



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE

June 1, 2020

The Honorable Tom Wolf
Governor of Pennsylvania
508 Main Capitol Building
Harrisburg, PA 17120

Dear Governor Wolf:

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 the 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 \$30.0 million investment in Revenue enforcement efforts generated \$384.7 million through May 2019. The program generated a more than 1,280 percent return on the investment through May. At this pace, the program will have generated over \$1.4 million in additional tax revenue per employee dedicated to the effort.

Sincerely,

A handwritten signature in cursive script that reads "C. Daniel Hassell".

C. Daniel Hassell
Secretary of Revenue



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE

June 1, 2020

Honorable Stan E. Saylor
Chairman, Appropriations Committee
House of Representatives
245 Main Capitol Building
PO Box 202094
Harrisburg, PA 17120-2094

Honorable Patrick M. Browne
Chairman, Appropriations Committee
Senate of Pennsylvania
281 Main Capitol Building
Senate Box 203016
Harrisburg, PA 17120-3016

Honorable Matthew D. Bradford
Chairman, Appropriations Committee
House of Representatives
512E Main Capitol Building
PO Box 202070
Harrisburg, PA 17120-2070

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

Dear Chairmen:

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C. Daniel Hassell
Secretary of Revenue

JUNE 1, 2020



REPORT to the
GENERAL ASSEMBLY on the
**ENHANCED REVENUE
COLLECTION ACCOUNT**

Tom Wolf, Governor

C. Daniel Hassell, Secretary of Revenue

ENHANCED REVENUE COLLECTION ACCOUNT

2019-20 Report

Act 46 of 2010 created the Enhanced Revenue Collection Account (ERCA). Monies are appropriated to the Department of Revenue (DOR) to expand tax return reviews, tax collection, and refund avoidance activities. Act 44 of 2017 changed the way in which ERCA funds are accounted. Prior to this act, the balance of the account was transferred to the General Fund by June 15th each year. Beginning in November 2017, the additional revenues collected and refunds avoided are transferred to the ERCA account and are then transferred back to their respective tax types (or refund accounts) by the 28th of each month. The following sections break down ERCA initiatives by different areas of DOR.

BUREAU OF DESK REVIEW AND ANALYSIS and BUREAU OF BUSINESS TAX RETURN PROCESSING

POSITIONS FILLED: 18 Fiscal Analysts, 13 Corporation Tax Officers, 11 Tax Account Collections Technicians

Fiscal Analysts perform reviews and assessments of complex pass-through business entities' operations and tax returns, as well as the shareholders' and partners' returns. 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. Fiscal Analysts also review sole proprietorships and other business entities for sales, use, and hotel occupancy tax compliance. Analysts identify non-registrants, non-filers, and under-reporters using data matching and data analytic techniques.

The primary initiatives of the ERCA funded positions include enhanced efforts in cursory review of tax returns, increased desk reviews of returns, and increased amended return review. Corporation Tax Officers provide for the dedication of resources to earlier desk reviews of returns and suspensions of refunds to determine under-reporters. Corporation Tax Account Technicians allow 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.

Voluntary compliance initiatives are used to encourage significant groups of taxpayers to respond by reporting and remitting taxes they owe without further audit and collections resource expenditures by the department. Tax Account Collection Technicians serve as a backstop to answer questions and explain the tax obligations to those who directly receive notices or become aware of potential liabilities through the department's website or social media. Examples of successful projects include business use tax, motor vehicle understated value, and personal income tax non-filers.

BUREAU OF REGISTRATION AND TAXPAYER MANAGEMENT

POSITIONS FILLED: 9 Discovery Specialists

Discovery Specialists investigate and add previously unregistered business taxpayers, both traditional and those newly emerging as part of the "Digital Economy," to Pennsylvania business tax rolls. The digital economy consists not only of online retail shopping but also emerging online platforms that connect buyers with sellers for short-term rentals of residences (home sharing), transportation (ride sharing), and home repair services. In the past two and a half years there have been two significant legislative actions: the passage of Act 43 of 2017, which established marketplace sales tax collection, and (2) Act 13 of 2019, which included economic presence in sales tax nexus provisions. The Discovery operation has used these new standards to produce significant successes in bringing online marketplace facilitators and sellers into compliance with PA sales tax collection and use tax notification and reporting obligations.

BUREAU OF INDIVIDUAL TAXES (BIT)

POSITIONS FILLED: 28 Tax Examiners, 4 PIT Specialists, 2 Tax Account Collections Technicians

BIT focuses on enhanced effectiveness of front-end examinations, enforcement, and criteria for suspension review, as well as increased desk examination. These 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. Funding has also allowed for the purchase of software to identify refund savings.

ENHANCED REVENUE COLLECTION ACCOUNT

2019-20 Report

VOLUNTARY DISCLOSURE PROGRAM

POSITIONS FILLED: 1 Revenue Research Analyst Manager, 3 Revenue Research Analysts

The Voluntary Disclosure Program provides an opportunity for businesses and individuals who have recently become aware of their Pennsylvania tax obligations to voluntarily come forward and become compliant. These positions act as program liaisons, carrying out the program's objectives. The program focuses on working with taxpayers and tax practitioners to resolve taxpayers' obligations in a timely and fair manner. In return for coming forward voluntarily, filing all relevant tax returns, and clearing their tax debts, taxpayers are only responsible for the payment of tax and interest.

BUREAU OF AUDITS

POSITIONS FILLED: 69 Auditors

The Bureau of Audits is responsible for establishing tax audit programs in support of the Department's mission to fairly, efficiently and accurately administer the tax laws of the Commonwealth. Revenue Tax Auditor positions work with businesses to conduct audits and ensure compliance with tax laws. Audits involve developing an understanding of the business activities, reviewing the taxpayers books and records, preparing an audit report, reviewing findings and compliance recommendations with the taxpayer, and establishing any resulting refund or tax liability. The assessment total for the Bureau of Audits for fiscal year 2019-20 through the end of April 2020, stands at \$73,751,568.

COMPLIANCE & COLLECTIONS

POSITIONS FILLED: 124 positions in the Customer Experience Center (CEC), the Bureau of Enforcement and Taxpayer Assistance, and other compliance divisions

Additional Call Center Agents assigned to the Delinquent Call Center Program conduct telephone collection activities of business and individual taxpayers. The step-up in early enforcement contacts enables the Department of Revenue to resolve delinquent accounts earlier and at lower cost.

Additional Revenue Collection Agents were assigned to Bureau of Enforcement and Taxpayer Assistance (BETA), allowing the department to increase its field direct contact activities. Personnel also provided administrative support to the Collection Agency Program, which utilizes private collection agencies through the Office of Attorney General. To better use resources, BETA is using analytics to increase contacts and collections of delinquent taxes and tax related obligations.

CEC 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, results in earlier resolution of and increased collections from delinquent accounts.

ENHANCED REVENUE COLLECTION ACCOUNT

2019-20 Report

COLLECTIONS, REFUNDS AVOIDED, AND APPROPRIATIONS BY FISCAL YEAR

FISCAL YEAR	CORPORATION	CONSUMPTION	OTHER	REFUNDS	TOTAL	APPROPRIATION
2010-11	16.5	15.6	24.6	26.6	83.3	4.3
2011-12	32.3	21.5	27.0	36.4	117.2	4.3
2012-13	38.3	34.4	38.9	46.1	157.6	10.0
2013-14	22.2	92.7	63.2	75.8	253.9	15.0
2014-15	77.4	97.4	75.2	60.7	310.7	25.0
2015-16	57.1	103.9	121.8	48.2	330.9	25.0
2016-17	92.8	87.4	113.3	48.9	342.3	25.0
2017-18	121.1	119.7	118.1	56.2	415.1	30.0
2018-19	201.7	88.7	105.1	81.1	476.7	30.0
2019-20*	125.6	122.4	72.3	64.4	384.7	30.0

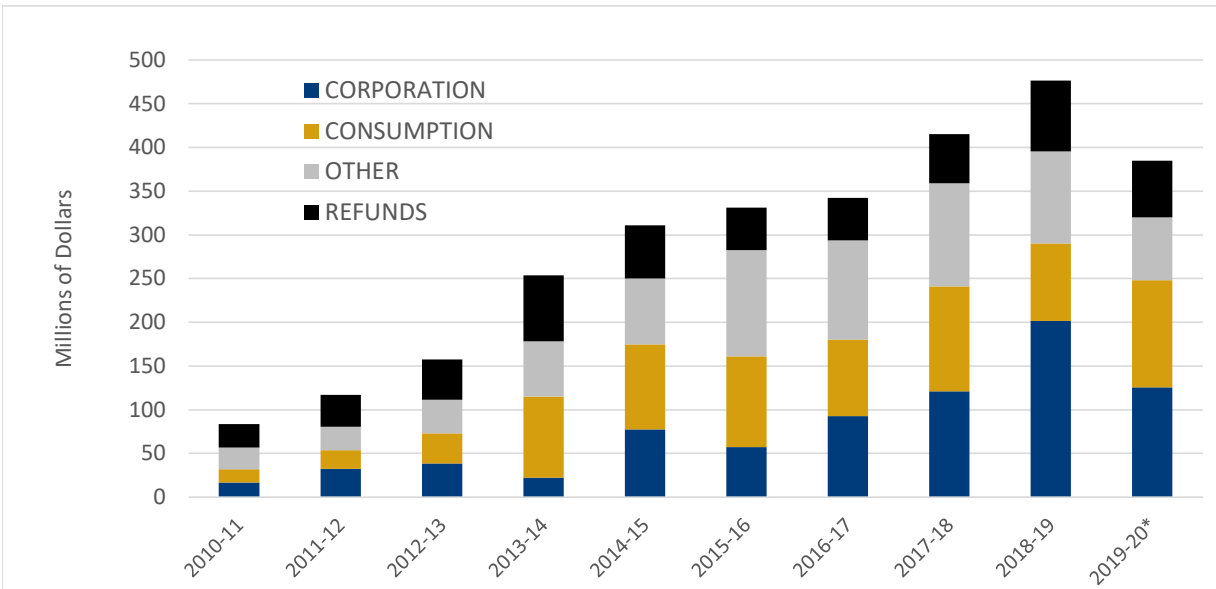
CORPORATION - Corporation taxes.

OTHER - Personal income and inheritance taxes.

REFUNDS - Represents refunds avoided.

CONSUMPTION - Sales, use, cigarette, and other consumption taxes.

*Through May



COST OF PROGRAM IMPLEMENTATION

Salaries and Benefits	\$28,287,400
Software	\$815,000
Travel Expenses	\$351,300
Consultant Services	\$252,800
Memberships	\$157,700
Legal Services	\$66,000
Postage	\$62,800
Sales Tax Suppression Project	\$5,000
Training	\$2,000
TOTAL	\$30,000,000