

The “Art of Collections”
Meeting Dollar Goals
in the Pursuit of Voluntary Compliance



FTA Annual Meeting
June 6, 2006

Pennsylvania Revenue -
Compliance and Collections
Highlights

- Vision - what do we want to accomplish?
- Challenges - the working environment
- Principles - some guiding thoughts for a compliance and collections executive
- Successes - what have we achieved?
- Developments - where are we headed?

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Vision

- The Big Picture – balance direct collection efforts and stimulating voluntary compliance (“SVC”) to maximize overall dollars collected and changing taxpayer behavior.
- An accelerated collections process - we are competing with private businesses that are motivated to collect quickly.
- The “Right Treatment at the Right Time for the Right Taxpayer (*RT*)³ - use “decision analytics.”
- An electronic work environment - continue the transition from paper.

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Challenges

- Reduced complement /spending authority last FY-loss of 65 positions and \$3.8 million
- Governor’s challenge was to increase delinquent collections by \$150 Million in FY 05–06 over 03–04
- Measurements focused only on \$ attributable to direct collections
- Minimal investment in delinquent collection infrastructure over the prior decade
- Multiple ‘disconnected’ delinquent tax systems to collect on the same cases - 3 systems

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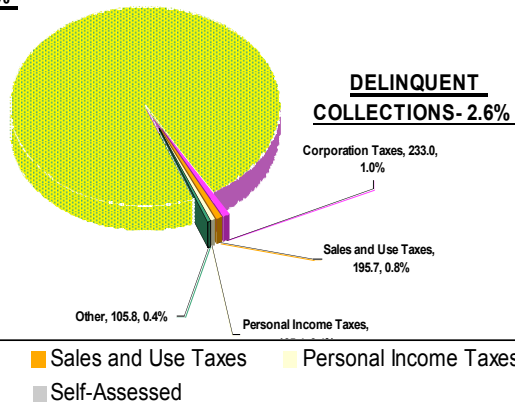
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Principles

- CWR (My employees know this means “Crawl, Walk, Run.”)
- Collections and effecting positive changes in taxpayer behavior are the business of Revenue, in good times as well as in the bad.
- Identify and address “tax gaps”.
- Organize work based on effectiveness for collections ... *and* stimulating voluntary compliance.
- In other words, focus on sustaining and increasing the 97.4% (see next slide).

Delinquent Collections as a Part of Total FY 04-05 General Fund Revenues (in \$Millions)

**VOLUNTARY OR SELF-
ASSESSED**
23,668.6 OR 97.4%



Principles for Stimulating Voluntary Compliance

- Focused - Proposal to shift resources and emphasis
- Proactive - The improved knowledge of taxpayers and staff increases compliance and collections
- Coordinated - Every Department function will play its role in a voluntary compliance program.
- Perceived Risk - Continued direct compliance threat reinforces voluntary compliance.

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Successes

- Meeting the Governor's Collections Goal
- Business Use Tax Voluntary Compliance Initiative
- New statutory program – “Act 46” Citations
- Pass through business examination program
- Bulk sales compliance
- PA Delinquent Taxpayer List (on the Internet)
- E-filing of Business Taxes

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Meeting the Governor's Collection Goal

- FY 03-04 = \$542 million
- FY 04-05 Collections = \$639 million
- FY 05-06 Goal = + \$150 million
- As of 3/31/06 = \$585 million in collections
 - ❖ 84.5 % of the annual goal
 - ❖ 54.4 % increase in collections over last year through the same date

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Business Use Tax Voluntary Compliance Initiative

- A significant portion of businesses do not report use tax on out-of-state purchases for which sales tax is not collected.
- New program focuses on raising awareness and stimulating voluntary compliance of businesses to report and pay use tax.
 - ❖ Outreach and education
 - ❖ Self-compliance – \$3 million direct so far.
 - ❖ Creating perceived risk through audit and other “direct” field touches

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Act 46 Citation Authority

- Enforcement agents may issue citations to people who sell or lease items subject to PA Sales Tax without a valid PA Sales Tax license
- Through 3/31/06, 2,660 candidate cases with \$25.6 million in liabilities
 - ❖ \$12.7 million collected – the ‘threat’ of citation is curing most cases
 - ❖ 175 business owners (6.7% of cases) actually have been cited

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Pass Through Business Results

(since 1/1/03)

- More than 18,000 pass through business owners with non-filed or understated liabilities identified
- \$59.1 million in assessments
- This represents over \$2 billion in previously unreported and untaxed PA personal income
- \$29.1 million collected

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Bulk Sales Program

- Bulk sale statute holds successor business responsible for tax liabilities of predecessor (with purchase of 51% or more of any class of Pennsylvania assets)
- Specialized collections unit produced \$46 million since January 2003 from bulk sales enforcement

PA Delinquent Taxpayer List

- April 6, 2006 Internet publication of Delinquent Sales Taxpayers (Trust Fund Taxes)
- Taxpayers were given multiple chances to resolve prior to listing.
- \$15.5 million in payment and promises to pay received

Electronic Filing for Businesses

- Compliance begins with timely filing and self-assessment and payment.
- Beginning with 2005, E-filing became the prescribed method for filing and paying PA Sales and Use Taxes
- Employer Withholding has been added in 2006.
- The goal is enhanced efficiency and voluntary compliance.

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New Developments

- Budgetary Voluntary Compliance Initiatives
- Data Warehouse and making informed business decisions - the right treatment for the right taxpayer at the right time
- Combined Delinquent Case Tracking Systems Project for ALL taxes
- Agency-wide Tax Clearance System

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Voluntary Compliance Initiatives

- Budgetary Proposal – requested funding
- Components
 - ❖ Expanded Business Use Tax
 - ❖ Cigarette Tax Enforcement
 - ❖ Business License Information Exchange
 - ❖ Abusive Tax Shelter Voluntary Disclosure (for individuals only)

Data Warehouse

- Same “state-of-the-art” system as that used for the IRS’s National CDW (Compliance Data Warehouse)
- DOR taxpayer registration and tax return data are placed in one location for DOR researchers and program analysts.
- DOR’s DW is being used to:
 - ❖ Analyze taxpayer behavior
 - ❖ Define appropriate ‘treatments’ or enforcement actions
 - ❖ Measure program performance for DOR managers

Combined Delinquent Case Tracking System - the Plan

Objective: Combine four separate collection systems - Personal Income, Inheritance Tax, Corporation, and Business Trust Fund Taxes

- ✓ Develop web-based look and feel
- ✓ Develop/convert delinquent personal tax systems
- ✓ Include new compliance tools - wage garnishment

➤ Remaining to do: Add business taxes

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Revenue “Agency-Wide” Tax Clearance System

- New clearance process is being implemented for the new gaming industry.
- Business License Information Exchange next.
- Existing tax clearance programs
 - Liquor Control Board
 - Lottery
 - Commonwealth contractors
- Tax compliance goal - facilitating the review of all those parties who receive financial benefits from the Commonwealth.

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