

# Virginia Tax Funding Initiatives

January 14, 2025

- ▶ Top priority is replacement of the Commonwealth’s obsolete tax processing system (IRMS).
- ▶ Funding requests for mandatory costs, related to other unsupported technology systems, security initiatives, and postage increases.
- ▶ Reinstatement of staffing levels to ensure timely processing of returns, reduced interest payments, and a timely administrative appeals process.

	FY 25	FY 26
Replacement of IRMS Tax Processing System	\$131,000,000	-
End-of-Life Technology Systems	\$1,500,000	\$3,202,000
Security Initiatives	\$400,000	\$2,196,781
Postage Increases	\$564,244	\$745,322
Appeals and Error Resolution Staffing	-	\$2,282,687

# IRMS System Replacement

IRMS is the agency's legacy core tax processing and accounting system that administers 36 tax types, processing around 12 million tax returns a year and generating revenues of close to \$30 billion annually, which contributes 95% of the Commonwealth's General Fund revenue. IRMS was developed and implemented from 1999 through 2005.

Many of the IRMS systems and databases are now obsolete and are becoming increasingly vulnerable and expensive to maintain, posing significant risks to the integrity of our taxpayer data. They also limit our ability to deliver the positive taxpayer experience that the citizens of Virginia rightfully expect.

## Key stakeholders for IRMS include

- ▶ General Assembly – legislators and money committee staff
- ▶ Taxpayers – Businesses and individuals
- ▶ Agency staff – phone representatives, auditors, collectors, error resolvers, legal services, internal auditors, etc.
- ▶ Other state agencies and local governments
- ▶ Attorney General and Auditor of Public Accounts
- ▶ Tax professionals – preparers of individual and corporate income tax and business tax returns
- ▶ Payroll providers (companies making withholding payments for multiple business taxpayers)
- ▶ Courts (debt collection)
- ▶ Tax software providers (e.g., Turbo Tax, H&R Block)

## Tax Processing & Accounting

\$30 billion in revenue,  
\$2.8 billion refunds,  
12 million tax returns



## Online Portals (for Individuals, Businesses, and Tax Practitioners)

Individual portal (451,684 users)  
Business portal (166,969 users)  
Tax Professional portal (N/A)



## Collections & Compliance

\$1.1 billion compliance assessment  
\$914 million collected



# IRMS Enables

## Locality Online Portal

2,842 users; \$6 million refunds



## Audit Selection

\$245 million in assessments generated



## Customer Relationship Management (CRM)

757,000 customer contacts



## Audit Case Management

68,000 cases

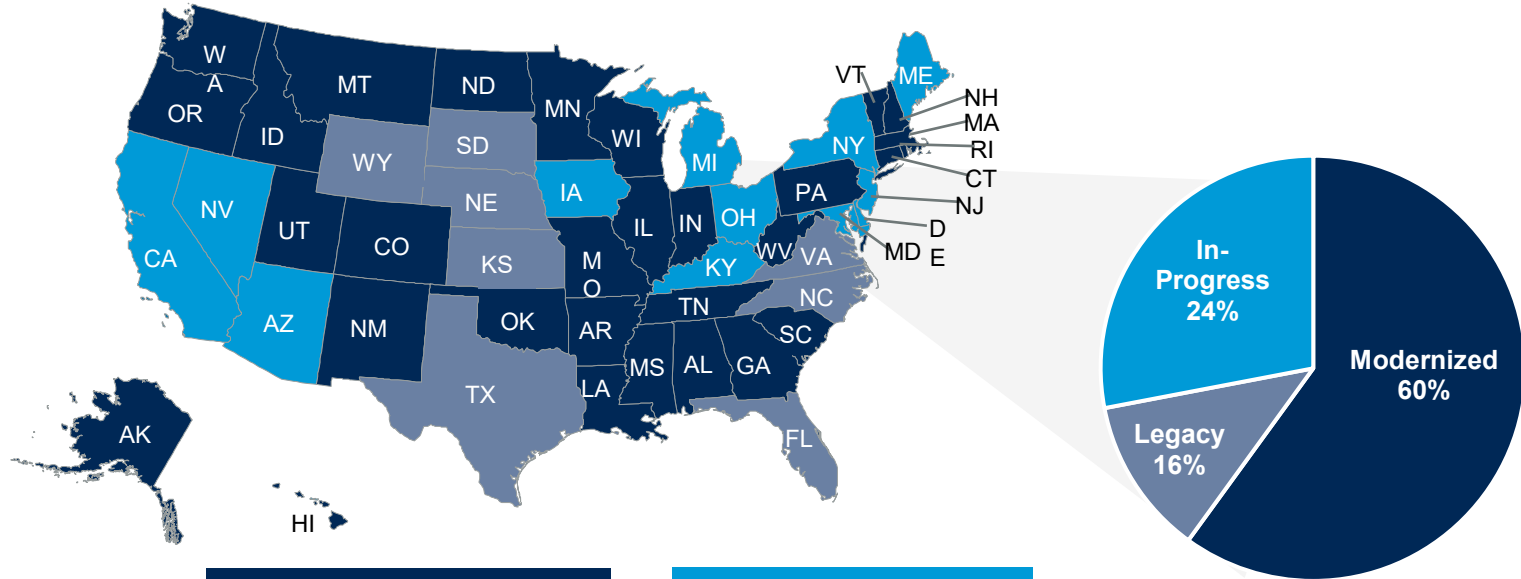


## Refund Fraud Prevention

\$61 million in fraudulent refunds  
stopped

- ▶ Critical to avoid system failure and/or catastrophic security breach.
- ▶ Other Key Benefits:
  - ▶ Greater adaptability to policy changes, as a modernized system would allow the agency to more quickly implement legislative changes with lower costs.
  - ▶ Improved data analytic capabilities – ability to extract data more quickly and accurately to assist in decision making.
  - ▶ Better customer experience for taxpayers and tax professionals, including mobile accessibility and tax practitioner and enhanced taxpayer portals.
  - ▶ More efficient agency operations, due to greater automation and less time spent mining for data and maintaining the system.
  - ▶ Ability to hire developers; average age of programmers is 55, with many retiring, and it is difficult to retain even contractors with knowledge of aging PowerBuilder technology.

# Nationwide Tax Systems: Modernization Status



**Modernized**

AL, AK, AR, CO, CT, GA, HI, ID, IL, IN, LA, MA, MN, MS, MO, MT, NH, NM, ND, OK, OR, PA, RI, SC, TN, UT, VT, WA, WV, WI

**In-Progress**

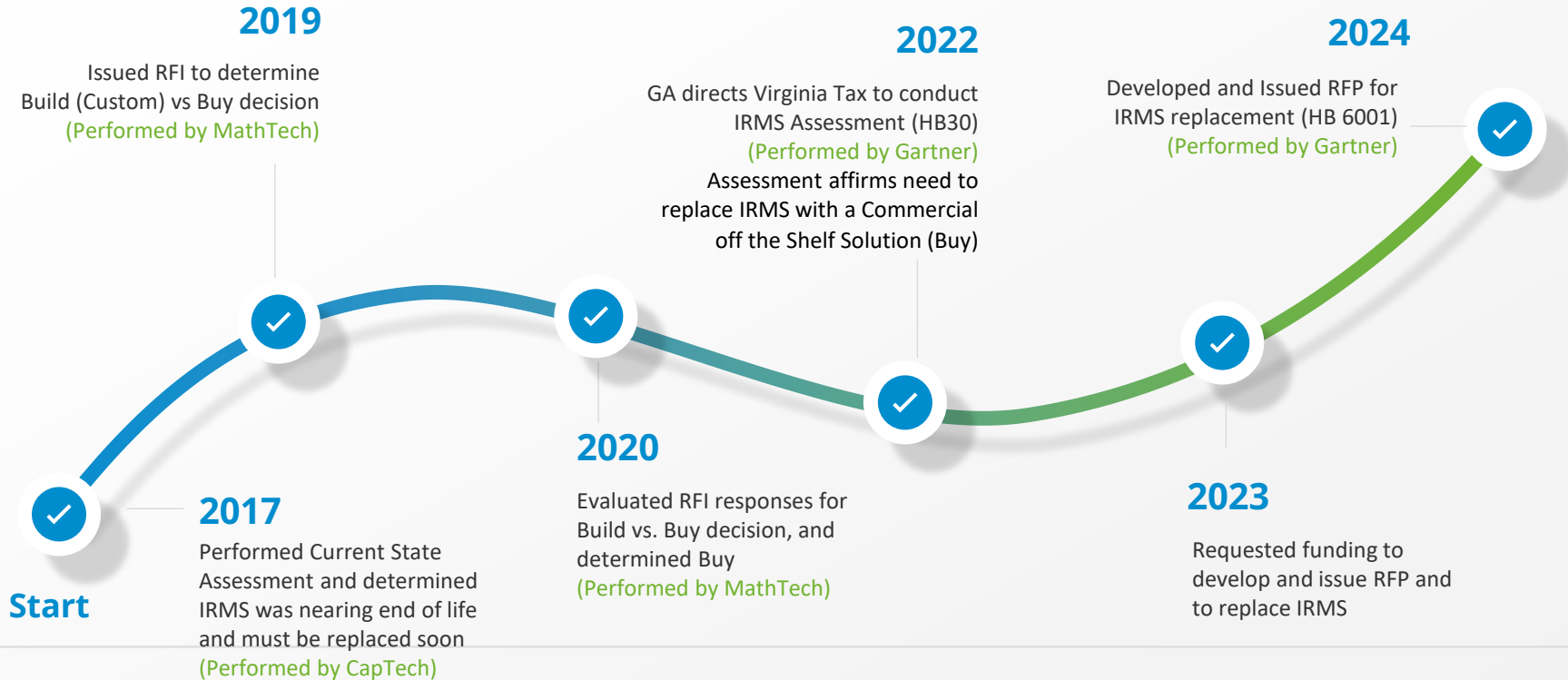
AZ, CA, DE, IA, KY, MD, ME, MI, NJ, NV, NY\*\*, OH\*

**Legacy**

FL, KS, NC, NE, SD, TX, WY, VA

\* Re-modernizing  
 \*\* Early planning stages of in-house custom development or refactoring of legacy solution

# Due Diligence to Assess Need for System Replacement

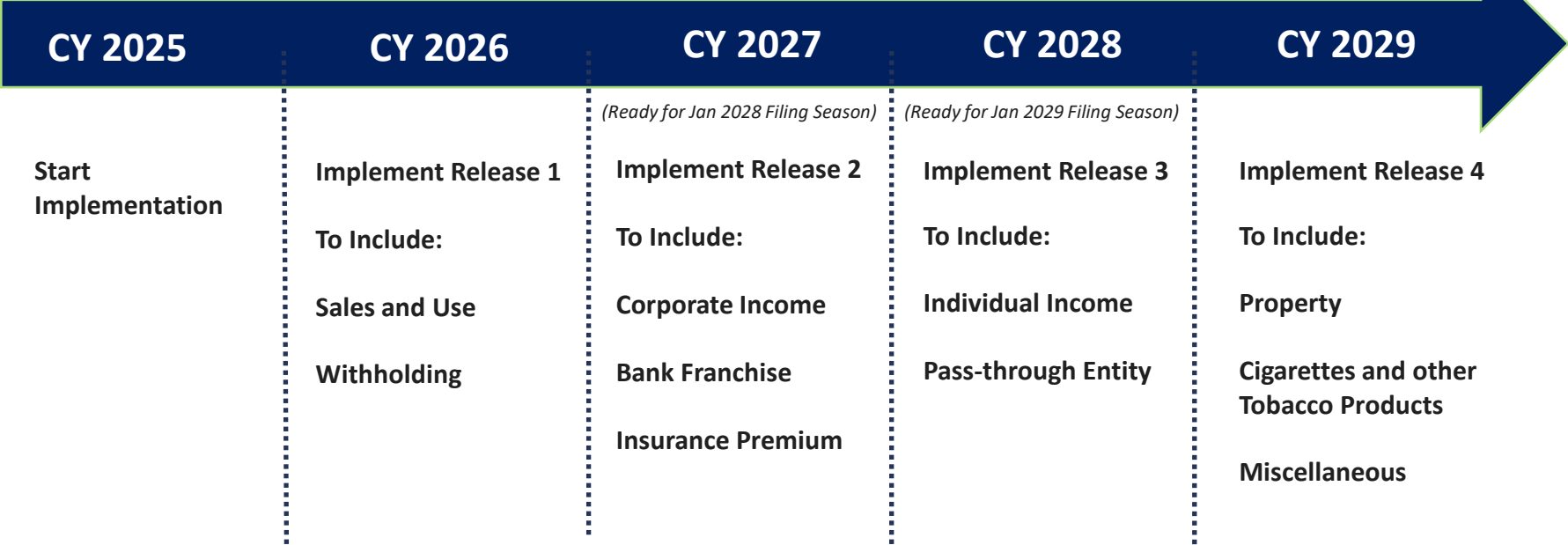




- ▶ The 2024 Appropriation Act provided funding to begin the RFP process.
  - ▶ The RFP was issued in July 2024 and responses were due in August 2024.
  - ▶ Based on RFP responses, total implementation cost was determined to be \$131 million over a five-year period.
  - ▶ The RFP process is in the final stages and Virginia Tax will be prepared to enter into a contract with the top vendor once funding is secured.
- ▶ The 2024 Appropriation Act also established a workgroup consisting of money committee staff, VITA, DPB, and the Secretary of Finance to review the plan for implementation of a modernized tax system.
  - ▶ Workgroup report published as [2024 Report Document 720](#).
  - ▶ Both 2024 Appropriation Act and HB 1600/SB 800 require workgroup oversight of the implementation of IRMS modernization, with annual reports published by November 1.

# Timeline if Funds are Appropriated During 2025 Session

▶ New releases tentatively scheduled each September:



- ▶ The federal Direct File program was funded through the Inflation Reduction Act of 2022 to provide a free filing option for qualifying taxpayers (generally those with simple returns).
  - ▶ Even though Direct File is focused on the filing of federal returns, the IRS and US Treasury require states to provide a similar free filing platform before their residents can use Direct File.
  - ▶ In 2024, the IRS ran a pilot program of 12 states (only 4 states with an income tax).
- ▶ Virginia is prohibited from providing its own free filing platform and, therefore, cannot participate in Direct File; 2010 HB 1349 must be repealed before Virginia can offer any free filing services, including participation in the Direct File program.
- ▶ In addition to the legal constraints, implementing Direct File would divert resources from the larger priority of replacing the IRMS system.
- ▶ To the extent that the Commonwealth elects to participate in the Direct File program, it would be more efficient to delay participation until the Jan 2029 filing season when the individual income tax has been fully integrated into the new system.

# Other Funding Initiatives

- ▶ Four other key systems will be unsupported by the end of 2025 and must be replaced.
- ▶ These systems are critical to processing payments, supporting the statutorily mandated uploading of certain business forms, support of electronic forms, and our audit case management system.

	FY 25	FY 26
Remit (Check Processing System)	\$500,000	\$1,000,000
Web Upload (Form Upload for Businesses)	\$500,000	\$502,000
eForms (Electronic Forms for Businesses + Individuals)	\$500,000	\$400,000
PASS Audit System	-	\$1,400,000
<b>Total Funding for End-of-Life Technology Systems</b>	<b>\$1,500,000</b>	<b>\$3,202,000</b>

- ▶ To ensure alignment with the new SEC530 security requirements, Virginia Tax conducted internal security assessments, consulted with Gartner and InfoTech regarding industry standards and best practices, and participated in a security assessment conducted by EY.
- ▶ The combined findings from these assessments indicated that additional resources are necessary to implement and maintain compliance with key security initiatives.
- ▶ In addition to meeting security requirements, this funding would help Virginia Tax prepare for replacement of the IRMS tax processing system.

	FY 25	FY 26
Data Catalog	\$400,000	\$350,000
Security Positions	-	\$946,781
Data Center Upgrade	-	\$900,000
<b>Total Funding for Security Initiatives</b>	<b>\$400,000</b>	<b>\$2,196,781</b>

- ▶ Due to increased costs over the last several years, vacancies have not been filled when more experienced employees have retired. This has had a substantial impact on two areas:
  - ▶ Error Resolution Unit: Handles secondary review of tax returns and payments.
  - ▶ Appeals Function: Responsible for the administrative appeals process.
- ▶ Funding to backfill these positions would enable the agency to more quickly process returns, thereby reducing the payment of interest on delayed returns, and work aging appeals cases.

	FY 26	FY 27	FY 28
Increased GF Revenue	\$2,340,476	\$5,991,801	\$8,350,260
Less: GF Appropriation	\$2,282,687	\$1,745,421	\$1,745,421
<b>Net GF Impact</b>	<b>\$57,789</b>	<b>\$4,246,380</b>	<b>\$6,604,839</b>

# Thank you



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