

Offsets Matter

TOP's News for State Agencies

Issue THIRTEEN
1st Quarter FY 2015



Fiscal Year 2014: *TOP Celebrates Another Successful Year of Federal-State Partnerships*



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Fiscal Year (FY) 2014 was another successful year for federal-state partnerships in delinquent debt collection that use TOP's five state programs. The Unemployment Insurance Compensation (UIC) program continued to expand; new states joined the State Reciprocal Program (SRP); TOP's multi-agency, multi-state, AGA pilot to assist states as debtors in TOP was completed; and TOP held 22 federal-state partnership meetings with individual states.

In FY 2014, TOP's State Income Tax Program recovered \$546.3 million in delinquent state income tax debts. While, SIT allows states to refer their delinquent state income tax debts for matching against federal income tax refunds, the program also allows states to refer "income tax" debts that are owed by either an individual or a business. Late in 2014, the IRS released an opinion that confirms that both individual and business debts may be referred under SIT. If your state is not currently submitting both individual and business debts to SIT, please be sure to make plans to do so in FY 2015.

Five new states (California, Ohio, New Mexico, Maine, and Rhode Island) joined the UIC program this year, bringing the total to 41 states and the District of Columbia that recovered \$370.7 million in FY 2014.

Prior to FY 2015, the states could refer only Unemployment Insurance Compensation (UIC) "benefit overpayment debts due to fraud or failure to report earnings to the TOP UIC Program. New for FY 2015 is the IRS opinion that confirms that states may begin to refer UI tax debts, in addition to the benefit overpayment debts they are already referring. These new tax debts will be matched against federal income tax refund payments, increasing collections for this highly successful TOP state program. TOP is also currently planning a January 15, 2015 webinar for states on "Implementing UI Tax Debts." Watch for more information coming soon!

SRP added another new state in FY 2014 – Louisiana, and together 8 states and the District of Columbia recovered \$52.7 million with this growing TOP state program. In addition, the District of Columbia expanded their referral of debts and payments to new agencies within the District in FY 2014, significantly expanding both their offset amount received from the federal government and the amount sent to the federal government by the District.

In FY 2014, the Child Support Program recovered \$1.9 billion, and the Supplemental

TOP in the News...

Nebraska Recognized for TOP's Benefits on UIC Recoveries

On August 22, 2014, the Associated Press released an article highlighting the state of Nebraska's benefits from participation in the Treasury Offset Program's (TOP) Unemployment Insurance Compensation (UIC)



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program. The article stated that in 2014, the Nebraska Labor Department had recovered nearly \$5.8 million from those who were given too much unemployment pay – either because of errors or because they were not truthful on applications. Of that total, TOP recovered more than \$2.7 million through UIC for the state of Nebraska.

"The recovery of these funds means lower tax rates for employers and makes more funds available for jobseekers who qualify for benefits," Acting Labor Commissioner John Albin said. Department spokesperson Grace Johnson added, "The recovery of benefit overpayments helps [Nebraska] increase the benefits trust fund balance so that when tax rates are calculated not as much tax revenue is needed."

For more information on how the TOP UIC program can benefit your state, please contact us today at stateoffsets@fms.treas.gov.

U.S. Department of the Treasury Bureau of the Fiscal Service

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New Enhanced TOP Successfully Released on November 10, 2014

The New Enhanced Treasury Offset Program (TOP) was successfully implemented on November 10, 2014 and is now available for users. Below is important key information for all TOP users.

- Firefox or Chrome web browsers should be used for the new enhanced TOP Web Client.
- The “legacy” TOP URL (<https://feddebt.fms.treas.gov/top>) should continue to be used for access at this time. It will redirect all users to the new enhanced TOP Web Client.
- The Online Client Agency User Guide (Revised November 2014) is now available online within TOP by clicking on “Help” in the top left corner of the screen.
- The enhanced TOP’s New Agency Debt Load Warning and Error Codes (Unprocessable Codes) were released to users in Technical Bulletin 2014-12 on October 27, 2014.

The new TOP will improve efficiencies and collections through its many enhancements that will increase performance, improve matching logic, and add flexibility. Have questions about the new enhanced TOP? Email TOP directly at stateoffsets@fms.treas.gov.

Fiscal Year 2014 Review

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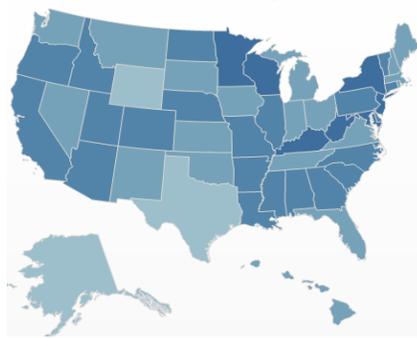
Nutrition Assistance Program (SNAP) also saw successful recoveries through TOP of \$131.6 million.

TOP’s leadership met with 22 states in FY 2014 in an effort to learn more about each state’s challenges to delinquent debt collection, and to explore possible new expansion opportunities for TOP state programs. If your state has not yet responded to TOP’s request for a partnership meeting, please do so today and contact us!

With a proven track record of helping to collect long overdue funds for states, TOP continues to look forward with anticipation to the coming 2015 tax season and the shared benefits our new partnerships will bring to both states and the federal government.

TOP State Program Information Now Online at Transparency.Treasury.Gov

TOP - State View - Total Programs



The U.S. Department of the Treasury (Treasury) is committed to creating openness and transparency in the federal government. This openness fosters accountability, allows for citizen participation, increases trust and confidence in the federal government, and ensures effective and efficient operations.

To meet those objectives, the Treasury’s Bureau of the Fiscal Service (Fiscal Service) is making the financial data it collects understandable and accessible to the public and to its partners through the new website transparency.treasury.gov.

The Treasury Offset Program’s (TOP) “Annual Report to the States” is now online at this new site and includes a new interactive map of states. This important information to the American public describes how all 50 states, the District of Columbia, and three territories are maximizing delinquent debt recovery efforts through participation in the TOP. Check it out today by visiting transparency.treasury.gov and clicking on “Reports.”



New TOP “Hot Topic” Webinar for States:

Understanding TOP’s New Eligibility to Submit Unpaid UI Tax Debts

**Thursday, January 15, 2015
2:00 – 3:30 p.m. (Eastern)**

On Thursday, January 15, the Treasury Offset Program (TOP) will host a new “Hot Topic” webinar to assist states in understanding the regulatory eligibility of submitting unpaid Unemployment Insurance (UI) Tax debts to TOP for tax refund offset in 2015, as allowed under the Internal Revenue Service’s (IRS) new Safeguards opinion. The webinar will feature the following expert speakers from the U.S. Department of Labor and the U.S. Department of the Treasury’s Internal Revenue Service and Bureau of the Fiscal Service. There is no charge for this training.

Subri Raman

Chief, Division of Performance and Management
Office of Unemployment Insurance
U.S. Department of Labor

John Sims, Jr. S.S.M.E.E.

Disclosure Enforcement Specialist
Office of Safeguards
Internal Revenue Service

Rebecca Park

Program Manager, Unemployment Insurance Compensation Program
Treasury Offset Program Division
Bureau of the Fiscal Service

Sakhi Xaba

Testing Manager
Treasury Offset Program Division
Bureau of the Fiscal Service

This webinar targets all TOP state participants who currently submit UIC benefit debts to TOP, as well as those states interested in joining the UIC program. To register, please visit http://www.fiscal.treasury.gov/fstraining/training/fs_trainingopportunities.htm.

IRS Rules on Contractor Access to FTI from TOP



For many years, states have posed the question to the Bureau of the Fiscal Service (Fiscal Service) and the Internal Revenue Service (IRS) about whether or not contractors could have access to Federal Tax Information (FTI) obtained from their participation in the Treasury Offset Program (TOP). The IRS had until recently held the opinion that contractors could not have access to FTI from TOP in order to comply with Publication 1075. A recent IRS legal decision, however, has concluded that state tax agencies may disclose return information to contractors for tax administration purposes, including the collection of state tax debts, but may not disclose return information to contractors for non-tax administration purposes, such as collection of state unemployment compensation debts.



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Section 6402 of the Internal Revenue Code (IRC) authorizes IRS to offset a taxpayer's federal tax refund against specified debts. Section 6402(e) authorizes a state to seek an offset of an individual's federal tax refund in order to satisfy a past-due, legally enforceable state income tax obligations and section 6402(f) authorizes an offset to collect an unemployment compensation debt. In order to effectuate the refund offset, section 6103(l)(10) authorizes the disclosure of specified return information to "officers and employees of any agency" that carries out an offset of a federal tax refund under 6402. The information received by any agency under 6103(l)(10) may only be used to establish appropriate agency records, locate the individual who owes the debt being collected through the offset for the purposes of collecting the debt, or in defense of any litigation or administration procedure resulting from the tax refund offset. It is important to note that 6103(l)(10) does not allow for disclosures to nonemployees of the agency (e.g. contractors), only to "officers and employees" of the agency.

Section 6103(n) and its regulation, Treasury Regulation § 301.6103(n)-1, govern the use of contractors for the acquisition of property or services for tax administration purposes. State tax agencies are authorized to disclose returns and return information to any person for the purpose of tax administration, provided the disclosure is necessary in connection with a written contract for the acquisition of property or services. Accordingly, state tax agencies are authorized to disclose return information to contractors, provided the disclosure is for tax administration purposes and is necessary in connection with a contract for the provision of goods or services. A state tax agency, as defined in section 6013(d), is "any State agency, body, or commission, or its legal representative, which is charged under the laws of such State with responsibility for the administration of State tax laws."

As indicated above, section 6402(e) permits a state to seek an offset of a taxpayer's federal tax refund in order to satisfy a state income tax debt and section 6103(l)(10) authorizes the IRS to disclose specified return information about that offset to the state. Collection of state income tax debt is unquestionably for tax administration purposes inasmuch as it involves the administration of state tax laws. Because Treasury Regulation § 301.6103(n)-1 allows state tax agencies to disclose return information to contractors for tax administration purposes, IRS has determined that state tax agencies that state tax agencies may disclose return information to contractors who are engaged in the collection of state income tax debts through TOP.

IRS Alert to State Workforce Agencies

State Workforce Agencies (SWAs) and Treasury Offset Program (TOP) SWAs were previously authorized under Internal Revenue Code (IRC) 6402(f) to certify debts associated with fraudulent or overpaid unemployment compensation (UC) benefits to the Bureau of the Fiscal Service (BFS) as eligible for TOP offset of the debtor's federal tax refund. As a result IRS worked with SWAs to submit approved addendums to their Safeguard Procedure Reports (SPRs), the predecessor of Safeguard Security Reports (SSRs), detailing the security controls of the new stream of UC TOP FTI received under IRC 6103(l)(10) for benefits administration.

IRS Counsel recently determined that:

1. under IRC 6402(f) SWAs are now able to certify debts associated with the underpayment of unemployment insurance (UI) contributions tax to BFS as eligible for TOP offset of the debtor's federal tax refund.
2. the term "person" in IRC 6402 includes all entities that are defined as a "person" under IRC 7702(a)(1) which includes an individual, trust, estate, partnership, association, company or corporation. Corporate, partnership and other entity UI taxes meet the definition of a contribution due to the unemployment fund of a State under IRC 6402(f)(4).
3. the authority for contractors to access to TOP FTI is dependent upon the statute under which TOP FTI is received. Specifically, contractors may be granted access to UI TOP FTI received under IRC 6103(d) for tax administration; however, no contractors may be granted access to UC TOP FTI received under IRC 6103(l)(10) for benefits administration.

Required actions:

1. SWAs that participate in UI TOP offsets for tax administration under IRC 6103(d)

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TOP Collection Updates

State Collections (10/01/2013 - 09/30/2014)



State Income Tax Offset Collections

STATE NAME	OFFSET COUNT	NET COLLECTION AMOUNT
Alabama	74,553	\$23,697,321.08
Arizona	15,123	\$6,038,955.90
Arkansas	5,044	\$4,468,373.29
California	56,526	\$56,070,307.83
Colorado	16,330	\$9,595,345.24
Connecticut	10,682	\$7,726,510.09
Delaware	4,215	\$2,478,847.78
District of Columbia	7,286	\$5,870,488.73
Georgia	60,723	\$37,502,834.46
Hawaii	795	\$850,104.72
Idaho	2,131	\$1,638,066.20
Illinois	64,676	\$29,579,350.22
Indiana	23,208	\$9,677,275.92
Iowa	9,553	\$5,478,346.08
Kansas	15,832	\$8,110,821.80
Kentucky	17,378	\$12,581,399.61
Louisiana	46,504	\$25,974,209.44
Maine	4,096	\$3,391,571.01
Maryland	61,307	\$55,211,494.12
Massachusetts	14,971	\$8,477,501.96
Minnesota	10,168	\$7,450,638.50
Mississippi	24,876	\$10,253,877.91
Missouri	41,620	\$23,791,881.06
Montana	777	\$596,196.97
Nebraska	2,081	\$995,295.67
New Jersey	30,062	\$17,756,082.92
New Mexico	4,669	\$3,807,880.42
New York	73,590	\$58,606,097.04
North Carolina	10,601	\$5,149,488.70
North Dakota	738	\$265,663.09
Ohio	26,267	\$21,978,324.14
Oklahoma	18,024	\$13,022,416.59
Oregon	20,352	\$13,604,632.15
Pennsylvania	24,893	\$13,794,374.42
Rhode Island	2,569	\$1,719,703.79
South Carolina	6,085	\$5,304,668.78
Utah	2,776	\$1,826,707.64
Vermont	1,492	\$939,365.58
Virginia	14,873	\$10,091,443.74
West Virginia	13,645	\$11,243,133.90
Wisconsin	8,591	\$9,717,118.87
Total	849,682	\$546,334,117.36

The State Income Tax Program (SIT) 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 in FY2014, with a recovery of \$58.6 million. California and Maryland have recovered the second and third most funds in FY2014 at \$56.1 million and \$55.2 million.

For more information about SIT, contact us at StateOffsets@fms.treas.gov.

Contractor Access to FTI

...Continued from Page 3

compensation debts. The collection of unemployment compensation debts would not be for the purpose of tax administration, even if done by a state tax agency. Accordingly, state tax agencies may not disclose return information to contractors who are engaged in the collection of state unemployment compensation debts through TOP.

For more information regarding the IRS' decision regarding disclosure of tax information to contractors for the purpose of tax administration, please contact John M. Sims, Jr. at (214) 413-5835.

IRS Alert to States Workforce Agencies *...Continued from Page 3*

- (continued) will need to clearly describe the security controls for the new stream of UI TOP FTI by the SSR submission due date either immediately before or immediately after receipt of UI TOP FTI.
- SWAs that have not previously received any FTI, including TOP FTI, must submit an SSR to the Office of Safeguards for approval prior the initial receipt of either UI or UC TOP FTI.
- SWA SSRs should combine and describe the physical and logical controls for all data streams subject to safeguard requirements, paying special attention to clarify any differences between controls for UI TOP FTI and UC TOP FTI.
- SWAs must pay special attention to ensure that SSRs, FTI access procedures and contracts specify that contractors may be granted access to UI TOP FTI associated with tax administration but may not be granted access to UC TOP FTI associated with benefits administration.
- SWAs must ensure that FTI awareness training and, if appropriate, internal inspections are completed for contractors granted access to UI TOP FTI associated with tax administration.
- SWAs must ensure that the Office of Safeguards is notified 45 days in advance of granting a contractor access to UI TOP FTI.

TOP Collection Updates

State Collections (10/01/2013 - 09/30/2014)



State Unemployment Insurance Compensation Program Collections

STATE NAME	OFFSET COUNT	NET COLLECTION AMOUNT
Alabama	7,960	\$5,844,919.16
Arizona	19,288	\$11,079,208.01
Arkansas	14,484	\$7,981,142.09
California	3,345	\$2,814,085.34
Colorado	2,097	\$2,311,040.96
Connecticut	3,646	\$2,872,418.93
Delaware	1,024	\$1,422,906.53
District of Columbia	6,363	\$6,123,053.20
Florida	5,299	\$4,608,025.14
Georgia	7,402	\$9,694,091.61
Hawaii	72	\$70,104.93
Idaho	2,977	\$4,009,514.55
Illinois	18,459	\$29,698,515.58
Iowa	83	\$192,456.78
Kentucky	7,260	\$6,389,029.99
Louisiana	4,757	\$8,515,255.93
Maine	720	\$503,601.65
Maryland	10,155	\$12,188,349.03
Michigan	1,468	\$3,300,787.59
Minnesota	5,761	\$10,146,102.68
Mississippi	14,048	\$7,337,207.40
Missouri	11,045	\$12,951,727.16
Nebraska	4,655	\$2,925,034.46
Nevada	1,044	\$1,826,688.65
New Hampshire	1,722	\$1,359,715.24
New Jersey	25,586	\$48,017,987.85
New Mexico	5,163	\$7,480,009.18
New York	27,632	\$29,214,258.34
North Carolina	21,511	\$14,861,343.66
North Dakota	181	\$293,989.24
Ohio	22,865	\$36,722,766.64
Oregon	4,419	\$6,492,019.46
Pennsylvania	16,983	\$21,453,341.54
Rhode Island	1,032	\$597,249.28
South Carolina	11,205	\$11,501,542.97
South Dakota	637	\$411,846.75
Tennessee	11,672	\$9,495,397.68
Utah	4,581	\$4,674,031.15
Vermont	1,062	\$789,684.80
Washington	10,400	\$9,735,185.12
West Virginia	2,028	\$1,654,951.32
Wisconsin	13,000	\$11,140,898.23
Total	335,091	\$370,701,485.80

The Unemployment Insurance Compensation Program (UIC) allows for the offset of tax refund payments to collect unemployment insurance compensation debts due to fraud or a person's failure to report earnings. In addition, the IRS recently released guidance allowing states to refer their UI Tax debts under the UIC program as well. (See upcoming webinar on page 2)

In FY2014, there were 41 states and the District of Columbia referring UI Benefit debts to TOP. As of September 30, 2014, New Jersey has recovered the most funds at \$48 million. Ohio and Illinois recovered the second and third most funds, with \$36.7 million and \$29.7 million, respectively. For further information regarding UIC, please contact us at StateOffsets@fms.treas.gov.

State Reciprocal Program Collections

STATE NAME	OFFSET COUNT	NET COLLECTION AMOUNT
District of Columbia	5,724	\$11,626,702.34
Kentucky	4,835	\$8,413,102.19
Louisiana	40	\$100,595.05
Maryland	4,658	\$8,453,764.50
Minnesota	1,096	\$4,139,528.08
New Jersey	3,945	\$6,387,515.71
New York	4,512	\$11,795,700.05
West Virginia	811	\$695,815.46
Wisconsin	807	\$1,073,445.58
Total	26,428	\$52,686,168.96

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 and in return for the federal government to collect delinquent non-tax debt by offset of state payments.

On August 11, 2014, Louisiana joined the State Reciprocal Program, becoming the eighth state, along with the District of Columbia, to join the program. In FY2014, New York achieved the most recovered funds through SRP with total collections of \$11.8 million. The District of Columbia and Maryland were the second and third most funds recovered, with \$11.6 million and \$8.5 million, respectively.

TOP continues to encourage states not participating in SRP to reach out to us to discuss potential benefits of participating in the program. For further information regarding SRP, please contact us at StateOffsets@fms.treas.gov.

AGA's Intergovernmental Partnership Report Released

AGA has just released the "Intergovernmental Partnership Report" from the AGA, Treasury, Veterans Affairs, and Multi-State Work Group, which looked at states as debtors in TOP. The Report is available at http://www.agacgfm.org/AGA_ResearchPublications/documents/TOP-Report-2014_final.pdf and, also at fiscal.treasury.gov/TOPstateprograms under "State Agencies in TOP as Debtors."



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