



Testimony Presented by

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To the

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Good morning Chairman O'Neill, Chairman Wheatley, and members of the House Finance Committee. On behalf of the Pennsylvania Institute of Certified Public Accountants (PICPA), thank you for the opportunity to discuss with you Act 32 of 2008, the local earned income tax collection reform law, as well as recommendations to improve the system in the form of House Bill 245, sponsored by Rep. George Dunbar. My name is David Caplan. I am a CPA, a member of the PICPA's Committee on State Taxation, and current chair of its Act 32 task force. I am a sole practitioner with a firm in Lafayette Hill, Pa. Joining me this morning is Steve Geisenberger. Steve is a CPA and a tax principal with the Walz Group, a CPA firm in Lancaster, Pa. He is a member of the American Institute of Certified Public Accountants' governing body and has served on the PICPA Legislation Committee for more than 20 years.

The PICPA was founded in 1897 and is currently the fourth-largest CPA organization in the country. The PICPA represents more than 20,000 CPAs from across the Commonwealth, and membership is composed of CPAs in public accounting, business and industry, government, and education. Our members are trusted advisors to thousands of Pennsylvania's leading businesses and industries, and individual taxpayers as well. The PICPA's mission is to preserve the legacy and propel the integrity of the CPA profession, while also upholding the public interest by serving as an advocate for and articulating positions on professional and public issues where the knowledge of CPAs is relevant.

The pre-Act 32 local earned income tax collection system was best described by the Department of Community and Economic Development's (DCED) August 2004 report, *Pennsylvania's Earned Income Tax Collection System: An Analysis with*

Recommendations, as a “fragmented and dysfunctional local earned income tax collection system [that] causes the loss of over \$100 million annually” to local governments and school districts across the state. The system also increased the cost of doing business in Pennsylvania due to the complexity of the payroll tax system. The report goes on to say, “The current system suffers from a lack of cooperation among its approximately 560 tax collectors, and is fraught with disputes, inconsistencies, and bureaucracy. Underlying the problem is an ambiguous law and a lack of enforcement or oversight of the system. Collection is complex, uncoordinated, and inefficient. Taxing jurisdictions use different definitions of earned income, different tax rates, different rules and requirements, and different processes to collect the tax.” For PICPA members, the local EIT system was at times more cumbersome and complicated to maneuver than the federal income tax system.

Act 32 of 2008 is one of the most significant pieces of local tax legislation that has been enacted in recent years. It is unquestionably a success by any measure. Act 32, which became effective on a statewide basis on Jan. 1, 2012, ushered in significant reforms and the consolidation of Pennsylvania’s earned income tax (EIT) collection system. Under the law, the collection process was restructured, creating 69 countywide Tax Collection Districts (TCDs). The PICPA worked diligently and fought hard to secure the passage of this important legislation.

Act 32’s improvements can be broken into four major areas. The act:

- Established uniform withholding, remittance, and distribution requirements. This was a critical component of the reform effort advocated for by the PICPA.

- Provided for more accountability, transparency, oversight, and enforcement, and strengthened reporting requirements to better track tax dollars.
- Developed uniform forms, notices, reports, schedules, and codes for school districts, municipalities, and TCDs. Uniform forms and procedures required by Act 32 add to consistent and uniform collection. Again, this was a key provision supported by the PICPA.
- Consolidated and streamlined the EIT collection process across the Commonwealth. Prior to Act 32, Pennsylvania had 560 local EIT collectors, more than all other states combined. Now there are effectively less than two dozen EIT collectors across the state.

The post-Act 32 streamlined local EIT collection system is more efficient and uniform, allowing revenues to be transferred more expediently to their appropriate municipal destination. In addition, collection costs to municipalities and school districts are down significantly. PICPA members and the thousands of business and personal clients they serve throughout the Commonwealth have seen the benefits of Act 32.

As successful as Act 32 has been, there are areas of the law that the PICPA believes are ripe for legislative action. These changes would adhere to Act 32's overarching objectives of ease of compliance and uniformity in the system. To that end, we thank Rep. George Dunbar for his introduction of House Bill 245, which is pending in this committee. House Bill 245 is the culmination of work by the PICPA Act 32 task force, feedback from our members, and Rep. Dunbar to identify areas that are not being uniformly applied by tax collectors. The key provisions in House Bill 245 would do the following:

- Create an oversight board of the local tax collection committees within the DCED. The current system to appeal a local earned income tax matter is first through an arbitration process, which may be performed through a tax collection committee-appointed hearing officer or appeal board appointed by the taxing authority. That decision can then be appealed to the county Court of Common Pleas. House Bill 245 calls for a new oversight board that will hear local EIT appeals and make a determination as to whether or not a collector is following agreed-upon practices under the law.
- Taxpayers with no income will not be required to file a local return. This past tax season, many retired taxpayers and dependent children, with no reportable earned income tax, received notices along with a penalty for not filing a return. In most cases these notices were adjusted by the tax collectors in question, but the fact that the notices were sent in the first place caused great anxiety with these constituents, many of whom simply paid the \$25 or some penalty.
- Provide clear and concise safe harbor language for estimated taxes.
- Clarify the definition of temporary job assignments (what tax rate should be withheld for an employee on a temporary assignment). House Bill 245 provides a bright-line test that will determine where an employer shall withhold and remit the tax.
- The proper application of out-of-state and other credits against earned income tax owed will ensure that taxpayers are not subject to double taxation at the local level.

- Audits of taxes received and disbursed will be on a calendar year basis only. The bill also eliminates the practice of contingent fee audits. By doing this it provides for more fair and ethical collection practices.

We also would like to call your attention to two additional reforms that are not contemplated in House Bill 245. One relates to Act 32 and the other to improving efficiencies at the local level.

State collection of the EIT would create the fairest and most efficient system for Pennsylvania's taxpayers. Central administration of the state and all local income taxes would provide more uniform tax administration and customer service. Taxpayers would only be required to file one income tax return.

The other issue relates to the collection of real estate taxes. The PICPA encourages the General Assembly to give further examination and study of Pennsylvania's system for collecting these taxes. The current real estate tax collection system involves the collection and distribution of billions of dollars annually. Such a study, with recommendations, would shed light on a system that currently goes largely unchecked.

Once again, on behalf of the nearly 22,000 members of the PICPA, thank you for the opportunity to discuss Act 32 of 2008 and the need for additional reforms to the system. We would be happy to answer any questions.