

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE HEARING

STATE CAPITOL
HARRISBURG, PA

MAIN BUILDING
ROOM 140

WEDNESDAY, MARCH 4, 2020
2:34 P.M.

BUDGET HEARING FOR THE
DEPARTMENT OF REVENUE

BEFORE :

HONORABLE STAN SAYLOR, MAJORITY CHAIRMAN
HONORABLE ROSEMARY BROWN
HONORABLE LYNDA SCHLEGEL-CULVER
HONORABLE SHERYL DELOZIER
HONORABLE GEORGE DUNBAR
HONORABLE JONATHAN FRITZ
HONORABLE MATT GABLER
HONORABLE KEITH GREINER
HONORABLE SETH GROVE
HONORABLE MARCIA HAHN
HONORABLE DOYLE HEFFLEY
HONORABLE LEE JAMES
HONORABLE JOHN LAWRENCE
HONORABLE JASON ORTITAY
HONORABLE CLINT OWLETT
HONORABLE GREG ROTHMAN
HONORABLE JAMES STRUZZI
HONORABLE JESSE TOPPER
HONORABLE JEFF WHEELAND
HONORABLE RYAN WARNER
HONORABLE MARTINA WHITE
HONORABLE MATT BRADFORD, MINORITY CHAIRMAN
HONORABLE DONNA BULLOCK
HONORABLE CAROLYN COMITTA
HONORABLE AUSTIN DAVIS
HONORABLE MARIA DONATUCCI
HONORABLE EDWARD GAINNEY
HONORABLE ELIZABETH FIEDLER
HONORABLE MARTY FLYNN
HONORABLE PATTY KIM

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BEFORE: (cont.)

- HONORABLE STEPHEN KINSEY
- HONORABLE STEPHEN McCARTER
- HONORABLE BENJAMIN SANCHEZ
- HONORABLE PETER SCHWEYER

ALSO IN ATTENDANCE:

- HONORABLE ROB KAUFFMAN
- HONORABLE FRANK RYAN
- HONORABLE CRIS DUSH
- HONORABLE BARRY JOZWIAK
- HONORABLE CHRIS SAINATO
- HONORABLE TOM CALTAGIRONE
- HONORABLE ED NEILSON
- HONORABLE GERALD MULLERY

COMMITTEE STAFF PRESENT:

- DAVID DONLEY, MAJORITY EXECUTIVE DIRECTOR
- RITCHIE LaFAVER, MAJORITY DEPUTY EXECUTIVE DIRECTOR
- ANN BALOGA, MINORITY EXECUTIVE DIRECTOR
- TARA TREES, MINORITY CHIEF COUNSEL

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*Pennsylvania House of Representatives
Commonwealth of Pennsylvania*

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I N D E X

TESTIFIERS

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SUBMITTED WRITTEN TESTIMONY

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(See submitted written testimony and handouts online.)

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Summer A. Miller, Court Reporter
SMCourtreporting@gmail.com

P R O C E E D I N G S

* * *

MAJORITY CHAIRMAN SAYLOR: As you rise, I'll swear you in again.

C. DANIEL HASSELL, AMY GILL, CHRISTIN HEIDINGSFELDER, DANIEL COYNE, called as witnesses, being duly sworn, testified as follows:

MAJORITY CHAIRMAN SAYLOR: Thank you.

Mr. Secretary, I want to thank you again for coming again today and for your timely response to our written questions that weren't answered in your first appearance before the committee. Again, I'm a little frustrated because we had to call you back to this and you responded very quickly with a 30-page document in four days. So we're tickled with it, but I don't understand why there was that disconnect, that you were unable to answer the questions the last time we were here, whether the Administration had not communicated certain things to you at the Department of Revenue or what.

Can you kindly explain that disconnect a little bit?

SECRETARY HASSELL: Mr. Chairman, I apologize if we were not able to provide all of the information you

1 were looking for in the first instance. It would be our goal
2 to answer all of the questions fully and honestly. And so
3 we're here to do that today, as well.

4 MAJORITY CHAIRMAN SAYLOR: Very good.

5 We'll start off with the first questioner.
6 Again, the questions today pertain to simply the questions
7 that were unanswered and in the letter that we had sent over
8 to the Secretary.

9 So we'll start off with Representative --

10 SECRETARY HASSELL: Mr. Chairman --

11 MAJORITY CHAIRMAN SAYLOR: Yes.

12 SECRETARY HASSELL: I apologize. If I may, I
13 would like to just introduce the one new member of our team
14 here.

15 MAJORITY CHAIRMAN SAYLOR: Sure. Absolutely.

16 SECRETARY HASSELL: Drew Svitko from the
17 Lottery is traveling today, was unable to make it. His
18 deputy, Dan Coyne, is sitting with us today in his absence.

19 MAJORITY CHAIRMAN SAYLOR: Welcome, Mr. Coyne.

20 With that, we'll go to Representative Owlett.

21 REPRESENTATIVE OWLETT: Thank you. Thank you,
22 Mr. Chairman.

23 Thank you for getting back with us on some of
24 our questions. I really appreciate it and how quickly we got
25 this back. (Indicating.) I know it was technical in nature

1 so it was designed to be able to try to follow up. I'm still
2 waiting on a response from last year from the Treasury, so
3 your timeliness is very appreciated.

4 I just had a quick question on the sales tax
5 audits. I just noticed in some of the reports that there are
6 some negative balances. Could you explain that a little bit?
7 Help me understand the process of which we would pay back, I
8 guess? Is that what's happening in those circumstances?

9 SECRETARY HASSELL: Yes. So in an audit, when
10 we are looking at a company's books, the goal of the audit is
11 to get the tax right, whichever way that goes. And in those
12 circumstances where the auditor finds that tax has been
13 overpaid and a refund is due, then it shows up in this table
14 as a negative number. If in the county total, the negatives
15 outweigh the positives, then the total is a negative.

16 REPRESENTATIVE OWLETT: Okay. That was my
17 question, not very complicated.

18 I mean, like Allegheny County, it was almost
19 \$6 million in '17-'18 that was paid back to the county, or
20 businesses within the county.

21 SECRETARY HASSELL: To the taxpayers, correct.

22 REPRESENTATIVE OWLETT: Taxpayers, right. So
23 that was just my question. I appreciate you getting back and
24 helping me understand that. I appreciate it very much. So
25 thank you.

1 SECRETARY HASSELL: Thank you.

2 MAJORITY CHAIRMAN SAYLOR: Representative
3 Gabler.

4 REPRESENTATIVE GABLER: Thank you, Mr.
5 Chairman.

6 And thank you, Mr. Secretary. I appreciate
7 the chance to have another conversation with you today.

8 I wanted to return to the question that we had
9 discussed in the prior hearing and the answer contained in
10 the letter. I had asked about the breakdown of the tax
11 revenue impact of the Governor's minimum wage proposal and
12 how it would work through.

13 So the Department of Revenue's numbers, as
14 submitted to us previously, was that it would yield
15 \$133 million in revenue. The letter provided some fidelity
16 on the expected breakdown of how that would impact personal
17 income tax, sales and use tax, corporate net income tax. And
18 there's also some discussion in there about some of the data
19 that the Department of Revenue used pertaining to the
20 Congressional Budget Office related to job losses.

21 I was wondering if you could provide a little
22 discussion on what the job impacts would be in Pennsylvania
23 based on the Department of Revenue's projections and the data
24 that you used with the Congressional Budget Office.

25 DEPUTY SECRETARY GILL: Yes, thank you. I'll

1 take that.

2 So in order to try to measure what I would
3 call fewer hours worked or fewer jobs, we looked towards the
4 Congressional Budget Office. They have extensive
5 documentation on their website. They also acknowledge --
6 there's a very broad range of studies -- I think we discussed
7 this last time -- over what the impacts could be.

8 Within their website, they had an estimate
9 that there would be a 0.16 percent decline in employment if
10 the minimum wage would go to \$12 per hour. So we applied
11 that to our current labor force to say, "Here's an estimate
12 of fewer jobs," which came out to about 9,700 jobs, 49 jobs.
13 So I wanted to say a few things about that.

14 It doesn't necessarily represent job losses.
15 What it can represent are fewer hours worked. It can
16 represent people who currently have to work two jobs in order
17 to make ends meet that now, with the minimum wage increase,
18 would only need to work one job. So I wanted to stress that
19 it represents job losses, and that's true, but at the same
20 time, a lot of it is fewer hours worked.

21 The IFO did something similar. They used a
22 higher percentage, they got a larger number. But within
23 their reports they acknowledge similar things, that it can be
24 fewer hours worked, a low wage person is now able to only
25 work one job instead of two. And also in the context of

1 this, could increase wages for one and a half million people
2 in Pennsylvania.

3 REPRESENTATIVE GABLER: So would it be correct
4 to view that 9,749 job number as full-time equivalents?

5 DEPUTY SECRETARY GILL: No, I don't think I
6 would quite think of it that way, because within that, there
7 would be, I believe, some part-time jobs and there would be
8 people currently working two jobs that now would only need to
9 work one at the higher wage of \$12 per hour.

10 REPRESENTATIVE GABLER: I guess I'm a little
11 confused, though, because if you're saying that job losses as
12 a label could be either just lost jobs or a reduction in
13 hours worked, how do you convert hours worked if some are
14 part-time, some are full-time? It doesn't sound like there's
15 a uniform calculation being applied there.

16 DEPUTY SECRETARY GILL: With the 0.16 percent
17 decline in employment, we applied that to all jobs, which
18 would include full-time and part-time. So it's a rough
19 estimate of all types of jobs.

20 But I think it's really important to note that
21 it doesn't necessarily represent a job loss; it can also
22 represent fewer jobs are created in the future, because of
23 the higher wage that employers will pay. And it also
24 represents some voluntary job loss where a person who needs
25 to work two jobs can now work one and make ends meet.

1 REPRESENTATIVE GABLER: And if I could just
2 continue on, then. And I appreciate the discussion on that.

3 And then our other discussion a few weeks back
4 related to the breakdown of tax revenues of the different
5 types. So I was wondering if you could specifically address
6 how this proposal would impact not only personal income tax
7 and sales and use tax, but also corporate net income taxes
8 and how that would be reflected in the taxes that employers
9 pay in the Commonwealth.

10 DEPUTY SECRETARY GILL: Well, we started with
11 looking at the impact of increasing the wages of over a
12 million people. That would result in a wage increase and a
13 PIT rate increase of 143 million. Then the second impact we
14 looked at was just the impact of tax forgiveness. By
15 increasing the wages of low-income people, they are able to
16 move off of tax forgiveness and begin paying taxes. That's a
17 relatively small net impact of 11 million.

18 The next thing we considered is, what is the
19 impact on business owners? Because business owners are
20 paying higher wages, we said, "Okay, their profits may go
21 down," and that is estimated within the PIT column. And then
22 there are two small impacts of both growth impact on wages
23 and employment growth impact on business income.

24 So there's going to be small positives and
25 negatives. The largest impact is the impact from increasing

1 the wages for the wage earners.

2 For the sales tax, we did pretty much a very
3 similar thing. We looked at the income increases and said,
4 "Okay, if 70 percent roughly is spent on taxable goods,
5 here's additional sales tax." And to be fair, we looked at
6 the other side and said, "If some business income goes down,
7 these people may buy fewer taxable goods," and there's a
8 decline there.

9 So overall, by increasing the wages of over a
10 million people, we have additional revenue of 133 million.

11 Now for the corporate net income tax, we did
12 not model that into this. It's difficult to tell. A lot of
13 corporate net income tax flows out of state. It may flow in
14 the form of dividends to the stock owners. So the only
15 impact for business income was on personal income tax. It's
16 something we could look at in the future, but it seemed a
17 little bit beyond what we were able to do.

18 REPRESENTATIVE GABLER: And my time is up, and
19 I appreciate the opportunity to get some fidelity on the
20 numbers. And I think that the job that we as members of this
21 committee have going forward, then, is to try to take the
22 projections and the best estimates that the Department of
23 Revenue has been able to give us, put that together with
24 projections from the IFO and other sources, and then come up
25 with what we think those numbers mean. But we can now start

1 working on an interpretation of that. So I really appreciate
2 the chance to have that follow-up.

3 Thank you, Mr. Chairman.

4 MAJORITY CHAIRMAN SAYLOR: Representative
5 Dunbar.

6 REPRESENTATIVE DUNBAR: Thank you, Mr.
7 Chairman.

8 First off, I really don't have a whole lot of
9 questions, but I do have some comments.

10 I don't know what emotion, frustrated,
11 disappointed, confused, where I'm at on this whole issue, but
12 our discussion was on combined reporting and the revenue
13 assumption that came from it.

14 And you had sent out an answer in, I guess,
15 the 30-page report, which I'm sure everybody spent the time
16 to read and understand thoroughly. And really, pretty much
17 what it comes down to is an interpretation on estimated tax
18 payments versus safe harbor rules, and not so much the
19 combined reporting stuff.

20 I guess, really, what bothered me was I don't
21 know why the questions weren't answered when I first asked
22 them last week or two weeks ago. And it really got me to
23 wondering, it's like -- you know, and I start thinking
24 about -- I guess it's W.C. Fields, when you can't dazzle them
25 with brilliance, then baffle them with BS. And that's not

1 meant to pick on anybody, because if anybody can dazzle with
2 brilliance, it's certainly Secretary Hassell. I've always
3 thought that, and he probably is the smartest guy in the
4 room.

5 But things just aren't adding up for me. We
6 have a \$230 million assumption here and it's just not adding
7 up for me.

8 I play poker. I like to play poker. And in
9 poker every hand tells a different story, every action and
10 reaction is going to add to that story. And if you look at
11 this hand, if you look at this story, it just doesn't add up
12 for me at all. And it started with the Governor proposing
13 combined reporting for the fifth time in six years. With
14 this year came a revenue estimate of \$238 million, which was
15 completely opposite than last year's, which was a minus
16 \$7 million on the exact same proposal.

17 Staff had requested information on where
18 this -- how you came to this number or how did this number
19 come. We get an e-mail back with no details whatsoever, just
20 two or three lines, which really starts making me wonder,
21 like, what the heck is going on?

22 So in preparing for the hearing, you come in,
23 we ask and we get hit with, "Oh, tax act changed some
24 taxpayer habits and we noticed something, that some companies
25 are willing to pay early on estimated taxes." And I don't

1 know if this was some type of "gotcha moment" or not, I don't
2 think it was. I think it was an honest attempt.

3 And at the same time, I said to you, "Hey,
4 look, we have the bill out there, the one bill that we have
5 out there says that it doesn't matter, they don't have to pay
6 it." And then I continued to ask other questions, which I
7 was told, "Oh, we'll have to get back to you on that."
8 Really? And then a week later, we get a 30-page report
9 detailing that. I have to believe that you guys knew this
10 stuff. I don't know why we didn't just have the conversation
11 before.

12 So I don't know if you were scared to talk
13 about the assumption, the revenue assumption, or what was
14 going on. And in the response, you even pretty much doubled
15 down on the whole, "Oh, the taxpayers are still going to pay
16 this." And based on this story and this poker hand, I'm
17 going to push all my chips all in to tell you the truth.
18 Because I don't think your hand is all that strong to assume
19 that a \$230 million revenue surplus is coming from this.

20 As you know, I'm a CPA, and specialize in the
21 construction industry. And in the construction industry we
22 always said, "Cash is king, cash is king, cash is king."
23 That's the most important thing to us. I really have a lot
24 of trouble believing corporations are going to willingly,
25 knowingly, voluntarily remit millions of dollars to the

1 Commonwealth early. It's almost unbelievable to me that that
2 would transpire. I'm simply not buying it.

3 I know that you are basing this upon some tax
4 returns and some actions of those tax returns. I also would
5 question that when those individuals filed those tax returns,
6 they may have been looking at tax law and thinking they had
7 to remit their estimated payments timely to have safe harbor
8 rules apply. That's the only thing that I -- I cannot
9 believe that we're going to base a revenue assumption and a
10 budget on something like this.

11 In past years, we've been very conservative on
12 our budget estimates, and that's a good thing. I applaud you
13 and the Administration for doing that. And for anything new
14 that we've done in the last couple of years -- I think the
15 only real big changes have been gambling type things, and
16 we've been conservative and actually have come out far ahead
17 on that and it makes life a lot easier.

18 And I'm not saying that, you know, I'm
19 disagreeing, we're disagreeing. Maybe we're just disagreeing
20 with each other on what it is, but -- and I'm not saying it's
21 a game because I keep hearing that term, "You're playing
22 games, you're just playing games." Maybe we're just
23 disagreeing, I don't know. But I can't tell you how much I
24 vehemently disagree with this assumption.

25 And I would offer up -- I mean, we just came

1 through a DHS hearing where we talked about a budget and
2 proposed expenditures. And they said, "Well, we'll get you
3 that number in the spring and it's going to be shocking."
4 Shocking? We have a budget in front of us. You know, I'm
5 really worried how far out of balance we really are.

6 So I will leave it at this: I do respect you.
7 I think you are the brightest man in the room. I really do.
8 I do think we are way out of balance here. And I would
9 advocate this, that if we do pass combined reporting and rate
10 reductions, that we make an assumption of zero revenues for
11 it.

12 And I would ask both of the chairmen to
13 support me on that. And with that, thank you.

14 SECRETARY HASSELL: If I may respond?

15 So first of all, Representative Dunbar, thank
16 you for the kind words.

17 In our thought process about this, the honest
18 answer is that your question caused us to go back and have
19 conversations about it because we wanted to make sure we had
20 the right answer.

21 If anything, what you're seeing is that when
22 we're asked a question -- some of these topics are very
23 complex and based upon data. And I would rather take a
24 question back and think about it and give you a complete
25 answer rather than speculate and, you know, give you an

1 off-the-cuff that may turn out to be not correct. So that is
2 my own personal conservatism that you see there.

3 There was certainly no attempt to pull the
4 wool over the committee's eyes, just the opposite. I want to
5 make sure that when we provide information, that it's
6 accurate and it's the best effort that we can give to the
7 committee.

8 So the estimate that you're referring to is
9 not something that I asked the staff to produce. It wasn't
10 done at the request of the Administration. You know, "can't
11 you squeeze some more of this money into the prior year?" It
12 was something that our staff, in looking at the situation and
13 seeing what had happened with the tax cuts and JOBS Act, came
14 to us and said, "You know what, we've really been too
15 cautious here. We should really allow these numbers to
16 change a little bit taking into account that businesses don't
17 really act this way on a routine basis." Many businesses are
18 not basing their payments on the minimum safe harbor.

19 And I think that's something we've seen over
20 many years. We've given this example here, based on the one
21 change, but over the course of years, I would say, we have
22 seen that in operation many times.

23 So I recognize your concern about it. I
24 understand what you're saying. We've provided our best
25 estimates for the committee and I think that's all we can do

1 at this point.

2 REPRESENTATIVE DUNBAR: And like I said
3 before, I think we'll agree to disagree on that.

4 SECRETARY HASSELL: Okay.

5 MAJORITY CHAIRMAN SAYLOR: I just wanted to
6 follow up. Deputy Secretary Gill, you had mentioned that
7 there was a business loss due to the increase in minimum
8 wage. What is that projection of the business loss? I just
9 wanted to follow up with that for clarification for the
10 committee.

11 DEPUTY SECRETARY GILL: 99 million.

12 MAJORITY CHAIRMAN SAYLOR: So there would be a
13 reduction of \$99 million in taxes?

14 DEPUTY SECRETARY GILL: Tax. Yes.

15 MAJORITY CHAIRMAN SAYLOR: Okay.

16 DEPUTY SECRETARY GILL: The overall -- the
17 gain is because of the increase of the one and a half million
18 earners at 143 million, but there is the business loss that
19 we put in the letter.

20 MAJORITY CHAIRMAN SAYLOR: Very good.

21 Mr. Secretary, Deputies, thank you very much
22 for coming back today and answering our questions.

23 And with that, we'll adjourn this till
24 tomorrow morning at 10 a.m. where we will have the Budget
25 Secretary before the committee.

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Thank you very much.

SECRETARY HASSELL: Thank you.

(The hearing concluded at 2:53 p.m.)

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C E R T I F I C A T I O N

I hereby certify that the proceedings are contained fully and accurately in the notes taken by me on the within proceedings, and that this copy is a correct transcript of the same.

Summer A Miller

Summer A. Miller, Court Reporter
Notary Public