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**Process Improvement for Withholding  
On Nonresident Sale of Real Estate**

*“Cleaning Up the Process”*



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**South Carolina Department of Revenue**

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## **Process Improvement for Withholding On Nonresident Sale of Real Estate**

### **Problem Statement:**

The procedures for processing withholding on the sale of real estate by nonresidents are fragmented and time-consuming. Improvement is needed in the flow of information throughout the agency regarding this process. There is also a need for more accurate, complete and timely information from our customers who withhold and submit the tax when filing the I-290 (see Attachment #1). This project has undertaken to examine the processing of the withholding from the sale of real estate by nonresidents from the time that the form and payment arrive at the South Carolina Department of Revenue until a booklet of information is printed from the prior year's database in order to identify problems and determine ways to improve the process.

This project aligns with the strategic plan for the South Carolina Department of Revenue. By evaluating processes and working toward continuous improvement we will be able to maximize compliance and build strong stakeholder relationships which are two of the key results of our strategic plan.

### **Background:**

Withholding on the sale of real estate is imposed when a person purchases South Carolina real property from a nonresident. The amount of withholding depends on whether or not the seller is a corporation. If the seller is a corporation, the withholding tax rate is five percent. If the seller is not a corporation, the withholding tax rate is seven percent. The buyer is responsible to withhold and remit the amount withheld with the

appropriate form (I-290) to the South Carolina Department of Revenue (SCDOR) by the fifteenth day of the month following the month of the sale. Although by law the buyer is held responsible for submitting this information, the buyer's attorney involved in the real estate transaction traditionally withholds the tax at the time of closing and remits it to the South Carolina Department of Revenue with the I-290.

Nonresident real estate withholding has grown significantly over the past five (5) years (see Attachment #2). With such significant dollar amounts involved, it is important that the processes involving this issue are fully understood by all parties and handled as quickly and accurately as possible.

**Issues Identified:**

There are two main types of problems involved in the processing of the withholding on the sale of real estate by nonresidents: 1) errors made by taxpayers/withholding agents and 2) lack of knowledge at various stages of processing internally at the South Carolina Department of Revenue. These problems result in processing delays for the information received and delays in customer service to both internal and external customers.

The procedures for handling and processing nonresident real estate withholding are known by only a few employees of the agency. The processes are handled by a small but very diverse group of people throughout the agency with no connectivity among the parts. In the past a few long-time agency employees handled all aspects of the nonresident sale of real estate withholding. When these few people began to leave the agency, it did not take long for processing issues and problems to begin to surface. Lack

of documentation and knowledge of how all of the pieces of the process come together became evident. Succession planning for some parts of the process was done, but not for all parts. Even when the procedures documentation was done for succession planning, all of the pieces were never connected. Along with this lack of knowledge at various processing stages, it was also determined that some of the processing problems were caused by taxpayer/withholding agent errors. Although no statistical data existed on the number of errors made by taxpayers/withholding agents who file the I-290, employees who work with the I-290's could easily determine which errors occurred most frequently.

**Taxpayer/Withholding Agent Issues:**

Over the past several months, phone interviews have been conducted with attorneys or their representatives. We surveyed forty (40) attorneys or their representatives. When it was necessary to contact an attorney to obtain information that had not been originally furnished on the I-290 or that was completed incorrectly, the following question was asked: Why is the I-290 form sent to the South Carolina Department of Revenue with incomplete information or completed incorrectly? The most common responses were as follows.

- A) They did not have the information immediately available; therefore, they decided to send in the incomplete form. (55%)
- B) The form doesn't state that the buyer information is required; therefore, they did not include it. (35%)

C) They did not know that they could not list more than one seller on an I-290.

The form did not state that only one seller should be listed on each form.

(10%)

From these answers it became evident that the I-290 form needed to be carefully studied for format and content. The form needs to be clearly marked to show which pieces of information are required. It should also state that all required information must be completed for the taxpayer to be able to claim credit for the withholding that is being submitted. Since some withholding agents did not know that they should complete an I-290 for each seller, this should be more prominently addressed on the front of the form. All of these issues will be discussed with the 2007 Withholding Forms Team with suggestions for form improvements being submitted for approval.

When it was necessary to contact an attorney/withholding agent to inform them that the I-290 and the accompanying payment were submitted late, the following questions were asked. Do you know when the I-290 and accompanying payment are due to the South Carolina Department of Revenue? Eighty-eight percent of the respondents knew that it was due by the fifteenth day of the month following the month of the sale. In talking with them, it was determined that it was not a major education issue that needed to be addressed by the agency. Even though they knew when the information was due, it was usually a clerical mistake by someone in their office who had not submitted the information. They had completed the I-290, but they put it aside rather than forwarding it to SCDOR.

It will be recommended that we prominently show the due date and the mailing address where the form should be sent on the front of the I-290 form. If the due date and

mailing address information are highly visible, it should make it easier for someone to see what should be done with the form. This should reduce the likelihood that someone would not know when to submit the form or where it should be sent.

**Processing Issues:**

Another problem that has been discovered is a processing issue. When the I-290 and the payment are submitted late and the attorney/withholding agent remits penalty and interest that is due, the penalty and interest information is not being keyed correctly. This appears to be a problem that has just recently surfaced. It has been determined that it is occurring for two reasons: 1) confusion over the form since there are no identifiable areas in which to write the penalty and interest amounts and 2) new personnel in the Data Entry area who do not know how to key the penalty and interest amounts.

Therefore, a solution for this problem is to update the I-290 form to include lines to show penalty and interest that is being remitted and mark the lines as data lines to be captured or keyed by Data Entry personnel. These issues and suggestions will be submitted to the 2007 Withholding Forms Team for an I-290 form improvement. These changes will have to be approved by Data Entry, the Scanner area, Information Resource Management (IRM), Withholding and the Forms areas. Written documentation and examples of how to capture the data correctly on the current forms has been given to the Data Entry area. If I-290 form changes are approved, the documentation and examples will be updated.

**Final Step Issues:**

There was a meeting of many of the parties that effect, in some way, the flow of information from the I-290. The flowchart (See Attachment #3) shows the many different areas and people that are involved in the process. During the meeting it was determined that in the final stages of the process, there are three steps in which the participants are unsure exactly what they are doing or why they are doing it.

One person in the Data Entry section converts the I-290 file information into a usable format and emails the file to Special Projects. There is only one person in Data Entry who handles this function. If they are out of the office, the conversion and file transfer must wait until they return.

When the file is transferred to Special Projects, it goes to a single person in this area. This person did not know what information was being received, does not work with the information or use it in any of their job functions. When the information arrived, they followed the step-by-step instructions that were given to them on how to load the file information into a database.

Since Special Projects does nothing with the information and it is irrelevant to their job, it has been requested that the Withholding section be given access to the database. Data Entry can email the information directly to the Withholding section and the Withholding section can upload the information into the database. By changing the way this is handled, one very disjointed step in the process can be eliminated.

In mid-February a booklet is printed from the database information to be used by auditors and tax examiners in different areas of the agency such as Individual Income, Office Audit or Withholding. In the past one person was responsible for getting the

booklet printed; therefore, only one person knew exactly when it should be printed or what steps to go through to get it done. To further complicate the problem, the IRM contact person who worked with the Withholding examiner to get the booklet printed retired. A few months later the Withholding examiner retired. The Withholding examiner documented her portion of the process, but since her contact was no longer at the agency, no one knew where to go for assistance in getting the booklet printed. When a new IRM contact person was assigned to handle getting the nonresident real estate withholding booklet printed, there was only minimal written documentation to follow. It was complicated even further by the fact that computer/system changes had been made at SCDOR that made some of the documentation obsolete.

Several requests have been made to simplify this cumbersome task. First, it has been requested that the printing of the nonresident real estate withholding booklet be set up as an automated job that will occur annually. The program could be set to run in mid-February. Auditors and tax examiners would then be aware that the booklet of information would be available to them by this time each year. Secondly, it has also been requested that all parties that are involved with these issues be given "read only" access to the database for nonresident real estate withholding for research capabilities throughout the year. And finally, a request has been made for the personal computer-based database to be included in the new computer system being developed for the agency.

**Conclusion:**

In working through this project, the goal has been to accomplish several key points.

- 1) Identify issues and problems that exist.
- 2) Improve our processes and procedures for handling I-290 information.
- 3) Increase our knowledge of the processes and procedures for handling I-290 information.
- 4) Develop written documentation of the I-290 processes.

We have identified issues with taxpayers. Taxpayers/withholding agents do not always understand our forms or the necessity of furnishing accurate and complete information when submitting forms and payments to the South Carolina Department of Revenue. Form requirements may not be clear. It is our responsibility to be proactive in continuously evaluating our forms, documents, publications and all external information in order to provide clear, accurate and updated information to our customers. Updating the I-290 form should eliminate some confusion about the withholding agent's responsibilities. It should also reduce the time that it takes for the forms to be processed if more forms are received with all of the information completed and correct.

We have identified issues with processing and procedures. Although each individual knew how to perform their tasks within the nonresident real estate withholding procedures, they often did not understand the "bigger picture" of what they were doing or why it was being done. Documentation of each piece of a process is important, but documentation that brings all pieces of the process together had to be developed and must be updated as necessary.

Changes to the I-290 will be implemented during the summer of 2007. Since this is not a calendar year form, we will be able to make mid-year changes and post the new, improved form on our website at this time. More information will be posted to the agency website to inform withholding agents about the most common mistakes made when filing the I-290 and to answer their most frequently asked questions. This should reduce the errors made by withholding agents.

Since there will be changes made to the I-290, we will need to inform all areas of processing that handle the I-290 of these changes. Lines will be added to correctly capture penalty and interest amounts that are submitted by the withholding agents. The Viking system that is used to capture all tax information that is manually keyed will have to be updated and tested in order to verify that the information is entered into the system correctly. Requests for these system changes will be submitted to the Information Resource division to have these changes made within the next two months. Written procedures on how to handle these new fields will be given to Revenue Processing and Data Entry personnel.

With the implementation of the requests and suggested changes made during this project, the procedures for handling nonresident real estate withholding will be improved and better documented.

ATTACHMENT #2

<b>Nonresident Real Estate Withholding</b>		
<b>Calendar Year</b>	<b># of Transactions/year</b>	<b>Revenue Collected/year</b>
2002	4579	\$18,350,917.00
2003	4793	\$27,857,905.00
2004	6814	\$40,771,625.00
2005	10,028	\$81,568,511.00
2006	8719	\$91,906,096.00

ATTACHMENT #3

Steps in Processing Withholding from the Sale of Real Estate by Nonresidents







