

JUNE 1, 2023



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

Josh Shapiro, Governor

Patrick M. Browne, Acting Secretary of Revenue



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE

June 1, 2023

The Honorable Josh Shapiro
Governor of Pennsylvania
508 Main Capitol Building
Harrisburg, PA 17120

Dear Governor Shapiro:

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 Governor's Office 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 \$488.2 million through May 2023. The program generated a more than 1,627 percent return on the investment through May. At this pace, the program will have generated over \$1.8 million in additional tax revenue per employee dedicated to the effort.

Sincerely,

Patrick M. Browne

Patrick M. Browne
Acting Secretary of Revenue



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE

June 1, 2023

Honorable Jordan A. Harris
Chair, Appropriations Committee
House of Representatives
512E Main Capitol Building
Harrisburg, PA 17120-2186

Honorable Scott Martin
Chair, Appropriations Committee
Senate of Pennsylvania
281 Main Capitol Building
Harrisburg, PA 17120-3013

Honorable Steve Samuelson
Chair, Finance Committee
House of Representatives
208 Irvis Office Building
Harrisburg, PA 17120-2135

Honorable Scott Hutchinson
Chair, Finance Committee
Senate of Pennsylvania
337 Main Capitol Building
Harrisburg, PA 17120-3021

Dear Chairs:

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).

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Sincerely,

A handwritten signature in cursive script that reads "Patrick M. Browne".

Patrick M. Browne
Acting Secretary of Revenue

ENHANCED REVENUE COLLECTION ACCOUNT

2022-23 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 within different areas of DOR.

BUREAU OF DESK REVIEW AND ANALYSIS

POSITIONS FILLED: 8 Corporation Tax Officers, 10 Fiscal Analysts, 3 Tax Account Collections Technicians, 1 PIT Specialist

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. These positions also review sole proprietorships and other business entities for sales, use, and hotel occupancy tax compliance. Fiscal Analysts also identify non-registrants, non-filers, and under-reporters using data matching and data analytic techniques. Personal Income Tax (PIT) Specialists compare income reported by pass-through business entities to the income reported on the owners' individual returns.

The primary initiatives of other 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: 8 Discovery Specialists

Discovery Specialists investigate and assist to register and bring into compliance previously unregistered and under-registered business taxpayers, both traditional brick and mortar operations 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, as well as many other business areas, into compliance with PA sales tax collection, use tax notification and reporting obligations, and income tax reporting.

Voluntary compliance initiatives are used at times to encourage specific groups of taxpayers to respond by reporting and remitting taxes they owe without further audit and collections resource expenditures by the department. Discovery Specialists serve as the Department agents to answer questions and explain the tax obligations to those who receive notices. Examples of successful projects include PA-40 Schedule C initiatives for lawn care, photography, and building cleaning and maintenance industries and a PA-40 Schedule E initiative for short-term rentals of residences.

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BUREAU OF INDIVIDUAL TAXES (BIT)

POSITIONS FILLED: 28 Tax Examiners, 2 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 BIT to increase the number of adjustments to taxable income and credits reported by taxpayers, allowing for more equitable enforcement of Pennsylvania's tax laws.

VOLUNTARY DISCLOSURE PROGRAM

POSITIONS FILLED: 1 Director, 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: 99 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.

COMPLIANCE & COLLECTIONS

POSITIONS FILLED: 100 positions in the Customer Experience Center (CEC), the Bureau of Enforcement and Taxpayer Assistance, and other compliance divisions

Additional Contact Center Agents assigned to the CEC Delinquent Taxpayer 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 Enforcement Agents were assigned to the Bureau of Enforcement and Taxpayer Assistance (BETA), allowing the department to increase its field direct contact activities. 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

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COLLECTIONS, REFUNDS AVOIDED, AND APPROPRIATIONS BY FISCAL YEAR (\$M)

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	127.7	125.5	77.0	70.0	400.1	30.0
2020-21	184.6	109.2	112.3	57.4	463.5	30.0
2021-22	201.7	114.5	165.0	200.6	681.8	30.0
2022-23*	134.3	101.2	142.1	110.6	488.2	30.0

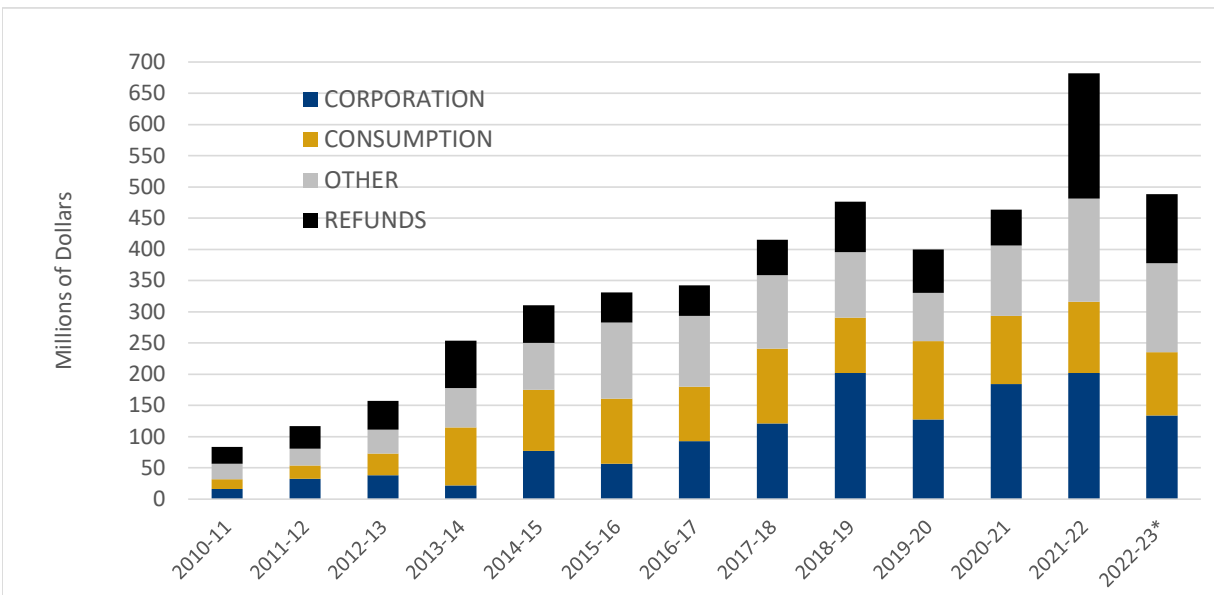
CORPORATION - Corporation taxes.

*Through May

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

OTHER - Personal income and inheritance taxes.

REFUNDS - Represents refunds avoided.



COST OF PROGRAM IMPLEMENTATION (\$)

Salaries and Benefits	29,000,000	Vehicles	3,500
Postage	413,100	Telecomm-Rec	2,700
Software	259,500	Fuels	1,000
Memberships	161,900		
Travel Expenses	151,000		
Food	3,800		
Consultant Services	3,500		
TOTAL		30,000,000	