



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Memorandum

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TO: Joint Technology Committee
Joint Budget Committee
Joint Finance Committee

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SUBJECT: Senate Bill 19-248: State Tax System Working Group Update

Summary

Pursuant to Senate Bill 19-248, this memorandum serves as an update of the progress of the State Tax System Working Group (working group). The working group consists of representatives from the Colorado Department of Revenue (DOR), the Governor's Office of Information Technology (OIT), Legislative Council Staff (LCS), the Office of Legislative Legal Services, the Colorado Department of Personnel and Administration, and the Governor's Office of State Planning and Budgeting. The working group is charged with evaluating:

- the deficits of the current state tax system;
- the benefit of ownership of the current state tax system in relationship to the costs;
- the benefit of making new investments in the current system or to pursue a replacement system;
- the potential areas of improvement for the current state tax system, including evaluating the option of developing an external severance tax module that interfaces with the current state tax system and implementing a more robust tax reporting and analytics solution; and
- options for managing the recurring changes in tax data and the method by which newly requested tax reports are implemented and generated to track those tax changes.

Update on Working Group Activities

During the 2019 legislative interim, the working group held a total of 20 meetings and conference calls, including some with subject matter experts to evaluate the following four key areas of study: (1) tax reports and analytic solutions; (2) an external severance tax module; (3) system benefits and technical debt; and (4) an external, independent assessment of the tax system.

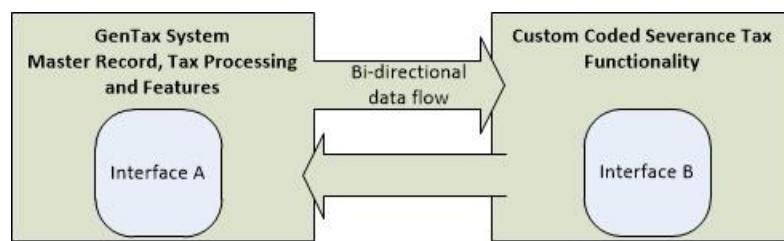
Tax reports and analytic solutions. The DOR Office of Research and Analysis (ORA) provides analytical expertise and research to internal and external stakeholders. While complying with state and federal regulations, ORA provides tax information, statutorily mandated reports, and non-statutory reports to interested internal and external stakeholders. Some of the completed activities pertaining to the working group's tax report analysis include:

- a detailed list of the reports DOR provided in FY 2018-19, along with a list of its outstanding tax report requests that cannot be provided at this time; and
- discussions about whether GenTax should be augmented by a separate data analytics tool.

External severance tax module. The state tax system, GenTax, is a commercial off-the-shelf (COTS) system, provided by a vendor, and maintained by state employees and the vendor. Even though GenTax is COTS system, it can be configured for each state's unique revenue accounting requirements. COTS systems have many benefits; however, vendor dependencies do not always offer the most cost-effective solution. As a case study, the working group evaluated the possibility of implementing an external severance tax module as a means to consider alternatives to the GenTax system when adding new functionality to GenTax (see Figure 1: GenTax and Severance Tax Interfaces). The discussions included DOR representatives meeting with OIT to provide high-level business requirements for an external severance tax module, and OIT providing an analysis of the technical feasibility of implementing a custom-coded module to provide additional severance tax functionality.

OIT assessed the possibility of implementing a custom-coded, external severance tax module that would interface with GenTax. GenTax would continue to be the master record and provide its tax processing functionalities, along with other its auxiliary features, by creating a bi-directional data interface between GenTax and the external severance tax module.

Figure 1
GenTax and Severance Tax Interfaces



Prepared by Legislative Council Staff.

System benefits and deficits. All software systems carry some technical debt, and the level of the technical debt that a system has may become worse over time as new requirements are implemented and the system grows. System technical debt challenges include managing critical or work stoppage issues appropriately and communicating the status of change requests to applicable stakeholders. Software system technical debt can be defined as business requirements that a system does not meet. For example, technical debt may result from system design issues, changes requested to meet evolving business needs, and managing resource constraint issues needed to implement changes.

To assess the existing state tax system technical debt, the working group completed the following: (1) DOR provided a summary of its GenTax backlog of service requests (SQRs); (2) OIT and DOR developed a new plan to manage existing SQRs; and (3) DOR provided a summary of the system's functionality and features.

External, independent assessment of the system. The working group discussed the benefit of retaining an independent third-party consulting firm to provide an assessment of the existing tax system. The DOR leadership team is currently considering the benefit of an independent assessment.

Upcoming Final Report

As required pursuant to Section 2-3-304 (8)(e), C.R.S., the final report of the working group will be submitted to the Joint Technology Committee, Joint Budget Committee, and the Senate and House Finance Committees on or before December 1, 2019. The final report will include a summary of the working group's findings and recommendations.