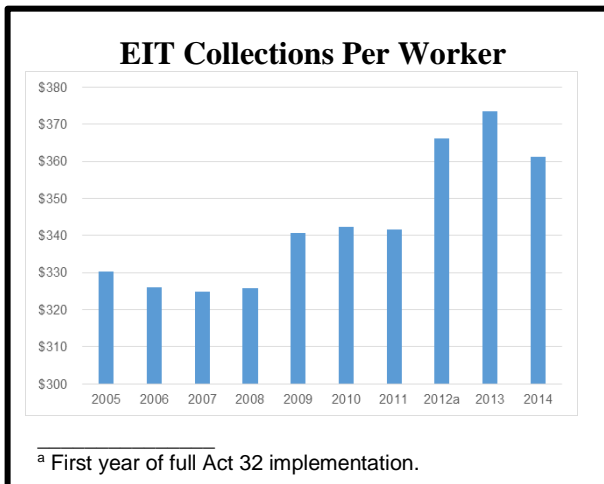


The Impact of Act 32 on the Collection of Local Earned Income Taxes

Act 2008-32 required the Legislative Budget and Finance Committee (LB&FC) to assess the implementation and effectiveness of the act's provisions to modernize and streamline earned income tax (EIT) collections.

Findings:

- **We found widespread agreement among tax collectors, municipalities, and employers that Act 32 has been a marked success.** Prior to Act 32, each of PA's 2,900 jurisdictions selected an EIT collector, resulting in about 560 tax collectors. After Act 32, this was reduced to 69 tax collection districts and fewer than 20 tax collectors. While some organizations offered suggestions for how the act could be improved, the most common recommendation was to use Act 32 as a model to modernize the collection of other local taxes, such as property taxes, the LST, and business privilege taxes.
- **Act 32 appears to have increased EIT collections by about \$173 million annually.** We estimated that EIT collections increased by about \$29 per worker, or \$158 million on a statewide basis, due to the improved efficiencies of Act 32.



We also found that in the two years after Act 32 was enacted, EIT collections as a percentage of PIT compensation, increased by 0.07%, or \$188 million annually. Averaging these two estimates yield an annual projected increase in EIT collections of \$173 million since 2012, the first full year of Act 32 implementation.

- **Not all tax collection committees (TCCs) are conducting or submitting the required annual audits.** Act 32 requires all TCCs to have audits conducted of the EIT receipts and distributions made by their tax collector. The audits are then to be submitted to DCED and, if there is a finding of noncompliance, to the Auditor General. We reviewed the 2014 audits and found seven TCCs that did not complete an audit in 2014 and six TCCs that had audits completed, but they were not filed with DCED. Five other audits were not done in the recommended format, were missing key pieces of information, or should have been filed with the Auditor General's office but were not.
- **61 (of 69) tax collection committees and 16 (of 17) tax officers responded to our questionnaires.** We were not able to visit/inspect all the TCCs or tax officers, so we largely relied on questionnaires and the Act 32 audits to assess compliance with Act 32. While the responses we obtained contain various recommendations for how Act 32 could be improved, as a whole they express widespread praise for the improvements enacted by Act 32.
- **DCED has proposed regulations to significantly strengthen the level of internal controls at tax collector offices.** The regulations, which are currently under review by the IRRC, would, among other requirements, require tax collectors to under-go a more rigorous "SSAE 16" audit of their internal controls at least every 2 years.

Recommendations

1. DCED monitor the tax collection committees to ensure that annual audits are submitted as required.
2. DCED post summary information on tax collector costs on its internet website.
3. DCED continue its efforts to promulgate regulations regarding the administration of Act 32.