

House Finance Committee

Select Subcommittee on
Tax Modernization and Reform

Hearing Testimony on
Local Tax Assessment Reform

June 18, 2018

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Chairman Evankovich, and members of the House Finance Select Subcommittee on Tax Modernization and Reform

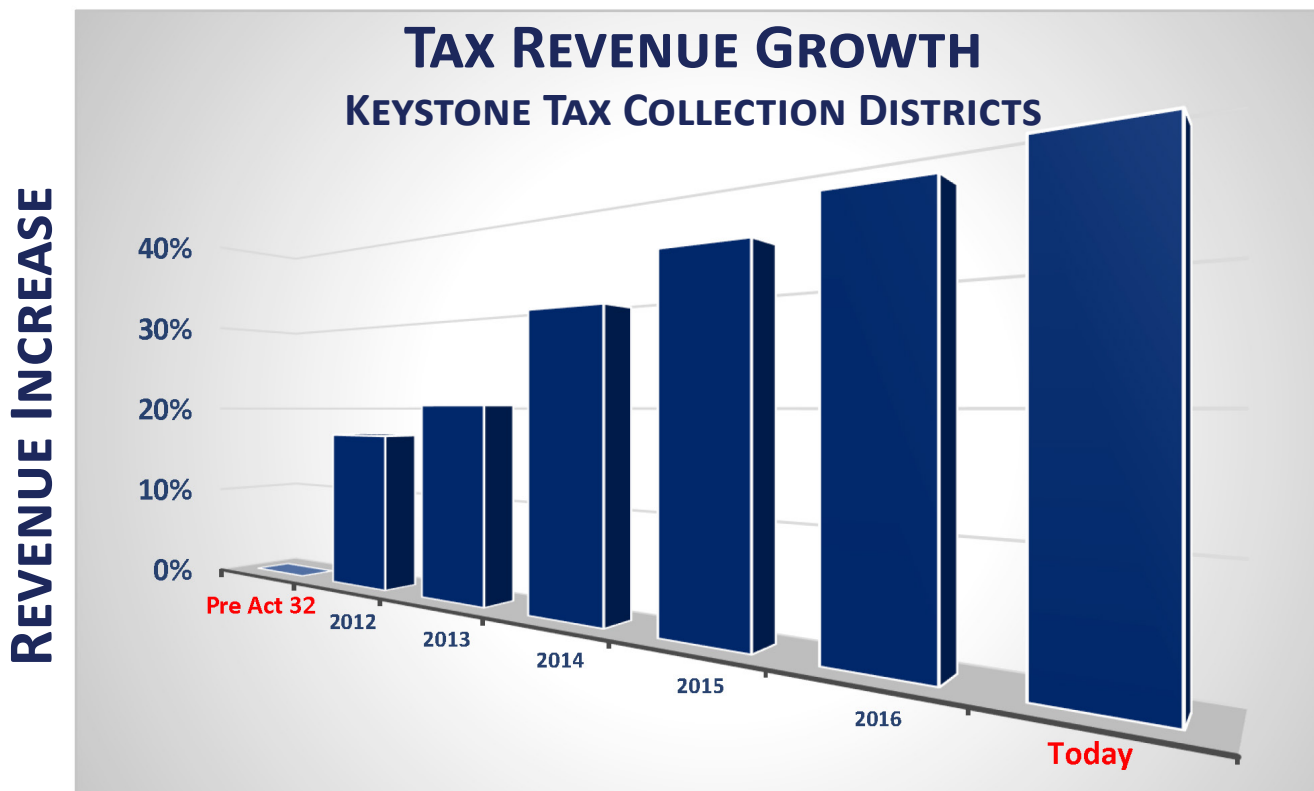
Good morning. Thank you for the invitation to testify today before the Committee concerning Local Tax Assessment Reform. My name is Amanda Mulheren and I am a Tax Attorney at Keystone Collections Group. I am joined by Joseph Lazzaro, Keystone's General Counsel. We are honored to present testimony before you today.

Keystone Collections Group has over 30 years of experience as a local tax administrator, and serves some 900 school districts, cities, townships and boroughs in 37 counties throughout Pennsylvania. Keystone is the Act 32 Earned Income Tax Officer serving 17 county-wide tax collection districts (TCDs).

Act 32 of 2008 consolidated the collection of local earned income tax across the state by reducing the number of tax collection zones from 560 to 69 county-wide Tax Collection Districts.

Consolidation Brings Efficiency and Higher Tax Revenues

Act 32's primary goals were to streamline the collection process, increase the efficiency of collections and increase revenues. By all accounts, Act 32 has proven to be a success and even the most optimistic revenue projections have been exceeded. Annual collections increased 20% in the first two years Act 32 was in effect. In the ensuing years, the TCDs where Keystone serves as the Tax Officer have seen increases as high as 40%.



ACT 32 TIMELINE

In addition to standardization, transparency and accountability, Act 32's success was largely dependent on the technological advancements and innovations in automation built in the private sector.

Local tax has substantial complexities driven by the various needs of each taxing authority. For instance, local income tax rates vary by location and taxpayer status as a resident or a commuter to the workplace jurisdiction (known to tax officers as a "non-resident"). Tax rates vary widely. Some communities impose higher rates based on their status as an Act 47 distressed community, others to fund public pensions or to preserve open space. Often this portion of the EIT rate exceeds 1% and is directed to fund specific needs separate and distinct from the general revenues generated from the base EIT rate. The key to achieving efficiency even with the complexities driven by local governments' specific needs is information technology, building tech-driven systems to ensure accuracy, compliance and transparency.

Technology is the Driving Force to Higher Revenue

Keystone invested tens of millions of dollars in technology, software and experts to develop proprietary tax collection systems and applications that allow local governments to receive their revenue disbursements immediately. Keystone's data extraction and processing automation expedites distribution of tax revenues to local communities, often within hours after receipt – as opposed to weeks or months under pre-Act 32 systems. For example, a large payroll processing company such as ADP involving thousands of employers and individual taxpayers' withholdings for \$80 million dollars is fully processed and distributed within the same day. Revenues are electronically deposited directly into the schools' and communities' bank accounts by ACH. This process provides a reliable, steady stream of revenue with weekly reporting so as to assist municipalities further with their budgeting.

Act 32: Easy for Business, Easy for the Taxpayer

Act 32 made tax compliance easier for the individual taxpayer. The process became simpler, fairer and less time-consuming for the individual taxpayers. The employer withholding requirement means the vast majority of individual taxpayers now pay their local earned income taxes simply by earning a paycheck. From that point, Keystone's Tax and Collection System (TaCS) software and Geo-Code *Address Master* software automatically cross-checks individual- and employer-supplied data to ensure taxpayer's resident municipality and school district receive the appropriate tax disbursement.

Taxpayers benefit substantially from the advances in technology. Most taxpayers may now e-file their annual tax returns online using PCs, mobile phones, tablets or any smart device. As a taxpayer, I care about how soon I receive my refund check. At the peak filing season, Keystone filers typically receive their refund within 9 days. Taxpayers also have 24/7 access to taxpayer resources, to ask questions, print forms, etc. through an online taxpayer KIT system. Virtually all businesses report their payroll tax withholding to Keystone electronically.

Even with the superior service in tax collection gained from Act 32, we can't forget that the costs of

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Security of Personal Data and Protection of Public Funds

Another aspect of tax collection greatly enhanced through Act 32 involves the auditing requirements, which foster transparency and accountability by the Tax Officer. True auditing demands strong capabilities and compliance, which thereby create an incentive for greater efficiencies. Act 32 mandated an annual audit of financial statements and records (the “Yellow Book” audit) of the tax collector. Keystone always took auditing a step further. Keystone undergoes an independent SOC-1, Type 2 audit of the technology and controls. The SOC audit ensures the efficiency and integrity of the Tax Officer’s automated systems, technologies and data security. We strongly recommend that all Tax Officers operating in the 69 TCDs be required to undergo the SOC-1, Type 2 audit at least once per year. Confidential tax documents, Social Security numbers and personal income data must receive the utmost safety and security. Taxpayers should be at ease knowing their confidential tax information is safe and secure. Likewise, school districts and local governments must know that their data is safe and secure.

In addition to these annual financial and system control audits, Keystone provides weekly and monthly collection reports to each municipality and school district, including a detailed accounting of tax collection. Keystone also develops specialized reports for clients by data analyst experts to enable local governments to check and monitor cash flow for internal budgeting and operations. Advanced reporting technology gives school districts and communities instant, 24/7 access to their tax collection data that they can customize to suit their particular needs. Keystone’s reporting application is called KeyTRAC (see appendix).

These efficiencies create regularity and reliability for local governments in a manner unseen before Act 32. It has also increased public confidence in the honesty and fairness of the tax system. Bureaucracy and waste are replaced with accountability and transparency.

County-Wide Consolidation for all Local Taxes

The efficiency and technological advancements of earned income tax under Act 32 can be utilized to streamline the rest of local taxation.

Pennsylvania taxpayer complaints concerning local taxation frequently stem from confusion over the various taxing bodies and the myriad of different collectors they are required to report to within a single jurisdiction. Similar to Act 32’s consolidation of local earned income tax, consolidation of other Act 511 taxes would alleviate this confusion. Instead of having hundreds of collectors for taxes such as LST and per capita tax throughout the Commonwealth, consolidation of Act 511 taxes would realize similar taxpayer advantages in both ease of administration and higher revenues. Taxpayers responsible for these taxes would only need to file with one collector. The chosen tax professional should utilize the technological advancements already fostered through Act 32 whereby they can pay online in one screen, print their receipts, and report all in one place.

The ease of quick cross reference would generate better compliance at lower costs, which will ultimately benefit taxpayers, avoid tax increases and generate more revenue for our schools and communities.

Thank you for the opportunity to comment, we are happy to answer any questions you may have now or in the future.

APPENDIX 1

ACT 32 AUDIT AND EVALUATION EXECUTIVE SUMMARY

Audit and Evaluation of Act 32

Legislative Budget and Finance Committee

Executive Summary

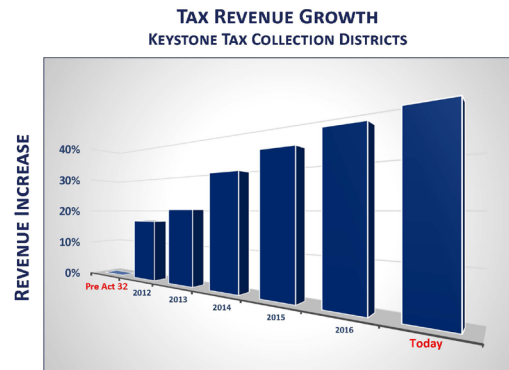
Introduction

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 69 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 was immediate. By all accounts, Act 32 has proven to be a success and even the most optimistic revenue projections have been exceeded. Annual collections increased 20% in the first two years Act 32 was in effect. In the ensuing years, the TCDs where Keystone serves as the Tax Officer have seen increases as high as 40%.

The positive impact on revenues is attributed to the employer withholding mandate and advanced tax collection and distribution technology developed by Keystone. Under Act 32, employers are required to withhold local earned income taxes from payroll. The combined result of the employer mandate and technological innovation is higher revenues and a highly efficient form of tax collection and distribution.



EIT Collections 2012-2017

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.

Keystone Collections Group quickly filled the education vacuum. 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.

Audit and Evaluation of Act 32

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Keystone IT and legal professionals coordinated data transfer protocols with the large employers 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 Pennsylvania to share user-friendly online reporting systems. Keystone worked jointly with business organizations such as regional chambers of commerce.

Online Tools for Business

To handle the volume and speed of the expansive payroll withholding system envisioned by Act 32, the 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*.



Keystone 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

***By 2017,
annual revenues
in some jurisdictions
grew by 40%,
far exceeding
the projected revenues
before Act 32***

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.

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.

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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 one of the Tax Officer's satellite offices 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 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 TCCs assist Keystone in obtaining the Pennsylvania Department of Revenue earned income records for each 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

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 the communities Keystone serves as the Tax Officer.

These and all transactions administered under the Act are subject to regular, independent financial audits of the Tax Officer's administration. 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. Keystone goes one step further, voluntarily submitting to independent technology and operational controls audits. This SOC-1, Type 2 annual audit of the Tax Officer, to compliment the annual Financial Report ("Yellow Book") audit, ensures that the 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. 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, 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

Audit and Evaluation of Act 32

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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.

Conclusion

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.

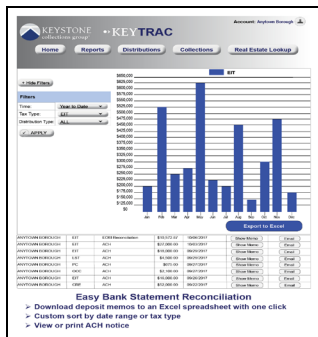
*Act 32 increased
public confidence
in the honesty
and fairness
of the tax system*

APPENDIX 2
KeyTRAC User Guide



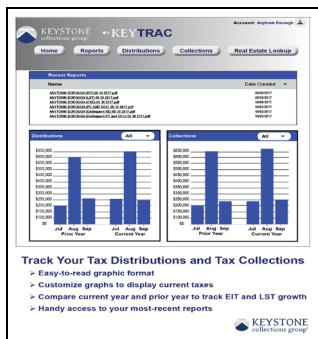
KEYTRAC

Keystone's Client Portal for online analysis of your tax collection data



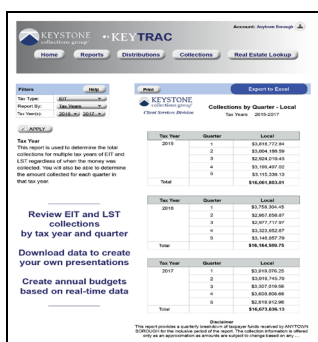
Monthly Reports

- Manage your collection reports
- Download copies of your reports
- Reprint ACH notices
- Create your own archive



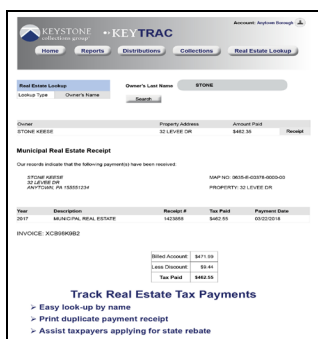
Dashboard

- Tax collection data quick view
- Performance indicators
- Create your own indicators
- Custom sorting



Custom Queries

- Create your own reports
- Filter by date and tax type
- Export your data to Excel for easy analysis
- Secure delivery of protected data



Track Real Estate Tax Payments

- Easy look-up by address or name
- Print duplicate payment receipts
- Assist taxpayers applying for state rebate



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Distributions

Collections

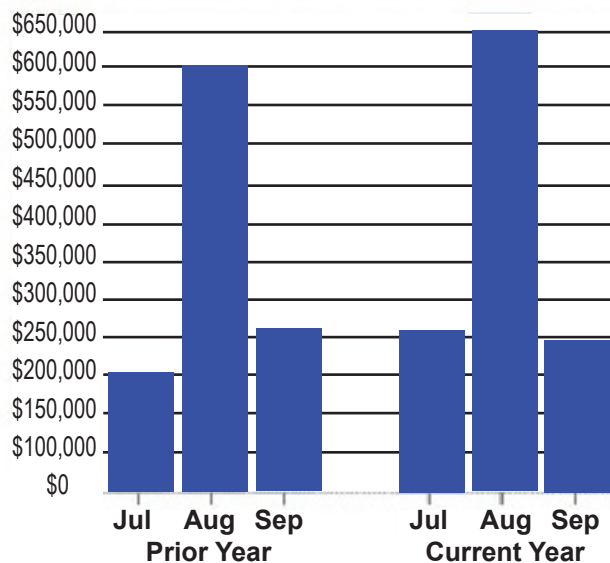
Real Estate Lookup

Recent Reports

Name	Date Created
ANYTOWN BOROUGH (EIT) 09 30 2017.pdf	09/30/2017
ANYTOWN BOROUGH (LST) 09 30 2017.pdf	09/30/2017
ANYTOWN BOROUGH (CRE) 09 30 2017.pdf	10/06/2017
ANYTOWN BOROUGH (PC AND OCC) 09 30 2017.pdf	10/03/2017
ANYTOWN BOROUGH (Delinquent RE) 09 30 2017.pdf	10/02/2017
ANYTOWN BOROUGH (Delinquent PC and OCC) 09 30 2017.pdf	10/02/2017

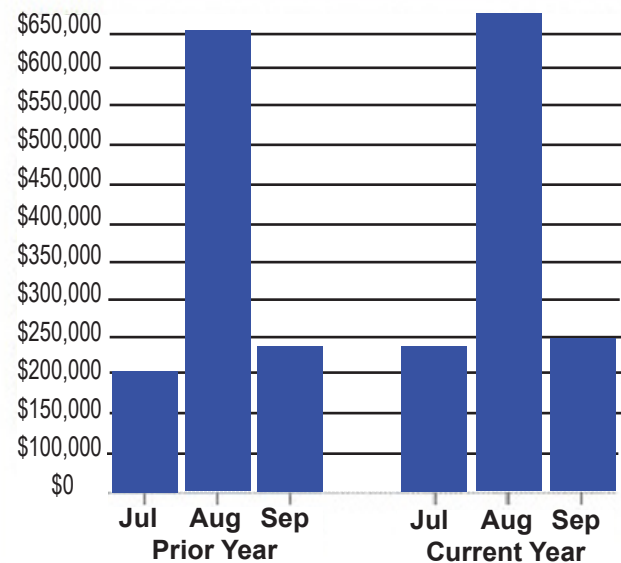
Distributions

All



Collections

All



Track Your Tax Distributions and Tax Collections

- Easy-to-read graphic format
- Customize graphs to display current taxes
- Compare current year and prior year to track EIT and LST growth
- Handy access to your most-recent reports





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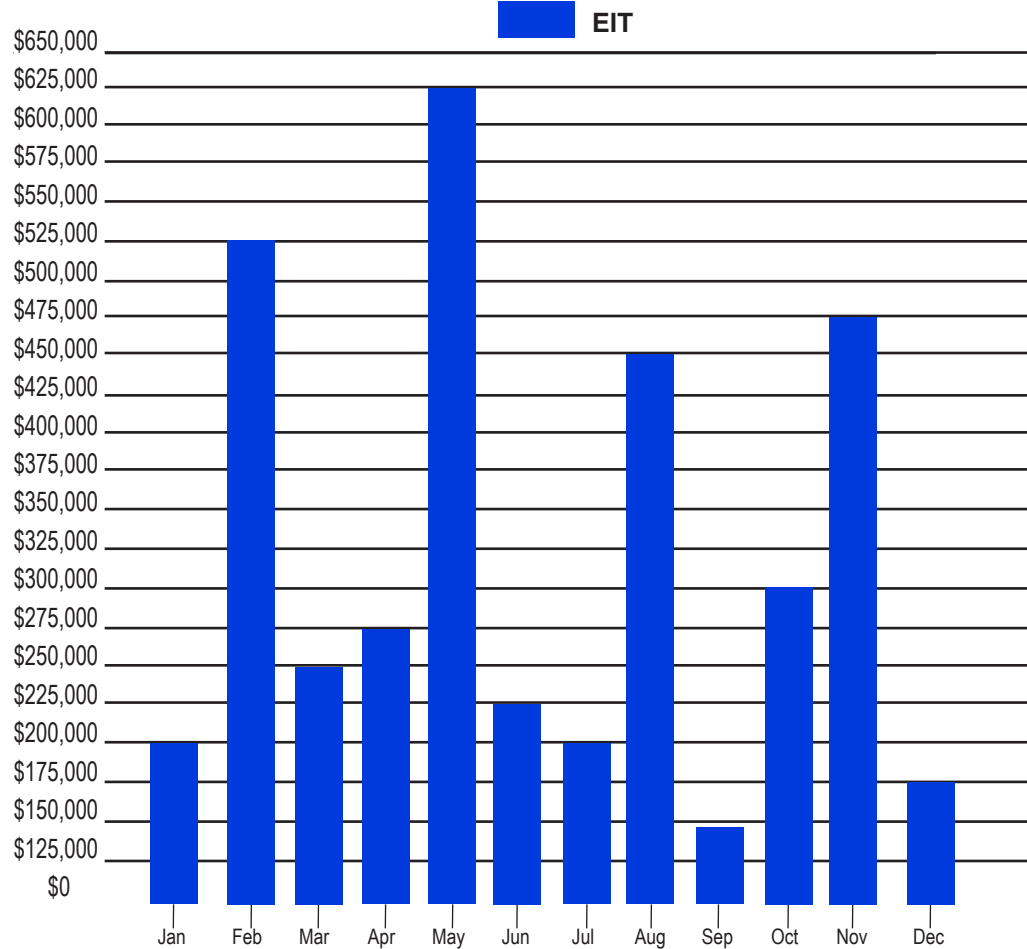
Real Estate Lookup

+ Hide Filters

Filters

Time: Year to Date ▼
Tax Type: EIT ▼
Distribution Type: ALL ▼

✓ APPLY



Export to Excel

ANYTOWN BOROUGH	EIT	EOM Reconciliation	\$10,572.87	10/06/2017	Show Memo	Email
ANYTOWN BOROUGH	EIT	ACH	\$27,000.00	10/03/2017	Show Memo	Email
ANYTOWN BOROUGH	EIT	ACH	\$18,000.00	09/29/2017	Show Memo	Email
ANYTOWN BOROUGH	LST	ACH	\$4,500.00	09/29/2017	Show Memo	Email
ANYTOWN BOROUGH	PC	ACH	\$675.00	09/27/2017	Show Memo	Email
ANYTOWN BOROUGH	OCC	ACH	\$2,100.00	09/27/2017	Show Memo	Email
ANYTOWN BOROUGH	EIT	ACH	\$16,000.00	09/26/2017	Show Memo	Email
ANYTOWN BOROUGH	CRE	ACH	\$52,000.00	09/22/2017	Show Memo	Email

Easy Bank Statement Reconciliation

- Download deposit memos to an Excel spreadsheet with one click
- Custom sort by date range or tax type
- View or print ACH notice



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Tax Type:	EIT
Report By:	Tax Years
Tax Year(s):	2015 2017

✓ APPLY

Tax Year

This report is used to determine the total collections for multiple tax years of EIT and LST regardless of when the money was collected. You will also be able to determine the amount collected for each quarter in that tax year.

**Review EIT and LST
collections
by tax year and quarter**

**Download data to create
your own presentations**

**Create annual budgets
based on real-time data**

Print

Export to Excel



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Client Services Division

Collections by Quarter - Local

Tax Years 2015-2017

Tax Year	Quarter	Local
2015	1	\$3,818,772.84
	2	\$3,004,186.59
	3	\$2,924,010.43
	4	\$3,199,497.02
	5	\$3,115,336.13
Total		\$16,061,803.01

Tax Year	Quarter	Local
2016	1	\$3,758,304.45
	2	\$2,957,656.87
	3	\$2,977,717.97
	4	\$3,323,952.67
	5	\$3,146,957.79
Total		\$16,164,589.75

Tax Year	Quarter	Local
2017	1	\$3,919,076.25
	2	\$3,019,745.70
	3	\$3,307,019.56
	4	\$3,608,608.66
	5	\$2,818,912.96
Total		\$16,673,636.13

Disclaimer

This report provides a quarterly breakdown of taxpayer funds received by ANYTOWN BOROUGH for the inclusive period of the report. The collection information is offered only as an approximation as amounts are subject to change based on any



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KEYTRAC

Account: Anytown Borough 

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Real Estate Lookup

Real Estate Lookup

Lookup Type

Owner's Name

Owner's Last Name

STONE

Search

Owner	Property Address	Amount Paid	
STONE KEESE	32 LEVEE DR	\$462.35	Receipt

Municipal Real Estate Receipt

Our records indicate that the following payment(s) have been received:

STONE KEESE
32 LEVEE DR
ANYTOWN, PA 155551234

MAP NO: 0635-E-00378-0000-00

PROPERTY: 32 LEVEE DR

Year	Description	Receipt #	Tax Paid	Payment Date
2017	MUNICIPAL REAL ESTATE	1423858	\$462.55	03/22/2018

INVOICE: XCB98K9B2

Billed Account:	\$471.99
Less Discount:	\$9.44
Tax Paid	\$462.55

Track Real Estate Tax Payments

- Easy look-up by name
- Print duplicate payment receipt
- Assist taxpayers applying for state rebate