



**pennsylvania**

GOVERNOR'S CENTER FOR  
LOCAL GOVERNMENT SERVICES

# Earned Income Tax Consolidation System Best Practices Report

December 31, 2009

> ready > set > succeed



Commonwealth of Pennsylvania  
Edward G. Rendell, Governor  
[www.state.pa.us](http://www.state.pa.us)

Department of Community  
& Economic Development  
George E. Cornelius, Secretary

[newPA.com](http://newPA.com)

## **Act 32, EIT Advisory Committee Acknowledgement**

The Department of Community and Economic Development and staff of Governor's Center for Local Government Services would like to acknowledge and express sincere gratitude to the members of the Act 32, EIT Advisory Committee for their expertise, involvement and participation with the implementation of Act 32 of 2008 in order to achieve the Act's goal to reform the local earned income tax collection system within the Commonwealth. Over the last year GCLGS has worked with the EIT Advisory Committee and its several sub committees to develop a number of documents to assist the work of the Tax Collection Committees and their municipal and school district representatives in the transition to the new EIT collection system.

Once implemented, this key piece of legislation will result in a more efficient and coordination collection of local earned income taxes and aid in improved distribution and collection.

The past and future efforts and commitment of all those involved, is instrumental to this coordinated endeavor.

### **Earned Income Tax Advisory Committee Members**

<b>Mary Abbott</b>	PA Earned Income Tax Officer Association
<b>Dave Barrie</b>	PA State Association of Township Commissioners
<b>Jason Brehouse</b>	PA Senate
<b>Peter Calcara</b>	PA Institute of Certified Public Accountants
<b>John Callahan</b>	PA Chamber of Business and Industry
<b>Dave Caplan, CPA</b>	PA Institute of Certified Public Accountants
<b>Daniel Clark</b>	Pugliese Associates
<b>Holly Fishel</b>	PA State Association of Township Supervisors
<b>Cherie Freeh, CPA</b>	Pa Institute of Certified Public Accountants
<b>David Gordon</b>	Berkheimer Tax Administrator
<b>David Hazlett</b>	Carroll Valley Borough, Adams County/PA State Association of Boroughs
<b>Doug Hill</b>	County Commissioners Association of PA
<b>Gary Hinkson</b>	City of Hermitage/PA League of Cities and Municipalities
<b>Lester Houck</b>	Salisbury Township, Lancaster County/PA State Association of Township Supervisors
<b>Lois Kashner</b>	York-Adams County Tax Bureau
<b>Mary Kehm</b>	PA Society of Public Accountants
<b>Patti McNamara</b>	Berkheimer Tax Administrator
<b>Chase E. Schaszberger</b>	PA House of Representatives
<b>Amy Sturges</b>	PA League of Cities & Municipalities and PA State Association of Township Commissioners
<b>Edward Troxell</b>	PA State Association of Boroughs
<b>Beth Winters</b>	PA School Boards Association
<b>Richard Vensel</b>	South Middleton School District/PA Association of School Business Officials
<b>Robert Vilella</b>	Central Tax Bureau of PA

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## **Introduction**

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Act 32 enacted on July 2, 2008 amended the Local Tax Enabling Act, Act 511 of 1965, to consolidate the collection of Earned Income Tax (EIT) on a countywide basis.

The Governor's Center for Local Government Services (GCLGS) within the Department of Community and Economic Development (DCED) is charged with working with county, municipal and school district officials to implement the provisions of this new law. The Act provides for a three year transition period with all aspects of the law to be implemented by January 1, 2012.

Act 32 requires DCED to study the existing local earned income tax collection methods and practices within the Commonwealth including the practices and methods of current intergovernmental collection bureaus established by one or more political subdivisions as well as third party collectors, for the purpose of identifying and comparing those practices, methods, structures, procedures, regulations, software, information systems, governance alternatives, risk management strategies and other characteristics that appear to promote the greatest likelihood of effectiveness, cost efficiency, loss prevention and willing intergovernmental cooperation. This report represents the results of that study. It is intended to provide resources, best practices and templates for the Tax Collection Committees to use in the implementation of the Act.

## Background

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Act 32 is a result of a 2004 report issued by the Department of Community and Economic Development (DCED) – a multi-year study that documented the fragmentation, complexity and inefficiency of the earned income collection system.

DCED's study found that under the current EIT collection system, 560 taxing authorities collect nearly \$1.9 billion in annual revenue for more than 2,900 local taxing jurisdictions. Due to inefficiencies in the system, it was estimated that as much as \$237 million is lost annually. These are revenues that should be available to municipalities and school districts under current tax rates.

The consolidated EIT system will replace the existing tax collection system, currently administered by municipalities and school districts, with county-wide earned income Tax Collection Districts (TCD) with one per county and with Allegheny County divided into four districts. Each TCD will be governed by a Tax Collection Committee (TCC), each of which is required to select one Tax Officer who is charged with the administration of the EIT collection system for each Tax Collection District (TCD).

Act 32 will result in improvements that will positively impact the three stakeholders in the EIT system, the business community who is required to withhold and remit the tax, the taxpayer who must fulfill their payment of the tax and municipalities and school districts who derive significant revenue from the tax.

EIT consolidation will enhance Pennsylvania's business climate by providing a streamlined tax collection system that will reduce administrative costs and confusion for Pennsylvania businesses. A streamlined, uniform and accountable system will allow businesses and taxpayers to easily fulfill their tax obligations and to feel confident that tax dollars are going to their rightful destinations.

Consolidation will capture lost tax revenue for municipalities and school districts through standardized collection practices, coordination, reporting and accountability among and between jurisdictions and collectors. The Act will also require uniform withholding, remittance, distribution and reporting and consistency in the administration of the tax. It will establish uniform statewide rules and regulations and provide for strengthened accountability, oversight and enforcement of the system.

The Act will streamline the flow of tax monies; simplify withholding and distribution; and allow local governments and tax officers to track every local tax dollar from the time the tax is withheld until it is received by the appropriate taxing jurisdiction. With countywide tax collection districts, tax monies will be transferred among fewer collectors, thus reducing the probability that revenue will be lost.

Uniform withholding will capture virtually all taxes imposed on employees in Pennsylvania reducing the need for tax officers to find and bill taxpayers quarterly or at the end of the year. Uniform withholding will achieve the goal of a zero-local-income tax liability for employees at the end of the year and improve cash-flow for local governments during the year.

Accountability and Oversight will also be strengthened under the Act. Tracking, auditing and oversight of taxes will provide accountability and the financial safeguards needed to restore integrity and transparency to the system. Tax Officers are required to keep records of every dollar received and distributed, and submit monthly reports accounting for each dollar or face fines. The annual audit includes a reconciliation of monthly reports and the receipt and disbursement of all taxes monies as well as findings of noncompliance. Bond amounts are tied to the annual audit. Distributions are based on actual collections, not estimates as currently occurs. Tax collection committees are required to appoint appeals boards to hear appeals of collector determinations.



## Accomplishments To Date

Since the passage of Act 32, the Center has undertaken a number of activities in its role to facilitate the implementation of the new system. An Implementation Committee of Center staff was established to guide the transition process. In order to provide input in the development of the various documents to be used to establish the consolidated system, the Center also established an EIT Advisory Committee comprised of key stakeholders representing school districts, local governments, non-profit and third party tax collection agencies, CPAs and legislative officials. The Advisory Committee first met in January 2009. Since the initial meeting, bimonthly meetings have continued and members have provided support, feedback and helped to further disseminate information on the Act.

As part of the implementation activities, the Center has established an Act 32 page on its website. This page serves as the main reference for all of the information DCED has published on the Act. It currently includes a list of frequently asked questions, a timetable of key implementation deadlines, the identification of the Tax Collection Districts, the Weighted Vote calculation, sample by-laws and other relevant documents to be used by the Tax Collection Committees and others engaged in the implementation of the Act.

The Center has conducted informational sessions across the Commonwealth to disseminate information for public officials relating to their duties under Act 32. The Center provided training sessions in May and June of 2009 in 22 locations across the Commonwealth through the Pennsylvania Local Government Training Partnership. It also conducted a webinar for County officials that focused on their responsibilities in convening the first meeting of the Tax Collection Committees.

The first duty for the Center to accomplish was to create the Tax Collection Districts (TCD) and identify the TCD for each school district and municipality. This task was completed and published in the Pennsylvania Bulletin by January 28, 2009 as provided for in the Act. The Act required that the boundaries of the TCDs provide that all school districts remain whole. The list of the TCDs and an accompanying map were published by the required date and are available on the Act 32 website.

Each municipality and school district levying the earned income tax was required to appoint a delegate to serve on the TCC, the governing body of each TCD no later than September 15, 2009. The first meeting of each TCC was to be held on or before November 15, 2009. The first meeting was convened by the Chair of County Commissioners/County Executive of the county where the district is located. At that first meeting, the committee was responsible for choosing officers using the weighted vote formula which was calculated by the Center. The weighted vote was based 50% on EIT revenue and 50% on the population of each school district and municipality within the district. Committees could continue to use the weighted vote formula to proceed with any actions taken in the future or they can change the vote to another agreed upon formula.

The Center has developed the structure for the various forms that will be needed for the consolidated system. These will be published for use by all TCCs as part of the Act's goal of achieving consistency in the administration of the collection system. Forms identified in this study include: individual tax remittance forms, employer information/reporting forms and taxpayer residency certification. In conjunction with the need for standardized forms, the Center is developing codes to be used by the Tax Officer to remit tax funds electronically. These codes will numerically represent each TCD, each school district and each municipality so that funds can be distributed between TCDs and from TCDs to member school districts and municipalities.

The Center is also developing an audit format for the annual audit required to be completed for the Tax Officer each year by a certified public accountant. The audit report will be filed with each tax collection committee and the political subdivisions within the TCD by September 1 of each year.

Act 32 requires mandatory training and education for tax officers on an annual basis. The Center is required to adopt regulations, guidelines and procedures which establish the qualifications and requirements a Tax Officer must meet. A Tax Officer would be deemed qualified if he or she passes the certification exam developed by the Center. Tax Officers must be certified prior to being appointed by a TCC and must also maintain their certification through the completion of continuing education courses.

Although Act 32 did not provide specific funding to facilitate implementation of the new system, DCED agreed to prioritize funding under its Shared Municipal Services Program to the degree it is available to assist with start-up costs of establishing the Tax Collection Districts.