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## An Efficiency Boost at the Kentucky Department of Revenue

**M** Karen Kroll November 30th, 2011

Until several years ago, all 175,000 or so corporate and pass-through tax returns received by the Kentucky Department of Revenue (DOR) each year were processed manually. As a result, reviews of the returns could lag by several years, says Sherman Nave, director of the division of corporation tax. What's more, the department was able to capture only a small amount of information, and only from C-corporations; the information contained in returns of pass-through entities, such as partnerships and S-corporations, generally didn't get reviewed.

That's because given the massive amount of paper making its way through the office, reviewers were compelled to "only pick the low-hanging fruit," says Michael Smith, senior director of business development with SourceHOV LLC, a provider of business process services, including document management and knowledge processing systems.

That changed with the implementation of a document management and knowledge processing system from SourceHOV, Nave says. The application scans each return and enters data from the scanned images before transmitting them through a workflow system. The technology also applies business rules – checking, say, if gross revenue is more than 200 percent of net revenue – to determine which returns might warrant further review.

Similarly, the system will automatically check for other returns on which a taxpayer might appear. So, if the system reviews an S-corporation return, it can check the employer identification (EIN) and Social Security numbers to review the principal's individual tax return. Previously, such cross-entity checks and reviews weren't possible, Smith says.

In addition, the data from the returns can be easily accessed and analyzed to determine how changes in legislation might impact the state's coffers. If a legislator is considering a bill that would reduce the tax rate for C-corporations by 5 percent, he or she can enter the calculation and determine the impact on overall tax revenues, Smith says.

The system also indexes returns, using more than a dozen criteria, such as the entity type and reporting period.

"The Kentucky DOR went from a totally manual process to one that is electronic," Nave says. This has resulted in a range of benefits. For starters, the department is able to process returns more accurately and more quickly; today, employees are able to review returns within weeks of them being received by the Department. That allows management to better allocate resources to those returns that are most likely to present questions. The Department also is better able to detect incorrect or duplicate refund requests. In addition, because employees can identify legitimate refund requests more quickly, the amount of interest paid on the refunds has dropped.

One key to the success of the system's implementation was the formation of a team, composed of members from all areas of corporate tax, Nave says. As a result, the final solution meets the needs of the overall department.

Based on SourceHOV's experience with similar implementations, the systems typically allow each department of revenue employee to bring in about \$250 per hour through better compliance and reduced fraud and abuse, Smith says. That compares to a rough cost per employee of about \$25 per hour, he adds.

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