

Taxation and Revenue Department

Office of the Superintendent of Insurance

Progress Overview



1. The New Mexico Insurance Code consists of 6 Insurance Premium Tax Statutes.
2. In 2017 the LFC recommended the transfer of premium tax collection and audit from OSI to TRD.
3. SB 376 (2017 Legislative Session) proposed an FY18 transfer of premium tax collection and audit but the proposed legislation died



1. The General Appropriations Act of 2017 (HB2) stated that OSI and TRD collaborate to develop a plan to implement the transfer of premium tax collection and audit from OSI to TRD.
2. OSI and TRD met throughout the summer and fall of 2017 with meetings still ongoing.



1. Per HB2, OSI and TRD have met with DFA and LFC staff three times to give updates on developments.
2. LFC received a committee update on the transfer process on November 15, 2017.
3. Legislation is currently being drafted for the 2018 Legislative Session.



New Mexico Taxation and Revenue Department Responsibilities:

1. Revenue Collections,
2. Auditing the Insurance Premium Tax.



OSI – Superb & helpful collaboration

Legislative Drafting – making it happen



Revenues processed by OSI in Fiscal Year 17:

Premium Taxes: \$257M.

Insurance Surplus Lines Taxes: \$3M.

TRD's intent:



57 Page (initial) Draft:

This new Legislation will become part of the "Tax Administration Act," NMSA 1978, § 7-1-2.

TRD's Legal Staff is reviewing the initial draft.



27 Page "Consulting Report" conducted by *Examination Resources*: "SPECIAL AUDIT OF NEW MEXICO PREMIUM TAX FILINGS"

TRD's "roadmap" Responsibilities:

One significant result of the Report:

1. step-by-step instructions:



2. 30 Insurers examined:

3. Alleged Underpayments:

4. TRD Focus:



TRD Projected Costs:

1. EXHIBIT A, Line 13: Projected "Total Yearly Operating Costs."
2. EXHIBIT A, Line 30, Projected "Initial Implementation Costs."
3. EXHIBIT B, Line 13: "Total Yearly Operating Costs–Legal & Protest. Note: these costs are included in EXHIBIT A, Lines 9 & 10.



EXHIBIT C, Pages 1 and 2, IT: Total "Estimated Project (Implementation) Costs: range \$1,040,000 – \$3,390,000. Note: the higher amount \$3,390,000 is included in EXHIBIT A, Line 14.



New Mexico Taxation and Revenue Department



THANK YOU COMMITTEE MEMBERS



EXHIBIT A
Projected Costs: TRD's Assumption of Premium Tax Responsibilities
from OSI on January 1, 2019

Line #	Positions/Cost Categories	Yearly Operating Costs <i>Includes Benefits</i>	Initial Implementation Costs
1	¹ 1 BC Pay Band 85	\$94,107	
2	¹ 2 Staff Manager/Supvr Pay Band 80	\$165,670	
3	¹ 3 Senior Auditors Pay Band 75	\$220,137	
4	¹ 4 Financial Examiners A Pay Band 70	\$261,778	
5	¹ 8 Accountant Auditors A (Collect) Pay Band 65	\$470,328	
6	¹ 2 Admin (clerical support), Pay Band 55	\$97,048	
7	¹ 1 Accountant (ASD Distributions) Pay Band 70	\$65,447	
8	¹ 2 RPD (review/processing) Pay Band 55	\$97,048	
9	¹ 1 Legal Services (Atty)	\$114,800	
10	¹ 2 Protest Employees Pay Band 65	\$117,600	
11	IT: FAST Contract & 1 Staff	\$425,000	
12	Travel, Office Supplies, Industry Database Sub	\$80,000	
13	Total Yearly Operating Costs:	\$2,208,963	
14	IT: Est. Implementation/Project costs		\$3,390,000
15	IT: Transition Implementation- 3 months:		\$390,000
16	Total IT Implementation Costs:		\$3,780,000
17	BC (60 Days; Nov-Dec 2018)		\$16,000
18	1 Staff Mgr/Supvr (60 Days Nov-Dec 2018)		\$7,000
19	2 Senior Auditors (30 Days Dec 2018)		\$12,000
20	12 Fin Exam/Acct Aud (30 Days Dec 2018)		\$61,000
21	1 Admin Clerical (90 Days Oct-Dec 2018)		\$12,000
22	1 Accountant (ASD Distributions) (30 Days Dec 2018)		\$5,000
23	1 Legal Serv Atty (60 Days Nov-Dec 2018)		\$19,000
24	1 Protest Employee (30 Days Dec 2018)		\$5,000
25	Supplies (30 Days Dec 2018)		\$2,000
26	25 Computers/Monitors @ \$675		\$17,000
27	Furniture, Chairs, filing Cabinets 24 @ \$650		\$16,000
28	Total Staffing Implementation Costs:		\$172,000
29	Total IT Implementation Costs:		\$3,952,000
30	Totals:	\$2,208,963	\$3,952,000

¹All salaries are computed at "midpoint" of the Pay Band Salary range plus 35% Benefit cost.

EXHIBIT B
Projected Costs: TRD's Assumption of Premium Tax Responsibilities
from OSI on January 1, 2019

Legal Office Budget (1/1/2019 – 12/31/2019)

Line # Exhibit A	Positions/Cost Categories	Yearly Operating Costs <i>Includes Benefits</i>	Initial Implementation Costs
9	¹ 1 Legal Services (Atty)	\$114,800	
10	² 2 Protest Employees Pay Band 65	\$117,600	
13	Total Yearly Operating Costs:	\$232,400	
23	³ 1 Legal Services Attorney (60 Days Nov-Dec 2018)		\$19,000
24	³ 1 Protest Employee (30 Days Dec 2018)		\$5,000
26	⁴ Computers/Monitors		\$2,000
27	⁴ Desks, Chairs, filing Cabinets		\$2,000
28	Total Initial Implementation Costs:		\$28,000
	Totals:	\$232,400	\$28,000

¹ Legal Services: budgeted for 1 full time Attorney \$85,000 base salary plus 35% benefits cost of \$29,800 for a total cost of \$114,800.

² Protest: budgeted for two Protest employees, Pay Band 65, plus 35% benefits cost: \$43,549 base salary plus 35% benefits cost of \$15,242 for a total cost of \$58,791 times 2 employees = \$117,600.

³ Total Staffing Implementation costs incurred *prior* to the assumption of responsibilities from OSI that will take place (by Statute) on January 1, 2019, \$24,000.

⁴ Initial Implementation Costs: Computers/Monitors, Desks, Chairs, filing Cabinets for 3 employees.

EXHIBIT C, Page 1 of 2

Implementing Premium Tax in GenTax

08/27/2017 (updated 11/30/17)

This is a very high level estimate based on the forms provided by OSI and two meetings with OSI.

Implementing Premium Tax would have an overall high impact on ITD as it would be a new tax program into GenTax and is estimated to take approximately 1 year to implement. The basic functionality includes:

1. Creating a new tax program/account type
2. Creating new return documents
3. Adding file and pay functionality to Taxpayer Access Point
4. Updating payments
5. Updating financials
6. Updating refunds
7. Updating collections
8. Updating audit
9. Updating assessments
10. Updating rates
11. Creating revenue distributions
12. Updating configurations
13. Creating new letters & reports
14. Changing existing letters & reports
15. Developing any interfaces that are required
16. Coordinate testing
17. Developing training material and executing training

Estimated Project Cost

Option A	Estimated Cost	Option B	Estimated Cost
FAST Contractor to lead the development effort	Estimated \$500,000	FAST Contract for 100% of effort	Estimated \$3 million
Subject matter experts from the Business (OSI)		Subject matter experts from the Business (OSI)	
2 Contract Developers	\$150,000		
Contract Project Manager	\$150,000	Contract Project Manager	\$150,000
IV&V services	\$100,000	IV&V services	\$100,000
Contract Business Analyst	\$140,000	Contract Business Analyst	\$140,000
Total Estimated Project Cost	\$ 1,040,000	Total Estimated Project Cost	\$3,390,000

From a purely IT perspective, the estimated timeframe to implement this tax program into GenTax/TAP is approximately one (1) year. This estimate assumes that the following prerequisites are complete before the development effort can commence. The prerequisites are: 1. legal interpretation of related statues and regulations and 2. complete business requirements defined.

NOTE: This estimate assumes there will not be a data conversion from OSI Premium Tax to GenTax.

Estimated Reoccurring Maintenance and Support Cost

\$425,000 for one FAST Contract Resource/year

UNKNOWN: Phone/service desk support, RPD systems impact

EXHIBIT C, Page 2 of 2

Using Premium Tax in OSI's proposed system Trittech (expected to be implemented in early 2018), with NMI as the payment processor and internal financial analysis system being used for Distributions (which will not transfer to TRD as this system does more than Premium Tax distributions)

Considering that the system is still in procurement and not yet implemented, actual functioning of the current model could not be reviewed and analyzed for technical details. This is a very high level estimate based on the forms and process information provided by OSI and two meetings with OSI and ACD.

Exclusions from Estimates/ Important items to consider:

The following items could not be included in analysis and estimates due to the absence of a currently functioning system and vendor is not on board to work with other TRD contractors to discuss specifications needed for feasibility and pricing. Alternate work arounds are provided below for information and planning purposes.

1. **Distributions** – OSI uses an internal financial analysis system to support distributions. With this approach TRD ACD and FDB will need to use excel or develop a system to manage distributions and related financial functions.
2. **Paper Returns** – ACD anticipates accepting paper returns until the process can be automated. Further analysis will be needed upon implementation of Trittech regarding possibility of use of IBML scanners and GENKFI (or similar Key From Image application) to digitize the process. Additionally similar to the current processes followed by Oil and Gas Severance Tax Bureau, ACD will need to work with RPD on data entry effort and required resources. Until then the returns will have to be manually entered into the system. Based on the analysis, Cost estimates will need to be obtained from IBML and for contract/internal resources for GENKFI or similar application.
3. **Paper Checks** – ACD anticipates accepting paper checks. Further analysis will be needed upon implementation of Trittech regarding possibility of use of Check scanners and processors/MAVRO/Check21 to digitize the process. Until then paper checks will have to be manually scanned and processed by ACD or RPD. Based on the analysis, Cost estimates will need to be obtained from IBML and for contract/internal resources for GENKFI or similar application.
4. **Data Transfer** – For a clean cutover, no data will be transferred to TRD from prior to cutover period. OSI will retain data for those periods in accordance with the retention requirements and provide to TRD on request if needed for audit and other purposes. TRD will be responsible for data retention post cut over. Business processes will need to be defined by both OSI and TRD on how Amendments from prior periods will be managed during the initial year/s.

Cost and Resource Estimates:

From a purely IT perspective the estimated time to transition all system processes is estimated to be 3 months with the following resources.

Resource	Estimated Cost
Hardware, Software and licenses to host data server at TRD (similar to what OSI would have in their proposed model) for data transfer between Trittech, NMI, Financial Systems and OSI	\$ 130,000
1 Application Developer FTE	\$ 100,000
1 Business Analyst FTE	\$ 80,000
1 Network/Infrastructure/Desktop Support	\$80,000