Issue Paper Number <u>02-009</u>

☐ Board Meeting
☐ Business Taxes Committee
☒ Customer Services and
   Administrative Efficiency
   Committee
☐ Legislative Committee
☐ Property Tax Committee
☐ Other

BOARD OF EQUALIZATION
**KEY AGENCY ISSUE**

# Internet Services Expansion

## I. Issue

At the July 31, 2001 Customer Services and Administrative Efficiency Committee meeting, Executive Director Jim Speed recommended the Board of Equalization (BOE) pursue an evaluation of the feasibility of developing a BOE Internet electronic services (e-services) portal. The evaluation was to encompass a high-level design and implementation vision. The e-services portal would allow taxpayers to voluntarily register for a business permit, initiate changes to their accounts, file returns, make payments, and file refund claims and petitions using the Internet. E-services will not replace existing service delivery channels, but will provide taxpayers with additional service options and the ability to self-manage their accounts. The proposed sequencing for BOE e-services projects is as follows:

| | |
|---|---|
| Phase I | E-portal, Registration and Account Maintenance (change of name, address, etc.) |
| Phase II | Filing of Petitions and Claims for Refund |
| Phase III | Direct Deposit of Refunds |
| Phase IV | Account History, Account Balance and E-payment |
| Phase V | Electronic Filing Enhancements (multiple location returns and schedules) |

## II. Staff Recommendation

Board staff recommends adopt the proposed master plan for expansion of BOE e-services and authorize staff to develop Feasibility Study Reports[1] (FSR). Upon approval, FSRs will be developed for each phase. They will include implementation options including in-house development, the use of consultants, as well as a blend of resources. As FSRs are completed they will be brought to the Board for approval. Each FSR will maximize baseline resources and will recommend outside funding and resources only as necessary. Approved FSRs will be developed into Budget Change Proposals where appropriate.

## III. Other Alternative(s) Considered

Take no action.

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[1] An FSR establishes the business case for investment of state resources in the project by setting out the reasons for undertaking the project and analyzing its costs and benefits.

## IV. Background

A team was formed following the July 31, 2001 Customer Service and Administrative Efficiency Committee meeting and was directed to research the current Government to Business (G2B) e-services environment, identify the readiness of BOE's infrastructure and database, and develop a conceptual design for expansion of BOE Internet e-services.

### Vision

The long-term goal is to create a real-time interactive Internet based interface (portal) where taxpayers could perform the core tax compliance functions they currently perform with BOE through manual processes. The objective is to provide the full life cycle of account activities through taxpayer directed and controlled Internet transactions.

By integrating all tax and fee programs within BOE's e-services portal, BOE will be able to avoid duplication of information, redundant support activities and help simplify taxpayer interactions. With willing taxpayers managing their own accounts, staff will be able to provide better customer service both to e-government and traditional (i.e. mail, telephone, in-person) taxpayers.

The basic criteria for developing e-services are identified as follows:
- ✓ No cost to users
- ✓ Security of confidential information
- ✓ Authentication to verify users
- ✓ Scalable components that can be built upon and expanded in the future
- ✓ Follow industry "best practices" for Internet e-services

### Conceptual Design

The foundation for any true e-service portal is constructing the mechanism for creating e-clients (see Appendix 1 and Appendix 2 for the Design Diagram and Conceptual Design). A portal is simply a site that offers a broad array of resources and services and provides a main "point of entry" (hence "portal") to the Internet. Portals allow users to personalize their experience each time they return, and store their information on a secured server so they do not have to re-enter it each time. Websites such as Yahoo!, MSN or AOL are just a few of the many examples of general purpose Internet portals. The State of California website is a portal to all the services and agencies within California government. At BOE we will create a "vertical" portal offering a variety of information and services that are targeted to a particular group (i.e. taxpayers and practitioners) versus a "general" portal that provides services to the public at-large. The creation of the e-client is routinely used by the private sector in conducting transactions over the Internet. It is currently used for things such as placing customers on an email list, creating a customized profile/view on an entity's webpage, accessing a bank account, trading stocks, or purchasing goods.

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The basic design of the BOE web portal for Government to Business (G2B) transaction processing is composed of three basic components:

1. *__Web Server__* – This component already exists, but requires some security enhancements (e.g. encryption) to protect the confidentiality of transactions.

2. *__Mid-Tier__* – This is the Internet customer (i.e. "*e-client*") database and transaction processing server that performs the communication between the web server and the mainframe database.  The mid-tier is composed of a server (hardware) and a database (software) that manages e-client access and authority levels for performing Internet transactions.  The e-client database will capture and process key client information to create and manage e-clients.  The mid-tier application will be completely separate from the Client/Taxpayer System (CTS) within the Integrated Revenue Information System (IRIS) and the Internet host.  Although separate from IRIS for security purposes, the e-client database is dependent upon and interoperates with the IRIS Client subsystem to perform its functions.  The e-client database does not currently exist and would need to be built as the foundation for building any Internet transaction processing system.

3. *__IRIS__* –Taxpayers will be able to access the data from IRIS and update via the mid-tier (e-client) component. This component already exists and is where all the taxpayer data resides.

Once an e-client is created it can be attached to any e-service being offered by BOE.  This can include the ability to register a new business, update the records for an existing business, check the history of an account, make payments, and file returns.  E-clients can be assigned varying levels of access to any e-service provided. For example, an e-client could have view only access to data on a specific account or the ability to view, create, modify, and approve Internet account transactions and every possible permutation in between.  In addition, e-clients could register to receive specified information electronically, be placed on interested party mailing lists for various topics, be notified when certain activities occur on their account, receive tax filing reminders, etc. The options really become unlimited and are restricted only by BOE's ability to conceive of and then implement the service.

Finally, BOE should design a system that can be built in segments (i.e. a scalable system) to avoid the large funding and resource restrictions that otherwise would prevent forward movement into the e-services marketplace.  BOE must utilize well-established tools and best practices to ensure compatibility and expandability into the future.

### *Dependencies*
The agency's ability to move forward into Internet transaction processing will require not only resources (staff and funding) but also some critical improvements to our taxpayer database (i.e. IRIS).  Some of these critical improvements are currently in process:

- ✓ Address standardization throughout all tax and fee programs to eliminate duplicate addresses, comply with an AB 990 mandate, and provide a foundation for more accurate local tax allocation.
- ✓ The Revenue Database Consolidation (RDC) project and the integration of all registration data to eliminate duplicates.

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Both the RDC project and the Revised Uniform Partnership Act (RUPA) project impact the IRIS software modules that will interface with the proposed Internet transaction processes. Therefore, for fully integrated IRIS functionality, it will be necessary for these projects to complete their initial phases before the Internet services outlined above can be fully automated. Even with full automation, there are certain processes that may require some final review, approval and/or processing by BOE staff to complete the taxpayer's transaction. For example, if a taxpayer closed-out their seller's permit over the Internet, there would still need to be a review of the account by staff to determine if all taxes were reported before a security release could be processed. The scheduled completion dates for critical dependencies as they relate to each of the proposed Internet services phases are as follows:

| Phase | Date Phase Starts | Constraint |
|---|---|---|
| 1. E-portal, Registration and Account Maintenance | December 2002 | RDC, RUPA |
| 2. Filing of Petitions and Claims for Refund | September 2003 | RDC, RUPA, E-Portal |
| 3. Direct Deposit of Refunds | February 2004 | RDC, RUPA, E-Portal |
| 4. Account History, Account Balance and E-payment | February 2004 | RDC, RUPA, E-Portal |
| 5. Electronic Filing Enhancements | February 2004 | RDC, RUPA, E-Portal |

Project charters, outlining the key issues for each of the above phases, are attached to this issue paper.

### *What does Private Industry currently offer?*
The Internet provides a new way for businesses to interact with their customers. Anyone with Internet access can now apply for a loan or credit card, purchase goods from clothes to automobiles, bid in an online auction, sign-up to receive information transmitted by email, trade stocks, etc. Even with a downturn in the economy, Internet sales for Business to Consumer (B2C) transactions were projected to grow during the 2001 holiday season by more than 10% over the 2000 holiday season. More and more of the public is becoming connected to the Internet and becoming comfortable conducting business transactions over the Internet. Business to Business (B2B) transactions have seen the largest increase on the Internet as businesses discover the value of the Internet for doing business with each other.

### *What about Government?*
Over the past several years many states have expanded their e-services with varying levels of success. The majority of the states focused their e-services in the areas of electronic filing (32 states or 65%) and electronic payments (37 states or 75%). However, it does appear the states are venturing into the other areas as well. Some states are moving to implement electronic registration and giving taxpayers more control over their own data.

Looking toward the future, use of government websites continues to increase as evidenced by a recent study sponsored by the University of Maryland[2]. According to the study, more than half of adult Internet users visited a government website within the last year. Overall, 55 percent of online users accessed a government site, with 50 percent visiting a state or local government site and 33 percent visiting a federal government site. The survey also found that more users conducted online business with governments (21%) (ranging from getting

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[2] University of Maryland and Rockbridge Associates Inc.: "*2001 National Technology Readiness Survey*" January 9, 2002 (*Source*: Dibya Sarkar, FWC Government Technology Group,)

driver's licenses or hunting permits to various permissions and information) than did online banking (20%), paid credit card bills (15%), or bought or sold stocks (10%).

### *What is California doing?*

Several ongoing initiatives at both the state and federal levels have been launched to take advantage of new technologies to improve G2B transactions. BOE was identified in 2001 by the Governor's Information Technology Innovation Grants Program as the agency that has the necessary integrated database infrastructure to take advantage of these new technology opportunities in the G2B area. Due to the current fiscal crisis, however, funding for this grant program was redirected.

BOE currently provides, for a fee, real-time e-filing and e-payment as one single transaction. Taxpayers also have the option of performing their transaction early and warehousing it for processing on a future date designated by the taxpayer. All of BOE's largest sales and use tax taxpayers are required to pay their taxes via Electronic Funds Transfer (EFT). In addition to providing a multitude of tax information, fill-in forms and publications on the Internet, BOE also accepts non-confidential e-mail inquiries from the public.

The Franchise Tax Board (FTB) currently offers several electronic filing options. Taxpayers using specified commercial tax preparation software (e.g. TaxCut, TurboTax, etc.) may e-file free through these software providers. In addition, many accounting firms and tax preparation services offer e-filing to their customers for a fee. FTB offers free telefiling for specified taxpayers who file Form 540EZ. Large corporations are required to pay their taxes via EFT, in the same way as BOE's largest sales tax and fee payers. FTB does not offer Internet registration since their taxpayers do not register for licenses or permits. FTB provides other Internet services such as checking the status of your refund, requesting a direct deposit of your refund and paying tax liabilities with credit cards. FTB does accept non-confidential e-mail inquiries from the public in the same manner as BOE.

The Employment Development Department (EDD) does not currently provide free direct e-filing for its taxpayers. EDD does provide tax return forms on its Internet site that taxpayers can fill in, print, and send to EDD for processing. EDD also has e-filing via Electronic Data Interchange (i.e. one computer to another, not on the Internet). Taxpayers wishing to participate in EDI must meet computer hardware requirements and use an approved third party provider to transmit the return data to EDD. Large employers are required to pay their taxes via EFT. EDD Employer registration forms are available on the Internet, but once completed they must be printed and mailed to EDD. This is the same process as is currently used at BOE. There are no "smart" edits or help on these forms. EDD does provide an e-mail list service that anyone can sign up for to receive EDD news and information. EDD does accept non-confidential e-mail inquiries from the public in the same manner as BOE.

### *What Do Businesses Really Want from Government?*

In evaluating the needs of California businesses, several internal and external studies were reviewed.

In March 2001, the Department of General Service (DGS) commissioned a needs assessment survey of California businesses to evaluate the readiness and desire for G2B e-services.[3] The study focused on assessing

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[3] The Study Research Center, Institute for Social Services Research, UCLA: "*eGovernment Business Needs Assessment Survey*" March 2001

the needs of the business community for a single G2B interface (portal) between California and its business constituents.

While most businesses still use the U.S. Postal Service and telephone for conducting G2B transactions, the study concluded businesses would be inclined to use the Internet for G2B transactions instead of mail or telephone. Of those businesses with Internet access, nearly all those surveyed indicated they would choose the Internet over mail or telephone if improved services were made available from government. The primary issue of concern was security of transactions. Three-quarters of the businesses surveyed indicated they would conduct G2B transactions online with the assurance of a secured website.

The advantages cited by businesses for G2B e-services were:
- ✓ Speed and saved time.
- ✓ Not waiting on hold while on the telephone.
- ✓ Not waiting in lines in government offices.

Overall, California businesses surveyed were highly in favor of opportunities for conducting G2B transactions through the Internet, especially the idea of a statewide portal that would provide access to multiple government transactions in one location. The ability to obtain regulatory information, laws and government forms, and apply for or renew state required licenses, permits and certifications were the G2B services most desired.

## V. Staff Recommendation

### A. Description of the Staff Recommendation

Adopt the proposed master plan for development of BOE e-services and authorize staff to develop an FSR for implementation of Phase I E-portal, Registration and Account Maintenance, including the critical foundation mid-tier infrastructure to support e-clients.

### B. Pros of the Staff Recommendation

Taxpayer benefits:
- ✓ Greater convenience and accessibility, including "24/7" and holiday service.
- ✓ Faster acquisition of permits and licenses.
- ✓ Immediate feedback on missing data on the application.
- ✓ Greater assurance of compliance with state requirements.
- ✓ More options for customers.
- ✓ Identification of other tax/fee programs for which the customer may be required to hold a permit.
- ✓ Real-time changes and updates to taxpayer's account data.

BOE benefits:
- ✓ Greater efficiency and effectiveness in the delivery of registration services.
- ✓ Increased compliance levels.
- ✓ Improved accuracy in taxpayer data.
- ✓ Improved program to program interactions (e.g. Sales Tax and Underground Storage Tanks).
- ✓ Development of an integrated cross-program registration process and forms.

### C. Cons of the Staff Recommendation

Current limitations of staff resources and funding due to budget cuts and commitment to RDC project.

### D. Statutory or Regulatory Change

None.

### E. Administrative Impact

None.

### F. Fiscal Impact

#### 1. Cost Impact

To be determined in FSR.

#### 2. Revenue Impact

Unknown, but probably not significant. Could result in more timely receipt of tax and fee payments.

### G. Taxpayer/Customer Impact

Improved customer service by providing "24/7" access to conduct transactions with BOE. Real-time changes and updates to taxpayer's accounts that are initiated by taxpayers.

### H. Critical Time Frames
None.

## VI. Alternative 1

### A. Description of the Alternative

Take no action.

### B. Pros of the Alternative

No costs.

No impact on staff resources and other technology projects.

### C. Cons of the Alternative

✓ Does not improve customer service options for taxpayers.
✓ Puts the agency behind other agencies in California and in other states.

### D. Statutory or Regulatory Change

None.

### E.  Administrative Impact

None.

### F.  Fiscal Impact

#### 1.   Cost Impact

None.

#### 2.   Revenue Impact

None.

### G.  Taxpayer/Customer Impact

None – no improvement to customer service.

### H.  Critical Time Frames

None.

Prepared by:   *Jeffrey L. McGuire*

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