

House Appropriations Committee Testimony
Dan Meuser, Secretary
PA Department of Revenue
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Chairman Adolph, Chairman Markosek and members of the committee, thank you for giving me the opportunity to submit comments for the Department of Revenue's budget hearing. Joining me today are Dan Hassell, Deputy Secretary for Tax Policy, Stacie Amsler, Director of the Bureau of Fiscal Management and Todd Rucci, Executive Director of the Pennsylvania Lottery.

Let me begin by reviewing the five key initiatives the Department of Revenue has focused on in the last year and will continue to pursue in 2012, in order to achieve meaningful progress for a number of stakeholders. We are striving to improve customer service, increase efficiencies, enhance revenues, maximize the work environment for employees and implement Governor Corbett's policy initiatives for job creation and bettering the quality of life for as many Pennsylvanians as possible.

I would like to take this opportunity to talk about some important Department of Revenue initiatives within the strategic plan included in the Governor's 2012-13 budget proposal.

Act 46 of 2010 provided for the Enhanced Revenue Collection Account (ERCA), which provided funding dedicated to enhanced enforcement efforts, additional audits and more scrutinized evaluations of tax refund requests. ERCA funding of \$3.9 million in fiscal year 2010-11 netted a 2,100 percent return on investment and exceeded revenue generation goals by \$35.2 million. The current budget proposal for this initiative expands and extends ERCA funding to \$10 million each year through FY 2016-17. This investment is estimated to generate \$100 million in additional tax revenue for fiscal year 2012-13. ERCA funds these compliance efforts out of the revenue generated, and so does not require an appropriation of scarce General Fund dollars.

In the interest of fair and equitable tax administration, the department is pursuing an enforcement package including seven initiatives that will allow the department to better enforce Pennsylvania's tax laws, more aggressively pursue tax delinquents and more successfully collect taxes rightfully due the commonwealth. The department estimates adoption of all these initiatives could result in more than \$21.6 million in additional revenue for fiscal year 2012-13.

Administrative bank attachment would provide the department the authority to freeze, and then access the bank accounts of businesses and the individuals responsible for them, to satisfy tax delinquencies that cannot be addressed through wage garnishment. This tool will be effective in recovering stolen trust fund taxes such as sales tax collected from customers and employer withholding collected from employees, and not remitted to the state. This authority is the business equivalent to wage garnishment and brings state collection efforts in line with IRS practices. Administrative bank attachment will serve as a deterrent to tax evasion, will be used after all other reasonable measures have been

exhausted and will be limited by law to be used only in pursuing delinquencies of \$1,000 or greater.

Pass-through business compliance legislation would tighten up tax rules for pass-through businesses (LLCs, S corporations, partnerships), which continue to grow as the most popular way to establish new businesses, enabling the department to more effectively collect personal income tax from out-of-state partners, owners and shareholders with Pennsylvania-sourced income. The department would be authorized to assess tax at the entity level for efficiency purposes; levy fees against companies that don't provide K-1 income statements to taxpayers or the department; and require nonresident estates and trusts to withhold from Pennsylvania nonresidents and file Pennsylvania returns. Making pass-through filing requirements more effective will ensure that out-of-state businesses and individuals that benefit from Pennsylvania-based income pay their fair share of Pennsylvania tax on that income.

Stronger criminal tax penalties would replace slap-on-the wrist penalties for stealing sales tax and employer withholding with felony penalties including fines up to \$25,000 and jail time up to seven years. Additionally, this initiative would extend the statute of limitations on prosecuting tax-related criminal offenses from two to five years.

Expanded business citation authority would extend the department's citation authority beyond just sales tax licensees, so that other businesses can be criminally cited for not paying personal income tax, employer withholding and corporate taxes. This authority would also provide for public exposure of tax delinquents through orange placards that would be posted at a delinquent taxpayers' place of business. Additionally, to avoid further delay in taxpayer compliance and prevent taxpayers with histories of stealing sales taxes and employer withholding taxes from having more time to do so, the department is seeking to shorten the appeal period following revocation of a sales tax license from 90 days to 15 days.

Withholding on oil/gas royalty payments would require companies making oil/gas royalty payments on Pennsylvania land to Pennsylvania residents and non-residents to withhold Pennsylvania personal income tax from those payments, similarly to how employers withhold tax on employees' pay. This change will allow the department to quickly and accurately collect income tax due on royalty payments, particularly in the case of non-residents.

Withholding on nonresident independent contractor pay would require companies that bring out-of-state independent contractors into Pennsylvania for work to withhold Pennsylvania personal income tax from the compensation of those independent contractors. This change would also require electronic filing of 1099-MISC forms by the companies for all employees, so the department can more effectively collect personal income tax due the commonwealth from nonresidents who work in the state.

One initiative we're championing that has the potential for positive impact beyond just the Department of Revenue is benefits-based procurements. This legislative change to

the procurement code would allow the department to enter into contracts that pay based upon contractor performance. A majority of other states have such contingent-fee procurement options, which allow revenue agencies to minimize investment risk and pay contractors a percentage of tax collections based upon benefits realized by the state.

Following administrative improvements to the tax appeals process that streamlined operations and improved taxpayer service in 2011, the department is pursuing a legislative package to further reform the tax appeals process. Such taxpayer-friendly changes capitalize on national best practices to reduce issues that result in appeals, make the appeals process fairer for taxpayers and improve the department's ranking in multi-state reviews of tax appeals processes.

In closing, the Department of Revenue's self-identified vision is to be a continually improving revenue agency valued for customer service and integrity. Moving forward, the department will be exploring various options for equitable tax collection, to identify priorities and facilitate development of an overall strategy to improve the way we collect what is owed the state.