

House Appropriations Committee Testimony  
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PA Department of Revenue  
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Chairman Adolph, Chairman Markosek and members of the committee, thank you for the opportunity to discuss Governor Tom Corbett's proposed 2014-2015 budget for the Department of Revenue. Joining me today are Dan Hassell, Deputy Secretary for Tax Policy, Tom Armstrong, Deputy Secretary for Taxation, and Sil Lutkewitte, Executive Director for the Pennsylvania Lottery.

Let me begin by reviewing the five key initiatives the Department of Revenue has focused on and will continue to pursue in 2014, in order to achieve meaningful progress:

- We continue to improve customer service and build trust with all stakeholders.
- We have increased efficiencies by reducing redundancies, lowering costs and improving productivity.
- We have enhanced revenues without increasing taxes through clarity of compliance, education of tax obligations, and leveraging technology, data and information so as to enforce the tax laws equally for all taxpayers.
- We have attracted, developed and retained skilled and motivated employees by fostering job satisfaction and creating a productive work environment for employees.
- We have also aligned the department's initiatives with Governor Corbett's policy initiatives in order to help facilitate job creation and bettering the quality of life for as many Pennsylvanians as possible.

Perhaps the most meaningful project the department has undertaken in years is the Revenue Modernization Project, which will result in an integrated tax system, ITS, designed to provide an IT infrastructure that will address all of these department goals. The ITS will eliminate the risk of legacy system failure, replace information silos with a holistic view of taxpayers and facilitate improved tax collection. The integrated tax system will also allow the Department of Revenue to reduce administrative costs, respond quickly to changes in tax laws, better enforce tax laws and improve overall taxpayer service. Enhanced accessibility, streamlined and simplified processes and improved communication with stakeholders will allow the Department of Revenue to provide superior customer service and facilitate a far more efficient and effective agency. The department achieved a milestone in this project in March 2013, with the deployment of the corporation taxes into ITS. Already this project has yielded real savings of approximately \$1 million in operating efficiencies for the commonwealth. In addition, the Revenue Modernization Project is leading to more informed and efficient taxpayer and practitioner interaction with the department.

Also along the lines of efficiencies, the department's budget includes \$4.3 million in expense reductions, including \$860,000 in postage, \$700,000 in reduced IT expenditures and \$465,000 from other administrative efficiency initiatives. The department has also

decreased its general non-personnel operating budget by more than 14 percent and reduced our general fund complement by 10 percent from four years ago. At the same time, the department is assuming additional responsibility for administration and enforcement of small games of chance. We expect to absorb costs in the performance of these duties for the remainder of this and next fiscal year, which we can manage, but is not scored as savings within the department.

The department has also enhanced collections during the past year. Act 71 of 2013 provided for the continuation of the Enhanced Revenue Collection Account (ERCA) initiative through fiscal year 2019-20, and this additional funding has been invested in more scrutinized evaluation of tax refund requests, additional audits and enhanced enforcement efforts to support revenue growth. Year-to-date collections attributable to this effort total \$122 million, with an expected return on investment of 13 to 1.

The 2012 authority for administrative bank attachment now allows the department to freeze, and then access the bank accounts of businesses and the individuals responsible for them, to satisfy tax delinquencies that can't be addressed through wage garnishment. This tool is already effective in recovering stolen trust fund taxes – like sales tax collected from customers and employer withholding collected from employees – not remitted to the state by businesses. The department collected \$412,000 through administrative bank attachment through 12/31/13.

By clarifying existing sales tax law and educating e-commerce retailers about their sales tax obligations, the department achieved substantial compliance from remote sellers with Pennsylvania nexus that became licensed and began collecting sales tax. It's simply a matter of fairness under the existing law, and it's essential that both e-commerce retailers with nexus and brick-and-mortar stores in Pennsylvania, many of which are small businesses employing thousands of Pennsylvanians with retail jobs, are treated equally. As a result of those efforts, payment from more than 100 newly registered remote sellers exceeds \$88 million.

Customer service and taxpayer satisfaction has been significantly improved by the department through a focus on content and clarity of forms, notices and the website. In addition, the department has increased its call-handling capabilities during peak seasons. Our Taxpayer Services and Information Center handled over 400,000 calls in 2012-13, about the same amount as the prior year, while reducing the average wait time from 7:31 to 5:34 minutes. The department created a dedicated email system for practitioners available through the Online Customer Service Center, which allows department representatives to address electronically submitted inquiries in a more timely and efficient manner for both the department and the practitioner community. Our Taxpayer Services and Information Center responded to 30,000 taxpayers and practitioners via email last fiscal year.

Peter Calcara, Vice President of Government Relations for the Pennsylvania Institute of Certified Public Accountants, called Act 52 of 2013, which restructured the Board of Finance and Revenue to function more independently and impartially, "the most

significant reforms in Pennsylvania's tax administration process in more than 20 years." This significant taxpayer service accomplishment is the capstone following administrative and legislative appeals progress in 2011 and 2012, all of which combined to increase Pennsylvania's tax administration grade from a "D" to an A-" in a report issued earlier this year by the Council on State Taxation.

Governor Corbett is focused on tax reforms that will generate new revenue through economic growth and tax fairness, rather than place additional burden on the businesses and families of the commonwealth. By working now to make Pennsylvania a more attractive place for companies to build and grow their businesses, tax reform will grow jobs, personal incomes, state gross domestic product and tax revenues in the long-run.

Highlights of the Corbett Administration's tax reform accomplishments include the following:

- Eliminating the capital stock/foreign franchise tax in 2016 puts an end to Pennsylvania's role as one of a minority of states in the nation to tax both business income and business assets. By continuing the phase-out of this tax, Governor Corbett will finally eliminate a long-standing job inhibitor.
- Eliminating the inheritance tax for family farmers and small, family-owned businesses means Pennsylvania farmers and entrepreneurs can now pass their farms and small family businesses on to heirs without worrying they will have to pay steep "death taxes" to keep them in the family.
- Also a benefit for small businesses, the start-up business deduction allows new businesses to deduct up to \$5,000 of start-up costs from taxable income as an incentive for entrepreneurs to create small businesses and invest these savings into equipment needed to be successful.
- By moving to a 100 percent single sales factor, Pennsylvania now has a corporate tax structure that encourages businesses to locate within the commonwealth because their tax burden is not increased by having employees or property in Pennsylvania.
- The adoption of market sourcing for services complements the 100 percent single sales factor for tangible goods and benefits Pennsylvania service companies by not taxing income from services performed out-of-state.
- In repealing the corporate loans tax, Governor Corbett ended an unjust burden placed on businesses without access to traditional forms of lending that take loans to grow or simply pay regular business expenses.
- In the interest of fair and equitable tax administration, the expense deductions add-back provision signed into law in 2013 ensures corporations doing business in Pennsylvania pay their fair share in corporate taxes. This law is a fair and

responsible approach to addressing a corporate tax loophole, as evidenced by its bipartisan support.

Lastly, this filing season the department has introduced two new initiatives that mark significant advances to our goals: PA Free File and a program aimed to decrease personal income tax refund fraud.

PA Free File offers free, safe and convenient Internet-based filing options and replaces TeleFile and, after this year, padirectfile. Qualifying taxpayers, generally those with federal adjusted gross income of \$58,000 or less, now have access to professional tax software allowing them to file both federal and state returns simultaneously at no cost. In addition to the tax preparation guidance and convenience provided to taxpayers, PA Free File is expected to save the department \$500,000 annually in reduced printing, postage and system maintenance costs.

The department is also implementing a program to combat personal income tax refund fraud. Beginning this income tax filing season, the department is instituting new security measures to identify and intercept fraudulent refund filings in order to ensure refunds are issued only to their rightful owners. This initiative is anticipated to save taxpayer dollars in the form of denied refunds and reduce identity misrepresentation on income tax returns in the future.

In closing, the Department of Revenue's 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 improve the way we collect what is owed the state.