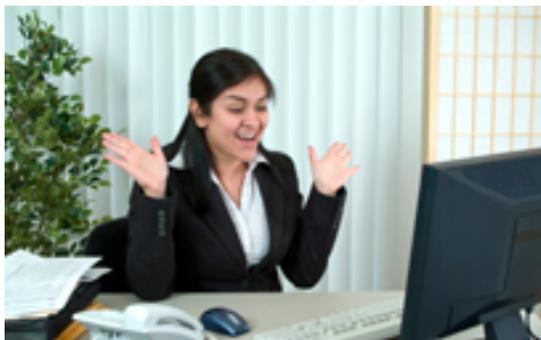




Unemployment Insurance Compensation Offsets Exceed Expectations for Second Year



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With the federal tax season in full swing, Treasury's debt collection programs with the states are exceeding expectations for another successful year of delinquent debt recovery. This year's recovery rates for the Unemployment Insurance Compensation (UIC) debts have far exceeded the program's initial expectations. This accomplishment demonstrates the extremely successful partnership that can be realized when matching non-income tax state debts against federal income tax refund payments.

The UIC debt program began in January 2011 with the publication of regulations which allowed for the offset of federal tax refund payments to collect UIC debts due to fraud or a person's failure to report earnings. In calendar year 2012, 19 states and the District of Columbia referred their UIC debts to the Treasury Offset Program (TOP) for collection from federal income tax refund payments to delinquent UIC debtors. As of February 28, 2013, an additional 11 states have joined the program - California, Colorado, Florida, Idaho, Kentucky, Missouri, Nebraska, Nevada, North Carolina, Utah and Vermont. These 11 newly participating states contributed to the increase in the total dollar volume of UIC debts referred to TOP by \$1.7 billion. From October 1, 2012 to February 28, 2013, the UIC program has realized a total recovery of \$197.6 million.

Our goal is for all 50 states, the District of Columbia, and territories with UIC programs to submit their debts to TOP. The program has proven to return the funds invested in initial startup with Mississippi's recoveries exceeding implementation costs in the first seven days of participating in the program. Participation in the UIC program is a win-win for state and federal governments, as well as for the American taxpayer. TOP is committed to providing states with the assistance they need to join the program.

For further information regarding TOP's UIC Program, 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.

Improve Your State's Collections... Participate in the Treasury's Partial Match Process

While the Treasury Offset Program (TOP) has achieved significant recovery rates through its automated processes, there are always opportunities to improve the ability of states to maximize the recovery of every dollar that is due to them. One way to make sure that your state is maximizing its delinquent debt collections is to participate in the TOP Partial Match Process.

A partial match occurs when the social security number (SSN) or employer identification number (EIN) of a TOP debtor matches the SSN or EIN of a payee, but the debtor's name does not match the payee's name. States can obtain a list of these matches from TOP by requesting a copy of the Debtor Locator Report (DLR). If your state can verify that the individual or entity receiving the payment is the same as the individual or entity who owes the debt, your state may add the newly identified name variation to TOP as an alias. This will help ensure that future payments made to the debtor under the alias name are offset.

For those states participating in the UIC program, TOP staff can perform this verification for your state. Together, the States of New York and Maryland have collected an additional \$478,902.86 from November 15, 2010 to March 18, 2013, as a result of participation in the TOP Partial Match Process.

For more information about the Debtor Locator Report, please contact Sara Garris at (202) 874-6524 or Sara.Garris@fms.treas.gov. For more information about the TOP Partial Match Process, please contact David Burgess at (202) 874-7182 or David.Burgess@fms.treas.gov.

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Court Approves the Offset of Payments to Return Seized Monies



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On March 8, 2013, the United States District Court for the Eastern District of Wisconsin ruled that the offset of the return of seized monies is authorized under the Debt Collection Improvement Act of 1996 (DCIA) provisions governing the Treasury Offset Program (TOP). See *United States v. Approximately \$3,174.00 in US Currency*, No. 12-c-20 (E.D. Wis. 2013).

Background: On March 18, 2011, Milwaukee police officers entered the residence of an individual (the “claimant”) pursuant to a search warrant, and seized drugs, weapons and \$3,174. The claimant pleaded guilty to the following crimes: felon in possession of a firearm, felon in possession of body armor, and possession of marijuana. He was sentenced to two years in prison. On January 6, 2012, the United States government filed a civil complaint, alleging that the \$3,174 was subject to forfeiture. The claimant responded by denying that the cash was drug money. On October 18, 2012, the government stated that it would return the claimant’s property, less any debt that the United States is authorized to collect through TOP.

On October 29, 2012, the claimant – who undisputedly owes the government nearly \$9,000 on two defaulted federal student loans – filed a motion requesting that the court declare that the \$3,174 is not subject to administrative offset. The claimant argued that the DCIA defines “administrative offset” as “withholding funds payable by the United States . . . to, or held by the United States for, a person to satisfy a claim.” The claimant argued that the return of seized currency does not constitute a “federal payment.”

Ruling: The court ruled that it may consider the Treasury’s own interpretation of “federal payment” within its regulations. Accordingly, the Director of the Treasury Offset Division stated in an affidavit that, beginning in 2010, TOP determined that payments representing the return of seized assets were “federal payments” for purposes of offset, and that the agency’s determination has not changed. For this reason, the court ruled that the claimant’s request to exempt his property from administrative offset should be denied.

For states, this ruling allows TOP to offset the return of seized currency to satisfy debts submitted through the State Reciprocal Program and through the Child Support Program. For information regarding this case or the administrative offset of seized assets, please contact Thomas Kobielus at (202) 874-7359 or Thomas.Kobielus@fms.treas.gov.

Fiscal Service Security’s Speedy Response to the Recent Phishing Scam



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Recently an email scammer used an “fms.treas.gov” email address to fraudulently email members of the public to lead them to believe that they owed a debt to the U.S. Department of the Treasury.

This email is an example of “Phishing.” Phishing is an attempt to fraudulently acquire sensitive information by masquerading as a trustworthy

entity through email or a malicious website. Because phishing is used to imitate legitimate email traffic or websites, phishing attempts are often able to evade the filters and scanners that aim to prevent them from reaching your inbox. As an example, an attacker may send an email that seems to be from a reputable credit card company or financial institution that requests account information, often suggesting that there is a problem. When users respond with the requested information, attackers can use the response to gain access to their accounts.

Phishing attacks may also appear to come from other types of organizations, such as charities. Attackers often take advantage of current events and certain times of the year, such as:

- Natural disasters (e.g. Hurricane Sandy Relief)
- Notifications – Fiscal Activity (Tax Refund)

- Economic concerns (e.g. Extension of the US Budget)
- Major news events or holidays

In response to the phishing attack, the Fiscal Service implemented standardized scripts for use by our call center agents. These scripts alerted callers of the illegitimate email, that the Fiscal Service does not send such emails, that the Fiscal Service security team was investigating the matter and explained that TOP does not currently use email to contact a delinquent debtor for any reason.

Should you have any security concerns related to your interactions with TOP, please contact Thomas Kobielus at (202) 874-7359 or at Thomas.Kobielus@fms.treas.gov. The Department of the Treasury takes these security issues extremely seriously and will respond as quickly as possible to investigate, resolve and investigate such matters.



State Profile: Minnesota

Minnesota, the 32nd state to join the Union, is named for the Dakota Sioux Indian words for water, “minne,” and sky-tinted or cloudy sky, “sota.” The name was originally used in reference to the Minnesota River, and subsequently became the name of the state. Nicknamed the Land of 10,000 Lakes, Minnesota boasts 90,000 miles of shoreline, more than California, Florida, and Hawaii combined. In addition, Minnesota is one of several states that has partnered with TOP as a participant in all four of our state offset programs.



State Reciprocal Program

Minnesota successfully passed legislation and implemented the State Reciprocal Program (SRP) in May 2012, making it the sixth state to implement SRP. The program provides Minnesota with the opportunity to recover delinquent state debts through the offset of federal vendor payments. In calendar year 2012, Minnesota recovered \$861,850.73 through 589 offsets.

Debts Collected Through SRP

- Corporate Franchise Tax
- Fire Safety Surcharge
- Petroleum Tax
- Partnership Tax
- Provider Tax
- Property Tax
- S Corporation Tax
- Sales & Use Tax
- Consumer Use Tax
- Wholesale Drug Distributor Tax
- Withholding Tax
- Other Agency Debts (e.g. Penalties, Fees, Registrations, etc.)



Minnesota TOP Collection Totals in 2012

Program	OFFSET COUNT	NET COLLECTION AMOUNT
Child Support	25,424	\$20,229,974.48
Income Tax	10,425	\$7,050,108.03
Unemployment Insurance	65	\$106,288.13
State Reciprocal Program	589	\$861,850.73
Total	36,503	\$28,248,221.37

Income Tax

The State Income Tax Program began in 2000 with seven pilot states. Minnesota joined the program in 2001. Today this program has grown to include the participation of almost all eligible states in the country. The program allows Minnesota to recover delinquent state income tax debts through the offset of federal income tax refund payments. In calendar year 2012, Minnesota recovered \$7.1 million through 10,425 offsets. In addition to participating in this TOP program, Minnesota has also partnered 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.



Unemployment Insurance Compensation

Implemented on September 7, 2012, the Unemployment Insurance Compensation (UIC) Program is Minnesota’s most recent partnership with TOP. This program allows Minnesota to recover UIC debts due to fraud or a person’s failure to report earnings through the offset of federal income tax refund payments. Minnesota’s collections from January 1, to February 28, 2013 totaled \$8.8 million through 3,553 offsets, as compared to collections

in September through December 2012 (\$106,288.13 through the offset of 65 refund payments). This discrepancy in collections speaks to the importance of joining the UIC program prior to the federal tax season.



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 (formerly the Financial Management Service) merged the IRS’s tax refund offset program with TOP, bringing the state of Minnesota and other participating states into TOP. In calendar year 2012, Minnesota recovered \$20.2 million for Minnesota’s families and children through 15,417 offsets.



Tips for State Reciprocal Program Legislation



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Is your state preparing to propose legislation in order to participate in the State Reciprocal Program (SRP)?

States are permitted to submit delinquent state debts for collection by offset of certain federal payments through the Treasury Offset Program (TOP), operated by the Fiscal Service. Debts must be submitted in accordance with reciprocal agreements, pursuant to the authority set forth in 31 USC § 3716(h) and corresponding regulations at 31 CFR § 285.6. The law requires states to have authority (whether through regulations or legislation) to enter into, and abide by the terms of, the reciprocal agreements.

Counsel for state lawmakers and regulators should thoroughly review the reciprocal agreement and the laws cited above to determine whether their state must pass new legislation to authorize participation in SRP.

States must abide by all the terms of the reciprocal agreement. In reviewing existing legislation or drafting new legislation, state should consider the following:

- **Authority to offset state tax refunds:** If the state issues any tax refunds, they must be subject to offset to collect federal debts.
- **Authority to offset other state payments:** Legislative authority should be broad enough to include all state payments specified in the reciprocal agreement.
- **Authority for appropriate state official to submit state debts to TOP:** The authorized official(s) should be the official(s) that are capable of submitting the debt to TOP, including certifying that the debt is valid, delinquent, legally enforceable, and that all requisite due process has been completed.
- **Authority for Fiscal Service to deduct a fee from offset collections:** Federal law requires that Fiscal Service charge a fee to cover its costs of running the TOP program. The Fiscal Service withholds a portion of each collection it makes from a federal payment for a state as its fee. If authorized by state law, states may pass this cost on the debtor.
- **No authority to charge Fiscal Service a fee:** Federal law does not permit the Fiscal Service to pay a fee to the states when the state offsets a payment to collect a federal debt.
- **Due Process:** State law cannot require the Fiscal Service or federal agencies to provide different due process to debtors from that set forth in the reciprocal agreement and in 31 CFR § 285.6.

For additional information about the State Reciprocal Program or additional assistance with the drafting of legislation, please contact David Burgess at (202) 874-7182 or David.Burgess@fms.treas.gov.

TREASURY OFFSET PROGRAM



Upcoming Speaking Engagements



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2013 NAST Treasury Management Symposium

Representatives from the Treasury Offset Program will speak at the National Association of State Treasurers' Treasury Management Symposium. The Symposium will be held May 14-17, 2013, in Pittsburgh, PA.

For additional information regarding this symposium, please visit the National Association of State Treasurers' website at www.nast.org.

2013 AGA Professional Development Conference

The Assistant Commissioner for the Fiscal Service's Debt Management Services will speak at the Association of Government's Accountant's Professional Development Conference. This conference will be held July 14- 17, in Dallas, TX.

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

Have TOP News?

Please contact one of the individuals listed below if you have anything you would like us to share.

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TOP Collection Updates

State Collections (10/01/2012 - 02/28/2013)

Note: With this issue we will be changing our collection updates from a Calendar Year to a Fiscal Year approach. The Federal government's Fiscal Year runs from October 1 to September 30.

State Unemployment Insurance Compensation Debt Collection Totals

STATE NAME	OFFSET COUNT	NET COLLECTION AMOUNT
Alabama	9,803	\$7,617,006
Arizona	18,454	\$14,117,536
Arkansas	16,260	\$14,597,928
California	747	\$666,701
Colorado	1,701	\$2,218,207
Connecticut	3,587	\$3,071,200
District of Columbia	813	\$1,379,551
Florida	14,643	\$11,950,927
Georgia	1,594	\$1,678,739
Idaho	228	\$533,672
Illinois	12,463	\$22,813,720
Louisiana	4,399	\$5,974,619
Kentucky	4,268	\$4,662,876
Maryland	6,156	\$7,130,816
Michigan	3,344	\$5,031,299
Minnesota	3,553	\$8,925,355
Mississippi	15,434	\$6,895,905
Missouri	9,263	\$12,636,211
Nebraska	963	\$750,494
Nevada	82	\$252,525
New Hampshire	1,166	\$1,304,811
New York	13,009	\$13,941,790
North Carolina	7,855	\$6,341,023
Pennsylvania	4,575	\$10,082,983
South Carolina	5,193	\$8,168,160
South Dakota	794	\$577,422
Tennessee	12,402	\$11,337,465
Utah	3,020	\$3,651,529
West Virginia	2,057	\$1,608,070
Wisconsin	10,171	\$7,656,239
Total	187,997	\$197,574,780

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 February 28, 2013, California, Colorado, Florida, Idaho, Kentucky, Missouri, Nebraska, Nevada, North Carolina, and Utah have joined the 19 states and the District of Columbia that were submitting debts in calendar year 2012.

As of February 28, 2013, Illinois has recovered the most funds at \$22.8 million. Illinois is followed by Arkansas and Arizona, which have recovered \$14.6 million and \$14.1 million, respectively. The UIC program has recovered a total of \$197.6 million as of February 28, 2013.

The Fiscal Service continues to encourage states to begin participating in this program, and those states that have not yet begun to submit their UIC debts to TOP for collection to begin doing so as soon as they can. This program continues to demonstrate significant recovery opportunities.

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
Kentucky	1,949	\$3,972,235
Maryland	1,905	\$2,419,784
Minnesota	647	\$1,148,788
New Jersey	1,153	\$1,372,326
New York	1,131	\$1,398,362
Wisconsin	488	\$481,308
Total	7,273	\$10,792,803

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.

From October 1, 2012 to February 28, 2013, Kentucky has achieved the most recovered funds through SRP this Fiscal Year with total collections of \$4 million. Maryland is second with \$2.4 million recovered in this Fiscal Year. In return, SRP participating states recovered \$13.1 million for the federal government.

Given SRP's promising recovery rates, TOP asks any states with interest in the program to contact us as soon as possible regarding assistance we can provide in implementing the program in a way that works best for the state.

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
Georgia	46,055	\$31,756,842
New York	45,340	\$31,307,290
California	23,702	\$23,422,904
Maryland	23,722	\$21,295,624
Illinois	42,133	\$14,506,333

Georgia has recovered the most funds through the State Income Tax Program as of February 28, 2012, with recovery of \$31.8 million. New York has recovered the second most funds with \$31.3 million.

For further information regarding the State Income Tax Program, please contact David Burgess at (202) 874-7182.

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