



# Legislative Budget and Finance Committee

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## The Impact of Act 32 on the Collection of Local Earned Income Taxes

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## Summary and Recommendations

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The Pennsylvania General Assembly passed Act 2008-32<sup>1</sup> to modernize the collection of earned income taxes (EIT) at the local level. Prior to Act 32, each of Pennsylvania's 2,900 jurisdictions were authorized to select an EIT collector, resulting in approximately 560 EIT collectors. Due to the lack of uniform requirements and the confusion caused by such a large number of tax collectors, losses due to uncollected earned income taxes were estimated at between \$100 million and \$237 million annually.

With the establishment of regional tax collection districts (TCDs) under Act 32, the number of taxing districts was reduced to 69, and the number of tax collectors was reduced to fewer than 20.

Act 32 required the Legislative Budget and Finance Committee to assess the status of implementation of the act and make recommendations to improve the system. The report addresses the 14 report requirements listed in Act 32 in the order in which they appear in the act. Highlights include:

- Virtually everyone we spoke to, including municipalities, school districts, employer groups, CPAs, and others involved in EIT collections, reported that, after experiencing some initial implementation challenges, Act 32 has been successful in improving timeliness, and simplifying and increasing the amount of earned income taxes collected. While some offered suggestions for the General Assembly consider to improve the act, the most common recommendation was to use Act 32 as a model to modernize the collection of other local taxes, such as property taxes, local service taxes, and business privilege taxes.
- Based on municipal and school district EIT collections from 2005 through 2014, we estimated the efficiencies enacted in Act 32 have resulted in an annual increase of at least \$157.6 million in additional EIT collections. We did a second estimate based on PA Department of Revenue PIT data, which resulted in an estimate that Act 32 increased EIT collections by \$188.1 million annually. Averaging these two estimates together, we estimate Act 32 has increased EIT collections by about \$173 million annually since 2012, the first year of full implementation.
- The amount charged by tax collectors to tax collection committees (TCCs) varied from a low of 0.85 percent of annual collections to a high of 5 percent. Most tax collectors (47 of the 56 TCCs for which we had information) charged between 1 percent and 2 percent of collections.

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<sup>1</sup> Act 2008-32 amended the Local Tax Enabling Act, Act 1965-511, as amended. Sections of Act 32 cited in this report are sections of the Local Tax Enabling Act as added by or as amended by Act 32.

- Act 32 requires tax collection committees to contract for an annual audit of the financial statements and records of their tax collectors. These audits are to be filed with DCED. If the audits contain any findings of non-compliance with Act 32, they are also to be filed with the Office of the Auditor General. Our review of the 2014 audits found six that were completed but not filed with DCED, and seven that were not completed at all. Five others were missing the required report on compliance with Act 32 or were otherwise not in compliance with DCED's suggested audit format. Two had a finding of noncompliance with Act 32, but the Office of the Auditor General had no record of having received them.
- DCED has proposed regulations that would significantly strengthen the required level of internal controls at tax collector offices by requiring tax collectors to undergo an SSAE 16 audit at least once every two years. An SSAE 16 audit is more rigorous with regard to its assessment of the tax collector's internal controls than the GAGAS audit requirement contained in Act 32. Strong internal controls are important not only because of the large dollar amounts involved (almost \$3 billion in EIT collections annually) but also because tax collectors maintain sensitive personal information, such as taxpayer Social Security numbers, that need to be protected from unauthorized access. Most, but not all, TCCs already contract with tax collectors that have undergone an SSAE 16 audit.
- Sixty-one tax collection committees and 16 tax collectors responded to our questionnaire on various issues pertaining to implementation and compliance with Act 32. While the responses we obtained contain various recommendations for improvements in how the Act is administered, they also demonstrate widespread praise for the improvements enacted by Act 32. The questionnaires and the responses we received are presented in Chapter III of the report.
- Based on the findings in this report, we recommend:

***DCED monitor the tax collection committees to ensure that annual audits are submitted as required.*** Act 32 requires all tax collection committees to have an annual audit conducted of the financial statements and records of their tax collector, which are then to be filed with DCED. As indicated above, our review of the 2014 audits found multiple issues of noncompliance with these and related requirements. Although DCED does not have statutory oversight or enforcement responsibilities with regard to the TCCs or tax collectors, the TCCs and tax collectors we contacted about these matters appeared to be responsive and conscientious about their responsibilities. As such, a simple reminder letter or telephone call from DCED and, as recommended below, posting certain information from the audits on DCED's public website (which would highlight that an audit has not been submitted) might suffice to resolve these compliance issues.

**DCED post summary information on tax collector costs on its internet website.** Act 32 authorizes, but does not require, DCED to make available on its internet website summary data from the annual audit and compliance reports. We recommend DCED post, at a minimum, information on the amount, and as a percentage of collections, tax collectors are charging each TCC to collect the EIT for that tax collection district. The amount tax collectors charge each TCC, which varied from less than 1 percent to 5 percent of collections, is required to be reported in the Act 32 audit and could be useful to taxpayers and members of the tax collection committees to assess the appropriateness of their charges. We recommend DCED consult with the TCCs and various municipal and school district associations to identify what other summary information might be useful to post.

**DCED continue its efforts to promulgate regulations regarding the administration of Act 32.** DCED has been in the process of developing and passing proposed regulations for over four years. These regulations, which are currently before the Independent Regulatory Review Commission, would address several of the areas of concern noted in this report. In particular, the proposed regulations would require, among other matters, that:

- tax officers undergo an SSAE 16 audit of their internal controls at least once every two years,
- if a TCC agrees to a bonding amount less than the maximum amount of taxes that may be held in possession of the tax officer at any given time, the TCC must do so by resolution and indicate in the resolution the reasons why it has agreed to a lesser bond amount, and
- DCED develop and annually update a policy and procedures manual to provide greater standardization of municipal forms, schedules, and reports.



# I. Introduction

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Act 2008-32<sup>1</sup> enacted significant changes in how local Earned Income Taxes (EIT) are collected in Pennsylvania. The primary goals of Act 32 were to streamline the collection process, increase the efficiency of collections, reduce the costs of collection, and provide EIT revenue to school districts and municipalities more quickly.

## Scope and Objectives

The Act also requires the Legislative Budget and Finance Committee to conduct an audit and evaluation to:

1. Determine the extent to which income tax revenue losses have been minimized or eliminated by the implementation of uniform collection standards and a countywide income tax collection system.
2. Determine whether consolidated collection and standardized withholding and remittance of local income taxes as required in section 512 has simplified the system, reduced fragmentation and reduced the burden of withholding, remitting and distributing the local income tax for employers.
3. Determine if tax compliance is simpler, easier, fairer and less time-consuming for taxpayers.
4. Determine whether the tax collection system under this chapter is more efficient than the prior system.
5. Determine if tax collection committees are exercising their powers and duties under section 505 effectively.
6. Determine the extent to which cooperation and coordination exists among tax officers and tax collection districts.
7. Determine whether authorized investments under section 509(a)(6) and the bonding requirements under section 509(d) provide sufficient protection to income tax collections.
8. Determine whether nonresident and resident taxes are being properly distributed among tax collection districts within this Commonwealth and to political subdivisions within each tax collection district.
9. Determine whether the reporting, audit, accountability, transparency and oversight requirements for taxes collected, distributed and administered in this chapter are adequate and being met within and among tax collection districts.

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<sup>1</sup> Act 2008-32 amended the Local Tax Enabling Act, Act 1965-511, as amended. Sections of Act 32 cited in this report are sections of the Local Tax Enabling Act as added by or as amended by Act 32.

10. Determine if the appeals boards created under section 505(j) are impartial, fair and effective.
11. Determine whether the penalties against tax officers under section 510 are effective and the extent to which tax officers are in compliance with the rules and regulations required by this chapter, and identify any tax officers that are in substantial noncompliance with these rules and regulations.
12. Determine whether the agreements under section 509(g) have been approved by the Department of Revenue and each tax collection district, and that the exchange of information is reciprocal, timely and useful.
13. Determine whether the interest, penalties and fines under section 509(i) and (j) are appropriate and adequate.
14. Recommend needed improvements to the system.

## **Methodology**

As the Legislative Budget and Finance Committee does not have the resources to conduct on-site reviews of each of the Commonwealth's 69 tax collection committees (TCCs) or their contracted tax collectors, our review relied heavily on three sources of information:

1. The audits of tax collectors as required under Act 32.
2. Questionnaires sent to the chairs of all TCCs and all tax collectors.
3. Interviews with key stakeholders, including the Pennsylvania Chamber of Business and Industry, National Federation of Small Businesses, Pennsylvania Association of School Business Officials, Pennsylvania School Boards Association, the Pennsylvania Municipal League, the Pennsylvania Association of Boroughs, the Pennsylvania Association of Township Supervisors, the Pennsylvania Institute of Certified Public Accountants, the Pennsylvania Society of Tax & Accounting Professionals, and the Pennsylvania Department of Community and Economic Development (DCED). We also had discussions with several tax collectors, certified public accountants, payroll processors, and municipal officials familiar with the implementation of Act 32.

We did not independently audit the financial statements of any tax collection committees or tax collectors as part of our evaluation.

Our estimate of the amount generated by the increased efficiencies of Act 32 is based on DCED's municipal statistics and school district financial reports from the Pennsylvania Department of Education. Data was frequently missing from the DCED municipal statistics. If a municipality reported EIT collections for the year prior and subsequent to the missing year(s), we filled in the missing year(s) using



the average of the most recent prior and most recent subsequent year. If the missing information was from 2014 (i.e., we had no subsequent year), we filled in the missing year using the data from the most recent year available. We took these steps to minimize the impact of an increase or decrease in EIT collections occurring simply as the result of missing data.

Our estimate of the amount collected in EIT revenue also includes only those municipalities and school districts that maintained the same EIT rate throughout the period reviewed (2005 through 2014). This resulted in excluding 4 percent of municipalities and 6 percent of school districts. We took this step to minimize the impact of an increase or decrease in EIT collections occurring simply as the result of a change in EIT rates.

### **Acknowledgements**

We would like to thank staff at the Department of Community and Economic Development, Office of the Auditor General, and the Pennsylvania Institute of Certified Public Accountants for the cooperation and assistance they provided during this study. We also thank the many tax collection committees, tax collectors, and others involved in the EIT system who completed our surveys and spent time speaking with us about their experiences with the implementation of Act 32.

### **Important Note**

*This report was developed by Legislative Budget and Finance Committee staff. The release of this report should not be construed as indicating that the Committee members endorse all the report's findings and recommendations.*

*Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.*

## II. Findings

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The Pennsylvania General Assembly passed Act 2008-3<sup>1</sup> to modernize the collection of earned income taxes at the local level. Prior to Act 32, each of Pennsylvania's 2,900 jurisdictions were authorized to select an EIT collector, resulting in approximately 560 EIT collectors. Due to the lack of uniform withholding requirements and the confusion caused by such a large number of tax collectors, losses due to uncollected earned income taxes were estimated at between \$100 million and \$237 million annually.<sup>2</sup>

With the establishment of regional tax collection districts (TCD) under Act 32, the number of taxing districts was reduced to 69 (one for each county except Philadelphia, which is exempt from the act, and Allegheny, which has four districts), and the number of collectors was reduced to fewer than 20. Two tax collectors, Berkheimer Tax Administrator and Keystone Collections Group, collect taxes for the majority (48) of the 69 TCDs.

Under Act 32, employers are no longer required to remit taxes to multiple tax collectors. Instead, taxes are remitted to each TCD's EIT collector, who is then responsible to ensure the taxes are sent to the tax collector for the county where the employee resides.

The EIT collector (also called the tax officer) is selected by the district's tax collection committee (TCC). The TCC is comprised of representatives of each political subdivision that imposes an income tax (including school districts) within the TCD. Unless otherwise provided for in its by-laws, Act 32 provides that votes are to be weighted based upon population and the amount of income tax revenue collected.

The initial implementation of Act 32, which began in January 2012, posed challenges for both municipalities and employers.<sup>3</sup> Although the number of tax collectors was greatly reduced, they still did not all agree on interpretations of certain technical issues. Resolving these differences was hampered by the lack of a central oversight board. DCED provides guidance and is charged with certain responsibilities under the act, but they have no direct authority over the TCCs or their tax collectors. Employers also had certain additional administrative burdens (e.g., employers must keep track of the residency and work code locations for employees, must maintain a PA employee's certification of residency form for each PA employee, and must compare the income tax rates at the employee's work address

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<sup>2</sup> Problems included employees not filing local income taxes with the correct tax collector; some not filing at all; and tax collectors returning taxes paid by the employer in error, rather than forwarding those receipts to the correct tax officer.

<sup>3</sup> Some counties opted to begin implementing Act 32 in 2011.

location and home address and withhold the larger of the two amounts) that resulted in discontent among some employers.

Act 32 soon ran into a significant challenge when the Central Tax Bureau of Pennsylvania, Inc. (Centax), appointed to be the local tax collector in ten tax collection districts, fell behind in turning collections over to those districts. Centax blamed software problems and claimed that it would catch up, but in September 2012 it ceased operations. According to court documents, more than \$23.5 million sat in bank accounts as of October 2012 for Centax-related collections. These funds were then distributed to the affected municipalities by a firm appointed by the court. There was never any evidence that Centax or its employees had stolen any funds.

Act 32 requires DCED to promulgate regulations in a number of areas pertinent to the administration of EIT collections (e.g., regarding the training of tax officers, mediation, formulating new TCCs when necessary, and establishing standardized forms and schedules). These regulations are currently (September 2016) before the Independent Regulatory Review Commission.

## **Legislative Budget and Finance Report Requirements**

Act 32 requires the Legislative Budget and Finance Committee to evaluate the implementation of the act as follows:

**Requirement 1: Determine the extent to which income tax revenue losses have been minimized or eliminated by the implementation of uniform collection standards and a countywide income tax collection system.**

Prior to Act 32, annual losses due to the inefficiency of collections were estimated at between \$100 million and \$237 million. To assess the extent to which Act 32 may have increased EIT collections, we identified the 2,319 Pennsylvania municipalities and 445 school districts that charged an EIT in 2005 and maintained that same EIT rate through 2014.<sup>4</sup> The amount these municipalities and school districts collected in 2005 through 2014, both actual and adjusted for wage growth, is shown in Table 1. These figures, adjusted for wage growth, are also shown in Exhibit 1.

The average amount of EIT collected in the three years prior to 2012 (the first year of EIT collections under the new system) is \$2.002 billion, compared to an average of \$2.205 billion for the three years after implementation of Act 32. This is an average annual difference of 1.5 percent, or \$203 million for the 2,319 municipalities included. This estimate may somewhat understate the impact of the act as an

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<sup>4</sup> Represents 96 percent of the 2,405 municipalities and 92 percent of the 485 school districts that collected an EIT during the period 2005 through 2014. (Ten municipalities and 15 school districts did not charge any EIT during the period 2005 through 2014.)

additional 90 municipalities and 39 school districts assessed an EIT, but increased or decreased the EIT rate during the period and, therefore, were not included in the analysis.

We then also adjusted the figures for employment growth, as the difference in collections could simply be due to more employees in the work force. As Exhibit 2 shows, the average amount collected per worker, after adjusting for both wage and employment growth, increased from \$341 per year in the three years prior to implementation of Act 32 to \$370 per worker after implementation. Using the average increase in collections per worker (\$29) times the average number of workers in the three years after implementation of Act 32 yields an estimated annual increase as a result of improved efficiencies of \$157.6 million.<sup>5</sup>

Table 1

<b>EIT Collections (Actual and Adjusted for Wage Growth*</b>					
<u>Year</u>	<u>Municipal EIT Collections (\$000)</u>	<u>School District EIT Collections (\$000)</u>	<u>Total EIT Collections (\$000)</u>	<u>Wage Growth (U.S. Average)</u>	<u>Total EIT Collections Adjusted for Wage Growth (\$000)</u>
2005.....	\$ 927,495	\$1,034,407	\$1,961,902	\$36,953	\$1,961,902
2006.....	968,228	1,080,091	2,048,320	38,651	1,958,145
2007.....	1,028,072	1,125,616	2,153,688	40,405	1,970,556
2008.....	1,087,370	1,133,501	2,220,871	41,335	1,988,196
2009.....	1,078,153	1,120,032	2,198,185	40,712	1,999,002
2010.....	1,097,770	1,146,300	2,244,070	41,674	1,992,933
2011.....	1,149,199	1,185,226	2,334,424	42,980	2,012,973
2012.....	1,234,310	1,348,818	2,583,128	44,322	2,188,783
2013.....	1,312,908	1,354,813	2,667,722	44,888	2,240,361
2014.....	1,320,435	1,388,411	2,708,846	46,482	2,186,791

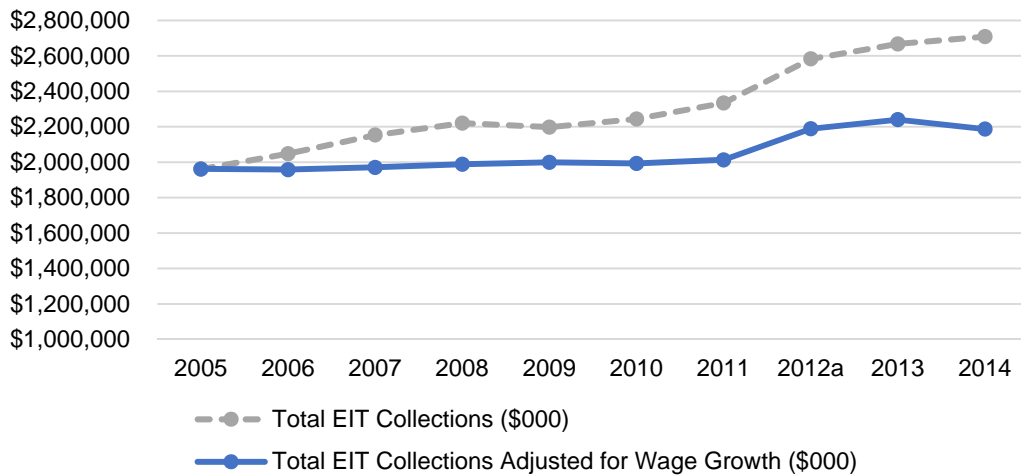
\* Calendar year for municipal collections. School year (July 1-June 30) for school district collections (e.g., 2005 includes school district EIT receipts for the 2005-06 school year).

Source: Developed by LB&FC staff from DCED municipal statistics and PDE annual school district financial reports.

<sup>5</sup> This estimate may also slightly understate the impact of the act as an additional 90 municipalities assess an EIT, but increased or decreased the EIT rate during the period and, therefore, were not included in the analysis.

Exhibit 1

**EIT Collections (Actual and Adjusted for Wage Growth)\***



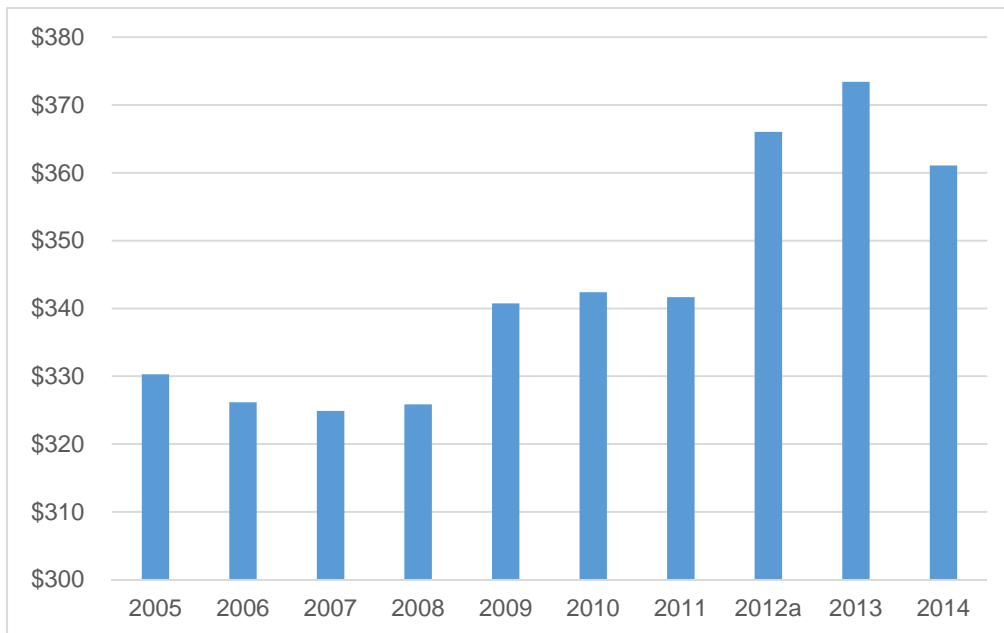
\* Calendar year for municipal collections. School year (July 1-June 30) for school district collections (e.g., 2005 includes school district EIT receipts for the 2005-06 school year).

<sup>a</sup> First year of full Act 32 implementation.

Source: Developed by LB&FC staff from DCED municipal statistics and PDE annual school district financial reports.

Exhibit 2

**EIT Collections Per Worker**



<sup>a</sup> First year of full Act 32 implementation.

Source: Developed by LB&FC staff from DCED municipal statistics and PDE annual school district financial reports and PA employment statistics from the U.S. Bureau of Labor Statistics.

We also measured EIT collections against the taxable compensation figures reported by the PA Department of Revenue. As Table 2 shows, EIT collections as a percentage of Pennsylvania taxable compensation increased from an average of 0.914 percent of taxable compensation in the two years prior to implementation of Act 32 (i.e., 2010 and 2011) to 0.985 percent of taxable compensation in the two years subsequent to implementation of Act 32 (2012 and 2013). This increase of 0.07 percent (seven hundredths of 1 percent) represents \$188.1 million dollars in additional EIT collections. That is, had EIT taxes been collected at the pre-Act 32 rate of 0.914 percent of PA taxable compensation, EIT collections would have been \$188.1 million less than what was actually collected at the post-Act 32 rate of 0.985 percent.

Averaging these two estimates (\$157.6 million and \$188.1 million) together yields an estimated \$173 million in additional tax collections annually that can be attributed to Act 32, or an 8.6 percent increase in collections over the average annual collections for the three-year period prior to implementation of Act 32.

Table 2

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**EIT Collections as a Percentage of PIT Compensation\***

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<u>Year</u>	<u>PIT Compensation (\$000)</u>	<u>Total (Municipal and School District) EIT Collections (\$000)</u>	<u>EIT Collections as a Percentage of PIT Compensation</u>
2005....	\$210,175,729	\$1,961,902	0.933%
2006....	223,627,833	2,048,320	0.916
2007....	238,971,435	2,153,688	0.901
2008....	246,136,171	2,220,871	0.902
2009....	239,452,563	2,198,185	0.918
2010....	245,629,659	2,244,070	0.914
2011....	255,040,028	2,334,424	0.915
2012 <sup>a</sup> ..	263,658,642	2,583,128	0.980
2013....	269,372,683	2,667,722	0.990

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\* Calendar year for municipal collections. School year (July 1-June 30) for school district collections (e.g., 2005 includes school district EIT receipts for the 2005-06 school year).

<sup>a</sup> First year of full Act 32 implementation.

Source: Developed by LB&FC staff from DCED municipal statistics and PDE annual school district financial reports and PA Department of Revenue PIT collection statistics.

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**Requirement 2: Determine whether consolidated collection and standardized withholding and remittance of local income taxes as required in section 512 has simplified the system, reduced fragmentation and reduced the burden of withholding, remitting and distributing the local income tax for employers.**

To assess this objective, we contacted a wide range of associations and organizations representing employers, municipalities, providers of payroll and tax services, and other stakeholders. These included: Pennsylvania Chamber of Business and Industry, National Federation of Small Businesses, Pennsylvania Association of School Business Officials, Pennsylvania School Boards Association, the Pennsylvania Municipal League, the Pennsylvania Association of Boroughs, the Pennsylvania Association of Township Supervisors, the Pennsylvania Institute of Certified Public Accountants, the Pennsylvania Society of Tax & Accounting Professionals, a large payroll service company, and the Pennsylvania Department of Community and Economic Affairs.

Although many of those contacted mentioned their members experienced challenges with the initial implementation of Act 32, none reported they were currently experiencing any serious problems with Act 32. All those who responded indicated that Act 32 is now operating relatively smoothly and has been successful in simplifying and improving EIT collections. The Pennsylvania Association of Township Supervisors, for example, said that prior to Act 32, while some townships studiously tracked EIT collections and disbursements, many townships had little idea of how much EIT revenue they should receive or when they would receive it; they would simply deposit whatever checks they received when they received them. With the reporting and disbursements requirements of Act 32, townships now know how much to expect and when to expect it. The payroll company we contacted said the biggest challenge they faced was with the initial set up, but since then they have had very few issues.

One tax collector noted that municipalities are obtaining revenues on a consistently more even basis throughout the year, as opposed to the pre-Act 32 practice of receiving the substantial portion of revenues after the returns due April 15 were processed. Several organizations commented that they would like to see certain technical amendments to the act (e.g., a “safe harbor” provision related to estimated payments, establishing rules regarding withholding for nonresident employees that work at multiple work sites, resolving various EIT crediting issues and practices, rules for no income returns, and resolving conflicting filing dates with regard to quarterly filings) but that, overall, the act has been a marked success.<sup>6</sup> Many individuals and organizations mentioned they would like to see the provisions of Act 32 be extended to include the collection of property, LST, and business privilege taxes.

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<sup>6</sup> Many of these issues are addressed in HB 245 (2016) and/or in DCED’s proposed regulations.

Some concern was voiced that employers and taxpayers still do not fully understand or fulfill their obligations under the act. Washington County, for example, engaged an audit firm to audit the EIT procedures of 12 large employers in 2013 and 6 additional employers in 2014. These audits found both systemic and discrete problems with employer records and procedures. In particular, several employers had no Certificate of Residence for their employees, explaining that they did not realize this was a requirement. Even among those employers that did have CORs, virtually all were missing certificates for at least some employees or the CORs on file had incorrect information. In particular, the audit found many employees were missing PSD (political subdivision) codes or the PSD code was incorrect.<sup>7</sup> Many employers were also withholding the incorrect amount of EIT, which often appeared to result from difficulties experienced by the employer's third-party payroll processor in implementing the provisions of Act 32.

**Requirement 3: Determine if tax compliance is simpler, easier, fairer and less time-consuming for taxpayers.**

EIT collections and disbursements are largely conducted without the involvement of employees. As such, we did not attempt to contact individual taxpayers. But based on the comments received from the organizations listed in Requirement 2 above, it would appear likely that taxpayers, to the extent that they are involved in the remittance of the EIT, should find it simpler, easier, fairer, and less time-consuming. For example, one large tax collector noted that employers are now more commonly collecting the correct amount from their employees, so many individual taxpayers no longer owe large amounts of tax at the end of the year. Also, employee taxpayers who previously had to file quarterly local EIT returns no longer have to do so because under Act 32 their employers must now do so on their behalf.

Act 32 does require employees to complete a new "Residency Certification Form," but this form is not difficult to complete.

The Pennsylvania Society of Tax & Accounting Professionals (PSTAP), while noting that Act 32 has streamlined the process of local EIT collections, still finds "many inconsistencies among the various municipalities and collectors that result in taxpayer confusion and inefficiency." While the PSTAP recommendations are at a more specific and technical level than the recommendations in this report, they have been made available to the appropriate standing committees in the House and Senate.

Under Act 32, DCED is to promulgate regulations in a number of areas pertinent to the administration of EIT collections (e.g., regarding the training of tax of-

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<sup>7</sup> The audits noted any PSD codes that did not correspond to the PSD code on the DCED website. Some have noted, however, that the DCED website can have incorrect PSD information.



ficers, mediation, formulating new TCCs when necessary, and establishing standardized forms and schedules). DCED's proposed regulations address the issue of standardized forms, reports, and schedules by indicating it has developed and posted on its website a policy and procedures manual and that it will update the manual annually. DCED believes this meets the requirements of Act 32 and allows for a more responsive and flexible approach than if the forms, reports, and schedules were established via regulation.

**Requirement 4: Determine whether the tax collection system under this chapter is more efficient than the prior system.**

As noted in Requirement 1 above, we estimate that EIT collections have increased by an average of approximately 8.5 percent, or about \$173 million annually, over the past three years due to the efficiencies enacted by Act 32.

The audits required by Act 32 (see Requirement 8 below) report the amounts tax collectors charge to TCCs, both as a dollar amount and as a percentage of collections. These audits showed that, in 2014, most tax collectors (47 of the 56 TCC for which we had information) charged between 1 percent and 2 percent of collections. The lowest rate was 0.85 percent and the highest rate was 5 percent of collections.<sup>8</sup> Generally, it is the smaller tax districts that are charged higher percentages for collection costs.<sup>9</sup>

We do not have comparative information for pre-Act 32 collection costs, but in our questionnaires, both the TCCs and the tax officers indicated the current system is more efficient than the prior system. It would also stand to reason that, if smaller tax districts tend to have higher collection costs (in percentage terms), the 2,900 tax districts and 560 tax collectors that existed pre-Act 32 would, as a group, be less efficient (i.e., have relatively higher collection costs) than the current 69 districts and 17 tax collectors.

Also, under Act 32, businesses with multiple locations across the state are allowed to remit to the county tax collection district where they are headquartered. Employers who exercise this option are required to remit withholdings on a monthly basis, thus accelerating the transfer of tax revenues. Otherwise, they are required to remit all withholdings to the tax collector for the districts where they are located within 30 days of the end of the quarter. Tax officers, in turn, are required to remit all withholdings to the proper taxing jurisdictions no later than 60 days after receipt. These provisions help speed up the collection and distribution of EIT collections to the municipalities as compared to pre-Act 32. A representative of the Pennsylvania Association of School Business Officials confirmed that school districts are receiving their collections in a more timely manner with implementation of Act 32.

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<sup>8</sup> Municipalities within the TCC's main school district were charged 2.5 percent of collections; municipalities outside that school district were charged 5 percent.

<sup>9</sup> Of the five TCCs that were charged 3 percent or more, four had populations under 60,000.

The Dauphin County Tax Collection Committee conducted its own evaluation of Act 32 and similarly concluded “By any reasonable measure, Act 32 is a success.” (See Appendix A.)

**Requirement 5: Determine if tax collection committees are exercising their powers and duties under section 505 effectively.**

Section 505 pertains to the powers and duties of the tax collection committees, as well as issues such as membership, quorums, voting rights, and required meeting schedules. As the Commonwealth’s 69 tax collection committees are spread across the Commonwealth, we were not able to personally inspect or review their records. Instead, we asked the chairperson of each TCC to report on their committee’s compliance with certain key requirements of section 505. As shown in Chapter III, the TCC chairpersons reported a high degree of compliance with these requirements (see Question 1 of the tax collection committee questionnaire).<sup>10</sup>

We similarly asked the tax officers to rate the tax collection committees for which they serve as tax officers on the effectiveness of the TCC’s administrative and oversight functions. Fourteen of the 15 responding tax officers rated their TCCs as “Good or Very Good,” with only one reporting “Fair.” None indicated “Poor or Very Poor.” (See Chapter III.)

Although section 505 of Act 32 requires the TCCs to provide DCED with the names and addresses of any new TCC officers with 30 days of the election, DCED reported they typically do not receive this information nor do they maintain a current list of TCC officers. If DCED needs to contact the TCC officers, they do so through the tax collectors.

**Requirement 6: Determine the extent to which cooperation and coordination exists among tax officers and tax collection districts.**

We asked both the chairpersons of the tax collection committees and the tax collectors to assess the nature of the cooperation and coordination among the two parties. As shown in Chapter III, 59 of the 61 responding TCCs indicated the level of cooperation between the TCC and its tax collector was “Good or Very Good;” one indicated the level of cooperation was “Fair,” and one indicated “Poor or Very Poor.” All (100 percent) of the tax collectors rated their level of cooperation with their TCCs as “Good or Very Good.”

On several occasions, an issue did arise regarding the nature of the relationships within the membership of the tax collection committees. In particular, under Act 32, votes taken by the TCCs are to be proportional based upon population

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<sup>10</sup> Some of the reported areas of noncompliance (for example, seven TCCs reported they did not set the compensation of their tax officers and four reported they did not require tax officers to be bonded) may be due to the complexities of the relationships between some TCCs and their tax officers (e.g., where the tax officer is a county or school district employee).

(50 percent) and the amount of income tax revenue collected (50 percent).<sup>11</sup> If the TCC includes a large school district or municipality, smaller municipalities may feel effectively shut out from the decision-making process. One municipality noted, for example, that the school district in their area can out-vote all the other municipalities and regularly makes decisions as the TCC without consulting the other delegates. Others noted that the proportional voting policy can result in low participation at TCC meetings, and that obtaining a quorum (a majority of TCC members) can be difficult.

**Requirement 7: Determine whether authorized investments under section 509(a)(6) and the bonding requirements under section 509(d) provide sufficient protection to income tax collections.**

Under 509(a)(6), investments are limited to short-term obligations of the United States Government (or its agencies that are backed by the full faith and credit of the United States), deposits insured by the Federal Deposit Insurance Corporation or National Credit Union Share Insurance Fund, deposits in investment pools established by the State Treasurer or local governments, and repurchase agreements which are fully collateralized by the United States Government or its agencies. These are the types of investments to which government agencies are typically restricted. All (100 percent) the tax collectors responding to our survey reported that they thought the authorized investments under Act 32 provided sufficient protection for income tax collections (see Chapter III).

Section 509(d) requires tax collectors to be bonded. The amount of the bond is not specified, but the Act requires it to be “an amount equal to the maximum amount of taxes that may be in the possession of the tax officer at any given time or an amount sufficient, in combination with fiscal controls, insurance and other risk management and loss prevention measures used by the tax collection district, to secure the financial responsibility of the tax officer in accordance with guidelines adopted by the department.” DCED’s *Suggested Audit Procedures* state that bonds “should be sufficient to cover the average monthly deposits being held by the tax officer,” as tax collectors are required to make deposits on at least a monthly basis.

Our review of the 2014 audits found that bond amounts varied widely, from 0.5 percent of annual collections to 25.9 percent of annual collections. Of the 60 audits that provided this information, 2 had bond amounts below 1 percent of annual collections, 29 had bonds between 1 and 2 percent of annual collections, 23 had bonds between 2 and 10 percent of collections, and 6 had bonds over 10 percent of collections.

In discussing this matter with a CPA familiar with Act 32 and EIT collections, we were informed that CPA firms would generally consider Act 32 and DCED’s *Suggested Audit Procedures* guidance to provide that bonds amounts should

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<sup>11</sup> Act 32 provides that TCCs may modify the proportional allocation of votes through its bylaw.

be sufficient to cover the average amount in possession of the tax collector, but not necessarily the amount needed to cover average monthly deposits. This is because tax collectors often deposit funds more frequently (on a weekly or even daily basis) than the once-a-month requirement. Thus, if the tax collector deposited its collections on a daily (or weekly) basis, the bond amount need only be sufficient to cover the average daily (or weekly) deposit.

We reviewed the 62 Act 32 audits that were available for 2014 and found that in all but four, the auditors found the bond amount was sufficient to cover the average amount in the possession of the tax collector on a daily, weekly, or monthly basis (depending on how frequently the tax collector made deposits). In two of the four audits where the average deposits exceeded the bond amount, the audit report had a finding of noncompliance with Act 32. In a third case, the audit report noted that the TCC had agreed to a lower amount, and, therefore, determined the tax officer was in compliance. In the fourth case, the audit report noted that the amount in possession of the tax collector generally exceeded the bond amount, but the audit report does not indicate whether this is noncompliant with Act 32.

**Requirement 8: Determine whether nonresident and resident taxes are being properly distributed among tax collection districts within this Commonwealth and to political subdivisions within each tax collection district.**

Act 32 requires every tax officer to undergo an annual audit that is specifically to include "...all records relating to the cash basis receipt and disbursement of all public money by the tax officer ...". This requirement is expanded upon in DCED's audit guidelines, which contains a section on the steps auditors are to take to ensure the proper distribution of nonresident and resident taxes. For example, the auditors are to obtain and document an understanding of the internal controls over the distribution on income taxes and perform a "walk through" of each transaction type to verify the system is operating as designed. The suggested procedures also state the auditors are to:

- verify the tax officer has used all of their means available to determine the name and resident address of the taxpayers for whom the tax was remitted and
- verify payments are routed to the proper cash account applicable to the school district or municipality within the tax collection district maintained by the tax officer.

In addition, the Act 32 audit is to list the EIT distributions to both the TCD members and nonmembers (i.e., school districts and municipalities outside the TCD boundaries), so municipalities can readily verify their receipts against the audited statements.

DCED's proposed regulations would strengthen oversight of the internal controls tax officers use to ensure the proper distribution of taxes by requiring all tax officers to undergo an SSAE 16 audit (discussed in Requirement 9 below) at least once in the two-year period prior to being selected or re-appointed as the tax officer.

**Requirement 9: Determine whether the reporting, audit, accountability, transparency and oversight requirements for taxes collected, distributed and administered in this chapter are adequate and being met within and among tax collection districts.**

**Act 32 audit requirement.** Act 32 requires all tax collection committees to provide for at least one audit a year of the financial statements and records of its tax collector. Any findings of noncompliance are to be filed with the Auditor General. DCED has published a 21-page *Suggested Audit Procedures* that further details the manner in which these audits are to be conducted. We attempted to obtain the audits of each TCC for 2014 and found:<sup>12</sup>

- *Six audits conducted in 2014 were not filed with DCED.* Act 32 requires the TCCs to provide a copy of their audit report to DCED. In addition to the seven TCCs that did not complete an audit in 2014 (see below), six other TCCs had audits completed but do not appear to have provided them to DCED.<sup>13</sup> DCED reported that it no longer initiates follow-up contacts with TCCs that have not filed audit reports.
- *Seven TCCs had not done the required audits.* Two of the TCCs that did not have audits conducted of their 2014 EIT collections and disbursements were small, rural counties. Both these TCCs indicated that they intend to have the audits completed for both 2013 and 2014 by the end of 2016.<sup>14</sup> The five other counties that did not have audits all use the same tax collector, and we were informed that tax collector's software did not break out data in a format that was conducive to auditing the information for individual TCCs.

In lieu of TCC-specific audits, this tax collector contracted with a CPA firm to audit the tax collector's financial statements as a whole. The CPA firm issued a clean opinion on the tax collectors 2013 and 2014 financial statements, but this audit does not satisfy the requirements of Act 32.

For example, although the tax collector's financial statements do identify the amount collected and disbursed to individual municipalities, under Act 32, the collections and disbursements of each TCC, along with other information such as beginning and ending cash balances, bond amounts, and collection fees charged, are to be reported separately for each TCC.

The tax collector's audit also did not include the required report on the tax

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<sup>12</sup> We also attempted to obtain all the 2013 audits. We obtained, but did not review, the audits for 62 of the 69 TCCs. The seven TCCs that did not have audits done in 2013 were the same seven TCCs that did not have audits done in 2014.

<sup>13</sup> I.e., they were not on the cd of audits DCED provided to us.

<sup>14</sup> Audits for 2014 were to be submitted by September 1, 2015.

collector's compliance with Act 32. The tax collector informed us that they are in the process of converting to a software system that will allow for Act 32-compliant audits (i.e., a separate audit specific to each TCC) for collections and disbursements beginning in 2016.

- *One tax collector combined financial information for both its TCCs.* In another instance, a tax collector that collects the EIT for two TCCs combined collections and disbursements for its two TCCs and did not separately report certain information, such as beginning and ending cash balances and tax collector charges, for each TCC. While certain other information, such as bond amounts, is broken out for each TCC, the audit does not fully comply with the requirements of Act 32. The auditor who conducted the audit indicated the tax collector had contacted DCED to request permission to present its financial information in this format, and DCED did not object.
- *Another audit did not follow DCED's suggested audit format.* In particular, the audited financial statements did not include a Statement of Cash Receipts, Cash Disbursements, and Cash Balances. The audit also did not include a Schedule of Reconciliation of Monthly Reports, Scheduling of Bonding Analysis, or Schedule of Collection Fees Charged in the recommended format. The audit included some, but not all, of the recommended information to be reported in these areas.
- *Three audits did not contain the required Independent Auditor's Report on Compliance with Act 32.*<sup>15</sup> The items to be reviewed for the compliance report include various steps to "verify that the Tax Officer executes transactions in compliance with laws, DCED rules and regulations, in addition to the provisions of contracts or other agreements related to the Tax Officer's tax collection activities and other related receipt activities that could have a direct and material effect under Act 32."
- *Two audits contained findings of noncompliance with Act 32. The audits had not, however, been filed with the Auditor General as required by Act 32.*<sup>16</sup> Although all of the audits issued "clean" opinions (meaning the financial statements fairly presented the tax collector's Statement of Cash Receipts, Cash Disbursement, and Cash Balance), two audits contained "findings of noncompliance" (e.g., failure to remit monthly reports in a timely manner and insufficient bonding amounts). Under Act 32, any audit report with findings of noncompliance is to be filed with the Department of the Auditor General. We contacted the Auditor General's office and they reported they had no record of having received either of these audits.

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<sup>15</sup> In a fourth audit, the auditor indicated in the Schedule of Finding and Non-Compliance that there were no findings reported with regard to non-compliance with Act 2008-32. The auditor did not, however, issue an opinion that the tax collector complied, in all material respects, with the compliance requirements of Act 32, nor did the auditor describe the scope of the compliance requirements reviewed.

<sup>16</sup> Another audit contained findings, but they pertained to issues concerning compliance with accounting standards, not compliance with Act 32.

**Additional audit requirements proposed under DCED draft regulations.** Act 32 requires that tax collectors undergo an annual financial audit in compliance with generally accepted governmental auditing standards (GAGAS) and a report on the tax officer's compliance with Act 32. The Department of Community and Economic Development has developed *Suggested Audit Procedures* that further detail the manner in which these audits are to be conducted. DCED has also developed draft regulations that expand on these requirements by requiring tax officers to undergo an SSAE (Standards for Attestation Engagements) 16 audit or other fiscal control audit at least once every two years.

The adequacy of the audit requirements under Act 32, particularly with regard to the review of the tax collector's internal controls, has been a topic of debate among the Commonwealth's tax collection committees, tax collectors, and tax collector auditors. Strong internal controls are important as tax officers not only collect and disburse nearly \$3 billion in earned income taxes, but tax collectors also maintain tax payer Social Security numbers and other confidential information. Adequate internal controls within the tax collection organizations are therefore critical not only to ensure that taxes are collected and distributed properly, but also that confidential information is not accessed by unauthorized persons.

**The GAGAS internal controls requirement.** As part of the Act 32 GAGAS (Yellow Book) audit requirement, auditors are required to obtain an understanding of the tax collecting organization's internal controls to the extent that they are significant within the context of the audit objectives. For internal controls that meet this criteria, the auditors are to assess whether the internal control has been properly designed and implemented. The auditors are to do sufficient work to provide reasonable assurance that the internal controls relevant to the entity's preparation of its financial statements are appropriate, but they are not required to express an opinion on the effectiveness of the entity's internal controls.

This may be done through direct testing of the controls, but such direct testing is not required. Depending on the circumstances, inquiries, observations, inspection of documents, and/or a review of other auditors' reports may be sufficient. For example, DCED's *Suggested Audit Procedures* generally calls for auditors to obtain an understanding of the tax collection offices' internal controls through inquiries and written procedures and perform a walkthrough of a sample of transactions to verify the system is operating as designed.

If as a result of these procedures the auditors identify significant deficiencies in the organization's internal controls, the auditors are to communicate those deficiencies in a report on internal controls, which can either be a separate report or included as part of the financial statement report.

**SSAE 16 audits.** DECD's proposed regulations would impose a significantly higher standard by requiring that tax officers undergo an SSAE 16 audit (or other

fiscal control audit<sup>17</sup>) at least once every two years. An SSAE 16 audit is one in which a CPA firm issues an opinion on a service organization’s internal controls, including controls pertaining to information security.<sup>18</sup> Under SSAE 16, various types of reports are identified, depending on purpose of the report. For organizations such as tax collection agencies, the two relevant reports are an SOC (Service Organization Control) 1, Type I or an SOC 1, Type II report.

**SOC 1, Type I.** A Type I report focuses on a description of a service organization’s system of internal controls and on the suitability of the design of those controls. A Type I report contains three major areas:

- *A description of the service organization’s system prepared by management of the organization, i.e., a narrative of the process as a whole and how those processes tie in to achieve the organization’s control objectives.*
- *A statement by management that the description they provided fairly presents the organization’s system as of a specified date.* Management is also to attest that the controls were suitably designed to achieve those control objectives.
- *The auditor’s report that expresses an opinion on the validity (fairness of presentation) of the above two areas.* To have a sufficient basis to issue this opinion, the auditors are to review management’s assessment of its system and will typically test the design effectiveness of the company’s controls by examining a small sample—perhaps only one—of items per control.

**SOC 1, Type II.** A Type II report builds on the information contained in a Type I report by more extensive testing of the controls that were in place over a specified period of time (no less than 6 months). This testing allows the auditor to opine on whether the specific controls were operating effectively during the period under review. Because testing the effectiveness of the controls over an extended test period provides much more insight and overall assurances of a service organization’s control environment, a Type II report is seen as the much more credible report. Because of the greater assurances provided by the Type II report, private sector user organizations (i.e., the organizations using the services of the service organization) often will require a Type II report before contracting with a service organization.

Type II reports vary in cost depending on the complexity of the organization, but costs are reported to range from \$30,000 to \$200,000 or more for highly complex audits. This does not include the expense involved in designing, implementing, and documenting the controls, which can be substantial. At least two large tax collectors operating in Pennsylvania have undergone SOC Type II audits.

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<sup>17</sup> It is unclear what “other type of fiscal control audit” might be sufficient to meet this regulatory standard.

<sup>18</sup> A service organization is an organization that performs outsourced services that affect the financial statements of another organization.



Our questionnaire to tax collectors asks whether the tax collectors have undergone either a SOC 1, Type I or SOC 1, Type II audit of their organization's internal controls. Of the 16 tax collectors responding to the questionnaire, ten indicated they had undergone a SOC audit of their internal controls (three a SOC Type I audit and seven a SOC Type II audit). These include the two largest tax collectors, which collect taxes for 48 of the 69 TCCs, both of which report having undergone a SOC Type II audit.

**Requirement 10: Determine if the appeals boards created under section 505(j) are impartial, fair and effective.**

We addressed this objective through our survey questionnaire of both the tax collection committees and the tax collectors. Of the 61 responding TCCs, 55 (90 percent) indicated they had established an appeals board. Most (45), however, reported that their appeals board had not had to make any decisions in calendar year 2015. Of the ten appeals boards that had rendered a decision, seven reported they had heard five or fewer cases.

With regard to the tax collectors, only nine (of 16) tax collectors reported they had been involved in an appeal over the past two years. Six indicated they had been involved in five or fewer appeals, one in six to ten appeals, and two in more than ten appeals. In all cases, the tax collectors reported the appeals boards handled the appeal in a timely manner, treated both parties in a fair and impartial manner, and made a reasonable decision that was supported by evidence. (See Chapter III.)

**Requirement 11: Determine whether the penalties against tax officers under section 510 are effective and the extent to which tax officers are in compliance with the rules and regulations required by this chapter, and identify any tax officers that are in substantial noncompliance with these rules and regulations.**

Section 510 establishes various penalties for tax collector who violate provisions of Act 32. For example, tax officers are subject to a civil penalty of up to \$2,500 for each quarter for which income taxes are not properly distributed, plus reasonable costs and attorney fees. Tax officers may also be fined up to \$100 per day for every day past the deadline that a tax officer does not respond to a claim by a nonresident tax district. Various other penalties are established for various other possible acts of commission or omission.

We asked the tax collection committees whether they think the penalties against tax officers in section 510 of Act 32 are "appropriate and adequate." Of the 61 responding TCCs, 28 (46 percent) indicated they thought the penalties were appropriate and adequate, with 33 (54 percent) indicating "don't know." None indicated they thought the penalties were inadequate.

**Requirement 12: Determine whether the agreements under section 509(g) have been approved by the Department of Revenue and each tax collection district, and that the exchange of information is reciprocal, timely and useful.**

The Department of Revenue is required to enter into an agreement with each tax collection district for the exchange of tax information on a yearly basis. The Department reported it has entered into data sharing agreements with all but five tax collection districts. The Department indicated agreement with these TCDs had not yet been established because the districts have not reached out to request the data.

We asked the tax officers to assess whether the exchange of information with the Department of Revenue has been reciprocal, timely, and useful. Twelve (80 percent) of the 15 responding tax collectors reported they did find the exchange of information with the Department of Revenue to be reciprocal, timely, and useful. Comments from those that responded “no” can be found in Chapter III.

**Requirement 13: Determine whether the interest, penalties and fines under section 509(i) and (j) are appropriate and adequate.**

The interest, penalties, and fines under section 509(i) and (j) pertain to taxpayer and employer penalties for unpaid taxes. Taxpayer fines can be up to \$2,500 for each offense (and reasonable costs), with imprisonment for up to six months if the taxpayer defaults on paying his/her fines and costs. Of the 15 tax collectors we surveyed, 12 (80 percent) indicated they thought the fines set in Act 32 for noncompliance by taxpayers were appropriate and adequate, and 3 (20 percent) did not think the fines were appropriate and adequate. Comments from those who thought the penalties and fines are not adequate can be found in Chapter III.

Employers are subject to fines of up to \$25,000 or to imprisonment not exceeding two years, or both. All the tax collectors responding to our survey indicated they thought the fines for employers who willfully fail to collect and remit income taxes were appropriate and adequate.

**Requirement 14: Recommend needed improvements to the system.**

We recommend:

- ***DCED monitor the tax collection committees to ensure that annual audits are submitted as required.*** Act 32 requires all tax collection committees to have an annual audit conducted of the financial statements and records of their tax collector, which are then to be filed with DCED. As indicated above, our review of the 2014 audits found multiple issues of non-compliance with these and related requirements. Although DCED does not have statutory oversight or enforcement responsibilities with regard to the TCCs or tax collectors, the TCCs and tax collectors we contacted about these matters appeared to be responsive and conscientious about

their responsibilities. As such, a simple reminder letter or telephone call from DCED and, as recommended below, posting certain information from the audits on DCED's public website (which would highlight that an audit has not been submitted) might suffice to resolve these compliance issues.

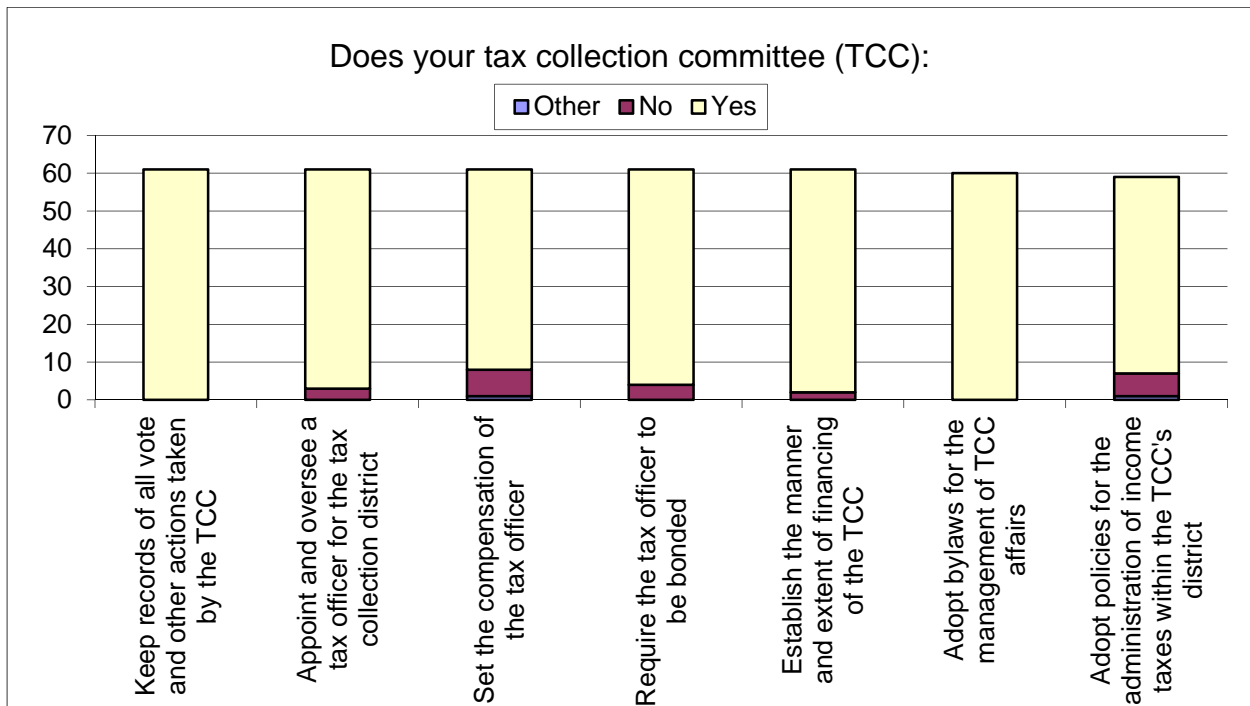
- ***DCED post summary information on tax collector costs on its internet website.*** Act 32 authorizes, but does not require, DCED to make available on its internet website summary data from the annual audit and compliance reports. We recommend DCED post, at a minimum, information on the amount, and as a percentage of collections, tax collectors are charging each TCC to collect the EIT for that tax collection district. The amount tax collectors charge each TCC, which varied from less than 1 percent to five percent of collections, is required to be reported on the Act 32 audit and could be useful to taxpayers and members of the tax collection committees to assess the appropriateness of their charges. We recommend DCED consult with the TCCs and various municipal and school district associations to identify what other summary information might be useful to post.
  
- ***DCED continue its efforts to promulgate regulations regarding the administration of Act 32.*** DCED has been in the process of developing and passing proposed regulations for over four years. These regulations, which are currently before the Independent Regulatory Review Commission, would address several of the areas of concern noted in this report. In particular, the proposed regulations would require, among other matters, that:
  - tax officers undergo an SSAE 16 audit of their internal controls at least once every two years,
  - if a TCC agrees to a bonding amount less than the maximum amount of taxes that may be held in possession of the tax officer at any given time, the TCC must do so by resolution and indicate in the resolution the reasons why it has agreed to a lesser bond amount, and
  - DCED develop and annually update a policy and procedures manual to provide greater standardization of municipal form, schedules, and reports.

### III. Survey Results

#### A. Tax Collection Committees

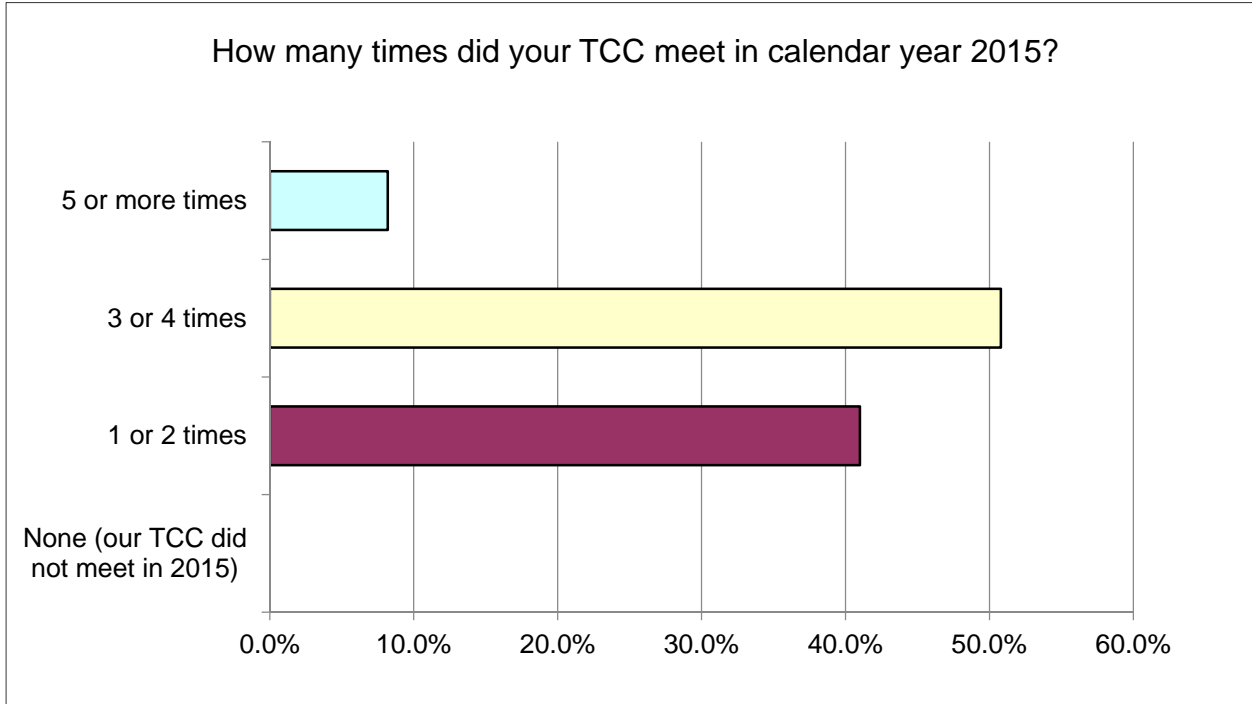
In June 2016, we sent an e-mail with a link to a Survey Monkey (online) questionnaire to the Chairpersons of all 69 tax collection committees, of whom 61 responded. Below is an analysis of the responses.

##### Tax Collection Committees - Question 1



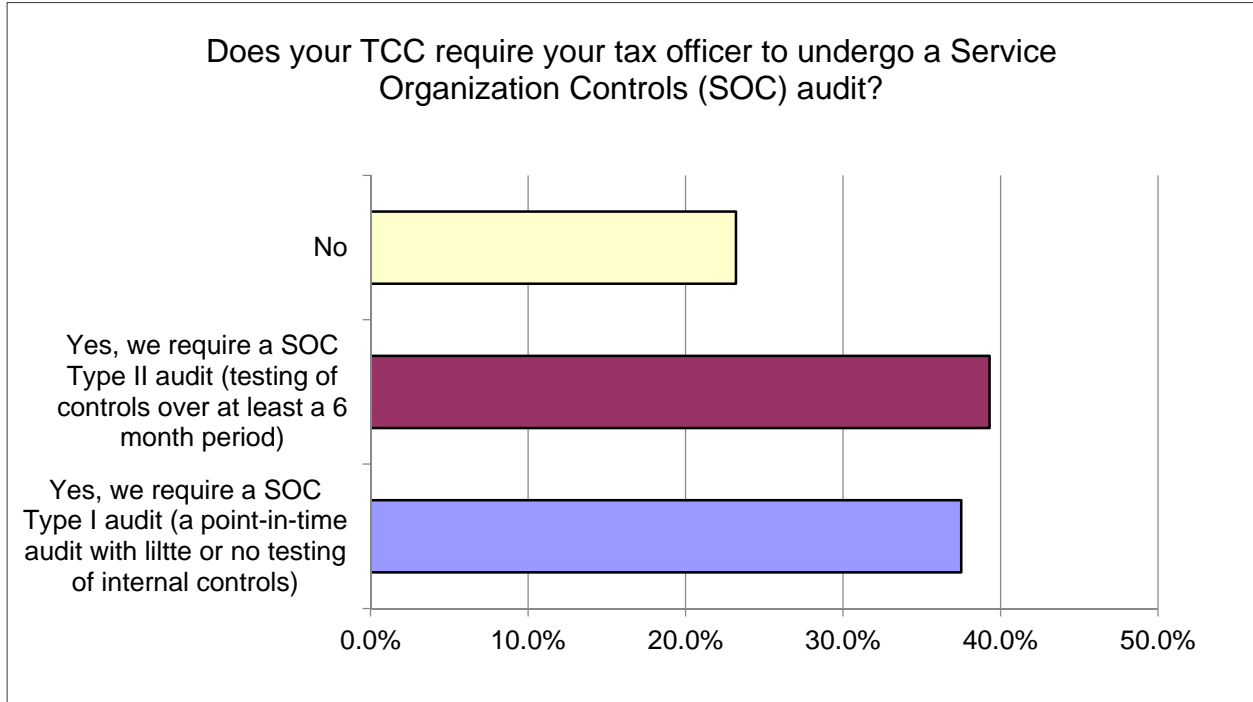
Answer Options	Yes	No	Other	Response Count
Keep records of all vote and other actions taken by the TCC	61	0	0	61
Appoint and oversee a tax officer for the tax collection district	58	3	0	61
Set the compensation of the tax officer	53	7	1	61
Require the tax officer to be bonded	57	4	0	61
Establish the manner and extent of financing of the TCC	59	2	0	61
Adopt bylaws for the management of TCC affairs	60	0	0	60
Adopt policies for the administration of income taxes within the TCC's district	52	6	1	59
If Other, please explain				2
<i>answered question</i>				<b>61</b>
<i>skipped question</i>				<b>0</b>

Tax Collection Committees - Question 2



Answer Options	Response Percent	Response Count
None (our TCC did not meet in 2015)	0.0%	0
1 or 2 times	41.0%	25
3 or 4 times	50.8%	31
5 or more times	8.2%	5
<b>answered question</b>		<b>61</b>
<b>skipped question</b>		<b>0</b>

### Tax Collection Committees - Question 3

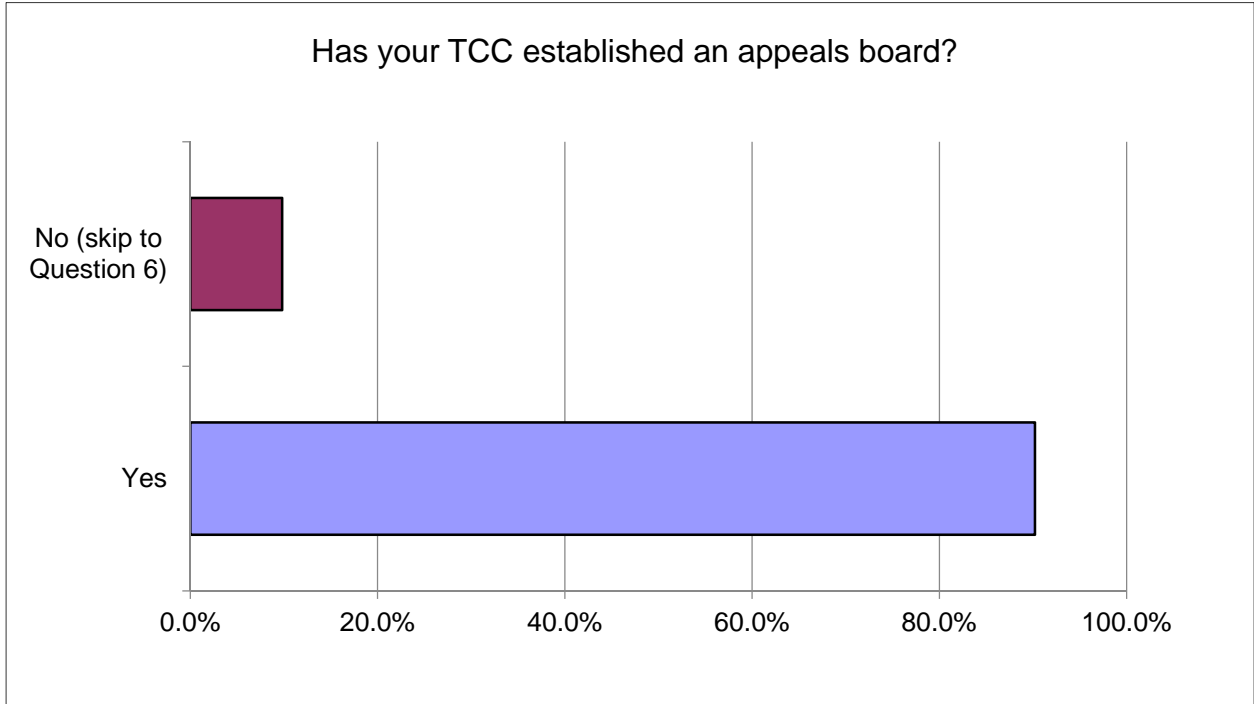


Answer Options	Response Percent	Response Count
Yes, we require a SOC Type I audit (a point-in-time audit with little, or no testing of internal controls)	37.5%	21
Yes, we require a SOC Type II audit (testing of controls over at least a 6 month period)	39.3%	22
No	23.2%	13
Comment		8
<b>answered question</b>		<b>56</b>
<b>skipped question</b>		<b>5</b>

**Comments:**

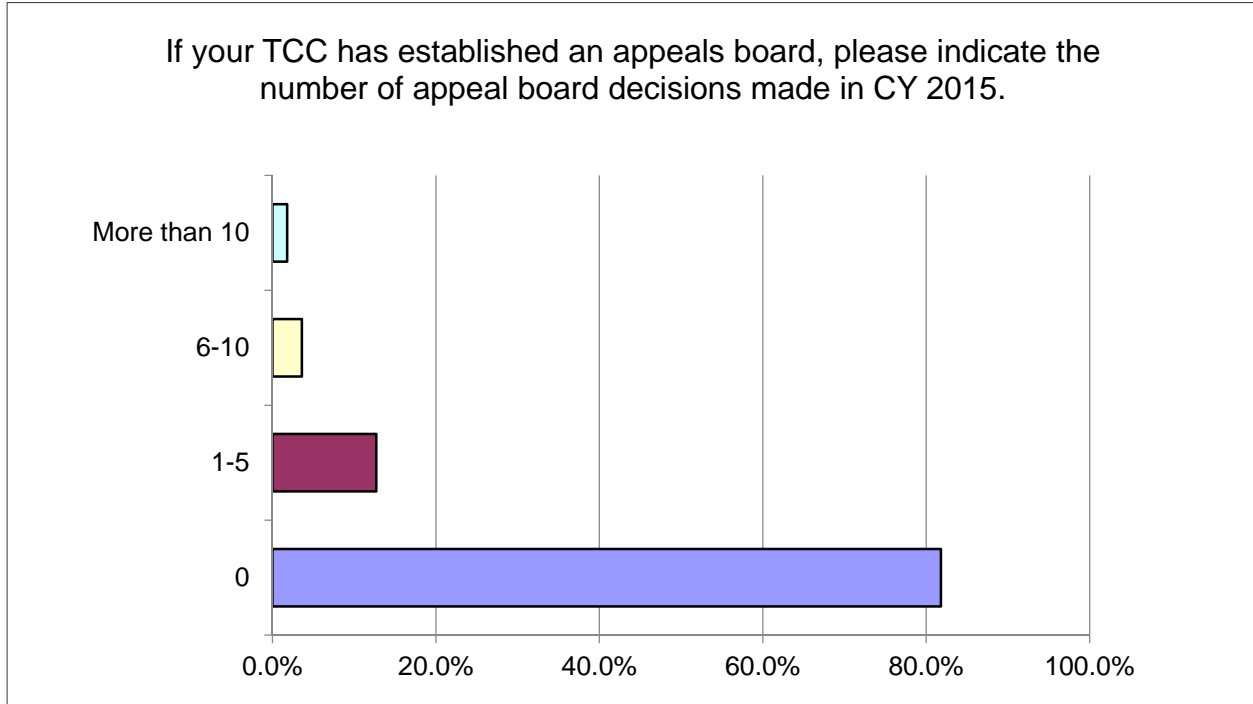
- Auditing firm performs internal control testing and review to verify accuracy of tax receipts, postings and distribution.
- SOC review in progress
- Have completed a pre-SOC audit of internal controls
- Not sure
- We maintain our own office and have a CPA do an annual audit but it is not according to SOC Type I or II requirements.
- Every 3 years
- But our Collector (Berkheimer) does have a SOC Audit done.
- The TCC audit is part of the KCSD annual audit. Internal Controls are tested for a 12 month period each year.

Tax Collection Committees - Question 4



Answer Options	Response Percent	Response Count
Yes	90.2%	55
No (skip to Question 6)	9.8%	6
<b><i>answered question</i></b>		<b>61</b>
<b><i>skipped question</i></b>		<b>0</b>

Tax Collection Committees - Question 5



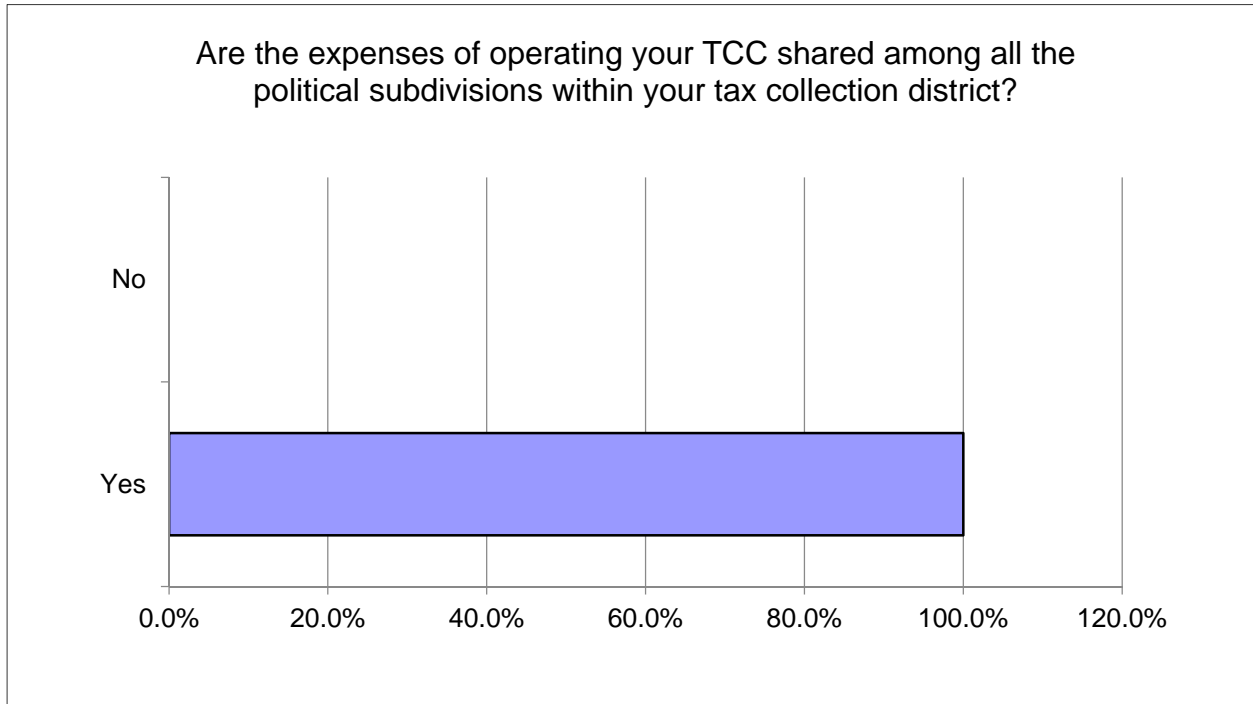
Answer Options	Response Percent	Response Count
0	81.8%	45
1-5	12.7%	7
6-10	3.6%	2
More than 10	1.8%	1
Comment		2
<b>answered question</b>		<b>55</b>
<b>skipped question</b>		<b>6</b>

Comments:

- Appeals were primarily for delinquent taxes for FY 2012 levied as a response to additional data received from PA Dept. of Revenue.
- I don't believe they have ever met.

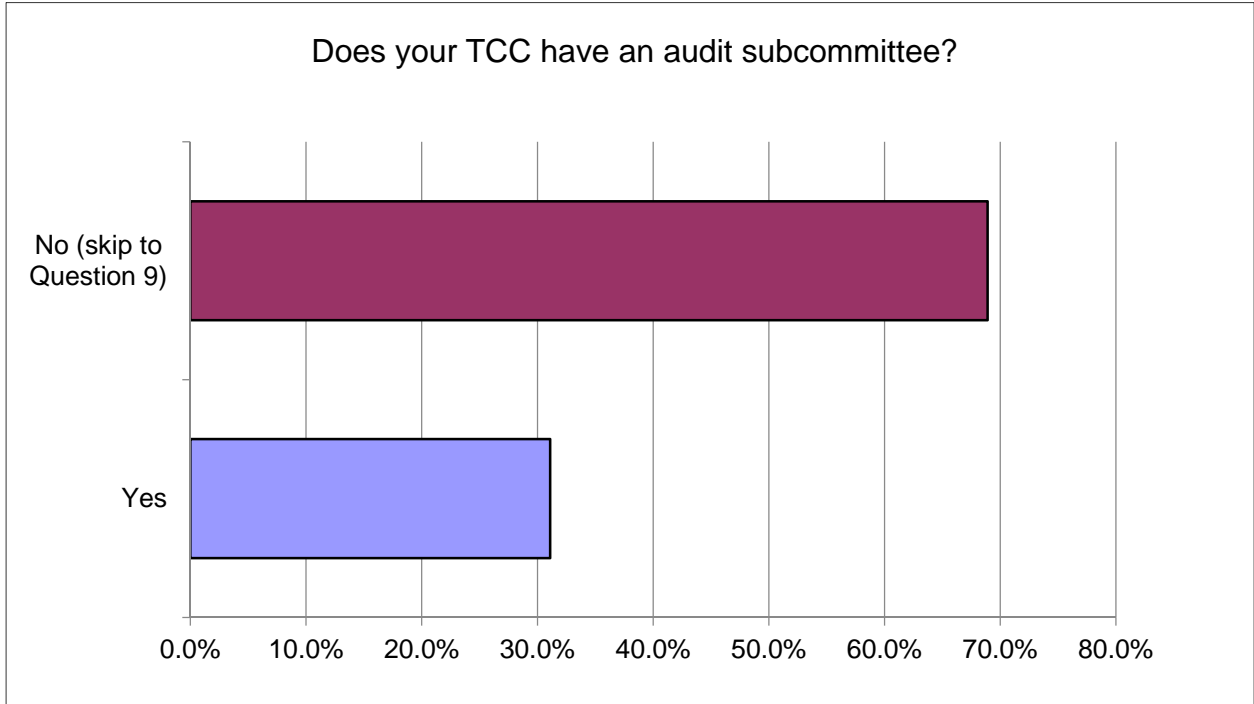


Tax Collection Committees - Question 6



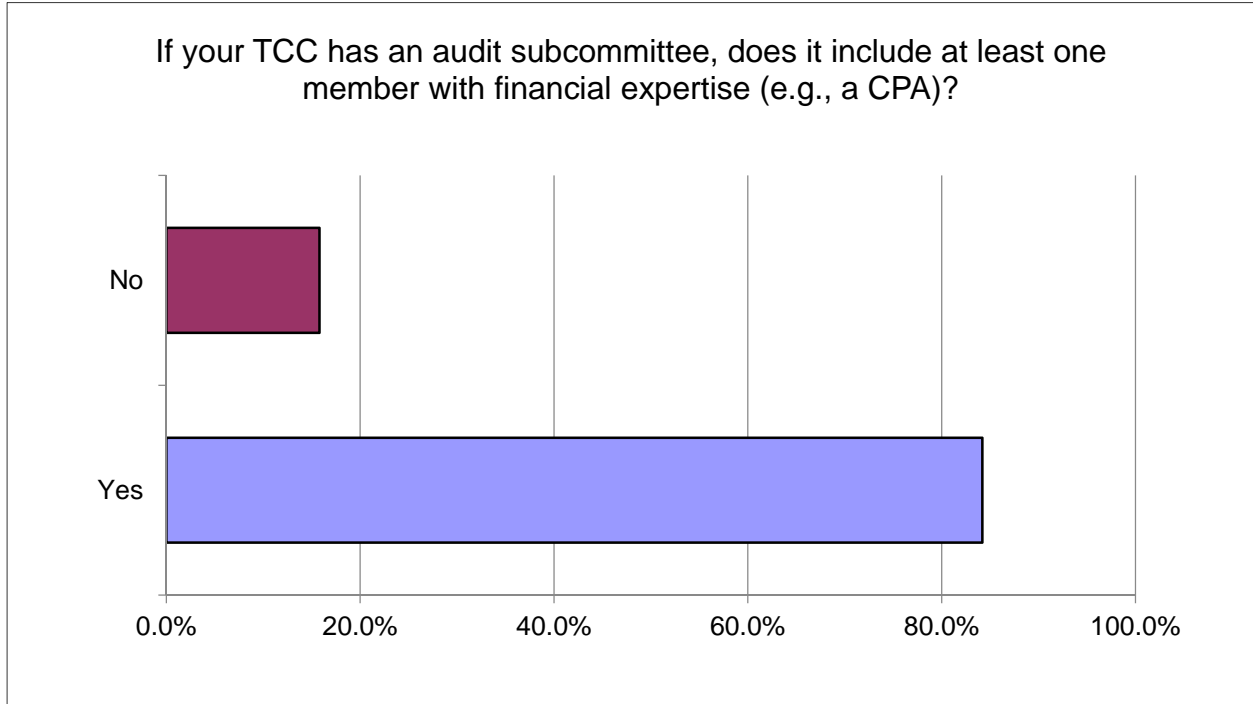
Answer Options	Response Percent	Response Count
Yes	100.0%	61
No	0.0%	0
<b><i>answered question</i></b>		<b>61</b>
<b><i>skipped question</i></b>		<b>0</b>

Tax Collection Committees - Question 7



Answer Options	Response Percent	Response Count
Yes	31.1%	19
No (skip to Question 9)	68.9%	42
<b><i>answered question</i></b>		<b>61</b>
<b><i>skipped question</i></b>		<b>0</b>

Tax Collection Committees - Question 8

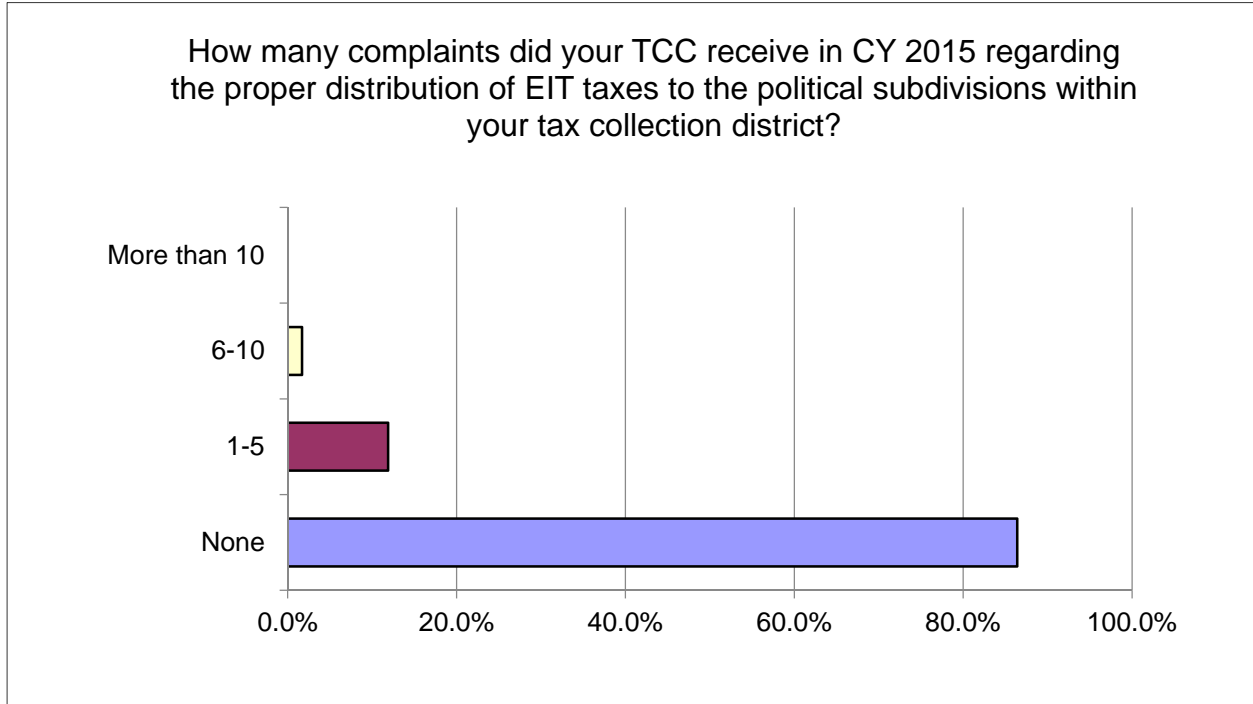


Answer Options	Response Percent	Response Count
Yes	84.2%	16
No	15.8%	3
Comment		5
<b>answered question</b>		<b>19</b>
<b>skipped question</b>		<b>42</b>

Comments:

- The audit subcommittee consists of all nine members of the Management Committee consisting of School District Business Administrators, Municipal Managers, Finance Directors, and elected officials. The TCC also engages a CPA firm to audit the operating finances of the TCC.
- Our Management Committee would serve this capacity - yes we have 3 school business administrators on this committee.
- Not sure.
- We engage a public accountant to audit our records.
- 3 school district business managers.

Tax Collection Committees - Question 9

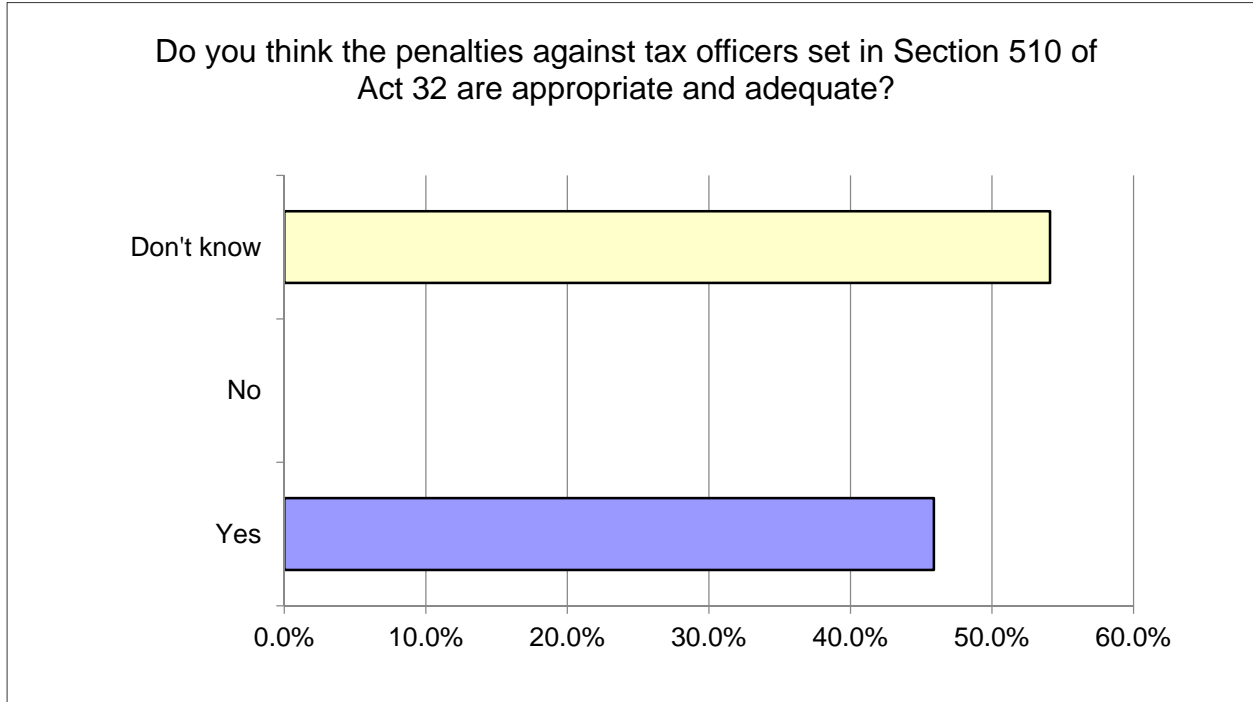


Answer Options	Response Percent	Response Count
None	86.4%	51
1-5	11.9%	7
6-10	1.7%	1
More than 10	0.0%	0
Comment		3
<b>answered question</b>		<b>59</b>
<b>skipped question</b>		<b>2</b>

Comments:

- See #16.
- idk
- Actually, I don't think the TCC itself received any complaints.

Tax Collection Committees - Question 10

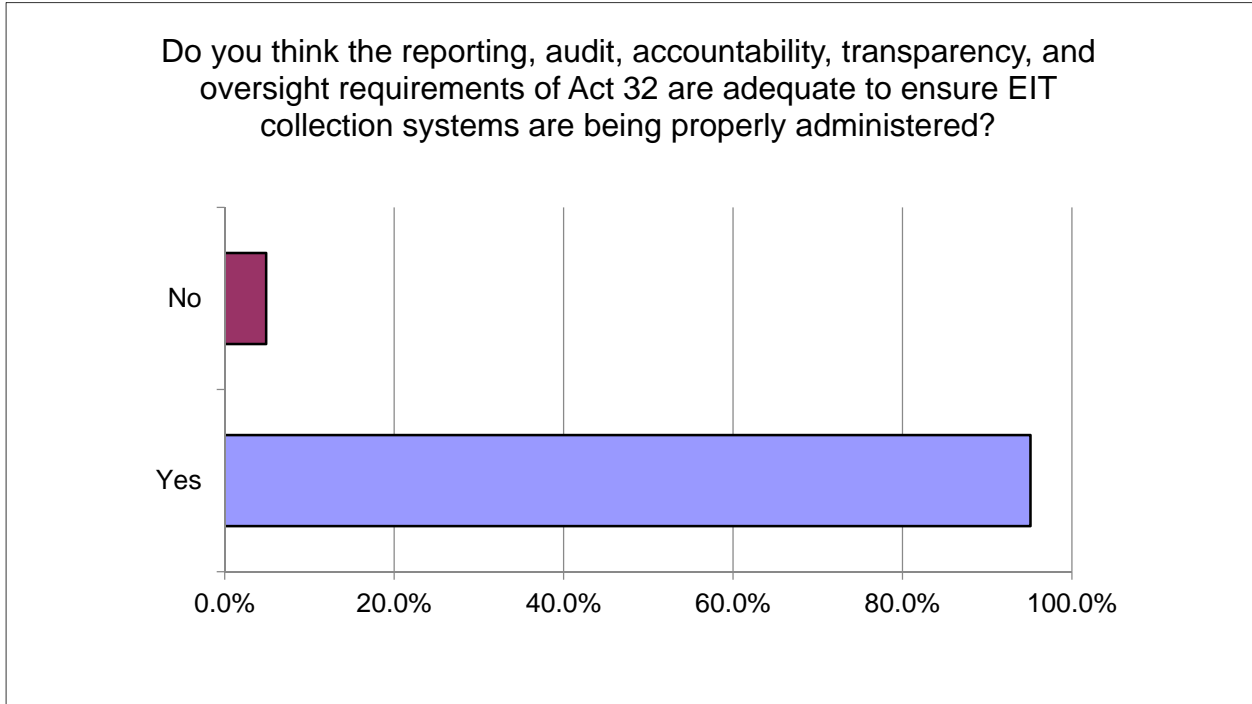


Answer Options	Response Percent	Response Count
Yes	45.9%	28
No	0.0%	0
Don't know	54.1%	33
If no, please explain.		1
<b><i>answered question</i></b>		<b>61</b>
<b><i>skipped question</i></b>		<b>0</b>

Comment:

- The TCC has not had to invoke this provision of Act 32.

Tax Collection Committees - Question 11

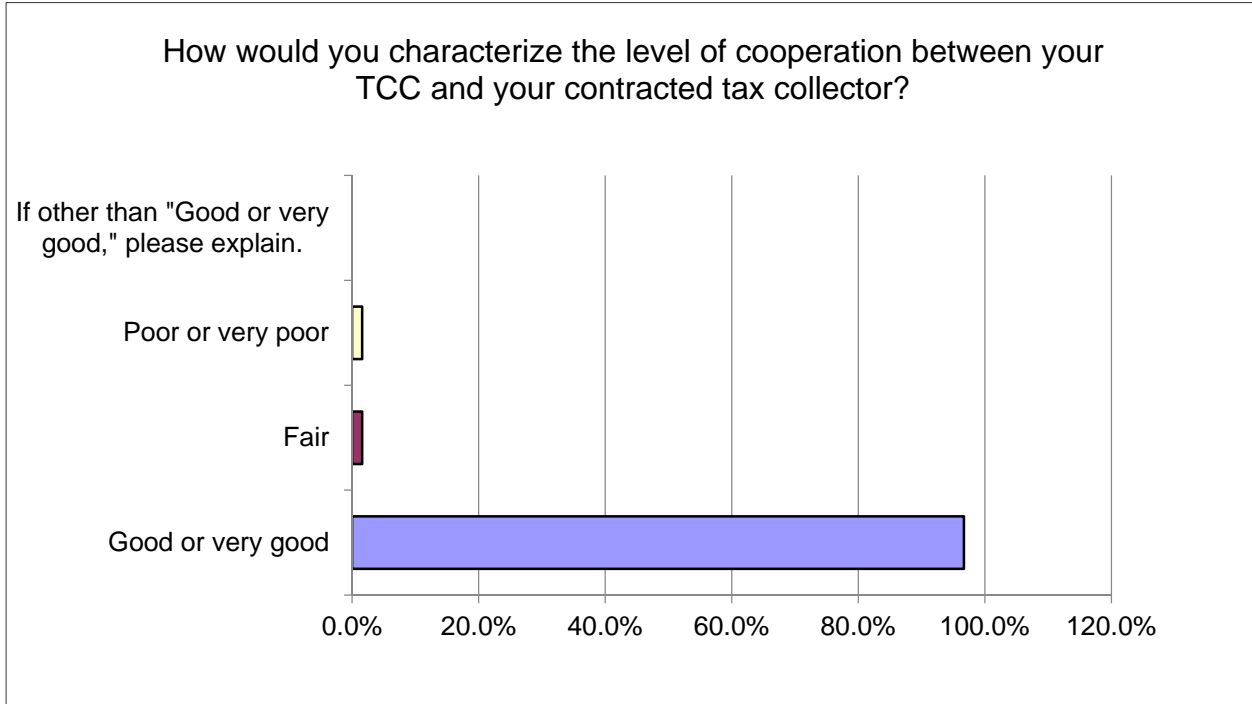


Answer Options	Response Percent	Response Count
Yes	95.1%	58
No	4.9%	3
If no, please explain.		2
<b>answered question</b>		<b>61</b>
<b>skipped question</b>		<b>0</b>

Comments:

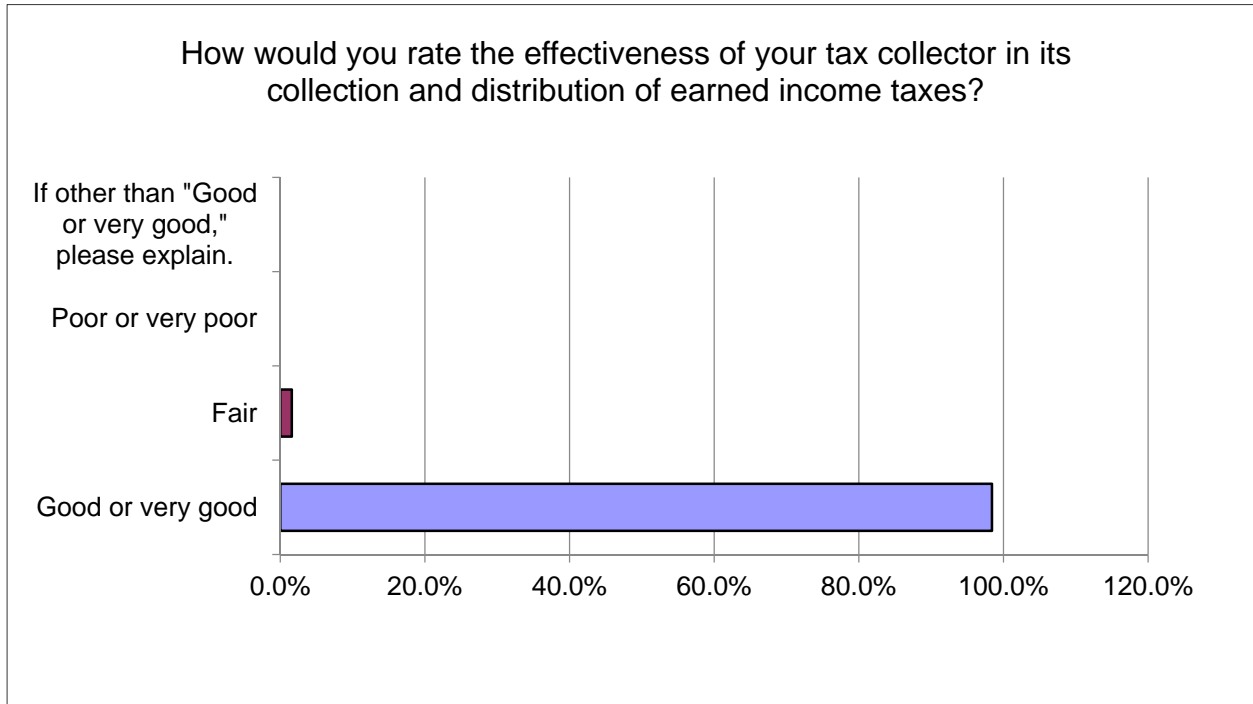
- Reporting requirements are hard to adhere to.
- Until individual governmental entities have privilege of viewing individual income information, determination of accuracy of tax collections is based almost solely upon comfort with tax collector.

Tax Collection Committees - Question 12



Answer Options	Response Percent	Response Count
Good or very good	96.7%	59
Fair	1.6%	1
Poor or very poor	1.6%	1
If other than "Good or very good," please explain.	0.0%	0
<b><i>answered question</i></b>		<b>61</b>
<b><i>skipped question</i></b>		<b>0</b>

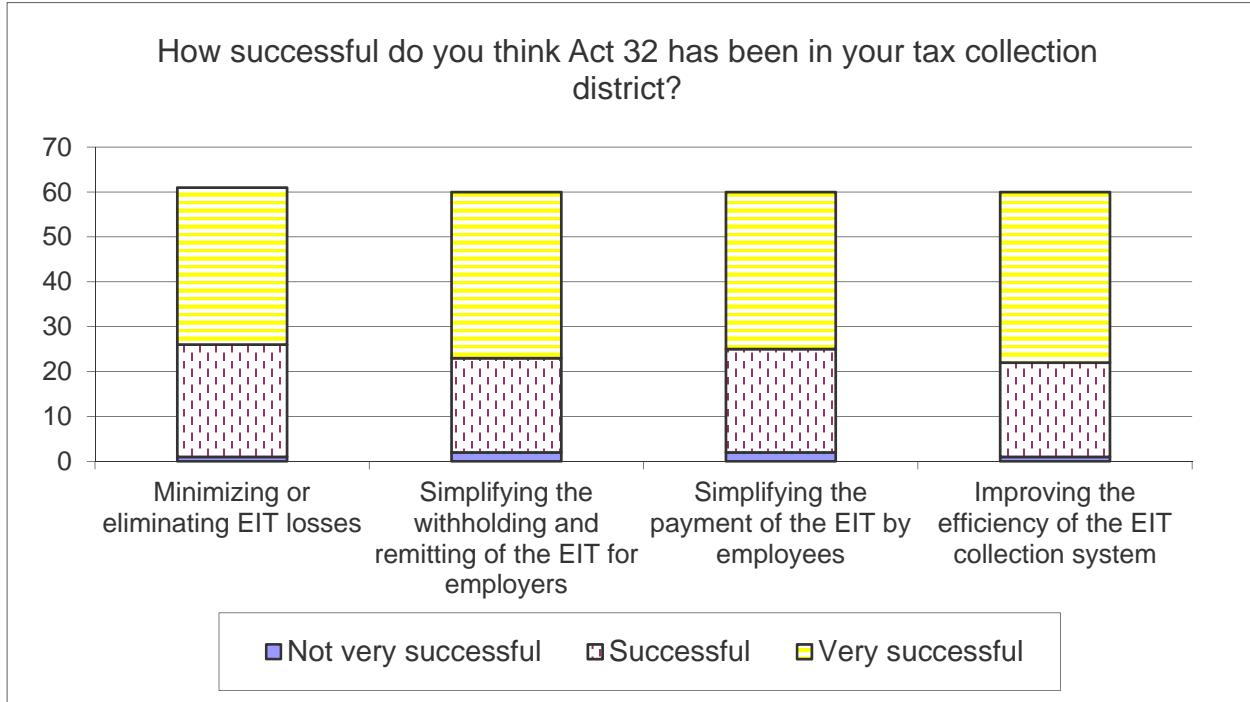
Tax Collection Committees - Question 13



Answer Options	Response Percent	Response Count
Good or very good	98.4%	60
Fair	1.6%	1
Poor or very poor	0.0%	0
If other than "Good or very good," please explain.	0.0%	0
<b><i>answered question</i></b>		<b>61</b>
<b><i>skipped question</i></b>		<b>0</b>



## Tax Collection Committees - Question 14



Answer Options	Very successful	Successful	Not very successful	Response Count
Minimizing or eliminating EIT losses	35	25	1	61
Simplifying the withholding and remitting of the EIT for employers	37	21	2	60
Simplifying the payment of the EIT by employees	35	23	2	60
Improving the efficiency of the EIT collection system	38	21	1	60
Comment				3
<b>answered question</b>				<b>61</b>
<b>skipped question</b>				<b>0</b>

### Comments:

- Centax caused a lot of problems in the beginning. Some of our subdivisions has serious money shortages because of this. Since Berkheimer took over, service has been great and there have been a lot less issues.
- These reflect the average rating of 5 of 7 Executive Board members. No member gave a rating of "Not very successful."
- Those taxing authorities who did not prior to Act 32 invest the time and effort to create a robust EIT collection process have benefited greatly. Those taxing authorities who had invested in their EIT process have not seem the same benefit

## Tax Collection Committees - Question 15

Please provide the name of your Tax Collection District

Answer Options	Response Count
	31
<i>answered question</i>	<b>31</b>
<i>skipped question</i>	<b>30</b>

- Indiana County TCC
- Berkheimer Tax Agency
- Franklin County
- Adams County
- Union County
- Mifflin County Tax Collection District
- WAYNE COUNTY
- Lycoming County TCD
- Montgomery County Tax Collection District
- Tioga County
- Perry County Tax Committee
- Allegheny Southeast
- Mercer County Tax Collection Committee
- Carbon County
- Capital Tax Collection Bureau
- Lebanon County
- Cumberland County TCC
- Delaware County
- Columbia County
- Butler County
- Fayette County Tax Collection District
- Bucks County
- Clarion County Tax Collection Committee
- York County Tax Collection Committee
- Armstrong
- Allegheny North Tax Collection District
- Crawford County TCC
- Butler County Tax Collection Committee
- Mercer County
- Westmoreland County Tax Collection Committee
- Lackawanna County TCD

## Tax Collection Committees - Question 16

**Do you have any recommendations or suggestions that would improve Act 32?**

Answer Options	Response Percent	Response Count
Yes	25.0%	15
No	75.0%	45
If yes, please explain.		15
<b>answered question</b>		<b>60</b>
<b>skipped question</b>		<b>1</b>

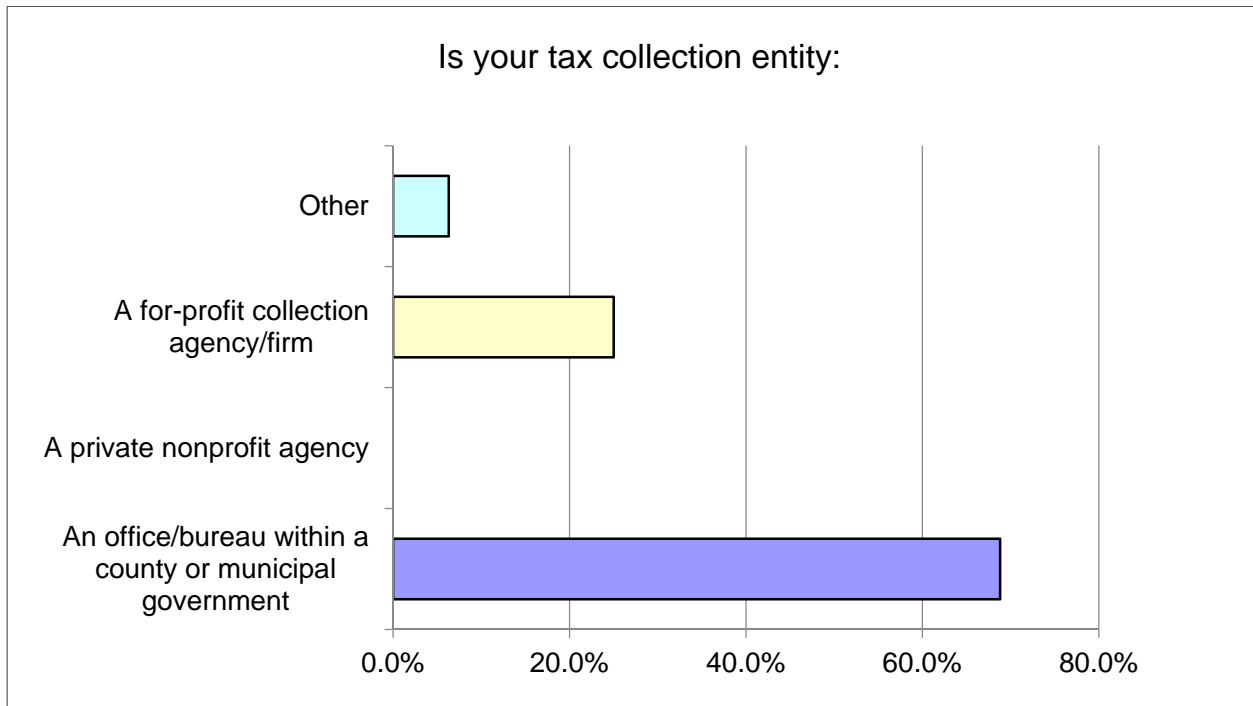
### Comments:

- Have committee collect all taxes in the taxing districts (county, school, borough, and township).
- More knowledgeable DCED staffing to address the needs of TCCs
- Apply the same requirements to the collection of property taxes.
- Act 32 does not adequately address the listing of local tax distributions on W-2 forms when the taxpayer resides/works in multiple jurisdictions during the year.
- Do not impose any restrictions on requiring electronic filing.
- I believe this legislation should include the collection of real estate taxes. The antiquated system of elected tax collectors is both costly and inefficient.
- We cannot meet the requirements for the quorum. It needs to be adjusted.
- All TCCs should require a SOC-1. Act 32 should require employers to report PSD Codes and actual workplace address. DCED should send out updated census data for all PSDs at least bi-annually.
- For us, things are working out very well as they are.
- The TCC should collect all taxes.
- I would have liked to see a reporting requirement for all of the taxing districts to report the following. All districts would be required to report annually their total net collection costs as a percentage of the taxing districts tax collected. And the percentage of those costs to the total taxes collected. These statistics would be published and available to all taxing districts and the public. This would give us the ability to judge how well each district is doing in the collection of their taxes and give us the ability to determine if a districts costs are out of line with other districts. We are one of the few who maintain their own tax collection office and I think we are doing much better than if we had a for profit group collect our taxes for us but we have no easy way to determine this. If the state were to gather these statistics it would give each taxing district a tool to better manage their tax collection costs.
- The DCED and the PA Department of Revenue should partner with local TCD to educate employers as to their obligations under the Act. There are many employers and payroll services such as ADP who do not understand their role in the tax collection process.
- Incorporate real estate and per capita collections to the county-wide system.
- Do the same for real estate collection
- change that TCC only are required to meet once a year

## B. Tax Collectors Survey Results

In July 2016, we sent an e-mail with a link to a Survey Monkey (online) questionnaire to the Chairpersons of all 17 EIT tax collectors, of whom 16 responded. Below is an analysis of the responses.

### Tax Collectors - Question 1

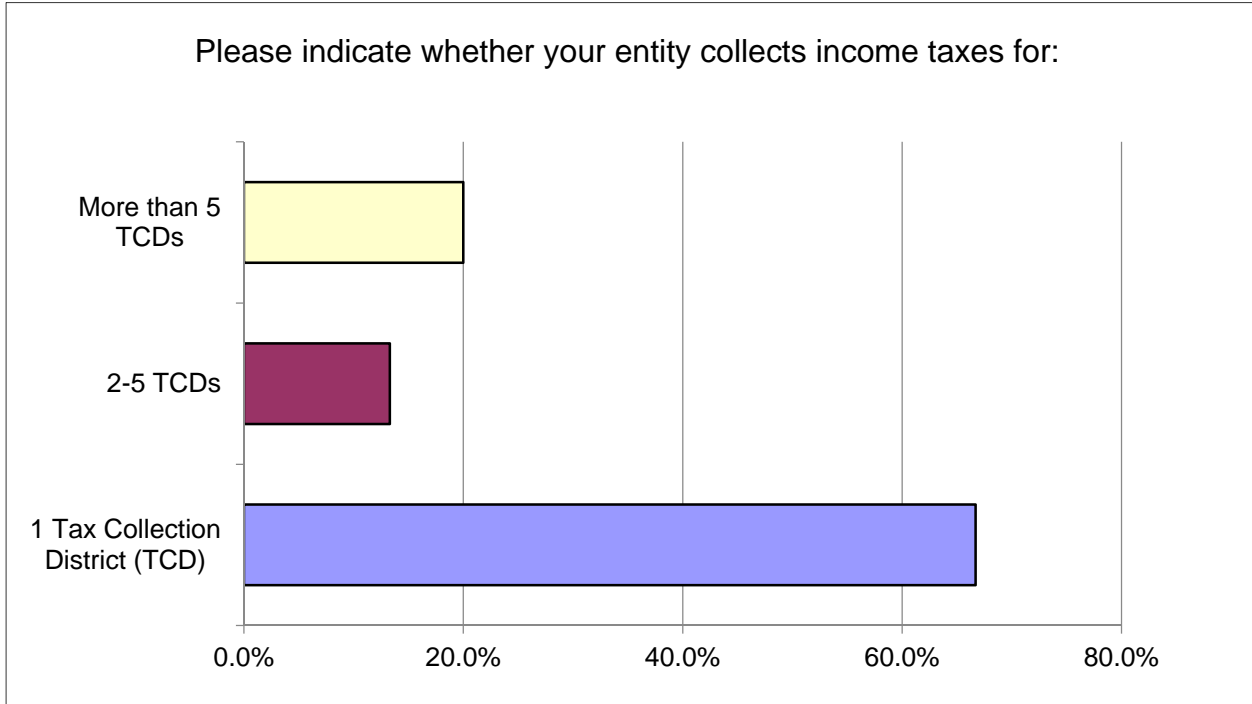


Answer Options	Response Percent	Response Count
An office/bureau within a county or municipal government	68.8%	11
A private nonprofit agency	0.0%	0
A for-profit collection agency/firm	25.0%	4
Other	6.3%	1
If "other," please explain		1
<b>answered question</b>		<b>16</b>
<b>skipped question</b>		<b>0</b>

Comment:

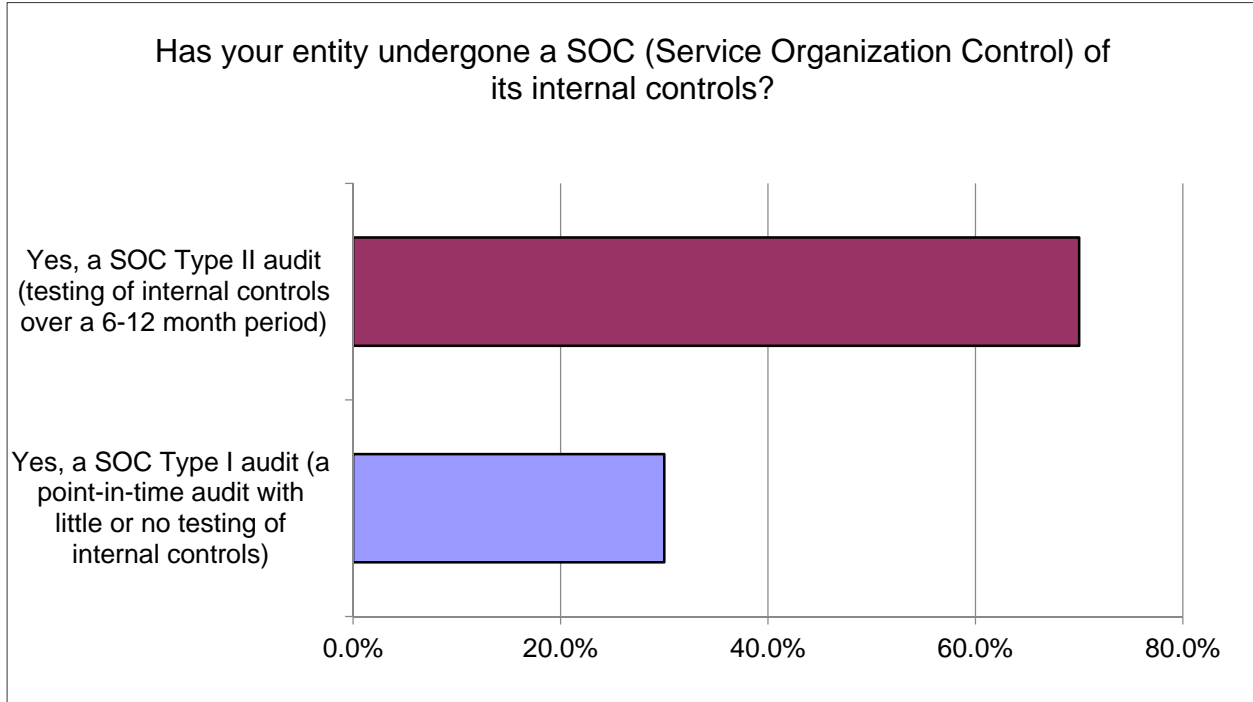
- The Cumberland County Tax Bureau is a division of the Cumberland County Tax Collection Committee. There is no contract, the CCTB is owned by the TCC.

Tax Collectors - Question 2



Answer Options	Response Percent	Response Count
1 Tax Collection District (TCD)	66.7%	10
2-5 TCDs	13.3%	2
More than 5 TCDs	20.0%	3
<b>answered question</b>		<b>15</b>
<b>skipped question</b>		<b>1</b>

Tax Collectors - Question 3

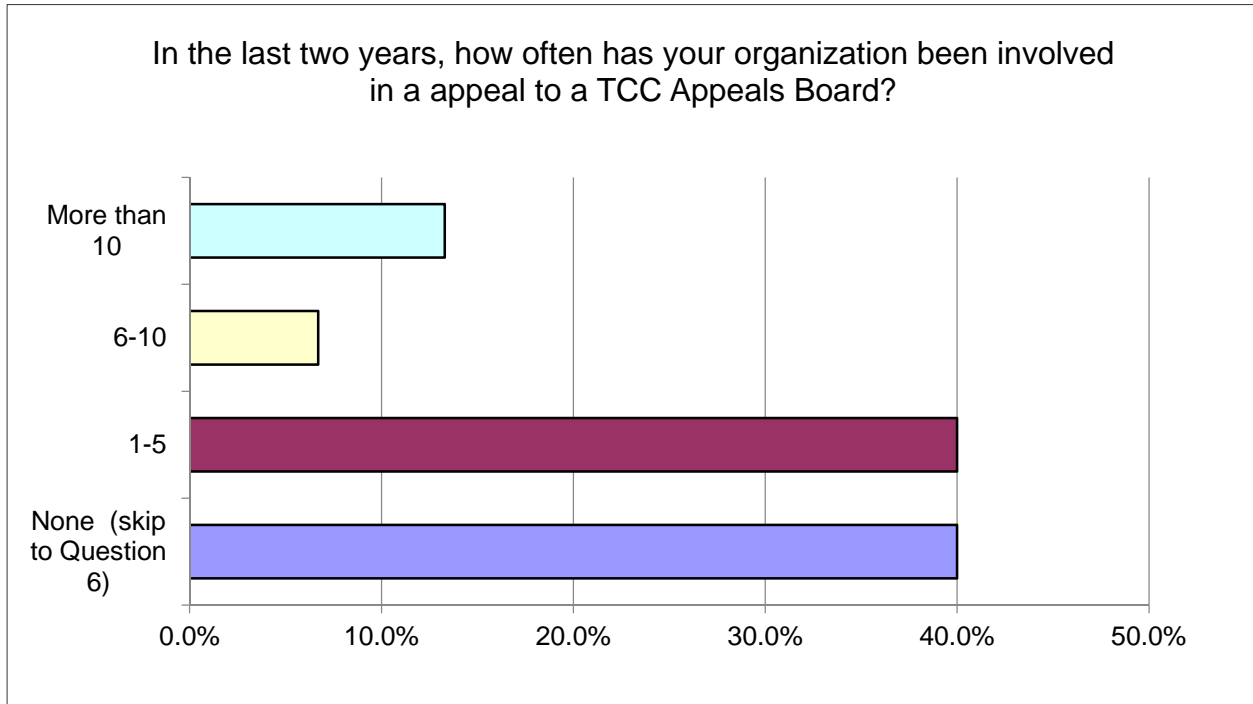


Answer Options	Response Percent	Response Count
Yes, a SOC Type I audit (a point-in-time audit with little or no testing of internal controls)	30.0%	3
Yes, a SOC Type II audit (testing of internal controls over a 6-12 month period)	70.0%	7
Comment		6
<b>answered question</b>		<b>10</b>
<b>skipped question</b>		<b>6</b>

Comments:

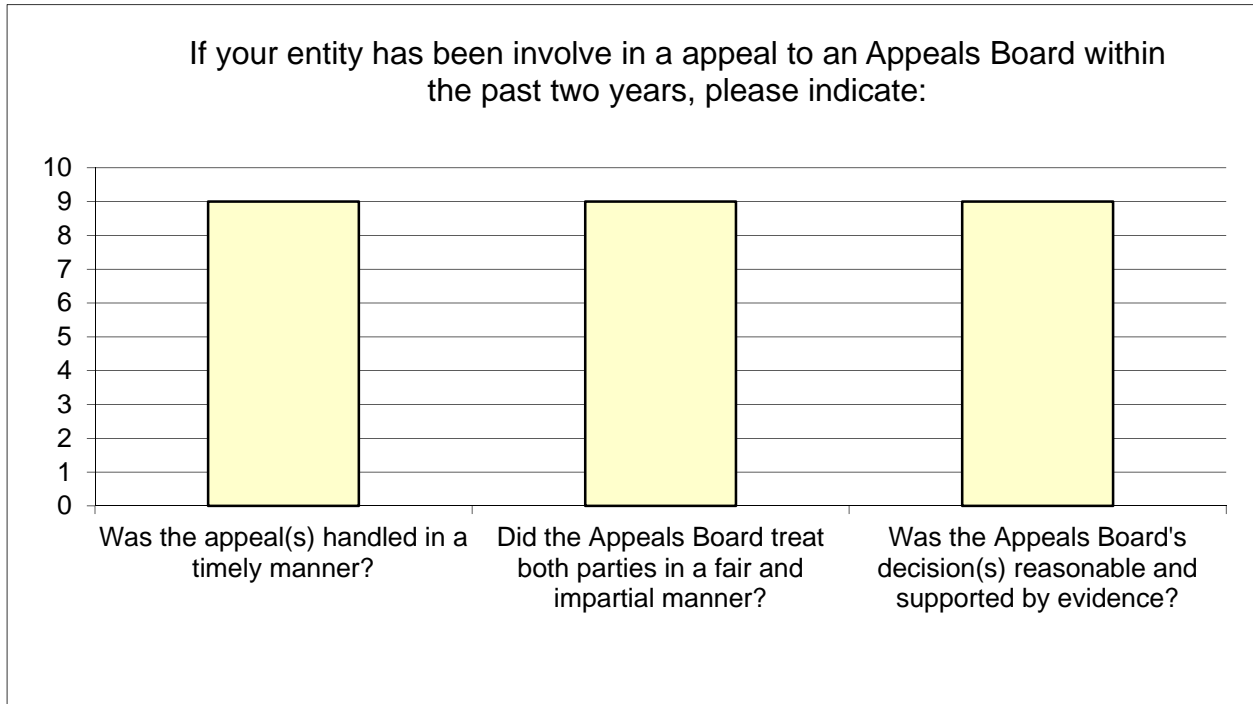
- No
- No
- YATB expects a full SOC II to be performed in 2017. SOC Preassessments have been done in 2013, 2014 and 2015 with the Bureau implementing recommendations as financially feasible.
- We have recently passed our 11th straight SOC audit without exceptions noted.
- Annual audit conducted by CPA
- None required by our contract.

Tax Collectors - Question 4



Answer Options	Response Percent	Response Count
None (skip to Question 6)	40.0%	6
1-5	40.0%	6
6-10	6.7%	1
More than 10	13.3%	2
<b>answered question</b>		<b>15</b>
<b>skipped question</b>		<b>1</b>

Tax Collectors - Question 5



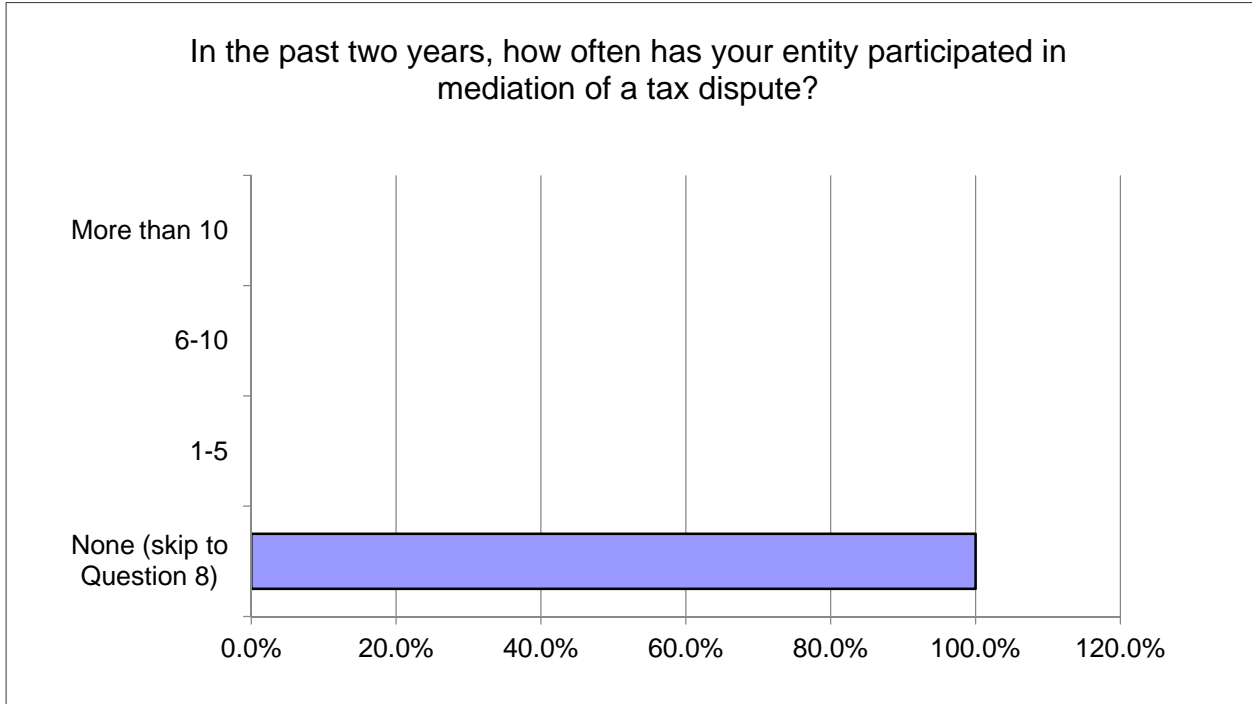
Answer Options	Yes (always or almost always)	Mixed (sometimes yes, sometimes no)	No (always or almost always)	Response Count
Was the appeal(s) handled in a timely manner?	9	0	0	9
Did the Appeals Board treat both parties in a fair and impartial manner?	9	0	0	9
Was the Appeals Board's decision(s) reasonable and supported by evidence?	9	0	0	9
Comment				1
<b>answered question</b>				<b>9</b>
<b>skipped question</b>				<b>7</b>

Comment:

- Appealer never showed.

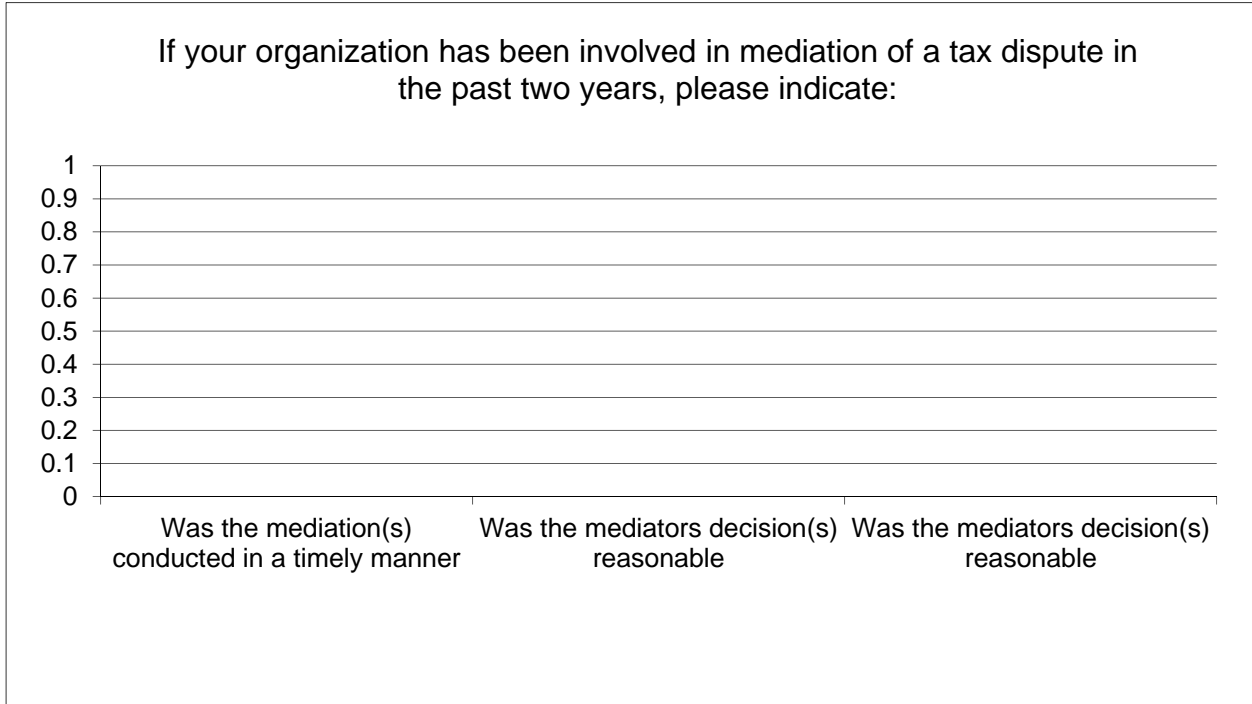


Tax Collectors - Question 6



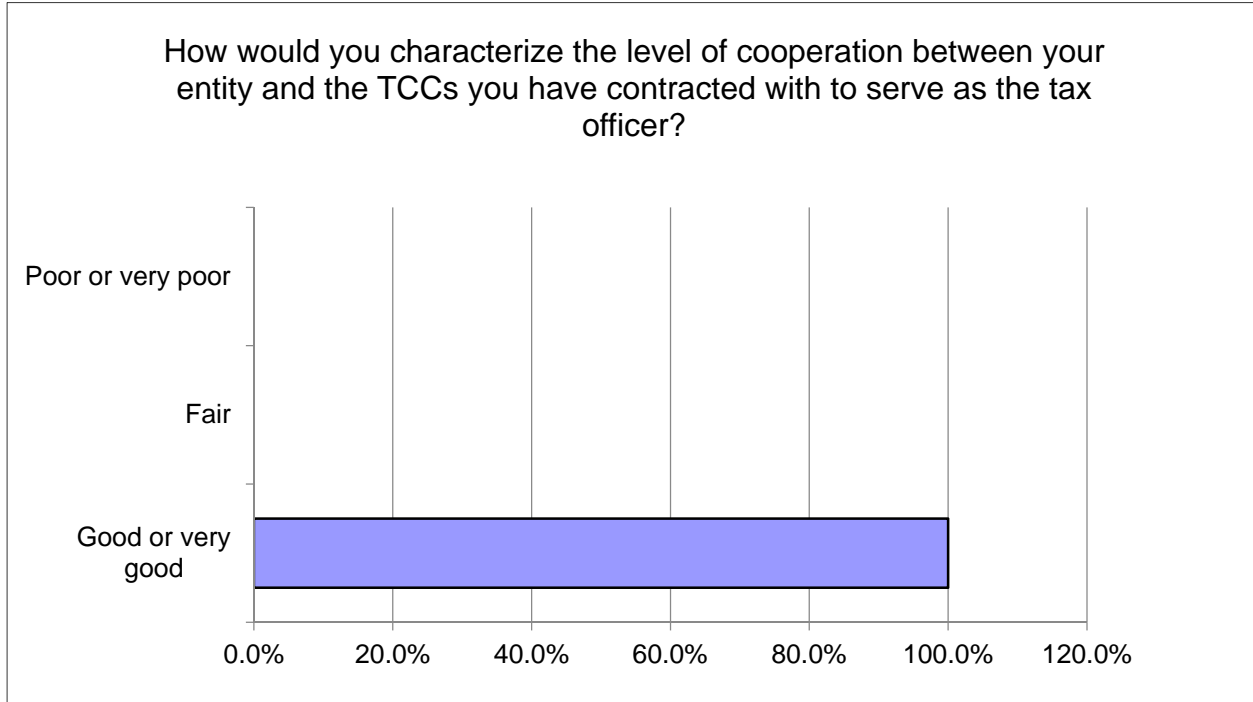
Answer Options	Response Percent	Response Count
None (skip to Question 8)	100.0%	15
1-5	0.0%	0
6-10	0.0%	0
More than 10	0.0%	0
<b>answered question</b>		<b>15</b>
<b>skipped question</b>		<b>1</b>

Tax Collectors - Question 7



Answer Options	Yes (always or almost always)	Mixed (sometimes yes, sometimes no)	No (always or almost always)	Response Count
Was the mediation(s) conducted in a timely manner	0	0	0	0
Were both parties treated in a fair and impartial manner	0	0	0	0
Was the mediators decision(s) reasonable	0	0	0	0
Comment				0
<b>answered question</b>				<b>0</b>
<b>skipped question</b>				<b>16</b>

Tax Collectors - Question 8

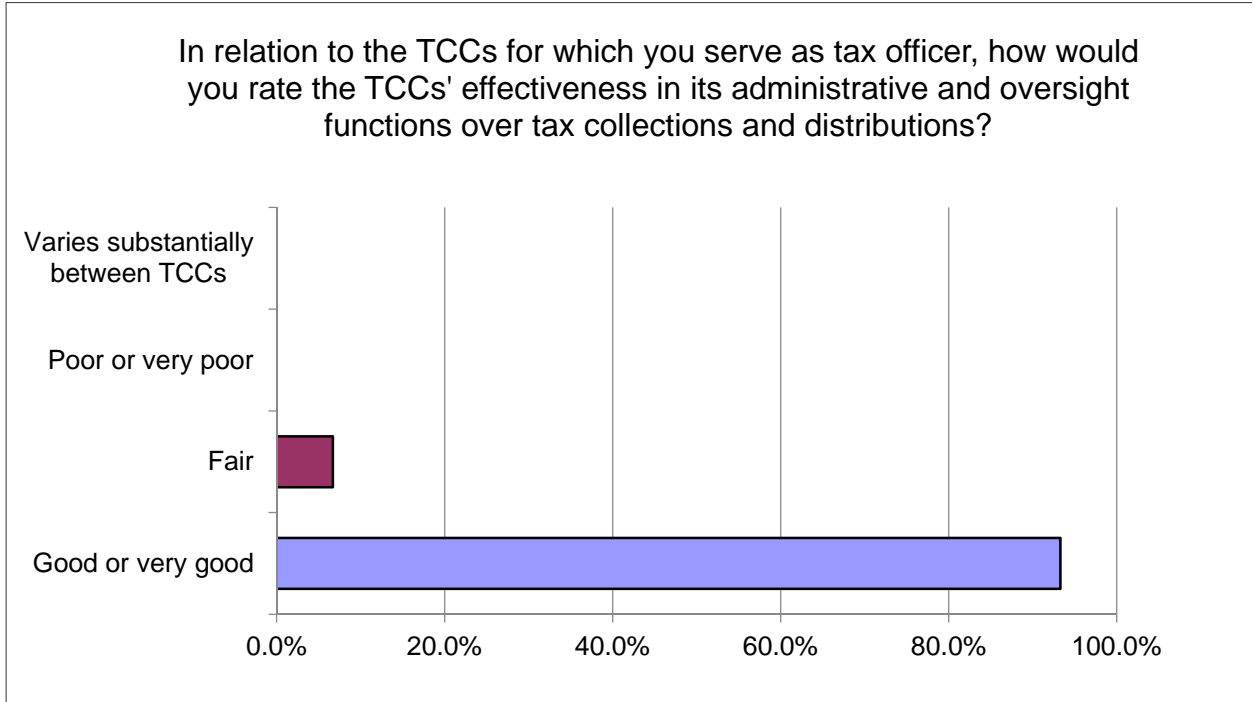


Answer Options	Response Percent	Response Count
Good or very good	100.0%	15
Fair	0.0%	0
Poor or very poor	0.0%	0
If other than "Good or very good," please explain.		3
<b>answered question</b>		<b>15</b>
<b>skipped question</b>		<b>1</b>

Comments:

- Excellent
- There is no contract.
- Our relationship with our 32 TCD's is strong with all of them. With no reported complaints on service or responsiveness.

Tax Collectors - Question 9

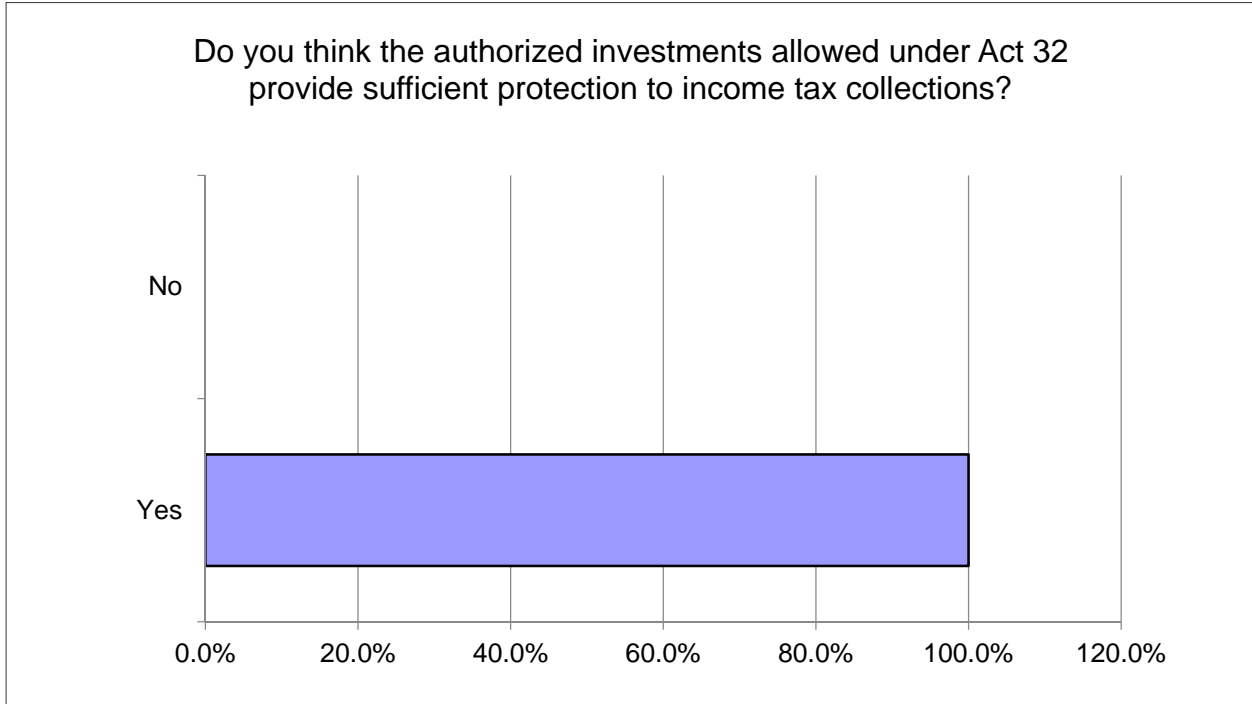


Answer Options	Response Percent	Response Count
Good or very good	93.3%	14
Fair	6.7%	1
Poor or very poor	0.0%	0
Varies substantially between TCCs	0.0%	0
If other than "Good or very good," please explain.		1
<b><i>answered question</i></b>		<b>15</b>
<b><i>skipped question</i></b>		<b>1</b>

Comment:

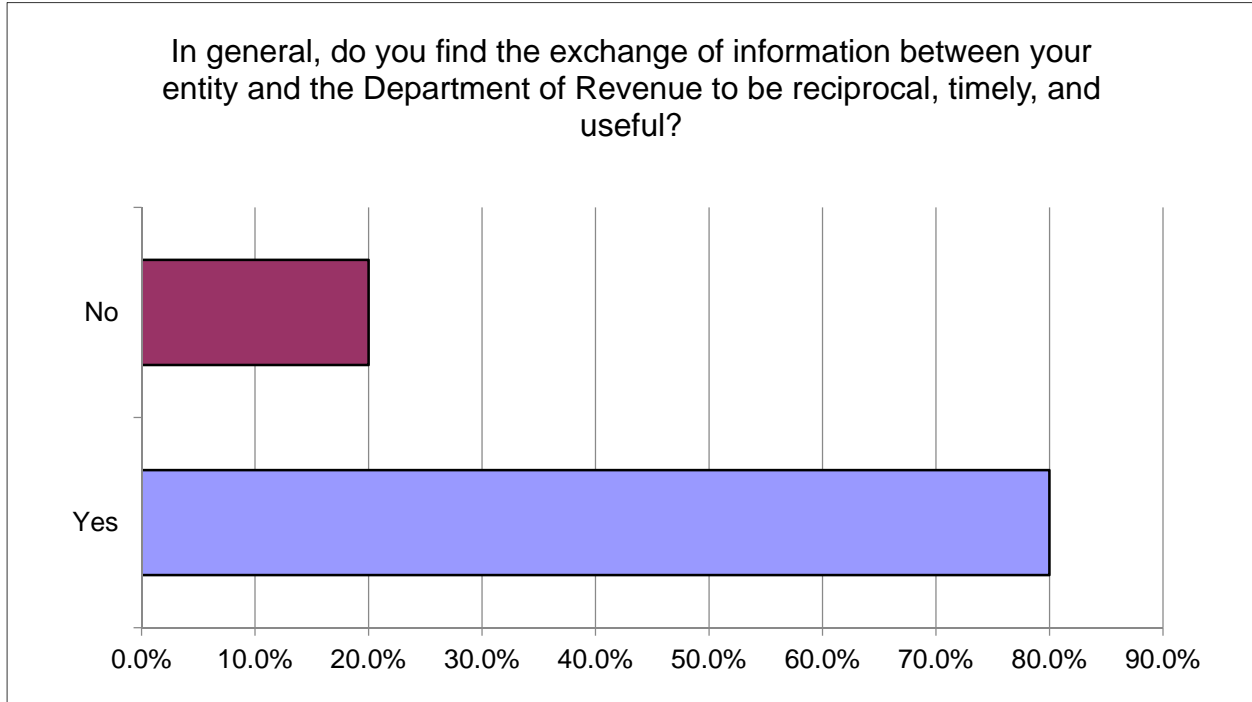
- Excellent

Tax Collectors - Question 10



Answer Options	Response Percent	Response Count
Yes	100.0%	15
No	0.0%	0
If no, please explain.		0
<b><i>answered question</i></b>		<b>15</b>
<b><i>skipped question</i></b>		<b>1</b>

Tax Collectors - Question 11

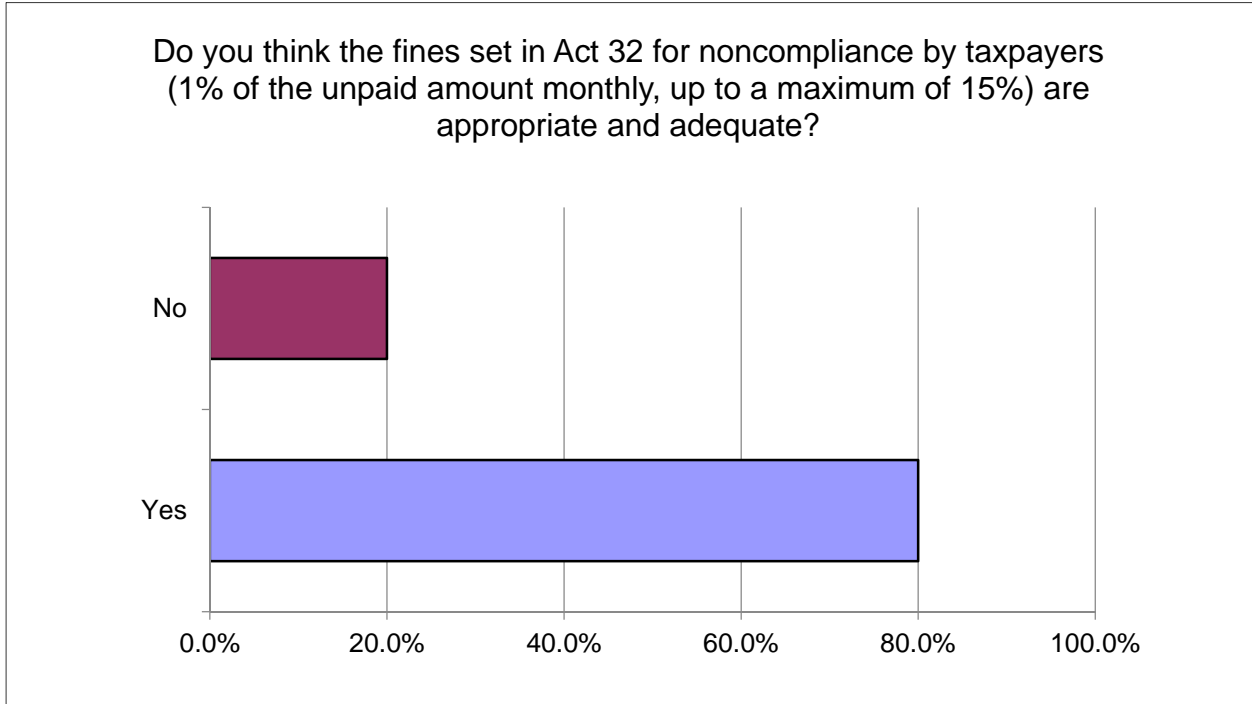


Answer Options	Response Percent	Response Count
Yes	80.0%	12
No	20.0%	3
If no, please explain.		5
<b>answered question</b>		<b>15</b>
<b>skipped question</b>		<b>1</b>

Comments:

- Faster turnover of Revenue data to the tax officer would positively impact recovery of unpaid and underpaid EIT accounts.
- Would like info on amended returns
- It is not timely. The data is 2 year's old and the accuracy is suspect at best.
- The Dept. of Revenue lacks providing updated local info on the proposed law changes. Example - the recent change w/ the taxation of military pay. No notice was given. If you are not proactive and search for info, you may never be aware. In addition the TCC's are never contacted regarding their thoughts on changes made to the "prescribed" forms etc. A poll of the TCD's or Executive Directors would provide useful information.
- In our transient geographic region, difficult finding taxpayers since many have moved out of state or out of the country.

Tax Collectors - Question 12

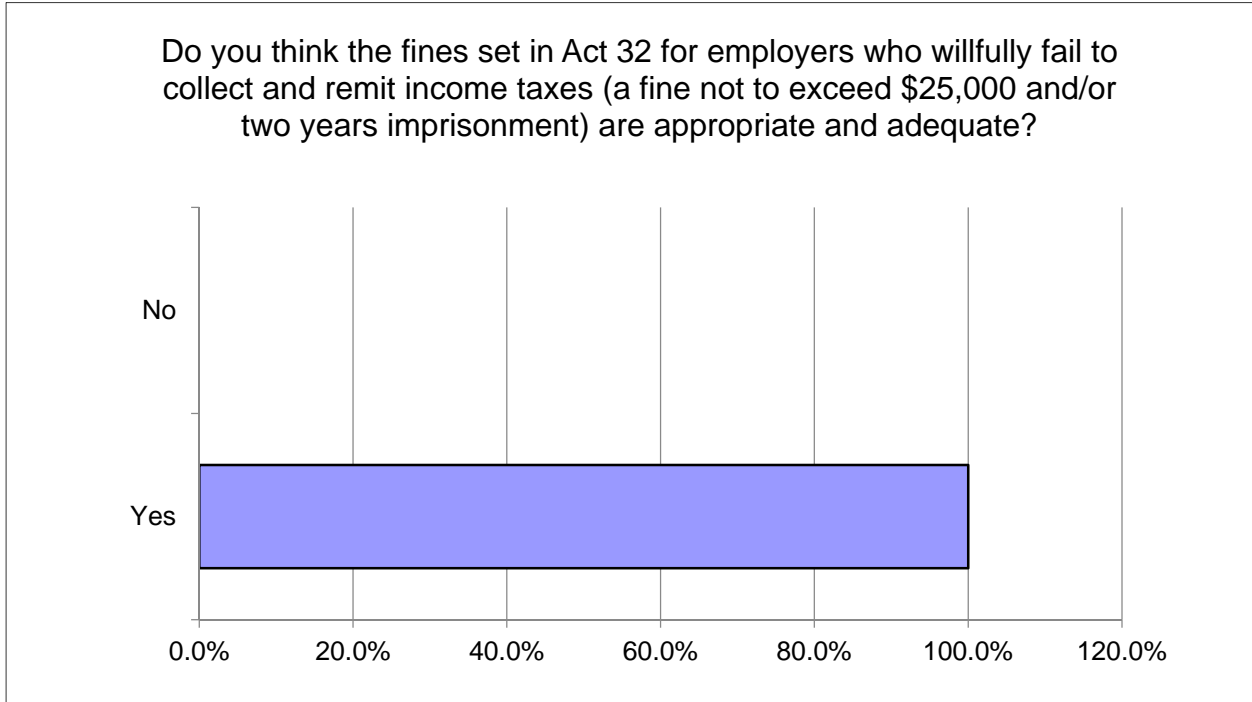


Answer Options	Response Percent	Response Count
Yes	80.0%	12
No	20.0%	3
If no, please explain.		5
<b><i>answered question</i></b>		<b>15</b>
<b><i>skipped question</i></b>		<b>1</b>

Comments:

- The 15% cap should be increased until the Department of Revenue can speed the turnover of PA-40 data to the tax officer.
- Are we correct thinking the 15% per the Act 32 manual is per year?
- I believe the word "fine" should be "penalty". Based on that change, the answer is 'yes'.
- My opinion is a maximum of 25%
- Due to late timing of Revenue file, the 15% cap seems too light.

Tax Collectors - Question 13



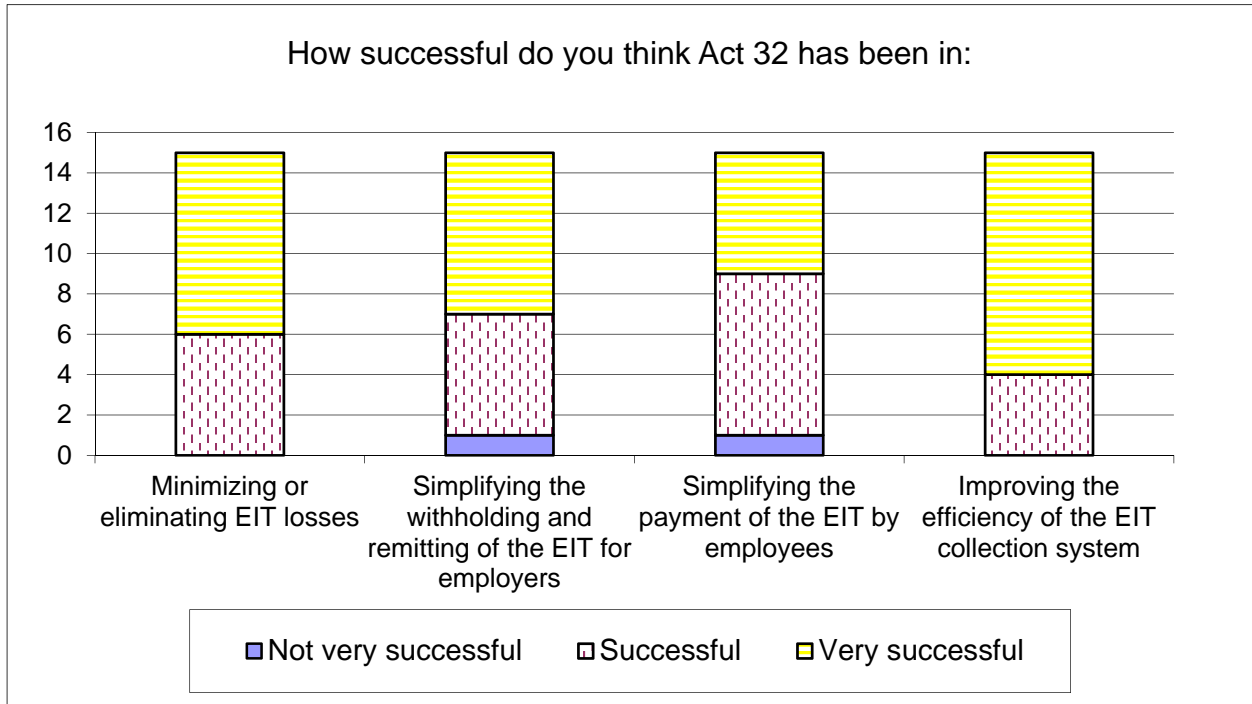
Answer Options	Response Percent	Response Count
Yes	100.0%	15
No	0.0%	0
If no, please explain.		2
<b><i>answered question</i></b>		<b>15</b>
<b><i>skipped question</i></b>		<b>1</b>

Comments:

- However no District Magistrate will ever apply the maximum sentence. The ones in [our] County fine about \$100 per incident and never go over.
- We have not had to take an employer to court to enforce the Act, so we have not seen the fees applied by a court against an employer to date.



Tax Collectors - Question 14

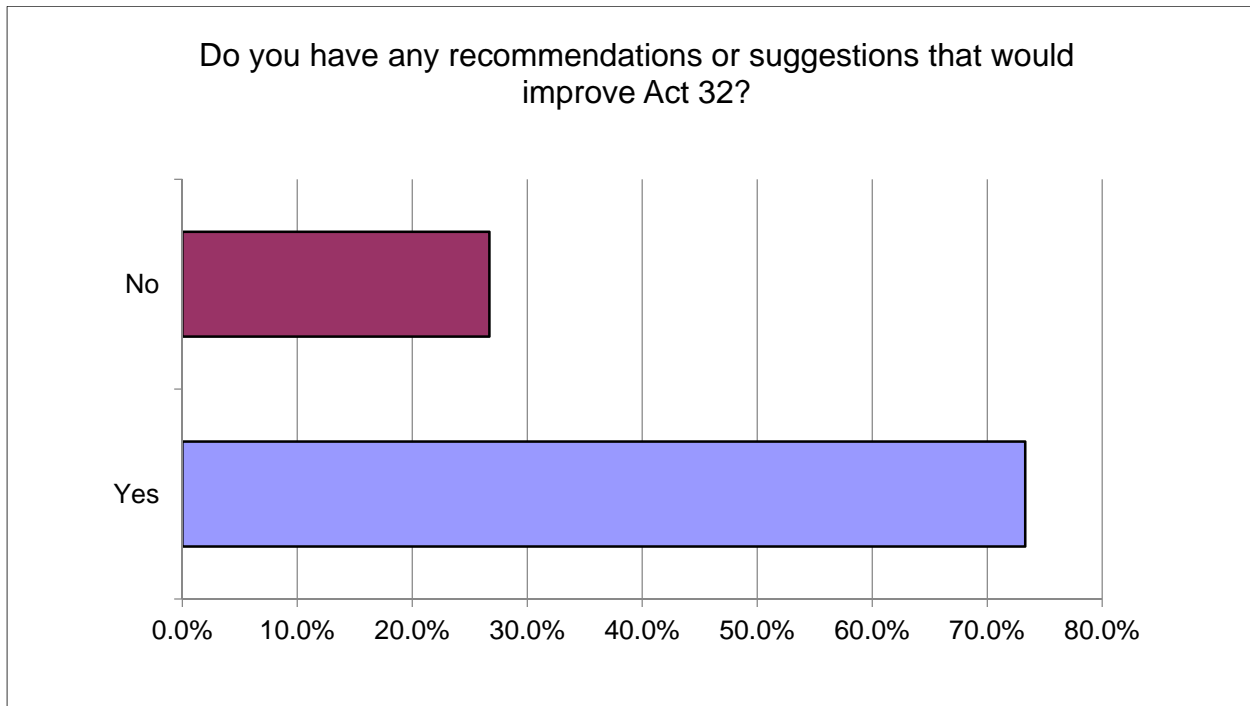


Answer Options	Very successful	Successful	Not very successful	Response Count
Minimizing or eliminating EIT losses	9	6	0	15
Simplifying the withholding and remitting of the EIT for employers	8	6	1	15
Simplifying the payment of the EIT by employees	6	8	1	15
Improving the efficiency of the EIT collection system	11	4	0	15
Comment				2
<b>answered question</b>				<b>15</b>
<b>skipped question</b>				<b>1</b>

Comments:

- Many employers do not understand how to use the PSD codes...especially if they are submitting to one TCC for all their locations.
- Appreciate the uniformity Act 32 has brought to the collection and distribution process.

Tax Collectors - Question 15



Answer Options	Response Percent	Response Count
Yes	73.3%	11
No	26.7%	4
If yes, please explain.		10
<b>answered question</b>		<b>15</b>
<b>skipped question</b>		<b>1</b>

Comments:

- In light of cyber security concerns world-wide, as well as basic fiduciary duties, a tax collector responsible for administering substantial public funds must meet expected requirements for system controls and data integrity under a SOC 1, Type 2 audit. 2. Tax Withholding Compliance - Act 32 currently mandates that employers and payroll processors report political subdivision (PSD) codes for workplace locations. Act 32 does not mandate that employers report the actual street address for the workplace location. As such, the tax collector is oftentimes unable to verify the accuracy of the PSD code supplied by the employer. The tax collector cannot ensure that the requested income was indeed earned in the reported jurisdiction as indicated only by a PSD code. The Act should mandate that the employer report both the PSD code and actual workplace address.
- Stronger penalties forcing collectors to remit timely monies to other collectors
- Make whatever is taxable as compensation and net profits on the state return be exactly the same on the local return. (2) DCED should sponsor at least 1 meeting per year for collectors to get together and discuss issues. (3) DCED should approve electronic file formats that MUST be accepted by all offices. They do it for forms...they should be able to do it for electronic file formats as well. If the offices want to have their own version of certain file formats, that would be fine; but they should be at least one version that all offices had to accept.
- As Act 32 was written to increase uniformity, regular meetings need to be held with Act 32 collectors. In the early part of Act 32 several meetings were held, but that stopped. Those meetings should

address uniformity in forms, reporting, tax credits to name a few. Most importantly, any suggested Act 32 changes as a result of the 2016 audit need to involve the stakeholders of collectors, school district and municipal representatives.

- Give DCED resources and authority to oversee the ACT and enforce provisions of ACT on collectors who are not responsive to claims or making timely distributions of EIT.
- Employer education. Employers needs help and explanation of why it is so important to provide correct PSD for employees. Having a correct workplace PSD and employee home address PSD will promote proper distribution of tax collected to the proper jurisdictions.
- Including Local Services Tax and Flat Rate Occupation Tax into the mix. The law fell short by not including. The LST has many collectors in a TCD and it causes a great deal of confusion among the employer remitting the tax. In addition, the Flat Rate Occupation Tax is a maximum of \$10. There is a TCC in our district that counts of the taxpayer not receiving their postcard as a means of collecting the cost/penalty/interest. In addition, the post card does not reference earnings. Sr Citizens with no working income have been billed and paid this tax that does not apply. Again, including it as part of Act 32 would help eliminate these problems.
- The only improvement would be to have the Rules and Regulations that were to be developed by the DCED finalized and available to be referred to when a question arises.



## **IV. Appendix**

**Audit and Evaluation of Act 32**  
 Dauphin County Tax Collection Committee

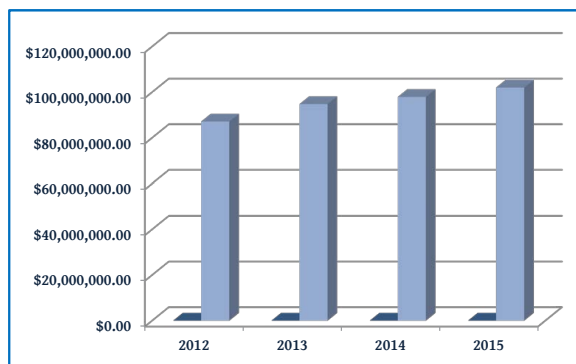
Executive Summary

**Introduction**

The Pennsylvania Legislature gave communities provision to tax income at the local level in 1965. Many localities took advantage of this power, and by the turn of the century, there were a multitude of tax collectors across the Commonwealth, each with its own forms, rules and procedures. The result was a tangled hodgepodge that netted more frustration than revenue.

Act 32 of 2008 sought to sort out the morass with consolidated collection, standardization and accountability. The Act reduced the number of tax collection zones from 560 to 67 county-wide Tax Collection Districts, each governed by a Tax Collection Committee. The law also established employer withholding requirements, electronic collection and distribution of revenues, and transparency and accountability.

The effect on revenues in Dauphin County was immediate. Actual collections surpassed government projections by 6.5% in 2012, the year Act 32 was implemented. By 2015, annual local income tax revenues county-wide grew by an additional 18.5% to over \$103 million from the \$81.8 million projected before Act 32.



**TCD-Wide EIT Collections 2012-2015**

Much of this positive impact on revenues is attributed to the employer withholding mandate. Under Act 32, employers are required to withhold local earned income taxes from payroll. The result is higher revenues and a highly efficient form of tax collection and distribution.

**Need for Education**

Employers already had experience in payroll tax withholding at the federal and state levels. Local withholding presented new challenges. Unlike federal and state withholding, local income tax rates vary by location, where the employee lives and works. Some communities impose higher tax rates based on their status as Act 47 distressed communities, others to fund public pensions and preserve open space. Many have a “commuter” tax. A new Political Subdivision (PSD) coding system was set up under the new Act by the DCED. The PSD codes are required for every employee withheld, based on where the employee lives and where the employee works.

Businesses were aware they needed to withhold the EIT, but many did not know how to comply with the intricacies of the new law. Businesses needed tools and assistance.

The Dauphin County TCD’s Tax Officer, Keystone Collections Group, quickly filled the education vacuum. The TCC and Keystone began developing relationships with business organizations, creating teaching models, and conducting compliance seminars for employers, the employment divisions of the Commonwealth, and the many payroll service providers.

Keystone IT and legal professionals coordinated data transfer protocols with the large employers

## Audit and Evaluation of Act 32

### Dauphin County Tax Collection Committee

and the major payroll companies. Soon, data transfers (both electronic and hard copy) were moving rapidly, inaccuracies corrected quickly and non-compliant employers alerted and re-educated.

Keystone also hosted educational seminars for small employers throughout Dauphin County to share user-friendly online reporting systems. Keystone worked jointly with such organizations as the Harrisburg Regional Chamber of Commerce and the Hershey and Elizabeth chambers of commerce.

### **Online Tools for Business**

To handle the volume and speed of the expansive payroll withholding system envisioned by Act 32, the Dauphin County TCD's Tax Officer provided a clear and efficient method of electronic filing for employers. As a result, over 90% of businesses that report their payroll withholdings to Keystone now use the online *Business Portal*.



Dauphin's Tax Officer is fully automated, which speeds the process for businesses to file their payroll withholdings electronically along with all required employee data – employee name, Social Security number, employee home address, and workplace and resident PSD codes. The Tax Officer then processes the employer-provided information and rapidly distributes the resulting revenue.



Keystone administers the multiple payroll levels of the Commonwealth, the State Legislature, the Commonwealth Court system, the State University system, the Auditor General, the Treasury Department, etc., disbursing tax in every county in Pennsylvania.

### **Act 32: Easy for Individual Taxpayers**

Keystone's proprietary Tax and Collection System (TACS) software creates an individual wage account for the taxpayer as soon as the employer reports the withholding. Keystone's exclusive Geo-Code Address Master Software cross-checks the employer-supplied PSD code against Geographic Information System data, County Assessment Office data, and boundary mapping software to ensure the taxpayer's resident municipality and school district receive the appropriate tax disbursement.

***By 2015,  
annual revenues  
grew by 18.5%  
to \$103 million,  
far exceeding  
the projected revenues  
before Act 32***

With Act 32, paying taxes throughout the year requires virtually no effort on the part of most taxpayers. By April 15, taxpayers need only click a few buttons on their home computer, mobile phone or any other smart device to *e-file* the annual return.

In Dauphin County, the rate of taxpayers changing from paper filing to online filing has nearly

## Audit and Evaluation of Act 32

Dauphin County Tax Collection Committee

doubled each year since 2012. Taxpayer service is always available, with 24/7 online help. During normal business hours, taxpayers can call toll-free to speak with a well-trained, Pennsylvania-based representative, or visit the Tax Officer's Susquehanna office for face-to-face assistance. The Tax Officer has a separate, dedicated CPA helpline for professional tax preparers to speak with senior processors. There is also a Client Services Division committed exclusively to addressing the needs of Dauphin County school districts and municipalities.



To identify taxpayers who fail to file returns or pay the full tax due, the Tax Officer conducts an extensive annual taxpayer audit. The Dauphin County TCC assists Keystone in obtaining the Pennsylvania Department of Revenue earned income records for each Dauphin County resident taxpayer. The Tax Officer then conducts a comparative analysis of earned income reported on the PA-40 return to income reported locally. Every discrepancy triggers a notice of inquiry.

### Accountability and Transparency

As noted earlier, in 2015, Dauphin County communities collected over \$103 million in current-year annual revenues. The amount of tax revenue actually withheld and reported to the Tax Officer in Dauphin County was significantly higher, totaling nearly \$162 million. Nonetheless many individuals working in Dauphin County live in other counties, accounting for this \$59 million difference. The EIT is primarily a resident tax. Using the Geo-Code protocols discussed above, the Tax Officer ensures that these public monies are timely distributed to the appropriate resident taxing jurisdictions. Likewise, the Act mandates that the surrounding county tax officers accordingly disburse to Keystone funds collected in their districts that belong to Dauphin County communities.

These and all transactions administered under the Act are subject to regular, independent financial audits of the Tax Officer's administration. The Dauphin County TCC delegates recognize that the Act 32 auditing requirements foster transparency and accountability of the Tax Officer and thereby create an incentive for greater efficiencies. The Dauphin TCC goes one step further, in requiring the Tax Officer's technology and operational controls also be audited. By requiring this SOC-1, Type 2 annual audit of the Tax Officer, to compliment the annual Financial Report (Yellow Book) audit, the Dauphin TCC's Tax Officer is fully transparent, accountable and safe.

*Act 32 auditing requirements foster transparency and accountability and create an incentive for greater efficiencies*

In addition to these annual financial and system control audits, the Tax Officer submits Act 32 monthly collection reports to each municipality and school district, providing detailed accounting of tax collection. The Tax Officer also provides aggregate monthly collection reports to the TCC that provide the big picture regarding cash flow, as well as further detailed breakdown of collections and transactions



## **Audit and Evaluation of Act 32**

### **Dauphin County Tax Collection Committee**

throughout the Dauphin TCD. As such, local governments are enabled to check and monitor cash flow for internal budgeting and operations. The efficiencies of Act 32 here create regularity and reliability for local governments in a manner unseen before Act 32.

In order to advance the efficiencies of Act 32, the Dauphin TCD Tax Officer, Keystone, continuously develops and improves its technologies in data extraction, processing automation and methods of revenue distribution. Keystone distributes most collections within hours after receipt and processing – not weeks or months as occurred in most places in Pennsylvania under the pre-Act 32 System. Revenues are deposited directly into the taxing jurisdictions’ bank account by ACH. This process provides a steady stream of revenues, with weekly reporting that identifies and segregates current tax year money from prior tax-year money, so as to distinguish the recurring revenues from non-recurring recoveries.

It is particularly important to distinguish between the current tax year revenue versus prior tax year recoveries for municipal budgeting purposes. For instance, the local government needs to know what amounts are anticipated as current-year EIT cash flow and, of course, whether incoming receipts are indeed meeting the budgeted projections. On the other hand, prior-year recoveries, while significant, are revenue

boosts that may not be similar in amount from quarter to quarter or year to year. Indeed, as the Act 32 system continues to become more and more efficient, the need and result from delinquent recovery efforts will become minimized.

*Act 32 increased  
public confidence  
in the honesty  
and fairness  
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### **Conclusion and Recommendations**

By any reasonable measure, Act 32 is a success. The earned income tax revenue has significantly exceeded initial expectations, while at the same time the cost of collection was dramatically reduced from the pre-Act 32 era. Advances in technologies have dramatically improved both the efficiency of tax collection and the accuracy of tax distribution. Similarly, the oversight and careful scrutiny inherent in the design, duties and responsibilities of the TCC have raised not only the level of performance in tax collection across Pennsylvania, but they have increased public confidence in the honesty and fairness of the tax system.

Like all successful programs, even this one can be improved. As such, the TCC and its oversight subcommittees make several recommendations in its full report for consideration by the Legislature and the DCED.



## APPENDIX B

### **Response to This Report**

October 19, 2016

The Honorable Robert Mensch, Chair  
Legislative Budget and Finance Committee  
Room 400A Finance Building  
613 North Street  
P.O. Box 8737  
Harrisburg, PA 17105

Dear Chairman Mensch:

Thank you for the opportunity to review your report on Act 32-2008, which consolidated 560 local earned income tax collectors into 69 tax collection districts, making it the most significant change to local tax collection law and local government operations in a generation.

It has been the Pennsylvania Department of Community and Economic Development (DCED)'s pleasure to work with the Legislative Budget and Finance Committee. You and your staff's thoroughness and professional diligence have made the positive results of Act 32 easy to understand.

Act 32 amended the Local Tax Enabling Act, Act 511 of 1965, to consolidate the collection of Earned Income Tax (EIT) on a countywide basis. The act was a result of a 2004 report published by the Department of Community and Economic Development--a three-year study that documented the fragmentation, complexity and inefficiency of the earned income collection system.

Under the prior EIT system, 560 taxing authorities collected nearly \$1.9 billion in annual revenue for all local taxing jurisdictions. Pennsylvania currently has more taxing jurisdictions levying a local income tax than all other states combined. Because of inefficiencies in this system, it had been estimated that as much as \$237 million had been lost annually, revenues that should have been available to municipalities and school districts. Indeed, your report indicates that revenues have increased by approximately \$173 million without raising rates.

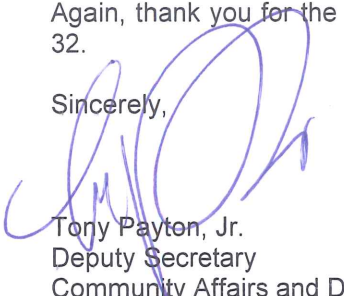
Additionally, the system had created a burden on employers that had led to an increase in the cost of conducting business within the Commonwealth. The administration of the tax was fragmented, confusing, and often unfair to taxpayers.

By reducing the number of collectors from 560 collectors to 69 tax collection districts, Act 32 streamlined the local tax collection system by reducing overhead and transferring tax revenues more efficiently and expediently. The legislation also made collection forms and procedures uniform. Finally, tracking, auditing and oversight requirements have provided accountability and added financial safeguards needed to restore integrity and transparency to the system.

The Honorable Robert Mensch  
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October 19, 2016

Again, thank you for the opportunity to review and comment on your report regarding the results of Act 32.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Tony Payton, Jr.', is written over the word 'Sincerely,'.

Tony Payton, Jr.  
Deputy Secretary  
Community Affairs and Development

cc: Rick Vilello, Executive Director, Governor's Center for Local Government  
Sean Sanderson, Local Government Policy Manager, Governor's Center for Local Government  
Barry Wickes, Director, Office of Legislative Affairs