issued a press announcement on May 22, 2013, regarding the state's successful collection of fraudulent unemployment insurance benefits as a result of the Treasury Offset Program (TOP).

Acting Labor Commissioner Burns Phillips said, "The ability to reclaim these funds that were fraudulently collected is extremely important to the business community because the health of the Unemployment Trust Fund affects the amount of taxes an employer pays."



With Tennessee reporting \$15.4 million recovered during the 2013 tax season, Tennessee can celebrate a successful implementation of the Unemployment Insurance Compensation (UIC) Program and the return of funds to the Unemployment Trust Fund, which can now be used by those in the state who are in need of assistance.

TOP congratulates Tennessee on its successful implementation of the UIC Debt Program.

U.S. Treasury Financial Management Service

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States as Debtors in TOP...

How States Identify Delinquent Debts That May Delay or Reduce Federal Payments

TREASURY OFFSET PROGRAM



When a state agency owes a delinquent debt to the federal government, the federal agency responsible for collecting the debt is required to submit the debt to the Treasury Offset Program (TOP) for collection. TOP will offset a payment when the TIN of a state agency receiving a payment is the same as the TIN of the state agency owing the debt. This means that if multiple state agencies are using the same TIN when interacting with the federal government, TOP will offset any eligible payment to any of those entities to pay the outstanding debts associated with the same TIN. This has generated some confusion for certain state agencies who were expecting a federal payment but were unaware that another state agency owed a federal debt.

When a state agency receives notice that a debt is owed to the United States, the state agency should promptly contact the federal creditor agency to resolve the outstanding obligation, so that the debt will not be submitted to TOP and impact federal payments to other state agencies. Upon request, TOP Staff will provide states, businesses, and other entities with a report to help identify delinquent non-tax debts owed by the state, business, or other entity to the federal government. TOP Staff can also send states a report with the appropriate creditor agency contact information at the beginning of each month to assist with resolving these offsets. This report can help identify the state offices which owe debts to the federal government. This report will not provide details about why the debt is owed, which can only be obtained from the agency contact.

To receive this report, TOP needs to receive a written authorization from your State Comptroller, or similar authorizing official, to release this information. The authorization should provide a central point of contact, along with their name, address, telephone number, email and postal mailing address.

For more information regarding how your state can receive this report, please contact Sheila Moss at (202) 874-6937 or via email at Sheila.Moss@fms.treas.gov.

UIC Testing Moratorium Scheduled for October 2013 to January 2014 to Support Release of Enhanced TOP System

State agencies must complete Treasury Offset Program (TOP) testing by September 30, 2013, in order to participate in TOP's Unemployment Insurance Compensation (UIC) program for the tax season beginning in January 2014. The TOP Test Team will be unavailable to test with state agencies from October 1, 2013, through the beginning of 2014 due to test requirements for an enhanced TOP system.

In December 2013, the Bureau of the Fiscal Service (Fiscal Service) will replace the current TOP system with an enhanced TOP system. While implementation of this new system will greatly expand the current capabilities of TOP, there will be minimal impact to daily operations. States will not need to make any significant changes to how they currently interface with TOP today. Webinars about the new features and required systems changes will be scheduled beginning in October 2013.

For UIC states that are planning to submit debts via batch file format, testing with TOP is mandatory. States should consider the following when preparing themselves for the testing process:

- Provide your state's planned implementation date for joining the TOP UIC Program to TOP staff.
- Test scenarios can be provided by the TOP Test Team upon request.
- Test files contain mock data with no Personally Identifiable Information (PII) and may be exchanged via email between Fiscal Service and the state.
- Programming and internal system testing should be complete prior to testing with Fiscal Service.
- No plans for testing should be made during the period of **September 30, 2013 through the beginning of 2014.**
- Before going live, states must work with the Fiscal Service Information and Security Services (ISS) offices in Parkersburg, WV, to establish and configure a connection to our TOP production environment through either SFTP, Connect:Direct, or CyberFusion products.

If states are unable to test before September 30, 2013, states still have the option to submit debts through the TOP Web Client.

If you are interested in testing with TOP before September 30, 2013, please contact Sakhi Xaba at 202-874-7141 or via email at Sakhi.Xaba@fms.treas.gov, or Kechia Kirksey at 202-874-8351 or via email at Kechia.Kirksey@fms.treas.gov.

If you have additional questions regarding referral of UIC debts to TOP, please contact Sheila Moss at 202-874-6937 or via email at Sheila.Moss@fms.treas.gov, or Becky Park at 202-874-9451, or via email at Becky.Park@fms.treas.gov.



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State Profile: Kentucky



Located in the south central United States along the western edge of the Appalachian Mountains, Kentucky ranks 37th in land size, with 39,732 square miles. The 15th state to join the Union, Kentucky is well known for its rolling Kentucky Bluegrass region, for horse breeding, and for its horse racing. Originally part of Virginia, the land that is now Kentucky was formed in Kentucky County, VA in 1776. The name Kentucky is of Native American origin and has been attributed to several different languages with several different possible meanings from “land of tomorrow” to “cane and turkey lands” to meadow lands.” In addition to all of these things, Kentucky has also recovered \$62.2 million by partnering with TOP as a participant in all four of our state programs.



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Child Support

In 1982 the IRS began the automated offset of tax refund payments to collect child support debts for states. In 1999, the Bureau of the Fiscal Service (Fiscal Service) merged the IRS's tax refund offset program with TOP, bringing the state of Kentucky and other participating states into TOP. In calendar year 2012, Kentucky recovered \$40.3 million through 31,161 offsets.

Income Tax

The State Income Tax Program began in 2000 with seven pilot states, including Kentucky. Today this program has grown to include the participation of almost all eligible states in the country. The program allows Kentucky to recover delinquent state income tax debts through the offset of federal income tax refund payments. In calendar year 2012, Kentucky recovered \$15.4 million through 21,513 offsets. Although not a part of TOP, the Bureau of the Fiscal Service is appreciative of Kentucky's partnership with the Internal Revenue Service (IRS) in the State Income Tax Levy Program, whereby the state intercepts state income tax refund payments to collect delinquent tax debts owed to the IRS.

Kentucky TOP Collection Totals in 2012

Program	OFFSET COUNT	NET COLLECTION AMOUNT
Child Support	31,161	\$40,298,154
Income Tax	21,513	\$15,403,897
Unemployment Insurance	—	—
State Reciprocal Program	2,846	\$6,455,682
Total	55,520	\$62,157,733

UIC Program

Implemented in February 2013, the Unemployment Insurance Compensation (UIC) program is Kentucky's most recent partnership with TOP. This program allows Kentucky to recover UIC debts due to fraud or a person's failure to report earnings through the offset of federal income tax refund payments. While Kentucky was not participating in the UIC Program in calendar year 2012, in 2013 through April 30, Kentucky has recovered \$7.1 million through 6,819 offsets.

State Reciprocal Program

In September 2010, Kentucky passed legislation to implement the State Reciprocal Program (SRP), making it the fourth state to implement SRP. The program provides Kentucky with the opportunity to recover administrative debts through the offset of non-tax federal vendor payments. Prior to implementing SRP, Kentucky had already implemented a centralized accounting and payment system, enabling them to fully implement a centralized SRP. In calendar year 2012, Kentucky recovered \$6.5 million through 2,846 offsets.

Kentucky's list for other states on the necessary steps to prepare for SRP:

- If you already have legislative authority, do what you can to start qualifying debts immediately prior to implementation. When ready, you will have a larger pool of debts to submit, thereby maximizing your chance for offset.
- Work closely with TOP throughout the process.

- Use example scenarios for elaboration when posing questions to TOP to confirm an accurate understanding of requirements and business rules.
- Collaborate with Fiscal Service to develop detailed integration test scenarios.
- Involve all stakeholders in the process and make sure all agencies are aware of how the process will work.
- Involve resources with solid functional, technical and operational knowledge in the state's accounts payable, offset and disbursement processes.



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Debts Collected through SRP Include:

- Kentucky Community and Technical College System Debts
- University of Kentucky Debts
- Board of Nursing Loan Debts
- Kentucky Higher Education Assistance Authority Loan Debts
- Kentucky Motor Vehicle Commission Fines, Fees, and Penalties
- Morehead State University Debts
- Department of Financial Institutions Fines
- Northern Kentucky University Debts
- Court Ordered Restitutions
- Department of Insurance Civil Penalties

“The Treasury Offset Program is an important way for Kentucky to recover tax money that it is owed. Having the capability to check social security numbers or other information with the federal system, this truly is a vital link in our collection efforts.”

~ Lori Hudson Flanery
Secretary of Finance and Administration Cabinet
Chief Financial Officer for Kentucky

Common Misconceptions about State Participation in SRP



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The State Reciprocal Program (SRP) provides states with the opportunity to enter into an agreement with the U.S. Department of the Treasury (Treasury) to offset state payments to collect federal nontax debts. In return, the federal government agrees to offset certain federal non-tax payments to satisfy state debts. Once the reciprocal agreement has been finalized, Treasury may request that the state perform offsets to collect delinquent federal non-tax debts in accordance with the terms of

the agreement, and in return the state may as the same of the federal government.

Many states face challenges in their attempts to implement this program. With time, effort, and commitment to a successful partnership between the federal and state governments, the Treasury Offset Program (TOP) can help states address their challenges. The following are common misconceptions about SRP Program requirements:

My state must centralize their debts and payments into one office to participate in this program.

Years ago, TOP had asked states to centralize their debts and payments into a central office for the successful implementation of the program. Today, this is no longer required. While centralizing a state's debt portfolio and payment streams remains the ideal, it is no longer a requirement for participation in this program. TOP is committed to finding a way to make the program work within each state.

My state legislature won't pass any laws that could result in undue hardship on their constituents.

The passage of any legislation which affects individuals requires a great deal of consideration. However, it should be noted that all debtors are given due process, providing them with the opportunity to contest the existence of the debt and resolve the debt in accordance with their ability to pay.

The cost of developing a new system for implementing this program is too high to provide any return on investment.

TOP recognizes that states face challenges in funding new technology to connect with TOP in the current economic climate. For this reason, TOP is planning an industry symposium that will bring all parties together (federal, state and vendor) to work jointly on developing solutions to this important hurdle. TOP continues to explore options for the Fiscal Service to support states wherever possible.

For additional information on SRP or to discuss additional concerns you may have about your state's participation, please contact David Burgess at 202-874-7182 or via email at David.Burgess@fms.treas.gov.

TREASURY OFFSET PROGRAM



Upcoming Speaking Engagements



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2013 FTA Annual Meeting

Representatives from the Treasury Offset Program will speak at the **Federation of Tax Administrators' Annual Meeting**. This meeting will be held **June 9 - 12, 2013, in Albuquerque, New Mexico**.

For additional information regarding this meeting, please visit the Federation of Tax Administrators' website at www.taxadmin.org.

Next TOP Quarterly Call with the States

Representatives from the Treasury Offset Program will hold their quarterly call with the states on **July 11, 2013, at 2:00 PM EST**. All state representatives are encouraged to participate to hear the latest news about all of TOP's programs for states.

For additional information regarding this call, please contact Teri Hoehn at Teri.Hoehn@fms.treas.gov.

2013 AGA Professional Development Conference

The Assistant Commissioner for the Fiscal Service's Debt Management Services will speak at the **Association of Government Accountants (AGA) Professional Development Conference**. This conference will be held **July 14 - 17, 2013, in Dallas, Texas**.

For additional information regarding this conference, please visit the Association of Government Accountant's website at www.agacgfm.org.

Financial Management Service and Bureau of the Public Debt Consolidate to Become the Bureau of the Fiscal Service



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Last October, under the direction of the Secretary of the Treasury, the Financial Management Service (FMS) and the Bureau of the Public Debt (BPD) officially consolidated to become the Bureau of the Fiscal Service (Fiscal Service).

The benefits of consolidating FMS and BPD into one bureau were significant. Both FMS and BPD had a long-standing track record of outstanding program management and customer service.

Both bureaus performed mission critical functions effectively, and both shared a culture of operational excellence. Also, both organizations have successfully collaborated on a number of important initiatives related to information technology preventing improper payments (Do Not Pay), the consolidation of physical space, and sharing administrative services. There is a need within the federal government for strong leadership in the area of financial management – through both policy and service delivery. A consolidated organization is better situated to offer this leadership.

Given the federal government's extensive use of acronyms, the Fiscal Service has decided to avoid the use of acronyms where possible. For this reason, we will use the name Fiscal Service in short, instead of using BFS or FS. In the coming months, we will be changing our email addresses to reflect our new name. In addition, we will be launching a new Fiscal Service public website in the fall.

While we do not anticipate any significant impact to TOP's relationships with the states, should you have any questions or concerns regarding this consolidation, please contact Thomas Kobielus at 202-874-38107359 or via email at Thomas.Kobielus@fms.treas.gov.



TREASURY OFFSET PROGRAM



Upcoming Speaking Engagements *cont...*

2013 NASWA Administration and Finance Committee Meeting

The Deputy Assistant Commissioner for the Fiscal Service's Debt Management Services will speak at the **National Association of State Workforce Agencies**. The meeting will be held on **July 18 - 19, 2013, in Washington, DC**.

For additional information, please visit the National Association of State Workforce Agencies website at www.naswa.org.

2013 NASACT and U.S. Department of the Treasury Webinar

Representatives from the Treasury Offset Program will present alongside state participants in the State Reciprocal Program on a webinar hosted by the National Association of State Auditors, Comptrollers, and Treasurers. This webinar is scheduled for **September 18, 2013, from 2:00 - 4:00 PM EST**.

For additional information regarding this webinar, please contact Teri Hoehn at Teri.Hoehn@fms.treas.gov.

How to Ensure You Have the Right TIN in TOP

For the past year, we have discussed what to do when a debt submitted to the Treasury Offset Program (TOP) results in a "partial match". A partial match occurs when the Taxpayer Identification Number (TIN) of a TOP debtor matches the TIN of a payee, but the debtor's name does not match the payee's name. In November 2010, TOP employees started researching these partial matches for creditor agencies. When the TOP employee determines that the debtor and payee are the same person, he or she adds an "alias" name in TOP to prevent future partial matches.

What happens when the research conducted by TOP employees reveals that there is another person with the same TIN? While further research is required to determine who the correct owner of the TIN may be, current policy does not allow TOP employees to change the TIN of a delinquent debtor in the TOP database. Only creditor agencies have the authority to make this type of change in the system.

For this reason, TOP employees have begun to provide agencies with a list of debtors in the TOP database that may have the wrong TIN attached. This list allows agencies to review those debts in TOP that may not have been collected as a result of erroneous TIN information. While TOP staff is currently unable to make these changes in the system, creditor agencies may review the information provided and update those TINs when and if they determine that an error has been made.

For more information on participating in this process, states can contact David Burgess at 202-874-7182, or via email at David.Burgess@fms.treas.gov.

TOP Collection Updates

State Collections (10/01/2012 - 04/30/2013)

TREASURY OFFSET PROGRAM



State Unemployment Insurance Compensation Program Collections

STATE NAME	OFFSET COUNT	NET COLLECTION AMOUNT
Alabama	13,136	\$9,996,241
Arizona	28,272	\$20,137,234
Arkansas	21,631	\$18,619,091
California	3,091	\$2,628,509
Colorado	2,827	\$3,474,994
Connecticut	5,606	\$4,550,430
District of Columbia	1,481	\$2,401,497
Florida	23,081	\$18,357,063
Georgia	2,532	\$2,626,852
Idaho	633	\$1,149,839
Illinois	20,387	\$34,872,357
Kentucky	6,819	\$7,097,245
Louisiana	6,702	\$8,686,570
Maryland	10,025	\$11,438,522
Michigan	5,925	\$8,120,552
Minnesota	6,356	\$14,309,935
Mississippi	21,857	\$9,778,845
Missouri	14,874	\$18,940,614
Nebraska	2,702	\$1,907,648
Nevada	224	\$622,767
New Hampshire	1,969	\$2,037,852
New York	24,557	\$25,489,960
North Carolina	12,460	\$9,776,909
Pennsylvania	7,930	\$15,633,923
South Carolina	7,480	\$11,118,115
South Dakota	1,099	\$811,737
Tennessee	17,425	\$15,384,898
Utah	5,635	\$6,453,437
Vermont	60	\$42,120
Washington	1,673	\$1,422,175
West Virginia	2,824	\$2,132,806
Wisconsin	16,492	\$12,270,788
Total	297,765	\$302,291,525

The Unemployment Insurance Compensation (UIC) Program allows for the offset of federal tax refund payments to collect UIC debts due to fraud or a person's failure to report earnings.

As of April 30, 2013, Vermont and Washington have joined TOP UIC, bringing the total states participating to 31 states and the District of Columbia.

As of April 30, 2013, Illinois has recovered the most funds at \$34.9 million, followed by New York and Arizona, which have recoveries \$25.5 million and \$20.1 million, respectively. The TOP UIC program has recovered a total of \$302.3 million as of April 30, 2013.

TOP continues to encourage states to participate in this program. For those states that have not yet begun to submit their UIC debts to TOP for collection to begin doing so as soon as they are able. States will need to have implemented the UIC program by September 30, 2013 in order to ensure participation during the 2013 tax season.

For further information regarding UIC TOP, please contact Sheila Moss at (202) 874-6937 or Sheila.Moss@fms.treas.gov, or Becky Park at (202) 874-9451 or Becky.Park@fms.treas.gov.

State Reciprocal Program Collections

STATE NAME	OFFSET COUNT	NET COLLECTION AMOUNT
District of Columbia	2,474	\$7,452,697
Kentucky	2,489	\$4,992,984
Maryland	2,666	\$5,792,603
Minnesota	812	\$1,315,917
New Jersey	1,552	\$1,839,863
New York	1,440	\$1,631,998
Wisconsin	647	\$688,828
Total	9,606	\$16,262,193

The State Reciprocal Program (SRP) allows states to enter into reciprocal agreements with Treasury to collect unpaid state debt by offset of federal non-tax payments. In return, states agree to offset state payments to debtors who owe delinquent debts to the federal government.

The District of Columbia joined the State Reciprocal in February 2013. As of April 30, 2013, the District of Columbia has achieved the most recovered funds through SRP in this fiscal year with total collections of \$7.5 million. Maryland is second with \$5.8 million recovered in this fiscal year.

Given SRP's recovery rates, TOP requests states with interest contact us as soon as possible regarding benefits to the states and implementation assistance.

For further information regarding SRP, please contact David Burgess at (202) 874-7182 or David.Burgess@fms.treas.gov.

Top 5 State Income Tax Offset Collections

STATE NAME	OFFSET COUNT	NET COLLECTION AMOUNT
New York	93,693	\$64,978,751
Georgia	77,003	\$52,792,365
California	49,537	\$49,194,090
Maryland	50,598	\$44,793,870
Illinois	71,985	\$25,883,082

The State Income Tax Program allows states to refer delinquent income tax debts to TOP for offset against federal tax refund payments only.

New York has recovered the most funds through the State Income Tax program as of April 30, 2013, with the recovery of \$65 million. Georgia has recovered the second most funds with \$52.8 million.

For further information regarding the State Income Tax program, please contact Becky Park at (202) 874-9451 or Becky.Park@fms.treas.gov.

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