

1 HOUSE OF REPRESENTATIVES
2 COMMONWEALTH OF PENNSYLVANIA

3 * * * *
4 Department of Revenue
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6 House Appropriations Committee

7 Main Capitol Building
8 Majority Caucus, Room 140
9 Harrisburg, Pennsylvania

10 Monday, February 22, 2016 - 1:00 p.m.

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12 MAJORITY COMMITTEE MEMBERS PRESENT:

13 Honorable William Adolph, Majority Chairman
14 Honorable Karen Boback
15 Honorable Jim Christiana
16 Honorable Gary Day
17 Honorable George Dunbar
18 Honorable Keith Greiner
19 Honorable Seth Grove
20 Honorable Sue Helm
21 Honorable Warren Kampf
22 Honorable Fred Keller
23 Honorable Tom Killion
24 Honorable Jim Marshall
25 Honorable Kurt Masser
Honorable David Millard
Honorable Michael Peifer
Honorable Jeffrey Pyle
Honorable Marguerite Quinn
Honorable Curt Sonney
Honorable Mike Vereb

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Key Reporters

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1 MINORITY COMMITTEE MEMBERS PRESENT:

2 Honorable Joseph Markosek, Minority Chairman
3 Honorable Leslie Acosta
4 Honorable Matthew Bradford
5 Honorable Tim Briggs
6 Honorable Donna Bullock
7 Honorable Mary Jo Daley
8 Honorable Madeleine Dean
9 Honorable Maria Donatucci
10 Honorable John Galloway
11 Honorable Stephen Kinsey
12 Honorable Michael O'Brien
13 Honorable Mark Rozzi
14 Honorable Kevin Schreiber
15 Honorable Peter Schweyer

16 NON-COMMITTEE MEMBERS:

17 Honorable Matt Gabler
18 Honorable Mark Gillen
19 Honorable Brett Miller
20 Honorable Eli Evankovich
21 Honorable Rick Saccone
22
23 Honorable Jake Wheatley, Chairman
24 Democratic Finance Committee
25
26 Honorable Steve Samuelson, Chairman
27 Democratic Aging & Older Adult Services

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STAFF MEMBERS PRESENT:

David Donley
Majority Executive Director

Ritchie LaFaver
Majority Deputy Executive Director

Curt Schroder, Esquire
Majority Chief Counsel

Miriam Fox
Minority Executive Director

Tara Trees, Esquire
Minority Chief Counsel

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DEPARTMENT OF REVENUE

Eileen McNulty
Secretary

Dan Hassell
Deputy Secretary for Tax Policy

Christin Heidingsfelder
Deputy Secretary for Administration

Drew Svitko
Executive Director of Pennsylvania Lottery

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1 MAJORITY CHAIRMAN ADOLPH: Good
2 afternoon, everyone. I'd like to reconvene the
3 House Appropriations Committee budget hearings.

4 Before we get started, I'd like to
5 remind everyone to take a couple seconds and turn
6 off your iPhones and your iPads, and all the other
7 electronic devices that you may have. These
8 hearings are being televised. When the iPhones are
9 on, the iPads are on, it interferes with the
10 telecast. Thank you so much.

11 The afternoon hearings we have with us
12 the Secretary of Revenue. Then also, later on, we
13 have the Office of Open Records. I know these are
14 two very important offices and departments, and I'm
15 looking forward to the testimony.

16 It looks like Secretary McNulty has
17 brought her able body staff with her. And if she
18 would, because I don't want to mispronounce
19 anyone's name, if they would introduce themselves
20 to the committee, I would certainly appreciate it.

21 Madam Secretary.

22 MADAM SECRETARY McNULTY: Okay. Thank
23 you. Go ahead, Drew.

24 MR. SVITKO: I'm Drew Svitko. I'm the
25 Executive Secretary of the Pennsylvania Lottery.

1 MR. HASSELL: And I'm Dan Hassell,
2 Deputy Secretary for Tax Policy.

3 MS. HEIDINGSFELDER: Christin
4 Heidingsfelder, Deputy Secretary for
5 Administration.

6 MADAM SECRETARY McNULTY: And I'm Eileen
7 McNulty, Secretary of Revenue.

8 MAJORITY CHAIRMAN ADOLPH: Thank you,
9 Madam Secretary. If you would not mind, if you
10 would like to open up with a brief opening
11 statement.

12 MADAM SECRETARY McNULTY: Okay. Thank
13 you very much for the opportunity to testify at
14 today's budget hearing.

15 The Department's made significant
16 progress in the past year to resolve very
17 substantial challenges with the transition to an
18 integrated tax system. This modernization is
19 replacing decades-old data silos with an integrated
20 system that places the taxpayer at the center of
21 all our tax systems. This will reduce costs and
22 improve customer service by more efficiently
23 processing tax returns --

24 MAJORITY CHAIRMAN ADOLPH: Madam
25 Secretary, my good friend, Chairman Markosek, is

1 signaling, maybe if you could move your mike up a
2 little bit. Just move it up towards you. That's
3 so much better.

4 MADAM SECRETARY McNULTY: I could hear
5 myself so well.

6 MAJORITY CHAIRMAN ADOLPH: That's why
7 everybody was agreeing with you. We could not hear
8 you.

9 MADAM SECRETARY McNULTY: Okay. As I
10 explained last year, the modernization of our
11 systems experienced several challenges.
12 Integration of business taxes -- I'm sorry.
13 Business taxes were integrated in 2013, and trust
14 fund taxes like sales tax and employer withholding
15 were added in 2013. 2014, I'm sorry. Insufficient
16 testing and problems with data conversion brought
17 automated processing and tax returns at that time
18 nearly to a standstill.

19 To resolve those delays, I restructured
20 the Department and made eliminating the backlog a
21 top priority. Throughout 2015, considerable
22 process was made. By resolving these obstacles,
23 the Department processed 4 million business tax
24 returns last year, reducing a backlog of tax
25 reviews from 186,400 in January of 2015, to 45,874

1 earlier this month.

2 Going forward, we plan to continue to
3 enhance efficiencies and review assessments to
4 ensure the accuracy of taxpayers' returns while
5 providing more detailed correspondence, which
6 practitioners have been requesting for the past
7 three years.

8 With a stable foundation established for
9 the business tax system, the long-term outlook is
10 promising. We are now preparing for the next phase
11 of the modernization initiative that will integrate
12 systems for personal income, reality transfer,
13 inheritance tax and the motor fuel taxes. With the
14 returns of millions of Pennsylvanians to be
15 processed, this system will launch only after a
16 full and complete testing period.

17 To further achieve efficiencies and
18 reduce costs as part of the Governor's GO-TIME
19 initiative, the Department launched two projects
20 this year. New modeling will identify potential
21 under-reporting of the sales tax, allowing the
22 Department to ensure businesses are remitting the
23 accurate payments to the Commonwealth. An
24 estimated \$2.3 million will be collected in the
25 '16-17 fiscal year through our desk review process.

1 Another GO-TIME initiative will provide
2 more efficient lien filing for state tax liens.
3 Currently, when a taxpayer has an unpaid liability,
4 the Department is responsible for filing liens with
5 each county's prothonotary office. Producing the
6 documents is labor intensive and incurs mailing
7 costs.

8 To increase efficiency and improve
9 services, we have begun filing liens electrically
10 in Philadelphia and Allegheny County just last
11 month. Additional counties will be added during
12 the remainder of the year. As a result, the
13 Department will reallocate staff from filing liens
14 to the collection of delinquent taxes, realizing an
15 additional \$676,000 in annual collections net of
16 the costs, and more than 3.3 million over five
17 years.

18 The importance of these GO-TIME cost
19 savings and the integrated tax system is heightened
20 by the 4.9-million-dollar reduction in the
21 department's cost-to-carry budget this year. By
22 not filling vacant positions, the Department is
23 staying within budget as we continue to provide
24 core customer services, process returns, and
25 maintain operations. However, budget reductions

1 and the unfilled vacancies resulting from limited
2 funding will result in less effective revenue
3 collections for the Commonwealth, delays in
4 processing, issuing refunds and adjustments, and a
5 decline in customer service for taxpayers.

6 For example, due to unfunded vacancies,
7 the Department's capacity to follow up and
8 investigate potential refund fraud and assist
9 taxpayers who have become victims of identity theft
10 is affected. When the Department determines that a
11 return was filed with a potentially stolen
12 identify, we have limited staff capacity to handle
13 the notifications to the taxpayer that they must
14 provide additional proof of identity in order to
15 obtain their refund, and limited staff to provide
16 support to taxpayers with questions or concerns
17 about identity theft.

18 Furthermore, staff participation in
19 fraud prevention efforts with the IRS and other
20 states is limited by the demands of processing.

21 As another example, a decline in
22 positions responsible for maintaining accurate
23 taxpayer mailing addresses has made the
24 distribution of assessments less efficient. As a
25 limited solution, we recently established a team of

1 five temporary employees to address the problem. A
2 38,000-dollar investment in the time of these five
3 employees produced nearly \$200,000 in assessments
4 mailed to the correct taxpayer's address now. The
5 Governor's budget recognizes that a reduction to
6 our cost-to-carry budget will impact the
7 Commonwealth's revenue collections and reinstates
8 \$4.9 million in a supplemental appropriation to the
9 current year.

10 As the staff complement has declined
11 over the past five years, the Department's
12 responsibilities have increased. Within the recent
13 years, we have begun to administer multiple new
14 taxes and functions, including the small games of
15 chance reporting, the tavern tax, new tax credits,
16 zone programs, and the Philadelphia cigarette tax.

17 Similarly, statutory changes to the
18 Board of Finance and Revenue in 2013 requires
19 significant increase in responsibilities of the
20 Department's Office of Chief Counsel. The
21 Department has transitioned from being a member of
22 the Board of Finance and Revenue, which issued
23 decisions on tax appeals to an adversarial
24 procedure where the Department and the taxpayer are
25 opposing parties.

1 The time commitment has increased from
2 approximately one day a month for a few attorneys
3 to nearly one-third of each attorney's time. This
4 can create delays with other important functions
5 performed by our legal staff, including the timely
6 drafting of regulations, dealing with tax appeals
7 at Commonwealth Court, and a decline in customer
8 service, such as answering technical tax questions
9 from both individuals and businesses and drafting
10 letter rulings.

11 From a policy prospective, Pennsylvania
12 is at a crossroads. The Commonwealth has a
13 2-billion dollar structural budget deficit that
14 must be addressed. One path to eliminate the
15 deficit is to cut \$1.6 billion in state aid to
16 education and funding of human services and
17 eliminate the non-preferred appropriations. That
18 path would lead to increases in local property
19 taxes and reductions in education and human
20 services.

21 Governor Wolf is proposing to take a
22 better path. His balanced budget would move
23 Pennsylvania forward by eliminating the structural
24 deficit and investing in schools, fully funding
25 previously accrued pension obligations, and meeting

1 debt obligations and critical human service needs.

2 To address the state's fiscal crisis and
3 invest in those core priorities, the Governor is
4 proposing a budget with sustainable revenues,
5 including a reasonable severance tax that is
6 consistent with rates charged in other states.
7 Pennsylvania is the second largest producer of
8 natural gas in the nation, but we remain the only
9 major natural gas-producing state without a
10 severance tax.

11 Governor Wolf is proposing a reasonable
12 6 and a half percent severance tax on the value of
13 gas and natural gas liquids, a rate that is lower
14 than the other large energy-producing states, like
15 Texas and Oklahoma. The existing impact fee would
16 continue with producers able to take a 100 percent
17 credit against the severance tax, resulting in
18 \$218 million in net new revenue in '16-17, which
19 represents eight months of collections. Net new
20 revenue after impact fee credits for the first full
21 year of collections will be \$340.7 million. After
22 the credit, the net effective rate of the severance
23 tax would be 4 percent initially; then declining to
24 3.6 percent.

25 Governor Wolf's proposal is a sensible

1 approach that would enable all citizens to benefit
2 from the abundant gas resources by addressing the
3 budget deficit and investing in our future.

4 When considering the Governor's
5 severance tax proposal, it's important to remember
6 the natural gas industry's state tax obligations
7 are relatively low. In 2013, the most recent year
8 with complete available data, the industry paid
9 only .43 percent in state taxes. That includes
10 corporate income tax, capital stock/franchise tax,
11 use tax, and personal income tax, measured against
12 the total value of the gas extracted.

13 One reason for this low tax rate is that
14 the majority of the industry operates as a
15 pass-through entities in Pennsylvania. Rather than
16 pay the corporate net income tax, the majority of
17 these companies are taxed at the state's low
18 personal income tax rate.

19 Producers are also benefiting this year
20 from the elimination of the capital stock and
21 franchise tax after years of on-again, off-again
22 efforts to phase down the tax. Despite the
23 structural deficit, Governor Wolf remains committed
24 to eliminating the -- that outdated capital stock
25 tax that failed to incentivize job growth.

1 Another policy priority for the Governor
2 is to address the Public School Employees'
3 Retirement System unfunded liability that accrued
4 during the years when the Commonwealth failed to
5 fund its share of the actuarially sound
6 contributions. The Governor's proposal would
7 increase the personal income tax from 3.07 percent
8 to 3.4 percent and transfer nearly half of the
9 revenue to a restricted account to help ensure the
10 actuarially sound pension contributions are made
11 this year and going forward. This is critical to
12 stop the upward pressure on local property taxes
13 due to rising pension costs.

14 The dedicated funding will amount to
15 \$280 million this fiscal year and 560 million in
16 '16-17. Under this modest rate change, and the
17 application of the personal income tax to
18 Pennsylvania lottery winnings, the Commonwealth
19 would have the third-lowest rate of all states with
20 a personal income tax, and we would remain lower
21 than all of our surrounding states.

22 The proposal also increases the
23 exemption for special tax forgiveness by 40 percent
24 to help struggling families. A family of four
25 making up to \$36,400, which is 150 percent of the

1 poverty level, would not pay income tax. In total,
2 more than 422,000 taxpayers will benefit from the
3 expansion.

4 Additional proposals to eliminate the
5 budget deficit will create fair and equitable
6 tobacco taxation and include additional items in
7 the sales tax base. Governor Wolf has proposed a
8 one-dollar a pack increase in the cigarette tax,
9 from \$1.60 a pack to \$2.60 a pack. The tax would
10 remain lower than New York's per-pack tax rate of
11 \$4.35 and New Jersey's \$2.70.

12 Additionally, the Governor's budget
13 includes a 40 percent tax on the wholesale price of
14 other tobacco products, such as loose tobacco and
15 smokeless tobacco and cigars. Pennsylvania is the
16 only state without an excise tax on other tobacco
17 products.

18 Further, the wholesale tax proposal
19 includes e-cigarettes, acknowledging a shift in the
20 tobacco industry. The proposal would take a step
21 toward balancing the treatment of all forms of
22 tobacco, and further discourage young people from
23 starting an unhealthy tobacco habit early in life.

24 The Governor is proposing to maintain
25 the current sales tax rate while adding movie

1 tickets and basic television to the tax base. Of
2 the 46 states with a sales tax, 34 states apply the
3 sales tax to movie tickets and 25 states tax basic
4 television.

5 Additionally, the budget clarifies that
6 the sales tax applies to digital downloads and
7 streaming of books, movies, videos and photos.
8 Twenty-eight states tax some or all of digital
9 goods and services. To further modernize the
10 state's sales tax, the budget places a limit on the
11 vendor discount of \$25 per month, ending the
12 outdated practice of allowing businesses to keep
13 one percent of the sales tax collected for the
14 timely remitting of the tax to the state.

15 The discount was created more than 60
16 years ago when businesses kept records by hand.
17 Imposing this reasonable cap will save taxpayers
18 \$10.7 million beginning in April 1st and \$66.6
19 million in the next fiscal year.

20 Other enhancements will provide revenue
21 to meet the state's financial responsibilities and
22 eliminate the deficit that has been growing each
23 year. Effective for the 2016 tax year, the budget
24 proposes a .5 percent surcharge on property,
25 casualty and fire insurance premiums, bringing the

1 total rate on those premium types to 2.5 percent.
2 The revenue will be deposited in the General Fund.

3 To make local communities safer,
4 Governor Wolf is proposing to transfer \$10 million
5 annually starting next year to a restricted account
6 dedicated to supporting volunteer firefighters
7 across the state. The budget also clarifies
8 unresolved issues in the bank shares tax changes
9 that were made by Act 52 of 2013, which was
10 intended to be revenue neutral with approximately
11 \$350 million in annual collections. Reducing the
12 rate to .89 percent resulted in collections falling
13 to 307 million in '13-14 and 281 million in '14-15.
14 The Governor is proposing to return to a revenue
15 neutral bank shares tax rate of .99 percent
16 effective January 1 of 2016.

17 Additionally, the budget responds to
18 changes in the state's casino industry by proposing
19 an 8 percent on promotional play of slot machines
20 and table games. The exempt play promotions
21 provided to players have grown from 7 percent of
22 gross terminal revenue in 2007-08 to 27 percent in
23 '14-15.

24 After years of budgets that underfunded
25 public schools and services, while kicking the can

1 down the road to avoid fixing the structural
2 deficit, Pennsylvania has a choice. We can provide
3 the necessary revenue to address the deficit and
4 invest in the Commonwealth's future, or we can make
5 unprecedented cuts in state expenditures that will
6 decimate public education and human services and
7 send local property tax rates up. We do not have
8 the option of continuing with unbalanced budgets
9 that have lowered our credit rating repeatedly and
10 threatened the financial stability of the
11 Commonwealth's system of state government.

12 The revenue and tax proposals within the
13 Governor's budget support the path to prosperity.
14 I look forward to working with each of you in the
15 weeks ahead to resolve the Commonwealth's budgetary
16 challenges.

17 Thank you for the opportunity to
18 testify.

19 MAJORITY CHAIRMAN ADOLPH: Thank you
20 very much, Madam Secretary.

21 I'd like to take this opportunity to
22 recognize Representative Saccone from Washington
23 and Allegheny County; Representative Evankovich
24 from Westmoreland and also Allegheny County; and
25 Representative Steve Samuelson, who is the

1 Democratic Chair of the Aging and Older Adult
2 Services, who have been invited to be here today.

3 I'll start off, Madam Secretary. Last
4 year before the budget hearings, the draft language
5 for the tax code was provided to the committee that
6 outlined the implementation of the Governor's
7 revenue proposal. To the best of my knowledge,
8 this language has not been publicly released yet;
9 is that correct?

10 MADAM SECRETARY McNULTY: The language
11 for this year's proposal?

12 MAJORITY CHAIRMAN ADOLPH: Yes.

13 MADAM SECRETARY McNULTY: Yes. We plan
14 to be sending that to the Reference Bureau
15 tomorrow.

16 MAJORITY CHAIRMAN ADOLPH: Okay. I'm
17 glad to hear that. I'd like to request, if we
18 could have a copy of that for this committee. I'm
19 going to give you a date, before March 10th so we
20 can have this prior to the Budget Secretary coming
21 before us. Having this language will allow us to
22 more closely examine how these taxes are assessed
23 and how they're going to be implemented.

24 MADAM SECRETARY McNULTY: Will do.

25 MAJORITY CHAIRMAN ADOLPH: There's a lot

1 of information that you just went through; a lot of
2 taxes that you presented to us that the Governor
3 has proposed. I'm sure there's many members that
4 are going to talk about it.

5 I know one thing, I am going to ask the
6 Secretary a tax policy to clear up some confusion
7 that we've had earlier, and I don't know the date
8 or exactly what happened, and you, actually, Madam
9 Secretary, made reference to it; the difference
10 between C corporations and
11 S corporations; how some corporations pay at a
12 higher rate, up to 9.9 percent, and the
13 S corporations pay at a 3.07 percent, the
14 pass-through income. And there's been a decrease
15 in corporate net income tax over a period of some
16 20 years.

17 Deputy Secretary, can you tell this
18 committee exactly what changed and why that
19 happened, and what year that took place?

20 MR. HASSELL: I would need to do a
21 little research to know exactly what --

22 MAJORITY CHAIRMAN ADOLPH: I know you're
23 new on the job, Dan.

24 MR. HASSELL: But I know exactly what
25 you're referring to. That shift has been occurring

1 over quite a few years, and we are at the point now
2 where the number of C corporations paying tax in
3 Pennsylvania is less than the number of LLCs, and
4 the number of S corporations.

5 MAJORITY CHAIRMAN ADOLPH: If you don't
6 mind, Chairman Markosek and I, if you could get us
7 an explanation of when this took place and what you
8 see in the future. I'm not up to date on all the
9 necessary criteria to be eligible for pass-through
10 corporation, and this is something that we may have
11 to take a look at in the future.

12 MR. HASSELL: That's fine. I'd be happy
13 to get you the information.

14 MAJORITY CHAIRMAN ADOLPH: Okay.

15 Another issue, and you know each state
16 has their own tax structure. It's very easy for
17 everybody in this room, including the Secretary of
18 Revenue, to pick and choose a particular tax and
19 compare it with another state. And I say this in
20 all fairness.

21 When we compare Pennsylvania's severance
22 tax with the state of Texas severance tax, that's
23 kind of not comparing a whole tax structure. And I
24 agree with the Secretary's comment that
25 Pennsylvania has one of the lowest personal income

1 tax rates in the nation. However, Texas has no
2 state income tax, okay.

3 That's what happens when you start
4 comparing one state with the other. Some states
5 have sales tax. Down in our area, in southeast
6 Pennsylvania, we are up against a state that has no
7 sales tax, but they have a very high state income
8 tax, a graduated income tax, that taxes pensions
9 and Social Security.

10 So, I mean, it's easy to pick and choose
11 and say, we don't have a severance tax; they have a
12 severance tax. We have a state income tax; they
13 don't have a state income tax. They don't have a
14 sales tax; we have a sales tax. So, it's the whole
15 tax structure that we have to really take a look
16 at, and it's easy to make a political point.

17 But, in all fairness, I'd like to keep
18 Pennsylvania in mind. I know you're going to get a
19 lot of questions on those taxes and how they're
20 going to be implemented and collected that the
21 Governor is proposing, okay, and why they're
22 proposing it.

23 But I will let you know that I don't
24 exactly see that there's only two paths to take,
25 okay? The Governor has presented two paths; one

1 with increased spending and increased taxes; and
2 another, no increase in taxes and cuts in spending.
3 I do believe that there's someplace in between,
4 okay. I do believe there's someplace in between.
5 I don't see a complete collapse, but I don't see
6 increasing revenue to cover the type of increased
7 spending the Governor has proposed, and I'm hoping
8 through these committee hearings we're going to be
9 able to find the middle path.

10 That's just my editorial for today, and
11 I'm going to turn the mike over to Chairman
12 Markosek.

13 MINORITY CHAIRMAN MARKOSEK: Thank you,
14 Mr. Chairman.

15 I actually kind of enjoyed that
16 editorial because -- And seriously, I think what
17 the Chairman just alluded to is, we need to
18 compromise, which is what we've been saying all
19 along, perhaps, is not done enough here in
20 Harrisburg. There is middle ground. I'm glad to
21 hear that, because I think we're not going to get
22 out of this until we get away from the name-calling
23 and all those kinds of things. Just getting --
24 sitting down and really hammering this out and
25 dealing with a lot of things, budget-wise, that are

1 uncomfortable, quite frankly, particularly for us
2 on this side of the bench to deal with, those of us
3 who are elected officials, public officials.

4 Just getting back to your remarks, Madam
5 Secretary, I was glad to see that towards the end
6 of your remarks, you mentioned our credit ratings
7 and how serious that is.

8 This morning, the IFO was here in front
9 of us. I don't know if you were able to hear any
10 of their testimony or not, but one of the things
11 that we all gleaned from that session this morning
12 is that, we do have a huge structural deficit, and
13 some, perhaps, are reluctant to use those terms or
14 talk about it.

15 The IFO indicated that it was 9.1
16 billion this year. I think the Governor's Office
17 has said about 2.3. The IFO also said, as we move
18 forward, we're going to be in the 2.6 range --
19 2.6-billion-dollar deficit range here in another
20 few years if we don't take some steps to deal with
21 that.

22 Let me just ask a couple of basic
23 questions. One is, with the ratings decrease that
24 we've had, how much does that actually cost
25 Pennsylvania taxpayers? If you have the data, say,

1 for this year or projected for the coming fiscal
2 year, the fact that we've had these rating
3 decreases by Wall Street, which most citizens and,
4 quite frankly, most legislators don't really
5 understand how they work or what they mean.

6 But just tell us, maybe, in simplest
7 terms what that means in terms of additional taxes,
8 additional expense to the state that we have to pay
9 in interest payments, et cetera, because of those
10 rating decreases?

11 MADAM SECRETARY McNULTY: I'm sorry to
12 say that I don't have the information on the
13 additional -- on the amount of the additional
14 costs. I have heard the Budget Secretary say that
15 it's costing us 83 basis points in borrowing. I'll
16 have to get you the information on what that means
17 in terms of dollars and how that translates into
18 additional tax revenue.

19 MINORITY CHAIRMAN MARKOSEK: Okay. I
20 have been with the Governor, and he's mentioned the
21 figure about 170 million, but I just wanted to see
22 if you would agree with that or not. I think the
23 Chairman and I would appreciate, the committee
24 members would appreciate, some more exact
25 information relative to that.

1 The only other question I have is,
2 relative to the Governor's proposal to raise the
3 minimum wage, which I don't believe you mentioned.
4 But, nevertheless, that's one of his proposals to
5 do that from the current minimum wage up to \$10.15
6 an hour, I believe.

7 What is the additional tax revenue from
8 those taxpayers who are making minimum wage that if
9 we would raise it to what the Governor has
10 proposed, how much additional tax revenue would
11 that be for the Commonwealth?

12 MADAM SECRETARY McNULTY: We've looked
13 at that and believe that increasing the minimum
14 wage to \$10.15 an hour could generate nearly
15 \$60 million in additional tax revenue.

16 The increase would come from \$15 million
17 in additional personal income tax revenue generated
18 from the additional wages to the employees, and
19 then reduced by the amount of additional taxes that
20 would be paid by businesses who would be paying
21 that amount in additional wages, and \$45 million in
22 additional sales tax revenue that would be
23 generated through additional personal spending on
24 taxable goods when you provide additional income to
25 people who are already at a very low-income level.

1 And a significant number of people who earn minimum
2 wage are living in poverty, so they will have a
3 tendency to spend a significant part of any
4 additional money they make because they need it.
5 So together, those two factors add up to
6 \$60 million.

7 This analysis is based on a briefing
8 paper by the Economic Policy Institute on the
9 effects of increasing the minimum wage by state.
10 They made an estimate of additional wages generated
11 in Pennsylvania by a minimum wage tax increase and
12 provided data that distributed that income by
13 income level using actual Pennsylvania tax data for
14 that purpose. The personal income tax impact was
15 estimated for each income level making adjustments
16 for the tax forgiveness and losses in business
17 income attributable to the minimum wage increase.

18 It's assumed that a portion of the
19 additional wages attributed to the increased
20 minimum wage would be available for spending on
21 taxable goods, and the portion spent on taxable
22 goods at each income level was computed based on
23 data from the Consumer Expenditure Survey and other
24 sources.

25 MINORITY CHAIRMAN MARKOSEK: Okay. So,

1 besides the social benefits that may accrue from
2 raising the minimum wage, there is also, roughly,
3 \$60 million per year in additional tax revenues to
4 the Commonwealth from doing that?

5 MADAM SECRETARY McNULTY: Yes, and a
6 reduction of about 160,000 people and the number of
7 people living in poverty in Pennsylvania at the
8 same time.

9 MINORITY CHAIRMAN MARKOSEK: Okay.
10 Thank you very much.

11 MAJORITY CHAIRMAN ADOLPH: Thank you,
12 Chairman.

13 What we're going to do here, we'll go to
14 Chairman Wheatley first, and then we'll go to a
15 member of the Republican staff, and then followed
16 up by Chairman Samuelson.

17 Chairman Wheatley.

18 CHAIRMAN WHEATLEY: Thank you, Mr.
19 Chairman.

20 And good afternoon, Madam Secretary, and
21 all your other staff that's there.

22 First let me make a point, because I
23 hear a lot about Governor Wolf being considered a
24 tax -- tax and spend, liberal, and so on and so
25 forth. It's my understanding that every budget and

1 spend plan is actually a tax and spend plan, so all
2 of us in this process are taxing and spending on
3 something.

4 So the reality of the situation is, you
5 all came in after an administration of four years
6 that didn't believe in increasing taxes to address
7 our needs, our real structural needs, and they
8 incurred a cut process. And afterwards, their own
9 Budget Secretary at the time, Secretary Zogby said,
10 we can no longer cut our way out of this. We have
11 a structural hole of about 1.2 billion, and we need
12 to do something as it relates to revenue.

13 The Governor came in and tried to
14 propose something that he thought was reasonable.
15 Now, we all have a place in there, and I'm glad to
16 hear that we want to find balance. But until we
17 all address the structural hole which we hear, it's
18 only going to get worse if we do not address the
19 structural component. Ninety percent of our budget
20 is mandated spending. So, there's only so much
21 cutting we can do.

22 The rest of this on the spend side -- or
23 the revenue side, the only two sources of revenue
24 that provides the stability and sustainability over
25 time that we need to address that structural hole,

1 is either on our PIT, personal income tax, or on
2 our sales and use tax.

3 Now, I'm one of those who believe when
4 you nickel and dime people to death, that's when
5 they start getting irritated and hate government.
6 So, instead of trying to nick and pick all these
7 little unsustainable sources, we should really get
8 serious and decide amongst ourselves what's the
9 best sustainable, broad-based revenue source that
10 causes the least disruption to our future, and how
11 do we gradually implement that in a way that
12 provides the revenue that we need to continue to
13 improve our Commonwealth.

14 And so, with that being said, there have
15 been alternative sources being suggested, like
16 Internet gaming and video gaming, and so on and so
17 forth. But in your world, will they provide enough
18 revenue to sustain us over time? And can we use
19 those in addition to a cut of 10 percent of our
20 mandated spending and in some way manage our
21 structural hole? Are those two things alone enough
22 to manage our structural hole, in your opinion?

23 MADAM SECRETARY McNULTY: No, I don't
24 believe that the revenues from the types of
25 Internet gaming proposals that we've seen and a

1 10 percent cut would be enough to provide the
2 continuing revenue that we need.

3 I mean, going back to one of the points
4 that you made, it's sustained revenue that enables
5 the budget to be balanced because, what happens
6 when you are balancing the budget with one-time
7 revenue sources is, every year you have to keep
8 coming up with them, and it becomes more and more
9 difficult.

10 And then what happens is, there's a
11 tendency to slip into things like, well, we'll just
12 push off this month's rent payment, and we'll only
13 make 11 payments this month (sic). I mean, this is
14 what people do when they're running out of money at
15 home. Well, we'll push this bill out and we'll
16 only make 11 payments this year. The problem with
17 that is, if you want to stay even, you've got to
18 make 13 payments the following year. So you're not
19 solving the problem. You're just making it bigger.

20 So that is the reason why the Governor
21 has proposed taxes to solve the deficit once and
22 for all and provide continuing revenue so we don't
23 have to do this again, because otherwise, every
24 year you have to come up with another gimmick or
25 two or three.

1 CHAIRMAN WHEATLEY: My final point to
2 you is, I'm going to promote two ideas and hope
3 that I can solicit your support and the
4 Administration's support to move these ideas.
5 Because I'm glad to hear when you responded about
6 the minimal wage, the fact that helping some of our
7 lower-income populations actually is an economic
8 stimulus in a way.

9 So, we have ideas around tax deductions
10 that model the federal tax deduction for trying to
11 increase full-time employment for veterans or those
12 who are on SNAP and those who might be kind of
13 recipients to incentivize corporations to actually
14 employ them so that they then can have family-
15 sustaining wages that they can be back in the
16 population. So we would like to talk with you
17 about an idea of starting a state program similar,
18 tax deduction program.

19 Then the tax credit program for those
20 hard-working teachers who are doing all they can to
21 provide for what -- the supplies for their children
22 in those classrooms, we think they should receive
23 some relief at the end of the year like we give to
24 some of our corporations. And we also promote
25 the --

1 We do believe that -- I know you give
2 tax credits that's taken out of a fund for what we
3 have available, but we think the spinoff, the
4 benefits, outweigh the cost of them. So we look
5 forward to working with your department and your
6 Administration and some of our colleagues on a tax
7 deduction plan to put people back to work,
8 especially those who have been on our rolls and are
9 part of our safety net programs, and a tax credit
10 for educators who are spending on school supplies
11 so they can get some relief for those efforts,
12 especially when we have not invested significantly
13 enough to make sure those materials are available.
14 So, anyway, thank you.

15 And thank you, Mr. Chairman.

16 MAJORITY CHAIRMAN ADOLPH: Thank you.

17 Representative Seth Grove.

18 REPRESENTATIVE GROVE: Good afternoon.

19 How is everyone?

20 MADAM SECRETARY McNULTY: Good. Thank
21 you.

22 REPRESENTATIVE GROVE: Good. I want to
23 first start with a waiver the department filed June
24 30th. It says: The Department is requesting a
25 waiver till lapsing encumbrance provisions of Act

1 146 of 1980 and management directive, 310.3 for
2 approximately \$12.4 million from this fiscal year;
3 2014-15 funds and the GGO appropriation. This
4 includes remaining balance of approximately \$10.2
5 million and commitments of approximately \$2.2
6 million. So, out of that 12.2, 2.2 is committed;
7 available is 10.2.

8 Now, that was to pay for the
9 administrative cost related to the new tax package.
10 Obviously, there was no tax package implemented yet
11 for this fiscal year. Is that \$10.2 million still
12 available for this fiscal year?

13 MADAM SECRETARY McNULTY: I believe a
14 good part of it is. We have had some additional
15 expenses that had to be met out of that, both
16 pertaining to prior fiscal years, and some minor
17 expenses out of this fiscal year postage, and some
18 expenses for Auditor travel that have been met out
19 of that. But some of it is also still available.

20 REPRESENTATIVE GROVE: So some of that
21 was used to -- Was some of that used to fund the
22 administrative functions during the impasse? So
23 when you got your allocation, you received credit
24 for them, and now there should be a reconciliation.
25 How much of that was reconciled that isn't now

1 available because the budget impasse and money
2 flowed into your GGO?

3 MADAM SECRETARY McNULTY: I am not sure
4 that that money -- that any expenditures have been
5 adjusted by the Budget Office for the current year.

6 MS. HEIDINGSFELDER: Not yet.

7 REPRESENTATIVE GROVE: So there's been
8 no reconciliation to date?

9 MS. HEIDINGSFELDER: The intention is
10 that that will be reconciled. It has not to date.

11 REPRESENTATIVE GROVE: Okay. So,
12 potentially, that 10.2 could still be available for
13 this fiscal year --

14 MADAM SECRETARY McNULTY: Not the entire
15 thing.

16 REPRESENTATIVE GROVE: --
17 reconciliation.

18 SECRETARY McNULTY: Some of that has
19 been spent.

20 REPRESENTATIVE GROVE: Okay. On the
21 administrative costs?

22 MADAM SECRETARY McNULTY: No. On
23 expenses from the prior fiscal year.

24 REPRESENTATIVE GROVE: Prior fiscal
25 year, okay. And if you could provide us just an

1 update of that, that would be great.

2 MADAM SECRETARY McNULTY: Okay.

3 REPRESENTATIVE GROVE: The Governor
4 recommends a supplemental appropriation for this
5 fiscal year, '15-16, of 9.2 million as identified
6 on page E-394 of the Executive Budget. On February
7 11th, you sent information to all of the
8 Appropriations Committee Chairs with information
9 documenting the Governor's recommendation.

10 On page 2 of that documentation states
11 that the current appropriation will be exhausted in
12 June 2016. To further complicate this issue, on
13 the second page of your written testimony provided
14 today to the committee states, quote: The
15 Governor's budget reinstates \$4.9 million and a
16 supplemental appropriation to the current year, end
17 quote.

18 If this is true that the current Act
19 10(a) appropriation of \$126.4 million will provide
20 funding through June 2016, why is there a
21 supplemental appropriation needed for '15-16?

22 MADAM SECRETARY McNULTY: Well, the
23 9.165 million that you mentioned is actually
24 composed of two pieces, and the 4.9 million is one
25 of those pieces. It is the combination of the

1 4.9 million and the 126.4 that you mentioned that
2 will take us until June 30th.

3 The other piece of that 9.165 million
4 that you mentioned is 4.3 million, and that is the
5 amount that is proposed for the current fiscal year
6 to pay for the administration of the tax code
7 changes.

8 REPRESENTATIVE GROVE: And what tax code
9 changes are there?

10 MADAM SECRETARY McNULTY: The tax code
11 changes that are related to the administration of
12 the Governor's tax proposal for the current fiscal
13 year.

14 REPRESENTATIVE GROVE: Okay. Many
15 budgets need clarification. Sorry.

16 The Governor recommends funding \$148.6
17 million for the department in '16-17. That's an
18 increase of \$13 million, or 9.6 percent above the
19 recommended the 2015-16 funding level. According
20 to the information provided to the committee, the
21 '16-17 budget assumes an increase of 44 authorized
22 positions.

23 In the Governor's budget book, a new
24 initiative as identified to, quote, analyze and
25 continue to implement tax changes. We've provided

1 detailed information to the committee on the
2 GO-TIME initiative in response to the Chairman's
3 request for efficiency and cost-saving measures.

4 In reading that document, I do not see
5 any reference to the need for additional employees.
6 In fact, the document contains the following
7 statements: Quote, staff can be reallocated, end
8 quote; and, quote, using existing revenue IT staff,
9 end quote. Quote, no additional personnel will be
10 hired, quote; and, quote, staff will be reassigned,
11 end quote.

12 My question is, if the GO-TIME
13 initiative as you have provided details for
14 requires no additional staff, why does the budget
15 assume an increase of 44 positions and additional
16 funding of \$13 million for the department for the
17 next fiscal year?

18 MADAM SECRETARY McNULTY: The 44
19 positions are related to the collection of the
20 taxes that are part of the Governor's tax proposal,
21 including the severance tax, the additional taxes
22 on other tobacco products and cigarette tax, sales
23 tax, personal income tax. That's what those --
24 That's what that complement is for, and it's a
25 continuation of the 4.3 million that we just talked

1 about that is part of the '15-16 budget.

2 So, bringing that 4.3 million into a
3 full fiscal year, and with the cost-to-carry
4 calculation on that, makes that 6.3 million. So
5 our base cost-to-carry budget for '16-17 with no
6 additional staffing would be one forty-two three
7 forty. You add to that 6.3 for the continuation of
8 the administration of the additional tax items, and
9 that's how you get the 148.6.

10 REPRESENTATIVE GROVE: Okay. In your
11 testimony you state, the department realized an
12 additional \$2.3 million from new modeling that will
13 identify under-reported sales tax collections. An
14 additional 676,000 will be realized more efficient
15 lien filing for state tax liens.

16 Are those savings reflected in the
17 Governor's revenue forecast for '16-17? Are they
18 built into your budget?

19 MADAM SECRETARY McNULTY: Yes. Those
20 will be for '16-17.

21 REPRESENTATIVE GROVE: All right. And
22 they are built into your budget and will be
23 annualized?

24 MADAM SECRETARY McNULTY: Yes.

25 REPRESENTATIVE GROVE: With any other

1 savings you have found from any other cost-savings
2 initiatives, are they buried within your budget as
3 annualized to be carried out throughout your
4 budget?

5 MADAM SECRETARY McNULTY: They are, yes.
6 They've been incorporated into our ongoing
7 policies. Now, I will say they're in our cost-to-
8 carry budget assuming that we are operating off of
9 the '15-16 appropriation that includes our cost-to-
10 carry appropriation.

11 We are not at that point right now with
12 the budget that was enacted at the end of December.
13 So, I'm talking about that in relation to the
14 Governor's proposal, which includes increasing our
15 appropriation by the cost-to-carry amount.

16 REPRESENTATIVE GROVE: Okay. So, going
17 back to '14-15, you pulled \$10.2 million forward.
18 Some of that has been spent; some of it hasn't been
19 reconciled. So, we really don't know how much
20 \$10.2 million is there.

21 We have mixed communication from your
22 department saying you either do or do not need new
23 staff, more staff. We have cost savings that's
24 been identified but not in a budget book. Might I
25 add, there's been -- throughout the entire budget

1 book, there's no cost savings embedded within any
2 department for --

3 I think the Administration, in general,
4 is very good at looking at effective ways to reduce
5 costs in government. It's not reflected in that
6 budget book. I've been through the entire budget
7 book page by page. I think those subtractions need
8 to be in there so we clearly can identify where
9 there's savings and where they're being incurred
10 moving forward.

11 And I'll go back to that '14-15. If
12 you're starting at a surplus of whatever that
13 allocation is, that's going to carry through your
14 entire budget, reducing the need for additional
15 monies moving forward.

16 A quick question on --

17 MADAM SECRETARY McNULTY: Can I just
18 respond to --

19 REPRESENTATIVE GROVE: Go ahead.

20 MADAM SECRETARY McNULTY: -- one thing
21 that you were saying about the GO-TIME initiatives?
22 Because of the nature of what the Department of
23 Revenue does, our GO-TIME initiatives, rather than
24 cutting the cost of operating the department,
25 increase the amount of revenue that is brought into

1 the Department. So the place that you would be
2 looking for that would be in the revenue estimate,
3 as you actually, previously indicated with one of
4 your questions. So that's where our GO-TIME
5 savings are being reflected is in increased
6 revenues.

7 REPRESENTATIVE GROVE: So that would be
8 listed under non-tax revenue or revenue increases?
9 Is it specific in there? Does it say GO-TIME
10 initiative?

11 MR. HASSELL: No. It's not shown
12 separately.

13 REPRESENTATIVE GROVE: Just shown as an
14 increase of whatever amount under that section?

15 MR. HASSELL: Yes.

16 REPRESENTATIVE GROVE: Okay.

17 Secretary McNulty, in 2014, in a policy
18 brief, you pointed out that the validity of
19 severance tax revenues and the state's reliant on
20 them will, quote, find it more difficult to
21 maintain revenue yields when energy prices fall,
22 end quote.

23 Given the current state of prices
24 nationally, and the fact that PA's average price is
25 about 44 percent less than markets across the

1 country, how specifically would adding a severance
2 tax help strengthen Pennsylvania's tax structure?

3 MADAM SECRETARY McNULTY: It would
4 strengthen our tax structure by broadening it and
5 providing additional revenues, and bringing
6 Pennsylvania into line with other states that have
7 severance taxes. It will allow the taxation on the
8 industry to be similar to levels in other states.

9 Yes, there is some volatility involved
10 in the severance tax, but that's counter-balanced
11 by some of the very steady taxes that we have; for
12 instance, the cigarette tax. We have some taxes
13 that don't change much from year to year.

14 So --

15 REPRESENTATIVE GROVE: Isn't it true
16 that --

17 MADAM SECRETARY McNULTY: -- overall,
18 this is the reason why you have a variety of
19 different taxes.

20 REPRESENTATIVE GROVE: Isn't it true
21 that cigarette tax decrease --

22 MADAM SECRETARY McNULTY: They are
23 declining slightly --

24 REPRESENTATIVE GROVE: -- throughout the
25 year?

1 MADAM SECRETARY McNULTY: -- yes.

2 REPRESENTATIVE GROVE: So once you have
3 it, it decreases, so there's always a need for
4 replacement revenue for that.

5 And the fact that, you know, every
6 single major state with a major severance tax
7 that's predominantly on severance tax has huge
8 budget holes to fill this year because of the drop
9 of the market.

10 Is this going to be, once again,
11 dedicated -- Well, I guess it wasn't ever really
12 dedicated. Is it going to be dedicated to
13 education funding, where, if you have another
14 shortfall, it will end up not being a funded
15 education?

16 MADAM SECRETARY McNULTY: No. It will
17 become part of the revenues to the General Fund.

18 REPRESENTATIVE GROVE: So it will just
19 go right into the General Fund?

20 MADAM SECRETARY McNULTY: It will
21 contribute to the General Fund. Yes.

22 REPRESENTATIVE GROVE: And does the
23 Governor's severance tax proposal seek to exclude
24 lease holders from paying their proportionate share
25 of the tax; do you know?

1 MR. HASSELL: I believe the proposal
2 will say that the tax should not be passed through
3 in the form of reduced royalties.

4 REPRESENTATIVE GROVE: Okay. Thank you.
5 Thank you, Mr. Chairman.

6 MAJORITY CHAIRMAN ADOLPH: Thank you,
7 Representative. Chairman Samuelson.

8 CHAIRMAN SAMUELSON: Thank you,
9 Representative Adolph, and thank you for your
10 service and leadership on this committee. As a
11 former member of the committee, I appreciate the
12 way you have run this hearing through the years.

13 I wanted to ask a few questions about
14 the property tax rent rebate program. But first I
15 wanted to ask a follow-up question. I know that my
16 colleague from York County was asking about the
17 general government operations line item, which is
18 the main line item for the department, and I'm
19 looking at that line item. Last year it was 129
20 million, and that's actually one of the line items
21 that was cut in December.

22 The budget that passed with the majority
23 in the House and the majority in the Senate
24 actually cut that by \$3 million. So now the
25 current line item for general government operations

1 in the Department of Revenue is 126 million;
2 3 million less than last year.

3 Then I also tried to take a historical
4 look. I realized that the line item that we're
5 talking about, 129 million last year, was the
6 lowest in 15 years. It was actually lower than
7 this line item was in 1999-2000 under Governor Tom
8 Ridge. So, if last year was lowest in 15 years,
9 and in December the majority party decided to cut
10 it another 3 million, I would say the current line
11 item is the lowest we've had in 16 years.

12 Now, my question goes to, how does that
13 impact the central functions of the Department of
14 Revenue; tax collection in a fair and efficient
15 manner; audits, when appropriate; providing
16 customer service information to taxpayers; the fact
17 that there are revenue offices all over the state.
18 That's part 1 of my question.

19 I also see that the proposal is to have
20 a supplemental 9 million for this year, for the
21 current year, and a proposed increase for next
22 year. So, if those proposals would go through, I
23 assume that would help with the operation of your
24 department. If we stayed down at the 126-million-
25 dollar level, lowest in 16 years, how is that going

1 to impact the essential functions of the Department
2 of Revenue?

3 MADAM SECRETARY McNULTY: That is going
4 to severely impact our functions. Things will slow
5 down. That was what I was trying to describe in my
6 testimony. We're just going to be slower at doing
7 many of the things that we do right now, because we
8 don't have sufficient people to keep up with the
9 speed and provide the type of customer service that
10 we really believe our taxpayers are entitled to.
11 But, we must also live within our budget.

12 A couple of things. Since 1999, we have
13 closed a number of field offices. I wasn't here
14 all that time, so I can't, off the top of my head,
15 tell you what number, but we have closed a couple
16 of field offices.

17 We have absorbed a reduction of 140
18 positions in our field complement since 2011, so
19 that's just in the last five years. And a
20 significant number of those positions have been
21 absorbed in administrative areas, to the point now
22 where we find that people correcting addresses is
23 no longer an administrative function. It's become
24 a revenue-generating function, because we can't
25 send the assessment to the correct address if we

1 don't have people cleaning up the addresses.

2 In addition, it's going to start costing
3 us hard dollars because the postal service is now
4 increasing the rate of postage that you are going
5 to be charged if you have too high of an error rate
6 in your bulk mailings. So, you get to the point
7 where you're cutting into the bone and problems
8 start coming out all over the place. We
9 experienced one of them recently in trying to get
10 the booklets that you have sitting there next to
11 you into the mail, and I'm sure you're familiar
12 with that.

13 CHAIRMAN SAMUELSON: Well, that leads to
14 my next question. I appreciate that answer.

15 My next question is about the property
16 tax rent rebate program which helps almost 600,000
17 Pennsylvanians. This is a program we talk about a
18 lot at the Aging and Older Adults Services
19 Committee where I serve as the Democratic Chair.

20 I share the Governor's goal of getting
21 this program -- the word about this program out to
22 as many people as possible. The booklets that you
23 -- All of the legislators who are here today have
24 these booklets in their offices. The Area Agency
25 on Aging has these booklets available. Many places

1 you can get them.

2 And the Governor writes on the back, he
3 says: The property tax rent rebate program is
4 available to qualified older Pennsylvanians and
5 permanently disabled residents. It's a benefit
6 they deserve, and I do not want a single senior to
7 miss out on the help they need.

8 My question is a follow-up on something
9 I asked last year. Last year I noted that some of
10 the booklets were not getting out until
11 mid-February, and a lot of people -- People are
12 required to get their 1099s by the end of January,
13 and some people take care of their taxes right away
14 at the beginning of February. So last year I asked
15 if that process could be speeded up a little bit to
16 get these booklets out there.

17 I know you've made progress, and I
18 appreciate that. I do note that there's still more
19 work to do. Specifically, some of the books were
20 not mailed to the seniors in the Lehigh Valley till
21 February 10th of this year. I understand that
22 might have been the second wave of a mailing. The
23 booklets were not available in some legislative
24 offices until February 9th or 10th.

25 The AARP does a wonderful service all

1 over the state. They're retired tax accountants
2 who volunteer their time to help people with their
3 taxes. In the Lehigh Valley, there are 29
4 locations you can go to. Statewide, I think it's
5 over 400. The AARP was also having trouble getting
6 these booklets until about February 10th.

7 So, I appreciate the progress moving it
8 up, but I would hope the goal is to move it up to
9 February 1st, so that when people start doing their
10 taxes and want to do a rebate on February 1st, no
11 one misses out on the opportunity.

12 SECRETARY McNULTY: It had been our goal
13 to do better this year, and I'm sorry that we did
14 not meet that goal. At least we're doing no worse,
15 and we do have a plan in place. I'll let Kristin
16 talk about that to do a better job of getting those
17 out around the end of January.

18 MS. HEIDINGSFELDER: Thank you for
19 acknowledging that we did make progress.

20 As the Secretary had mentioned, we
21 experienced a complement reduction in
22 administrative services, which is the bureau that
23 is in charge of printing the booklets and mailing
24 them out. From 2011 to 2016, they went from 96
25 positions to 56 positions, a reduction of 40

1 employees.

2 This year we implemented an on-line
3 ordering system to try to automate the process and
4 achieve efficiencies despite the reduced staff. We
5 did have some -- With most new systems, we had some
6 technical difficulties and some challenges with
7 that. But as you noted, many of the people who
8 submit on-line orders did get their booklets early.
9 We started releasing the orders on January 20th,
10 where, historically, we had started in mid-February
11 releasing orders.

12 Historically, they held them until
13 mid-February so that prior tax year recipients of
14 the program, who we mail a booklet out to them,
15 would get their booklets before they would be able
16 to go to your office and pick up another one.

17 But we realized, after speaking with you
18 last year, that we could minimize the duplication
19 by waiting until after our first wave mailing to
20 those prior year recipients --

21 CHAIRMAN SAMUELSON: Okay.

22 MADAM SECRETARY McNULTY: -- but still
23 before February 1st.

24 You had mentioned that some prior year
25 applicants didn't get their forms until later. In

1 order to customize those and mail them out to a
2 particular person versus a bulk order, we pull the
3 prior year recipient out through the end of
4 November; everybody that applied last year, from
5 January 1st to the end of November, and we start
6 printing their booklets with their name and address
7 on.

8 And then the second mailing is everybody
9 that applied last year in the month of December.
10 So that's why some of your constituents would have
11 gotten a book early in the beginning of January and
12 some in the beginning of February, because they
13 were part of that second wave. We started
14 releasing the bulk orders January 20th, as I said,
15 in between so that we minimize the potential for
16 duplicate, but yet, try to meet your February 1st
17 date.

18 Even those that got hung up in our
19 technical difficulties, all the bulk orders that we
20 received as of, I think February 10th, are out now.

21 CHAIRMAN SAMUELSON: Yep.

22 MS. HEIDINGSFELDER: So they all still
23 got them before we normally started. So even with
24 the difficulties, we still got them out earlier
25 this year.

1 Next year our goal, same as this year,
2 to get them all out by February 1st. But we've
3 resolved the technical difficulties, and we're
4 confident that we can achieve that goal next year.

5 CHAIRMAN SAMUELSON: And in the Lehigh
6 Valley they were out by February 10th; my
7 constituents, the legislative offices and the AARP,
8 all by February 10th. So I appreciate the
9 progress, and I hope we continue working towards
10 that February 1st goal.

11 My final question is about the
12 utilization of this program. I do have one of the
13 busier offices in the state on property tax rent
14 rebates. Last year we helped 1,007 people; the
15 most we've ever helped. Just in the last four
16 days, every time I come to Harrisburg, my staff
17 gives me a stack of rebates. Last week, in four
18 days, we did 55 rebates. I'm bringing them down to
19 give to you guys.

20 When I look at the state-wide numbers
21 over a few years, I said about 600,000. I think in
22 about 2009, I think it actually was over 600,000
23 people. I remember reading 604,000. I think for
24 the current year it's in the 580,000 range, which
25 would be about a 3 percent reduction in the number

1 of people.

2 Now, I know my office and all of the
3 legislators here, we work all year long on
4 outreach. I know the department tries. Why do you
5 think it might be that the number of people
6 receiving this rebate today looks like it's about
7 20,000 fewer than it was seven years ago?

8 SECRETARY MCNULTY: Do you have any
9 thoughts?

10 MR. HASSELL: Representative, I think
11 that one of the reasons -- one of the primary
12 reasons would be what I would call bracket creep;
13 that, as people's income goes up over time, then it
14 basically pushes them out of the program. And I'm
15 sure there are other factors as well, but that's
16 one of the things that we see; simply, the cost of
17 living increases, pensions, and those kind of
18 things.

19 CHAIRMAN SAMUELSON: Okay.

20 And thank you, Mr. Chairman. I do
21 realize it's been nine years since we increased the
22 income limits for this program. I would advocate
23 that we revisit that issue and look at adjusting
24 the income limits. I know that depends on the
25 Lottery Fund. I'll let some of my colleagues ask

1 the questions about the Lottery Fund and how we
2 would implement such a change.

3 Thank you, Mr. Chairman.

4 MAJORITY CHAIRMAN ADOLPH: Thank you.
5 Representative Quinn.

6 REPRESENTATIVE QUINN: Thank you, Mr.
7 Chairman.

8 And thank you for being here with us
9 today. My questions are, they evolve around the
10 technology modernization process. I will say, my
11 first term out here, I remember being part of a
12 group meeting, a policy meeting, and we were
13 astounded to hear that one of Revenue's upcoming
14 challenges was to actually find people trained in
15 Cobalt so they could operate what was then the
16 present systems. It was a big yea that we're
17 actually going forward with this modernization.

18 MADAM SECRETARY McNULTY: Thank you.

19 REPRESENTATIVE QUINN: From the
20 beginning of this, more than a hundred million
21 dollars has been appropriated for this project. I
22 just wanted to -- a couple questions on that.

23 What was the original budget for this
24 project? Are we on target with that?

25 MADAM SECRETARY McNULTY: I could not

1 say what the original budget for this project was.
2 It started in '07-08, but I could tell you that
3 through the end of last fiscal year, we had spent
4 \$90 million.

5 I do know that when the contract was
6 originally let for what is now our business tax
7 system, it was intended to include both the
8 personal income tax and the motor fuel taxes;
9 neither of which were even begun a year ago when we
10 got here. At that point, the business tax system
11 had just gone live in November of 2014, and there
12 were quite a few issues and backlogs, as I
13 described in my testimony, that had to be resolved
14 before anything else could be done. That contract
15 came to a close in November of 2015.

16 REPRESENTATIVE QUINN: Was that the
17 implementation contract?

18 MADAM SECRETARY McNULTY: Well, the
19 implementation contract -- Yes, that was the
20 implementation contract. Thank you.

21 We did extend some assistance from some
22 of their programming help for another year so that
23 we could have the assistance of some people who
24 knew how to program this system to resolve --
25 continue resolving some of the errors. So a

1 portion of that contract was extended for another
2 year to allow us to get some contract programming
3 help.

4 We are proposing to issue an RFP in the
5 near future here to -- for another approach to
6 include the personal income tax, the reality
7 transfer tax, the inheritance tax, the IFTA, which
8 is the International Fuels Tax Agreement taxes.
9 PIT and IFTA will be the first two that will be
10 implemented, and that will go through across two
11 fiscal years. We expect to begin implementation in
12 January of 2017, and complete it in June of 2018.

13 REPRESENTATIVE QUINN: Thank you. I'm
14 looking at the technology and process modernization
15 line items here from 2014-15, actual of 8 million;
16 '15-16, available, 6 million 500; and then another
17 request this year for the same, 6 million 500.

18 But, what confuses me is the waiver that
19 you asked of Secretary Albright in June of 2015.
20 Apparently, at that point, if I understand this
21 correctly, only 1.2 million of the 8 million had
22 been spent. And I'm looking, then, at the balance
23 of those dollars. Are they to be spent on top of
24 the 6.5 million? Is that why there was a stall
25 in --

1 Last year you said there was some bumps.
2 Is the stall that you needed to work things out?
3 You didn't put this money in or -- Where are those
4 dollars? If you asked for a waiver for them --

5 MADAM SECRETARY McNULTY: They're waived
6 and they're sitting there, and they will be part of
7 the 30 million that we will spend spanning these
8 two fiscal years to implement the personal income
9 tax and the International Fuel Tax Agreement
10 implementation.

11 We'll have some costs as we get
12 organized and develop the system before it goes
13 live, so we'll continue the -- We'll put out the
14 RFP, and we will review the RFP and award the
15 contract, and begin to lay the ground work for
16 doing that.

17 REPRESENTATIVE QUINN: What is the
18 estimated total cost of this project, and when do
19 you see reaching that and going live across the
20 board?

21 MADAM SECRETARY McNULTY: Our estimated
22 additional costs at this point are 30 million for
23 the personal income tax implementation and 15
24 million for the additional taxes; reality transfer,
25 inheritance tax, the other ones. And that would

1 be, if you go back to 2007-08 on top of the
2 90 million that has been spent through last year.

3 REPRESENTATIVE QUINN: Are you pleased
4 just where this project is, and at what point do
5 you see a return on investment that you anticipate?

6 MADAM SECRETARY McNULTY: Well, I think
7 we're seeing the return on investment already this
8 year because we have managed to work some of the
9 bugs out of the program, and are beginning to be
10 able to take advantage of the efficiencies of being
11 able to move -- to process tax returns more rapidly
12 through the system.

13 We still have some backlogs. It's still
14 a challenge to get reports out of this system.
15 There's a lot of work that still remains to be done
16 so, please would not be necessarily a word that I
17 would use because we're not really where I think we
18 should be.

19 REPRESENTATIVE QUINN: Thank you.

20 MADAM SECRETARY McNULTY: But we're
21 continuing to work on it.

22 REPRESENTATIVE QUINN: Thank you very
23 much. And thanks, Mr. Chairman.

24 MAJORITY CHAIRMAN ADOLPH: Thank you,
25 Representative. Representative Dean.

1 REPRESENTATIVE DEAN: Thank you, Mr.
2 Chairman.

3 Thank you, Madam Secondary, and
4 colleagues for coming today and providing us such
5 thoughtful information.

6 I wanted to examine the Governor's
7 proposal on severance tax, and take a look at what
8 that would mean this year and in some out-years and
9 what kind of meaningful revenue that might bring.
10 And I say that in light of the fact that polls show
11 that 67 percent of Pennsylvanians believe we should
12 be taxing the extraction and the taking of our
13 natural resource.

14 If you just take a look, historically,
15 just the recent five years, the gross market value
16 taken from Pennsylvania in 2011, was almost
17 \$5 billion; in 2012, \$6 billion; in 2013,
18 \$11 billion; last year, nearly \$14 billion, and
19 this year, this is market value, prices are lower,
20 no doubt about it, another \$7 billion.

21 What I'm wondering is, if you take a
22 look at the Governor's proposal, and one thing I do
23 like about the Governor's proposal is, it leaves
24 the impact fee in place because the company, the
25 industries, would get credit for the impact fee

1 paid, so we're not going to lose sight of those
2 important resources.

3 But I'm wondering, your own testimony
4 tells us that if we should do this this year, in
5 eight months we'd get a little more than
6 \$200 million. In a full year following that, we'd
7 get \$340 million is the estimate.

8 What did we lose out on by not passing
9 such a tax in 2011 or '12 or '13? What revenues
10 did we lose out on? What's the missed opportunity?
11 And I wonder if some of that wouldn't have eased
12 our structural deficit burden.

13 MADAM SECRETARY McNULTY: It absolutely
14 would have. We missed out on some of the higher
15 price years in the natural gas business, and we're
16 now still looking at the proposal at the low price
17 point. It's true that prices vary on these natural
18 resources across time.

19 There's also an issue with the ability
20 of Pennsylvania producers to get their gas to
21 market, and that is something that we expect to see
22 some relief from as additional pipeline capacity
23 comes on-line, particularly in 2017.

24 So, we do expect that there will be
25 increases in production once that additional

1 ability to move the product to market is available,
2 because there's been lots of wells drilled that are
3 not presently producing because of, essentially, a
4 tightening in the ability to get this product to
5 market. Once that is addressed, there's plenty of
6 gas there to be produced and shipped to market.

7 REPRESENTATIVE DEAN: And what we know
8 is, I think, that Pennsylvania is ideally suited
9 geographically to ship that to some really
10 demanding markets. And I think that would also
11 change the pricing also for the natural resource.

12 We took a look at, and a rough estimate,
13 of what those numbers would have looked like, what
14 we missed out on, and removing the severance --
15 excuse me -- removing the impact fee. Over those
16 five years' time, had we had this reasonable
17 severance tax, we would have more than \$1.7 billion
18 in revenues that would have come to Pennsylvania.
19 Strange that it's somewhat near the scary projected
20 structural deficit that IFO and other departments
21 have warned us is there.

22 And I wanted to say in terms of missed
23 opportunity what impact that also has on other
24 taxes, because, really, by us not raising enough
25 revenues for our expenditures, isn't it true we

1 really are passing tax increases on to Pennsylvania
2 taxpayers?

3 The one thing I think of is the
4 increased cost to borrow because of our credit
5 downgrades. At \$170 million a year, isn't that
6 truly -- Somebody's got to pay for that. Isn't
7 that truly a tax that will ultimately be paid by
8 the taxpayers?

9 MADAM SECRETARY McNULTY: Yes. And the
10 additional borrowing cost at the state level is not
11 the only thing that they'll be paying, because
12 local governments are experiencing the same thing.

13 REPRESENTATIVE DEAN: That was my second
14 point of that is property taxes. All of our
15 constituents are very concerned about property
16 taxes. So, for us to sit here and not address and
17 wish that we didn't have to ever raise taxes, we
18 are passively and actively raising taxes on our
19 constituents, and that concerns me, and it concerns
20 my constituents a lot.

21 I thank you for what you're doing,
22 especially for trying to satisfy taxpayers in their
23 work with your department. I know we've seen
24 through my own office an improvement in
25 satisfaction, and I know you still have a way to

1 go. Thank you so much.

2 MADAM SECRETARY McNULTY: Thank you.

3 MAJORITY CHAIRMAN ADOLPH: Thank you.

4 Representative Mike Peifer.

5 REPRESENTATIVE PEIFER: Thank you, Mr.
6 Chairman.

7 Thank you, Madam Secretary. Thank you
8 all for being here.

9 You know, for many years, the bank
10 shares tax was kind of a reliable source of revenue
11 to the Commonwealth. It was very predictable in
12 nature, but it was also reliable and predictable
13 for our banks. That was changed in 2013.

14 And for the last several years, we've
15 talked about the changing rates that affect our
16 local banks. And I know the Governor's proposal
17 last year would increase the percentage from .89 to
18 1.25 percent. That was supposed to be -- I'm going
19 back to 2015. That was supposed to be revenue
20 neutral in that adjustment in that increase.

21 In this year's proposal, he is reducing
22 that rate back down to .99 percent, and he's also
23 saying that that is revenue neutral as well. I was
24 just wondering if you could explain to me how we've
25 changed this rate three times, and they're all

1 revenue neutral themselves.

2 MADAM SECRETARY McNULTY: Well, one
3 thing that is contributing to that is, when the
4 Governor proposed the one and a quarter percent
5 rate, it was proposed to be collecting the amount
6 of revenue that was lost since the proposal went
7 into effect in 2014. So, there was more than one
8 year to collect to meet that definition of revenue
9 neutrality, because it was going back and saying we
10 didn't collect -- we were trying to be neutral with
11 what had been lost from the day the bill went into
12 effect. Now we are just saying in the current
13 fiscal year. We're getting back to 350 million a
14 year. We're ignoring the fact that we did not
15 collect that money in the prior year or the year
16 before that.

17 REPRESENTATIVE PEIFER: So just let me
18 -- When we talk about revenue neutrality, I went
19 back to a local bank and calculated the 2011
20 liabilities, and those liabilities are very similar
21 to a C corporate tax rate that we've been
22 discussing here all day. And that was pretty much
23 normal. Again, that was at a time the numbers were
24 pretty predictable.

25 At 1.25 percent, that same bank's

1 liability from 2011 to 2015 almost doubles. Now,
2 the bank did have earnings over those four years,
3 but the earnings -- Obviously, just tough economic
4 times out there. There's a very difficult
5 regulatory environment from the federal government
6 right now for banks. So that liability at 1.25
7 almost doubled for this bank.

8 I'm just concerned that when we're
9 throwing around revenue neutrality, something's
10 wrong with these percentages or the calculation,
11 because there is an effect back home at my local
12 bank.

13 MADAM SECRETARY McNULTY: Well, when we
14 say revenue neutral, we're talking in terms of how
15 much revenue does the tax raise for the
16 Commonwealth. We're not talking about its impact
17 on each bank, and the tax base was changed
18 substantially between 2011 and where we are now.

19 It's my understanding that the banking
20 industry proposed this change in the tax base, and
21 they felt that the rate .88 was going to be revenue
22 neutral, and it turned out not to be. Collections,
23 instead of being in the 350-million arena, were
24 307 million in '13-14 and 281 million in '14-15.
25 So, it has not been revenue neutral in that

1 respect.

2 But, as to differences between
3 individual banks within the banking industry, that
4 was an intended result of that piece of
5 legislature.

6 REPRESENTATIVE PEIFER: So, obviously,
7 if my bank would be paying twice as much tax
8 dollars to Harrisburg, there's got to be other
9 banks out there paying half as much on the same
10 rate? I mean, maybe we need to look at the overall
11 calculation, because my bank would be paying twice
12 as much at 1.25 percent.

13 I mean, can we go back to the act and
14 look and see, maybe we shouldn't use the 6-year
15 average? Maybe go back to six-year averaging of
16 capital and look at the different changes that we
17 made, because it's very difficult to take this much
18 capital and equity out of my local community. So
19 you multiple this by the three or four local banks,
20 and you take that away from their borrowing power
21 and lending power, it creates a problem for my area
22 trying to grow.

23 MADAM SECRETARY McNULTY: The tax
24 calculation doesn't use the six-year average
25 anymore. That was the calculation --

1 REPRESENTATIVE PEIFER: That's what I'm
2 saying. I always hear revenue neutral. It's not
3 revenue neutral for my bank. Maybe we should go
4 back to that because that's more of a constant.
5 Instead of a one-period spike, we're looking at a
6 long-term constant, and that would probably help my
7 banks in their calculation, because the growth
8 hasn't been that substantial, and it would be more
9 predictable to them.

10 MADAM SECRETARY McNULTY: I understand
11 what you're saying.

12 REPRESENTATIVE PEIFER: And just
13 clarify, the 1.25, are we still trying to go
14 retroactively back and collect that money from
15 2015?

16 MADAM SECRETARY McNULTY: No, we're not.

17 REPRESENTATIVE PEIFER: Okay. So that
18 was a major concern, too. If we're still going to
19 try to retroactively go back and try to collect
20 this tax, this increased tax, the 1.25, we'd really
21 would be taking capital away from my bank, which
22 probably would put them in jeopardy with the
23 federal government and their regulations they enact
24 on my banks as well.

25 MADAM SECRETARY McNULTY: No. We're

1 proposing to have the rate be .99 effective January
2 1st, 2016. That would raise 300 -- Well, it would
3 bring the total up to 350 million. The net
4 additional revenue to the Commonwealth would be
5 37.4 million.

6 The retroactive part of it is
7 clarifications of interpretations of language. It
8 is not the rate change.

9 REPRESENTATIVE PEIFER: Okay, great. So
10 that's good news. I mean, obviously, that rate
11 increase really affected the overall liability to
12 my bank. So that's great to hear.

13 Thank you, Mr. Chairman. That's the
14 last question.

15 MAJORITY CHAIRMAN ADOLPH: Thank you,
16 Representative. Representative Daley.

17 REPRESENTATIVE M. DALEY: Thank you, Mr.
18 Chairman.

19 And thank you, Secretary, for being
20 here. I have a question that goes a little bit
21 different direction. And just looking at IRS
22 issues that they've had with cyber security, can
23 you -- where taxpayer information has been leaked.
24 How's Pennsylvania Department of Revenue rate in
25 regard to cyber security? I'll answer that

1 question before I presume that it's a negative
2 answer.

3 MADAM SECRETARY McNULTY: How do we
4 rate?

5 REPRESENTATIVE M. DALEY: How do you --
6 Like, are you having any issues with cyber security
7 or taxpayer information being leaked?

8 MADAM SECRETARY McNULTY: Our issue is
9 staying abreast of all of the information that
10 we're getting. We do get a lot of information from
11 the IRS from other states. We're working closely
12 with them.

13 The IRS just recently, last week,
14 notified state revenue agencies that they had had a
15 breach in their system that they use to provide
16 ePins to people whose information has been
17 compromised and have to file their own tax returns.
18 And this is a methodology that the IRS uses to
19 allow them to file with a special extra
20 identification, and that had been compromised.

21 They notified us within two days. They
22 gave us information on the Social Security numbers.
23 We took that information, put it into our system;
24 immediately contacted Treasury and said, do not
25 send out any refunds that you have over there on

1 vouchers until we've had an opportunity to review
2 them with this new information.

3 It took us a couple of days to do that.
4 But within a week of finding out that this breached
5 had occurred, we were able to review all of the
6 refunds that were on vouchers and let Treasury send
7 them out; able to review everything that we had
8 in-house and begin to prepare a voucher with things
9 that had been backed up.

10 We keep those Social Security numbers in
11 our data files, and we will continue to suspend
12 those returns when we get them and require the
13 taxpayers to provide additional information to us
14 before we will release the refunds to them.

15 So I think we've been doing a pretty
16 good job of keeping abreast of the situation, but
17 it is definitely something that we have to stay on
18 top of and continue to devote resources to.

19 REPRESENTATIVE M. DALEY: Just in terms
20 of resources, what are the costs for maintaining
21 data security?

22 MADAM SECRETARY McNULTY: I don't know
23 if --

24 REPRESENTATIVE M. DALEY: You can get
25 back to us.

1 MADAM SECRETARY MCNULTY: -- I can
2 exactly break it out that way, but I --

3 REPRESENTATIVE M. DALEY: Sure.

4 MADAM SECRETARY MCNULTY: Yes, we'll get
5 that to you.

6 REPRESENTATIVE M. DALEY: That would be
7 really helpful. Because, obviously, with more
8 electronic business being conducted, it's -- you
9 know, security is so important. And I'm sure -- It
10 sounds like you have it under control at this
11 point, or you have mechanisms in place to be able
12 to respond to any issues.

13 MADAM SECRETARY MCNULTY: Well, it's
14 always good when somebody knows that they've been
15 hacked and will tell you what's been hacked. But
16 the thing that is worrisome is if you don't know
17 that it's happening, so you really need to be
18 keeping your security up on all fronts to make sure
19 that you're not being hacked, and the people with
20 whom you do business, such as tax preparers, are
21 not being hacked.

22 REPRESENTATIVE M. DALEY: Absolutely.
23 Absolutely. Thank you.

24 MAJORITY CHAIRMAN ADOLPH: Thank you.
25 Representative George Dunbar.

1 REPRESENTATIVE DUNBAR: Thank you, Mr.
2 Chairman.

3 Good afternoon, Secretary.

4 MADAM SECRETARY McNULTY: Good
5 afternoon.

6 REPRESENTATIVE DUNBAR: Mr. Hassell,
7 good to see you.

8 In your testimony, you had brought up
9 the Governor's proposal as far as SP forgiveness.
10 You had stated that it increases exemption for
11 special tax forgiveness by 40 percent to help
12 struggling families, and that was accomplished by
13 increasing the allowance for claimants from \$6,500
14 per person to \$8,700 per person; is that correct?

15 MADAM SECRETARY McNULTY: Yes.

16 REPRESENTATIVE DUNBAR: But, at the same
17 time, there's also an allowance for dependents at
18 \$9,500 --

19 MADAM SECRETARY McNULTY: Yes.

20 REPRESENTATIVE DUNBAR: -- for a
21 dependent, and that has not changed at all.

22 MADAM SECRETARY McNULTY: Right.

23 REPRESENTATIVE DUNBAR: And I was just
24 curious. If the thought process is to help
25 struggling families, and we're going to dedicate

1 \$83.4 million to this, why is the focus on
2 increasing allowance for claimants? Why wouldn't
3 it be focused on increasing the allowance for
4 dependents?

5 Was the goal here -- You had mentioned
6 that 422,000 taxpayers would benefit from this.
7 Was the goal here to capture more taxpayers, or was
8 the goal here to capture more people in poverty;
9 the people that need the dollars most?

10 MADAM SECRETARY McNULTY: To capture
11 more people in poverty.

12 REPRESENTATIVE DUNBAR: Okay. And if
13 that's the case, did we give any consideration at
14 all to maybe using a different method; let's say
15 percentage of the federal ITC program?

16 MADAM SECRETARY McNULTY: Well, we were
17 looking at a percentage of the federal poverty
18 level. That's what we were looking at.

19 REPRESENTATIVE DUNBAR: And my point is
20 this: I think a lot of us, especially those of us
21 that prepare taxes, know that some individuals can
22 get special tax forgiveness in Pennsylvania and be
23 very wealthy individuals.

24 MADAM SECRETARY McNULTY: Generally,
25 people who have income, that is not taken into

1 account here, such as pension income.

2 REPRESENTATIVE DUNBAR: Right. Right.
3 And that's what I was wondering; if we have ever
4 given any consideration to switching to, like, a
5 percentage of the federal ITC. I think that would,
6 hopefully, capture more of the struggling families,
7 as you said.

8 MADAM SECRETARY McNULTY: Well, we can
9 take a look at that. This is the proposal that we
10 had been working on that was part of the
11 conversation that was being conducted around the
12 '15-16 budget.

13 REPRESENTATIVE DUNBAR: Yeah, I
14 understand.

15 MADAM SECRETARY McNULTY: And that's
16 part of why we were looking at this.

17 REPRESENTATIVE DUNBAR: To bounce around
18 just quickly. You also had mentioned the
19 promotional play -- tax in a promotional play,
20 slots pay at 8 percent. I believe the numbers I
21 had seen were close to 20 million for this year and
22 51 million for '16-17.

23 MADAM SECRETARY McNULTY: Yes.

24 REPRESENTATIVE DUNBAR: Is that a tax
25 solely on promotional plays, or does it go to other

1 promotions that the casinos offer, let's say like
2 food or lodging, or anything like that?

3 MADAM SECRETARY McNULTY: No. The
4 proposal is for the taxes only on promotional
5 plays. There was, in this past year, a Supreme
6 Court decision that allowed the casinos to deduct
7 the cost of many of those promotional items from
8 their tax liability. Not food, though. You
9 mentioned food. Food is one of the items that they
10 were not allowed to deduct. I think there might be
11 one other item as well.

12 REPRESENTATIVE DUNBAR: Transportation,
13 lodging.

14 MADAM SECRETARY McNULTY: Lodging.

15 REPRESENTATIVE DUNBAR: Just for my
16 edification, the 19.9 million this year and the
17 50.9 million last year, how did you come to that
18 number? Did you just take what they're presently
19 giving in promotion plays and multiply it by
20 8 percent, or did we put any factor in for a
21 reduction in the amount of promotions they're
22 offering because of the taxation?

23 MR. HASSELL: It is based on the amount
24 of promotional play that's reported by the Gaming
25 Control Board.

1 REPRESENTATIVE DUNBAR: Okay. So, I
2 think it's safe to assume that those numbers aren't
3 going to be attainable, because I believe what I've
4 heard the casinos say, they would change their
5 business models (pause) and offer less promotional
6 play because of it. Would you agree or -- No
7 comment?

8 MADAM SECRETARY McNULTY: It's
9 significantly lower than the tax rate that they're
10 currently paying on other wagers, so --

11 REPRESENTATIVE DUNBAR: I understand.

12 MADAM SECRETARY McNULTY: They know more
13 about what they might do.

14 REPRESENTATIVE DUNBAR: And lastly --
15 And understand. I am very appreciative of Mr.
16 Hassell's involvement. Any time I have a question,
17 he's always very easy to get a hold of, and we've
18 had some long discussions about various things.

19 One of those issues was a UE,
20 unreimbursed employee business expense, which we
21 had several meetings about, with Chairman Adolph as
22 well. And recently you had sent a letter to
23 Chairman Adolph with the resolution to what we had
24 been discussing, and I believe it was dated January
25 6. And in it you had stated that in order to get

1 the UE done, unreimbursed employee business
2 deduction, you would even need a letter from the
3 employer, which we all told you no employer is
4 going to give you the letter; or, secondly, a copy
5 of your employee handbook, their expense
6 reimbursement policy; or, without any of those, a
7 signed affidavit.

8 And I guess my question is, are we
9 requiring that with the tax returns now, or is it
10 only after they're audited? Just -- Preparers are
11 asking.

12 MADAM SECRETARY McNULTY: We're asking
13 people to send that.

14 REPRESENTATIVE DUNBAR: That's what I'm
15 saying. Is Revenue asking people to submit these
16 things with the returns?

17 MADAM SECRETARY McNULTY: Yes.

18 REPRESENTATIVE DUNBAR: Okay.

19 MADAM SECRETARY McNULTY: Yes.

20 REPRESENTATIVE DUNBAR: I guess my
21 confusion then is, why the affidavit? Because,
22 isn't signing the return pretty much the same thing
23 as an affidavit?

24 MADAM SECRETARY McNULTY: It clarifies
25 that people understand that it's their

1 responsibility to make sure that they are following
2 these rules, and they don't appear to understand
3 that signing their tax return is tantamount to
4 saying that they understand that these business
5 expenses must be required by their employer in
6 order for them to be able to deduct them.

7 REPRESENTATIVE DUNBAR: Okay. And last
8 question, and just for benefit of preparers. So
9 Revenue is asking that anybody who's claiming any
10 type of unreimbursed employee business expense to
11 attach something additional to the return, or it's
12 going to be audited; or disallowed, let's say?

13 MADAM SECRETARY McNULTY: We're not
14 going to examine each and every single return. But
15 if we examine the return, yes, we will expect that
16 information to be there.

17 REPRESENTATIVE DUNBAR: Okay. Thank
18 you.

19 MAJORITY CHAIRMAN ADOLPH: Thank you,
20 Representative. Representative Bullock.

21 REPRESENTATIVE BULLOCK: Thank you,
22 Chairman. Thank you, Madam Secretary.

23 Following up on the line of questioning
24 from the previous Representative, his first line of
25 questioning, actually, in regards to the poverty

1 exemption for the personal income taxes, just as a
2 clarification, how many additional families will
3 benefit under that?

4 MADAM SECRETARY McNULTY: 422,400 filers
5 will benefit. And of that, 218,600 are additional
6 taxpayers that will become newly eligible for
7 forgiveness, and 203,800 are taxpayers who are
8 currently receiving forgiveness that would receive
9 a greater amount.

10 REPRESENTATIVE BULLOCK: Do you have any
11 numbers on how many of those taxpayers are seniors?

12 MADAM SECRETARY McNULTY: No, we don't.

13 REPRESENTATIVE BULLOCK: Would it be
14 your assumption that some seniors would benefit
15 from this?

16 MADAM SECRETARY McNULTY: Yes.

17 MR. HASSELL: Yes, that's something we
18 can look at and get back to you about.

19 REPRESENTATIVE BULLOCK: Great. Thank
20 you. Following up on that, my concern is really,
21 how does our tax proposal impacts low-income
22 families in particular? And when you're looking at
23 the sales tax, we talk about that tax as being
24 regressive. Can you talk about how the sales tax
25 impacts low-income families in Pennsylvania?

1 MR. HASSELL: The proposals in the
2 Governor's budget are not changing the rate which
3 would affect everyone. They are targeted to --
4 particularly to entertainment expenses I would say.
5 We usually think of the sales tax as applying to
6 discretionary items, and that would go in that
7 category.

8 As a general matter, people usually
9 think of the sales tax as regressive; as hitting
10 lower-income families more. But that's a reason to
11 not include things like food and clothing in the
12 base.

13 REPRESENTATIVE BULLOCK: Thank you.

14 MAJORITY CHAIRMAN ADOLPH: Thank you,
15 Representative. Representative David Millard.

16 REPRESENTATIVE MILLARD: Thank you, Mr.
17 Chairman. Welcome, Secretary.

18 SECRETARY McNULTY: Thank you.

19 REPRESENTATIVE MILLARD: I'd like to
20 talk to you about insurance premiums tax.
21 Currently, there's a 2 percent tax on -- or a
22 surcharge on property/casualty and fire insurance
23 premiums. And I know that the Governor is
24 proposing an additional .5 percent, a half a
25 percent. What's the revenue that we get from that

1 currently at the 2 percent?

2 MADAM SECRETARY McNULTY: I don't have
3 it broken out by casualty -- property/casualty and
4 fire, but the General Fund insurance premiums tax
5 revenue currently is estimated at 565 million this
6 year, including 80.7 million which would come from
7 this additional half percent surcharge.

8 REPRESENTATIVE MILLARD: And these
9 insurance premiums, they're commonly known as
10 homeowner's insurance premiums, correct? So we're
11 not going to tax anything other than what we
12 typically think of a homeowner's insurance policy?

13 MADAM SECRETARY McNULTY: Well, people
14 other than homeowners purchase casualty and fire
15 and property insurance, but that would be one of
16 the items that would be included.

17 REPRESENTATIVE MILLARD: Does this apply
18 to renter's insurance as well?

19 MADAM SECRETARY McNULTY: Let me ask,
20 Dan, do --

21 REPRESENTATIVE MILLARD: We focus on the
22 term homeowners, but I'm curious as to whether the
23 renters would be involved in this.

24 MR. HASSELL: I believe that it would.
25 Let us look at that and get back to you.

1 REPRESENTATIVE MILLARD: What about
2 businesses?

3 MR. HASSELL: Yes.

4 REPRESENTATIVE MILLARD: Well, that's
5 all of my questions. But I did want to answer --
6 or to provide you some information. Representative
7 Samuelson mentioned earlier about the rent and tax
8 rebate program. My office did short of a thousand
9 last year. I want to compliment the Sunbury
10 revenue office. We do an awful lot of business
11 with them, and they're very responsive to us, so
12 compliments to that staff. And we've sent you over
13 200 so far this year, rent and tax rebates.

14 MADAM SECRETARY McNULTY: Okay. Thank
15 you very much.

16 REPRESENTATIVE MILLARD: Thank you.
17 Thank you, Mr. Chairman.

18 MAJORITY CHAIRMAN ADOLPH: Thank you,
19 Representative. Representative Schweyer.

20 REPRESENTATIVE SCHWEYER: Thank you, Mr.
21 Chairman.

22 And, Madam Secretary, thank you for
23 joining us today. I have three points. I'm going
24 to jump around a little bit, but I'll be as concise
25 as possible.

1 First I'd like to echo Representative
2 Samuelson's statements from earlier. As a
3 freshman, I called my Chairman of Aging about the
4 issue with the property tax rent rebate. I will
5 say that once your executive team, specifically
6 Director Crawford, was made aware of it, the issue
7 was resolved rather quickly, at least when it came
8 to getting those forms in my office, and I do want
9 to commend your department for responding to an
10 issue quickly. So thank you for that. That was
11 point 1.

12 Point 2. This isn't, certainly, not
13 something that I'm going to belabor here, but your
14 department's willingness to work with my home
15 municipality, City of Allentown, on our unique
16 economic development program with the Neighborhood
17 Improvement zone has been tremendous, so I'd like
18 to thank you for that. However I can work to
19 facilitate any future conversations or any issues,
20 I'm certainly happy to do so.

21 My third point, and really the prime
22 reason for me to come up, is not to belabor the
23 point, but we heard from Representative Dean that
24 the Governor said that the downgrade in the credit
25 ratings cost Pennsylvania about \$170 million. I

1 just want to make sure I heard that correct. Is
2 that your recollection from his statements from
3 what you have?

4 MADAM SECRETARY McNULTY: That's what
5 she said, yes.

6 REPRESENTATIVE SCHWEYER: Thank you very
7 much. I asked her first, too, but I was more
8 interested to hear from the Administration. But,
9 okay. We'll move on from that specific question.

10 MADAM SECRETARY McNULTY: Someone did
11 ask me earlier if I knew the amount, and I said at
12 that point that I don't know the amount, and I will
13 be happy to get it for you.

14 REPRESENTATIVE SCHWEYER: And I
15 appreciate that. But the more important follow-up
16 to that is not so much how much it cost us to date,
17 because that's, um, at this point in time that's
18 water under the bridge.

19 The bigger question is, how much will it
20 cost us moving forward, especially if we face
21 another credit downgrade. There's merit -- And I
22 don't know that everybody will agree with this, but
23 there's merit to the notion, which we discussed
24 earlier, about the potential of moving PlanCon to a
25 debt service to borrowing with bond, revenues to

1 fund PlanCon, to fund future constructions. But,
2 every one of those credit downgrades is going to
3 cost us additional money. And we are facing yet
4 another credit downgrade, potentially.

5 So, if we -- There again, I come from
6 the world of municipal government where we would
7 routinely borrow money for a fire truck. And when
8 we would have a credit downgrade or a threatened
9 credit downgrade, it would cost us more money to
10 buy a 400,000-dollar fire truck. We're now talking
11 about \$400 million of school -- three to \$400
12 million of school construction.

13 So, certainly not something that you're
14 going to be able to answer today. But, throughout
15 the course of these budget hearings, I'm really
16 kind of curious what a potential downgrade would
17 cost us in the future if we continue to move in
18 this direction without addressing our structural
19 liability.

20 Again, if it's \$170 million or some
21 derivative thereof, that it's cost us in the past,
22 moving forward was the bigger question, especially
23 if we're moving towards more borrowing for
24 long-term capital cost. Again, there's merit to
25 that. I don't want to sound like I disagree with

1 the concept entirely, but there is going to be
2 additional cost if we don't get our fiscal house in
3 order.

4 And so, as we move forward throughout
5 these deliberations, any information the
6 Administration can provide would be very helpful.

7 MADAM SECRETARY McNULTY: Your point is
8 very well made, and we will get some information
9 for you.

10 MAJORITY CHAIRMAN ADOLPH: Thank you,
11 Representative. Representative Sue Helm.

12 REPRESENTATIVE HELM: Thank you, Mr.
13 Chairman.

14 Secretary McNulty, in your testimony you
15 talked about changes to the state's casino
16 industry. I know we already discussed the
17 8 percent tax on promotional plays. But, I'm a
18 member of the Gaming Committee. I also have a
19 casino in my district, and it's my understanding
20 that certain companies run promotions for
21 transporting customers to casinos, which they
22 include free slot plays with the purchase of a bus
23 ticket. I just wonder, would it be considered
24 promotional play, and would the bus company now be
25 required to pay the tax?

1 MADAM SECRETARY McNULTY: I don't know
2 that I can say the bus company, because I believe
3 the casino provides the promotional plays.

4 REPRESENTATIVE HELM: Is that a positive
5 -- Are you --

6 MADAM SECRETARY McNULTY: I believe that
7 the casino provides the promotional plays, and
8 they're the ones who would be paying this tax.

9 REPRESENTATIVE HELM: The casino would
10 pay the tax; not the bus company?

11 MADAM SECRETARY McNULTY: That's my
12 understanding of how it works.

13 REPRESENTATIVE HELM: I just want to
14 make a comment. No one brought up the subject of
15 the additional tax on cigarettes; and more
16 specifically, tax on e-cigarettes be levied at 40
17 percent of the wholesale price. And e-cigarettes
18 being fairly new, there's a lot of new business
19 start-ups, especially seems like in my district.
20 Every time we talk about this tax, I get a lot of
21 phone calls.

22 I just would like to hear your comment
23 on the rate, the 40 percent rate, and the fact that
24 these are new businesses trying to start up in
25 Pennsylvania.

1 MADAM SECRETARY McNULTY: The 40 percent
2 rate is in about the middle of the pack of the
3 rates that are charged in other states of other
4 tobacco products.

5 E-cigarettes are relatively new.
6 They're taking the place of other tobacco products.
7 There are four states and the District of Columbia
8 that have recently instituted taxes on
9 e-cigarettes. And in order to be treating all
10 tobacco products equally, our proposal is to
11 include e-cigarettes as well in the other tobacco
12 products tax.

13 REPRESENTATIVE HELM: That's the one
14 area where I have heard more than anything for the
15 new companies starting up, so you might want to
16 think about that a little bit.

17 Just to be clear, who will collect and
18 pay the taxes; the wholesaler or the retailer?

19 MR. HASSELL: The wholesaler would
20 collect the tax as they sell to the retailer.

21 REPRESENTATIVE HELM: Thank you.

22 MAJORITY CHAIRMAN ADOLPH: Thank you,
23 Representative. Representative Acosta.

24 REPRESENTATIVE ACOSTA: Thank you, Mr.
25 Chairman.

1 I have a follow-up question from the
2 line of question of Representative Bullock. In
3 terms of under the poverty expansion that's being
4 proposed, who would be subject to the PIT tax under
5 that, under those exemptions? Would some
6 individuals be subject to the PIT tax --

7 MADAM SECRETARY McNULTY: Well, this --

8 REPRESENTATIVE ACOSTA: -- that's being
9 proposed?

10 MADAM SECRETARY McNULTY: -- provides an
11 exemption for people who are subject to the
12 personal income tax.

13 REPRESENTATIVE ACOSTA: So is there a
14 family of two or family of -- Who would be
15 penalized -- Or not penalized, I'm sorry. That's
16 incorrect. Who would be subject to the PIT tax?

17 MADAM SECRETARY McNULTY: The wage
18 earner or recipient of the income is the person
19 that's subject to the tax, and then their
20 forgiveness amount is calculated based on
21 themselves, their spouse if their spouse is
22 dependent on them, and the number of dependents
23 that they have.

24 REPRESENTATIVE ACOSTA: So if it's a
25 single person, if you will, that does not have a

1 family, would that person be subject to that PIT
2 tax?

3 MADAM SECRETARY McNULTY: I don't think
4 I'm quite understanding your question.

5 REPRESENTATIVE ACOSTA: Okay.

6 MADAM SECRETARY McNULTY: If they made
7 more than under the proposal, \$8,700.

8 REPRESENTATIVE ACOSTA: Okay. So if
9 it's over -- If a person that earns 35, \$36,000,
10 I'll use that as an example.

11 MADAM SECRETARY McNULTY: One person?

12 REPRESENTATIVE ACOSTA: One person.

13 MADAM SECRETARY McNULTY: Yes.

14 REPRESENTATIVE ACOSTA: Would that
15 person be subject to the PIT tax?

16 MADAM SECRETARY McNULTY: Yes.

17 REPRESENTATIVE ACOSTA: Okay. And I
18 just wanted to make that clarity, because I come
19 from the Philadelphia County. And as you know, the
20 poverty rate in Philadelphia is 46 percent. In my
21 district alone, I have people, I would say, 42
22 percent of the population earning less than 19,000
23 a year, so this does affect a lot of people. I
24 just wanted to just make that clarity on that
25 point. Thank you.

1 MADAM SECRETARY McNULTY: Thank you.

2 MAJORITY CHAIRMAN ADOLPH: Thank you,
3 Representative. Representative Fred Keller.

4 REPRESENTATIVE F. KELLER: Thank you,
5 Mr. Chairman.

6 Thank you, Madam Secretary, and the rest
7 of the folks from Revenue. I appreciate your time.

8 A couple of things I wanted to touch on.
9 One of them is the minimum wage. The thing I
10 believe I remember hearing was \$15 million that the
11 Administration was figuring would be additional
12 collections if the minimum wage were raised to the
13 Governor's proposal.

14 MADAM SECRETARY McNULTY: Yes.

15 REPRESENTATIVE F. KELLER: Is that
16 correct? Okay.

17 Things that are a factor of what the
18 employer has to pay with an employee's wages are,
19 the Social Security tax on that, the unemployment
20 compensation tax withholding, and all those things
21 that are tied to that.

22 Has there been any adjustment made for
23 the fact that employers may see reduced income and
24 we may have reduced jobs? Is that a statistic
25 model, or is that just a model saying this is how

1 much more we think we will get?

2 MR. HASSELL: The estimate does take
3 into account the cost of providing those additional
4 wages to employees in the income of business.

5 REPRESENTATIVE F. KELLER: So you
6 basically said, if the business, or whatever it is,
7 has to pay more, they're going to end up paying
8 more Social Security and all those other kind of
9 things and that would reduce their income, and the
10 businesses would pay fewer taxes on income?

11 MR. HASSELL: It does take account of a
12 reduction in business income.

13 REPRESENTATIVE F. KELLER: And potential
14 job losses if the business can't afford to keep all
15 the employees?

16 MR. HASSELL: We did not attempt to
17 estimate any job impact.

18 REPRESENTATIVE F. KELLER: Another thing
19 I'd like to go to is, a lot of times we hear about
20 recurring revenue, and I've heard that many times.

21 Just for the benefit of the people
22 watching, our two largest revenue sources are
23 income tax and sales -- or income and sales tax,
24 correct, two of our largest ones? And they are a
25 percentage of our earnings of what people earn and

1 what they spend, correct? So as the economy grows,
2 the state naturally gets more dollars?

3 MR. HASSELL: Certainly.

4 REPRESENTATIVE F. KELLER: Yeah,
5 absolutely. The thing I'm going back to -- I'm
6 going back to the testimony from the IFO this
7 morning, on page 12 of the report handed out by Mr.
8 Knittel where he had said: Over the next 10 years,
9 we're expected to lose 222,000 people that would be
10 considered workers ages 20 to 64, and we're going
11 to gain 673,000 individuals that would retire in
12 that period of time.

13 And I'm just wondering if the
14 Administration has considered the impacts of this
15 litany of taxes may have on people, either staying
16 here and working here to help support the need for
17 additional revenue? Has there been any
18 consideration in the demographic shift this may
19 have on future people staying in the Commonwealth?

20 MADAM SECRETARY McNULTY: One reason why
21 it's important to address this structural deficit
22 is because, exactly the demographic trends that
23 you're talking about impact the need for state
24 services, and there are increased needs for state
25 services as people age. So it's important to get

1 the Commonwealth's financial footing on a solid
2 basis because there's going to be more, not less,
3 demands for government services.

4 REPRESENTATIVE F. KELLER: Correct. But
5 continually going to the person that's earning the
6 money and taking more of their money, what
7 incentive is that going to be for them to stay in
8 the Commonwealth? I mean, has there been
9 consideration for that -- It seems to be punitive
10 to the person that's working over time.

11 MADAM SECRETARY McNULTY: Well, that
12 person is also going to be educating their children
13 and doing other things like that that requires
14 state services and local government services. And
15 it's important to those people to have the state on
16 a solid footing, rather than be facing the prospect
17 of increases in property taxes and paying increased
18 borrowing costs.

19 I mean, this goes to the entire system
20 of state and local government. If the state is not
21 addressing the issues, then they get pushed down to
22 the local government. The local government has to
23 address them.

24 REPRESENTATIVE F. KELLER: I would make
25 the argument then, the biggest thing we should be

1 looking at then is the cost driver of pensions. We
2 talked about credit ratings many times here today.
3 That is really, in my -- looking at things, the
4 thing that we need to address, and I think arguably
5 could be made has created much of our structural
6 deficit.

7 I'm not necessarily asking for an answer
8 on that. I'm simply saying that, we talk about a
9 structural deficit. You know, for a period of
10 years, and I'm going to go back to previous
11 administrations, our state spending grew at 40
12 percent; our income grew at 20 percent for a period
13 of about 8 or 10 years, and that's created some of
14 our problems, but we're just spending more money.

15 If we're in that bad of shape that we
16 need to raise taxes to fix our structural deficit,
17 I just think it's wrong that we go and say, we're
18 going to create more liabilities.

19 MADAM SECRETARY McNULTY: Well, the
20 point that you're making that this has grown over a
21 number of years, that's exactly the point. It has,
22 and it's getting bigger and bigger because it
23 wasn't addressed at the very beginning. You're
24 right that it's unfunded pension liabilities, in
25 part, that have increased those costs.

1 REPRESENTATIVE KELLER: Yeah,
2 absolutely. Again, it's because --

3 MADAM SECRETARY McNULTY: That's why we
4 have the structural deficit.

5 REPRESENTATIVE KELLER: We have our
6 structural deficit because we increased our
7 spending at greater than the rate our income
8 increased, and we already made the point that our
9 income increases naturally as the economy grows.
10 And I think it's just --

11 This will be the end of my editorial
12 here. I think it's unrealistic for a government to
13 expect the income that they take from people to
14 grow at a greater rate than what their paychecks
15 will grow.

16 MADAM SECRETARY McNULTY: Well, the
17 personal income tax and the sales tax grow along
18 with the economy. Some of the other taxes don't.
19 Cigarette tax declines. We've been phasing out the
20 capital stock franchise tax over the whole period
21 of time that you're talking about.

22 There's a number of additional tax
23 credits that have been enacted it. Some of them
24 rather costly.

25 So, the net revenue picture is not

1 necessarily one of having the same growth in the
2 economy exhibit itself in the net revenues.

3 REPRESENTATIVE KELLER: Understood.

4 MADAM SECRETARY McNULTY: So that's an
5 issue as well.

6 REPRESENTATIVE KELLER: I think it's a
7 two-fold problem. It's spending, and it's revenue
8 how we fix the deficit. I would agree with that.

9 MADAM SECRETARY McNULTY: They're not
10 balanced.

11 REPRESENTATIVE KELLER: Yeah, I don't
12 think there's one solution. But, again, I think we
13 need to be careful about how many -- how many taxes
14 we're going to put on people.

15 Initially, I heard from the
16 Administration, we're going to tax the gas
17 companies and we're going to get all this money.
18 Now we're \$217 million from a severance tax. Yet,
19 the person that smokes, we're going to get
20 \$468 million from tobacco. That's not what the
21 Governor promised us when he was campaigning two
22 years ago and last year when he gave his budget
23 address.

24 I just think there's some things that we
25 need to highlight and realize that we can't

1 continually go to the person who's working every
2 day and just take more of his money. We have to
3 look within our operations to see how we become
4 more effective and efficient. Thank you.

5 MAJORITY CHAIRMAN ADOLPH: Thank you,
6 Representative. Representative Warren Kampf.

7 REPRESENTATIVE KAMPF: Good afternoon,
8 Madam Secretary.

9 MADAM SECRETARY McNULTY: Good
10 afternoon.

11 REPRESENTATIVE KAMPF: The income tax
12 increase proposal for this year, '15-16 -- let's
13 just say for '15-16, is that going to reach back
14 into somebody's pocket and tax them at the higher
15 rate that's being proposed, even though the day
16 they earn the money, let's say the beginning of the
17 year, was a 3.07 percent tax rate?

18 MADAM SECRETARY McNULTY: The Governor
19 proposed this increase at the time that he proposed
20 the '15-16 budget, which was about a year ago now.
21 As you know, it's been eight months, and we still
22 don't have a budget.

23 So, I would say it's difficult in the
24 short amount of time left in this fiscal year to
25 raise the amount of money needed to balance the

1 budget.

2 The proposal is to increase the rate as
3 of January 1st. And as you know, people pay their
4 income taxes in an annual filing after the end of
5 the calendar year. So, we'll pick it up at that
6 point, but we will also increase withholding going
7 forward in order to make up some of the withholding
8 differential from the beginning of the year.

9 REPRESENTATIVE KAMPF: That sounds to me
10 like a yes. In other words, we don't have a 3.4
11 percent tax right now. People are operating;
12 individuals are operating with a 3.07 percent tax.
13 So you're saying --

14 Let's say we enact this a month and a
15 half from now, all right? They're going to be
16 taxed going forward at 3.4, but we're also, under
17 this proposal, going to reach back in, and for the
18 money they earned in the beginning of the year
19 before the tax increase, we're going to get that
20 money from them, too; is that correct?

21 MADAM SECRETARY McNULTY: It's going to
22 average 3.4 percent over the calendar year.

23 REPRESENTATIVE KAMPF: Okay. I'm going
24 to take that as a yes. All right.

25 I noticed in your opening statement, you

1 indicated that part of the reason to raise the
2 income tax was to dedicate some money to pay our
3 pension liabilities so we don't have property tax
4 increases. I think that's a pretty decent summary
5 of what you said.

6 My question to you is, have you gone
7 back and looked at the property tax increases on
8 average over the last, say, 15 years to see in what
9 direction they've been trending?

10 MADAM SECRETARY McNULTY: They've been
11 trending upwards, as the state's contribution to
12 schools has been trending downwards.

13 REPRESENTATIVE KAMPF: So what are you
14 basing that on? You reviewed a study of some kind
15 that's done -- that's done that analysis?

16 MADAM SECRETARY McNULTY: Yes, I could
17 get you some studies to that effect.

18 REPRESENTATIVE KAMPF: I would
19 appreciate that. In my community, my sense is
20 that, especially after Act 1, the increases,
21 although they're there -- And we all know the
22 property tax is not based on the income. It's
23 based on millage rates, so it has to actually be
24 raised for the revenue generated to go up. My
25 sense is the increases on average have trended

1 downward. So, if you could provide us with that
2 information, I'd like to see it.

3 MADAM SECRETARY McNULTY: Okay.

4 REPRESENTATIVE KAMPF: And then lastly,
5 there were some issues with the educational
6 improvement tax credit, the EITC. Is the
7 department -- I've heard this. Is the department
8 treating a contribution made in 2016, if that
9 company who made the contribution would like to
10 take the credit in '15, are you going to allow that
11 to happen?

12 MADAM SECRETARY McNULTY: Actually, the
13 tax credits are awarded by the Department of
14 Community and Economic Development, and they will
15 let us know what the amount of the credit is and
16 what year it will be applied to.

17 REPRESENTATIVE KAMPF: Okay. Just a
18 follow-up to that. I don't know if you know, but
19 Representative Santora has a bill out there that
20 might clarify this particular question. If you
21 could take a look at it and see if the Department
22 of Revenue and the Administration could support
23 that, I know he would appreciate it, and many of us
24 would too. Thank you.

25 MADAM SECRETARY McNULTY: Okay. We'll

1 do that.

2 MAJORITY CHAIRMAN ADOLPH: Thank you,
3 Representative.

4 Madam Secretary, just a few follow-up
5 comments regarding some of the statements and some
6 of the questions today.

7 On number 1, Chairman Samuelson brought
8 up the property tax and rent rebate form. I'm just
9 going to throw this out to you, okay.

10 We're still using the paper copies. We
11 got to make copies of 1099s, W2's, Social Security
12 forms. Most of that information is on file with
13 the Department of Revenue through the PA-40; not
14 all of it, but a lot of it. I'm sure there's IT
15 people here that could make the system a lot
16 faster, a lot cheaper if individuals would be able
17 to e-file their property tax and rent rebate form.
18 I'm just going to throw that out, okay? It's 2016.

19 MADAM SECRETARY McNULTY: Property tax
20 and rent rebate is on our list of systems to be
21 modernized.

22 MAJORITY CHAIRMAN ADOLPH: Thank you.
23 Thank you. Okay.

24 Representative Dunbar, two of his
25 points, PA-40s, the Department of Revenue is trying

1 to have us file as many as we can with e-filing;
2 employers' certifications that -- You know, union
3 dues were taken out; tools were purchased; auto was
4 used. If we can develop some type of form that can
5 be part of the programs, so, once again, we can
6 continue to e-file those employees that have
7 employment-related expenses, nurses, licenses, et
8 cetera, et cetera. Just keep that.

9 I can't agree more with Representative
10 Dunbar about, please talk to the Governor regarding
11 the dependents, regarding the SP provision. I
12 don't want to bring up the unbelievable problem out
13 there right now. There's a lot of very wealthy
14 people receiving SP out there.

15 I know we can't change the law. It's
16 politically impossible. But believe me, you'd be
17 really helping the people that Representative
18 Acosta is talking about; if we're talking about
19 dependents rather than increasing the income.
20 You're just going to make those receiving untaxed
21 income that doesn't report it on the SP, you're
22 just making them pay less taxes. That's just a
23 thought.

24 MADAM SECRETARY McNULTY: Yes.

25 MAJORITY CHAIRMAN ADOLPH: Don't make a

1 bad law worse.

2 SECRETARY McNULTY: Okay.

3 MAJORITY CHAIRMAN ADOLPH: We do have a
4 budget. Governor chose to blue-line it. Governor
5 Corbett blue-lined it last year. It was still
6 called a budget. That's why we're on '16-17's
7 budget, okay. That's why we are on '16-17's
8 budget.

9 Severance tax versus local impact fee, I
10 understand Representative Dean's comments. I am a
11 small businessman. If I pay a mercantile tax or a
12 business privilege tax, I don't care where I send
13 it. I'm still paying a tax. These companies have
14 sent to their local communities, the local counties
15 over a billion dollars over the last five
16 years. Still it's in Pennsylvania taking care of
17 some of the problems, county property taxes, et
18 cetera, et cetera. I just want to add that as a
19 comment. Okay.

20 I want to thank you for appearing before
21 us today, okay, and looking forward to working with
22 you and solving the '16-17 budget. Thank you very
23 much.

24 MADAM SECRETARY McNULTY: Thank you.
25 And we're looking forward to working with you.

1 MAJORITY CHAIRMAN ADOLPH: This
2 committee is going to reconvene at 3:30 with the
3 Office of Open Records. Thank you.

4 (At 3:30 p.m., the hearing concluded).

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C E R T I F I C A T E

I, Karen J. Meister, Reporter, Notary Public, duly commissioned and qualified in and for the County of York, Commonwealth of Pennsylvania, hereby certify that the foregoing is a true and accurate transcript, to the best of my ability, of a public hearing taken from a videotape recording and reduced to computer printout under my supervision.

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Karen J. Meister
Reporter, Notary Public