



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF REVENUE  
HARRISBURG, PENNSYLVANIA  
17128-1100

THE SECRETARY

(717) 783-3680

June 2, 2014

The Honorable Tom Corbett  
Governor of Pennsylvania  
225 Main Capitol Building  
Harrisburg, PA 17102

Dear Governor Corbett:

As required by section 1730-L (3) of Act 46-2010, an act amending the act of April 9, 1929 (P.L.343, No.176), known as The Fiscal Code, the Department of Revenue hereby submits to the Pennsylvania General Assembly the annual report concerning the Enhanced Revenue Collection Account (ERCA).

According to Act 46, the Department of Revenue shall furnish an annual report to the Governor, the Majority and Minority Chairs of the Appropriations Committee of the Senate and Majority and Minority Chairs of the Appropriations Committee of the House of Representatives by June 1 annually. The report provides a detailed breakdown of the Department's administrative costs in implementing the program. The report also provides the total amount of revenue collected and refunds avoided by the program. These revenues are also broken down by tax type.

The \$15.0 million investment in Revenue enforcement efforts generated \$231.5 million through May, or 1,443 percent, return on investment. Not only did this initiative surpass the revenue generation goal set for the investment by \$37.5 million, but it generated nearly \$1.1 million in additional tax revenue per employee dedicated to the effort.

Sincerely,

A handwritten signature in cursive script, appearing to read "D. Meuser".

Daniel Meuser  
Secretary of Revenue



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June 2, 2014

Honorable William F. Adolph Jr.  
Chairman, Appropriations Committee  
House of Representatives  
245 Main Capitol Building  
PO Box 202165  
Harrisburg, PA 17102-20165

Honorable Jake Corman  
Chairman, Appropriations Committee  
Senate of Pennsylvania  
281 Main Capitol Building  
Senate Box 203034  
Harrisburg, PA 17120-3034

Honorable Joseph F. Markosek  
Chairman, Appropriations Committee  
House of Representatives  
512E Main Capitol Building  
PO Box 202025  
Harrisburg, PA 17102-2025

Honorable Vincent J. Hughes  
Chairman, Appropriations Committee  
Senate of Pennsylvania  
545 Main Capitol Building  
Senate Box 203007  
Harrisburg, PA 17120-3007

Dear Chairman:

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Sincerely,

Daniel Meuser  
Secretary of Revenue

**Report to the General Assembly on  
the Enhanced Revenue Collection  
Account**

*June 2, 2014*

Pennsylvania Department of Revenue  
Bureau of Research

## **Introduction**

Act 46 of 2010 created the Enhanced Revenue Collection Account (ERCA). Revenues collected and refunds avoided as a result of expanded tax return review and tax collection activities are earmarked for deposit to the account. Beginning in fiscal year 2010-11, \$4.3 million was available to be appropriated annually to the Department of Revenue to cover the administrative costs in increasing tax collection enforcement and reducing tax refund errors. Act 87 of 2012 extended ERCA through fiscal year 2016-17 and increased the appropriation to \$10.0 million annually. Act 71 of 2013 extended ERCA through fiscal year 2019-20 and increased the appropriation to \$15.0 million annually. Per Act 46 of 2010, the balance of the account on June 15, 2011 and each year thereafter must be transferred to the General Fund.

ERCA funding has enabled the department to increase its scrutiny of returns requesting refunds as well as initiate additional audits and enhanced compliance and collections activities. The Bureau of Corporation Taxes, Bureau of Individual Taxes, Bureau of Audits, and the Deputate of Compliance and Collections were provided with extra staff and resources, resulting in more audits, more collections activity, and additional tax compliance initiatives.

## **Implementation of the Program**

The Department of Revenue formed a project team to plan and manage the implementation of Act 46 of 2010. The project team established a goal that any revenue increase or refund reduction amounts reported under the project must be accurate and fully verifiable. System reports are in place in order to track the activities of positions funded by ERCA. The following sections provide detail on enhanced revenue initiatives and compliance activities in each of the major tax areas.

### **Bureau of Corporation Taxes**

The Bureau of Corporation Taxes has filled 22 positions to implement its ERCA initiatives. These positions include Corporation Tax Officers, Corporation Tax Account Technicians, Accounting Assistants, and Revenue Research Analysts. These positions were filled by transferring existing personnel with the requisite expertise, as well as hiring additional staff.

The Bureau of Corporation Taxes continues to focus on four primary initiatives:

- Enhanced efforts in cursory review of tax returns
- Increased desk reviews of returns
- Increased amended return review
- Refund policy changes

Corporation Tax Account Technicians allowed for the dedication of resources to a more thorough review of refunding and potential offsets, while maintaining needed resources in all account maintenance and customer service areas. Corporation Tax

Officers provided for the dedication of resources to earlier desk reviews of returns and suspensions of refunds to determine under-reporters. Revenue Research Analysts' scoring and manual review of cases selected for potential determination resulted in a more directed utilization of the additional resources, while smaller liability returns were reviewed by the Accounting Assistants for differences in reported tax and calculated tax.

The department's Corporate Tax Refund Policy was also altered to enhance revenue and minimize future collection costs. Specifically, requested corporate tax refunds were no longer immediately refunded, but rather, held pending the resolution of disputed tax liabilities.

Most of the Bureau of Corporation Tax costs associated with ERCA implementation are attributable to employee salary and benefits. All data is now queried and tracked from the new Integrated Tax System.

ERCA implementation by the Bureau of Corporation Taxes was accomplished with minimal or no impact upon taxpayers and other external constituents. No tax forms or website changes were necessary to effect the implementation or maintenance of any of the four primary corporate tax initiatives: enhanced cursory review; increased desk reviews; increased amended return review; and refund policy changes.

The implementation of the new Integrated Tax System provided more robust business rules to verify the accuracy of data captured from a return. The rules are designed to also provide a mechanism to develop scoring strategies for desk review of returns. A bureau goal throughout 2014 and into 2015 is to maximize the effectiveness of the business rules in combination with improved scoring of returns. The bureau projects an increase in the quantity of returns to review with the expected result of increasing revenue from the review of those returns

### **Bureau of Individual Taxes**

The Bureau of Individual Taxes has filled 36 positions for the Personal Income Tax (PIT) ERCA initiatives. These positions include 28 Tax Examiners, 2 Tax Account Collections Technicians, and 6 PIT Specialists.

The 36 positions have been filled by experienced Tax Examiners from existing personnel, newly-hired employees through referrals from the Bureau of State Employment, and the assignment of other existing personnel in the PIT operations impacted by the Act 46 of 2010 initiative. Four of the new positions were filled by internal candidates based on their knowledge and work experience with the PIT computer system. The position backfills stemming from the assignment of existing staff and the remainder of the new positions were filled by six internal candidates and ten candidate referrals from the Bureau of State Employment. ERCA funding has enabled the restoration of PIT positions lost through attrition in recent years, reducing the need to make difficult choices between customer service and dedicated enforcement.

The Bureau of Individual Taxes has continued to focus on three primary initiatives:

- Enhanced effectiveness of front-end examinations and increased billing and assessment, payment application, and post-assessment enforcement
- Increased desk examination of specially selected current year returns and the examination of the taxpayers' prior years' returns still open for review by statute
- Introduction of expanded criteria and parameters when selecting returns for suspension review.

These three initiatives have allowed the Bureau of Individual Taxes to increase the number of adjustments to taxable income and credits reported by taxpayers, allowing for more equitable enforcement of Pennsylvania's tax laws.

### **Compliance and Collections**

ERCA funds continue to cover the expense for 144 employees. Included bureaus are Collections and Taxpayer Services; Compliance; Enforcement Planning, Analysis, and Discovery; Criminal Tax; and Pass-Through Business Office positions in the Deputate of Compliance and Collections and the Bureau of Audits. They have been utilized for the following enforcement business units and/or enhanced revenue initiatives:

- Pass-Through business review
- Delinquent Collections Call Center Program
- Field Tax Enforcement and Collections
- Sales and Use and Corporation Tax field audits
- Collection Agency Program administration and support
- Business Use Tax Voluntary Compliance Initiative
- Skip tracing

Revenue Fiscal Analysts perform reviews and assessments of complex pass-through business entities' operations and tax returns, as well as the shareholders and partners. As the number and total net income of partnerships and S corporations grow, increased scrutiny of pass-through entities becomes more imperative in tax collection efforts.

Additional Call Center Agents assigned to the Delinquent Call Center Program conducted telephone collection activities of business and individual taxpayers. The step-up in early enforcement contacts enabled the Department of Revenue to resolve delinquent accounts sooner and at less cost. Call Center Agents also joined the Business Use Tax Voluntary Compliance Initiative increasing the resources available for bringing businesses into compliance with their use tax obligations.

Additional Revenue Collection Agents were assigned to Field Tax Enforcement and Collections allowing the department to increase its direct field audit activities. Two collection agents and a supervisor also provided administrative support to the Collection Agency Program which utilizes private collection agencies through the Office of

Attorney General. Furthermore, Field Auditors were added to the Sales and Use Tax Field Audit staff, increasing their ability to conduct on-site audits.

The Department obtains "skip tracing" services to identify current and accurate contact information for delinquent accounts with no valid phone number and/or an inaccurate mailing address. Use of the skip tracing services to produce better contact data, especially accurate phone numbers, resulted in earlier resolution and increased collections from delinquent accounts. Results through April 30, 2014 include ERCA revenue generated this fiscal year in excess of \$1.6 million.

Personnel investments previously described occurred primarily within existing Compliance and Collections programs and leveraged existing technology and tools. ERCA-funded resources, especially personnel, have permitted a number of enforcement programs and collections systems to be expanded. These programs have included:

- Enhanced tax clearance programs were implemented and continue to be expanded. The Licensee Tax Responsibility Program was established by Executive Order 2011-06 and expanded the clearance activities for business and professional licensees. The department works closely with the Departments of Insurance, Banking and Securities, State and Public Welfare in this area. In addition, the Employee Tax Clearance Program annually reviews the tax obligations of commonwealth employees.
- Internet publication of individual and business tax liens that were not paid in full and satisfied beginning in FY 2010-11 and continuing.
- Expanded use of summary offense citations to encourage business tax compliance. Act 46 of 2003 citations are routinely issued to tax delinquent businesses continuing operation without a valid sales tax license. These citations are issued by the department's Field Enforcement Agents against operating businesses who have significant state tax debt and have not taken appropriate steps to resolve their obligations. During the current fiscal year, a pilot program was conducted using new citation authority provided by Act 52 of 2013 for tax delinquent businesses failing to timely file and remit personal income tax withholding.
- A sustained high volume corporate officer/responsible party assessments for corporate owners, officers, or other officials responsible for collection of Pennsylvania employer withholding and/or sales tax. These taxes are considered "trust funds" held on behalf of the commonwealth and the responsible official(s) can be held personally liable if they are not remitted. A new processing module was implemented in June 2010 resulting in more efficient administration and expanded issuance of corporate officer/responsible party assessments.
- Expanded use of wage garnishment for individual tax delinquents.
- A sustained and successful Business Use Tax Voluntary Compliance Initiative. This program educates businesses and their tax preparers regarding the use tax obligations of businesses on taxable purchases in which

Pennsylvania sales tax is not collected. In the current fiscal year the program has produced 3,700 new use taxpayers.

- Act 85 of 2012 provided the department with Administrative Bank Attachment authority to freeze and then access the bank accounts of businesses and the individuals responsible for them to satisfy tax delinquencies. This tool is being used to recover stolen trust fund taxes – like sales tax collected from customers and employer withholding collected from employees – not remitted to the state by businesses.
- In fiscal year 2013-14, ERCA funding allowed the department to pilot the use of advanced analytics in identifying “next best case” selection for sales tax field audit and pass-through entity desk review programs.
- Return mail processing analysis in fiscal year 2013-14 has identified potential improvements in effecting delivery of notices impacting collections.
- ERCA funding has allowed the department to implement this fiscal year a modest program to discover online businesses failing to (1) register, collect and remit Pennsylvania sales taxes on sales to PA purchasers, and (2) report and pay income tax for their online businesses.

To be clear, these acts were not obtained and tools were not implemented expressly through the ERCA initiative. However, ERCA-funded personnel were responsible for greater and more efficient use, all the while assisting the department in sustaining delinquent collections levels.

## Summary

ERCA funding has enabled the Department of Revenue to increase its scrutiny of returns requesting refunds as well as initiate additional audits resulting in enhanced tax collections. The ERCA program has proven to be a successful investment in departmental operations that returns revenue increases far outweighing the administrative costs.

ERCA provided an opportunity for the department to remain productive in tax enforcement programs in the face of attrition in certain key revenue producing positions. For fiscal year 2013-14, the program generated \$162.2 million in recovered tax revenue and \$69.3 million in refunds avoided through May 2014, surpassing by \$37.5 million the \$194.0 million estimate set for the program. For fiscal year 2012-13, the program generated \$111.6 million in recovered tax revenue and \$46.1 million in refunds avoided, surpassing by \$57.6 million the \$100.0 million estimate set for the program. For fiscal year 2011-12, the program generated \$80.8 million in recovered tax revenue and \$36.4 million in refunds avoided, surpassing by \$27.4 million the \$89.8 million estimate set for the program. For fiscal year 2010-11, the program generated \$56.7 million in recovered tax revenue and \$26.6 million in refunds avoided.



Statistical tables detailing 11 months of ERCA revenue collected through May 2014 are provided below<sup>1</sup>:

### Costs of Program Implementation

Salaries and Benefits	\$ 13,542,000
Travel Expenses	\$ 300,000
Audit Software	\$ 303,000
Data Acquisition	\$401,000
Consultant Services	\$ 294,000
Legal Services	\$ 160,000
<b><i>Total Operating Cost</i></b>	<b><i>\$ 15,000,000</i></b>

### ERCA Revenue

Total Additional Revenue Collected	\$ 162,244,363
Total Refunds Avoided	\$ 69,253,629
<b><i>Total ERCA Revenue</i></b>	<b><i>\$ 231,497,992</i></b>

### Collections by Tax Type

Corporate Net Income	\$ 7,775,550
Capital Stock	\$ 7,013,955
Foreign Franchise	\$ 5,640,669
Loans	\$4,124
Sales and Use	\$ 83,896,181
Personal Income - Withholding	\$ 6,191,445
Personal Income - Annual	\$ 37,694,305
Inheritance	\$ 14,028,135
<b><i>Total Additional Revenue Collected</i></b>	<b><i>\$ 162,244,363</i></b>

### Avoided Refunds by Bureau

Corporation Taxes	\$ 958,435
Personal Income Tax	\$ 68,295,194
<b><i>Total Refunds Avoided</i></b>	<b><i>\$ 69,253,629</i></b>

<sup>1</sup> Figures may not add up due to rounding.

In addition to revenue collected, significant gains were made in the area of tax assessments. Through May 2014, the Bureau of Individual Taxes issued 24,587 PIT assessments for \$17,146,723 for fiscal year 2013-14; payments totaling \$11,575,587 were received, representing a collection success rate of 65.5 percent. During the same time period, the Bureau of Corporation Taxes issued \$21,648,520 in assessments while collecting \$7,951,930. Due to a lengthy appeals process but high rate of collection, those figures can be considered anticipated revenues for the next fiscal year.

There are two operations from the enforcement side of the department performing liability creation: the Bureau of Audits and the Pass-Through Business Office. The assessment totals for Bureau of Audits and the Pass-Through Business Offices were \$159,040,668 and \$66,710,641, respectively, for fiscal year 2013-14. Delays in collection are generally attributable to due process and tax appeals.