



Harley T. Duncan Award for Leadership Nomination

Agency: Pennsylvania Department of Revenue

Nominee: Kevin Milligan

Title: Special Advisor

Phone: 717.783.5571

Accomplishments Internal to the PA Department of Revenue

Mr. Kevin Milligan is in his second period of service with the Pennsylvania Department of Revenue (PA DOR). In both stints of his public service to the Commonwealth of Pennsylvania, Mr. Milligan was instrumental in implementing programs and advocating for change and innovation in our tax administration and compliance procedures. The accomplishments that follow represent his body of work from both periods of service with the PA DOR.

Establishment of a Discovery Unit and Implementation and Expansion of Voluntarily Compliance Initiatives

In the early 1990's, the PA DOR implemented a Tax Discovery Unit, the first of its kind in state tax administration agencies. In response to serious budget deficits, Mr. Milligan advocated for the formation of this group for the purpose of attempting to identify non-registered individuals and businesses non-compliant with the PA tax laws. The staff in this unit were responsible for registering these individuals and businesses for the applicable tax types and working with them to file and pay timely. Staff in the Tax Discovery Unit were also key in developing the now long-standing US Customs Information Program.

In 2005, the PA DOR formed the Bureau of Enforcement Planning, Analysis, and Discovery (EPAD). EPAD was created to dedicate resources for retaining and stimulating voluntary compliance with the PA tax laws. Additionally, this bureau was looked upon to provide a strategic approach to the PA DOR's compliance and collections efforts. Mr. Milligan would serve as director of EPAD for over 12 years.

The new Bureau of EPAD not only took on the discovery activities, but became the center of new, innovative, and forward-looking voluntary compliance initiatives. In the early 2000s, it was a common issue that businesses failed to report use tax on out-of-state purchases. In November 2005, a new awareness campaign began around use tax with the intent of stimulating use tax voluntary compliance. Since then, the voluntary compliance initiatives have expanded to address related tax compliance issues such as:

- Hotel occupancy tax implications of home-sharing
- Sales suppression within the restaurant industry
- Understated motor vehicle sales



Both the discovery program and the voluntary compliance initiatives proved fruitful for the PA DOR. The Tax Discovery Unit's innovative operations and the voluntary compliance programs routinely produce in excess of \$25 million annually from business tax and transactional nexus investigations.

Investment in and Creation of the PA DOR Data Warehouse

The PA DOR has historically been challenged with tax data residing in separate host systems. The ability to access and then analyze data to support decision-making was difficult. Mr. Milligan was instrumental in communicating this challenge and finding the necessary staff to bring the idea of a data warehouse to fruition. In 2004, the data warehouse went live, and it was the PA DOR's first step as a department to integrate host system information and external data together in one place.

Once established, Mr. Milligan became a proponent of leveraging the existence of readily available data in the data warehouse to establish tax gaps, to determine the "next best case" to work from a compliance and enforcement perspective, and to determine the appropriate action for treatment for groups of taxpayers who historically underpaid, failed to pay, or failed to file. The investment from an IT infrastructure perspective, as well as staff time in development, was ultimately recognized in 2008 with a *Best of Pennsylvania Technology* award at the Pennsylvania Digital Government Summit on June 16, 2008.

Data Acquisition

Supplementing internal data with external data is a critical part of the PA DOR's ability to conduct successful audits, to determine the "next best case," and to locate taxpayers. Mr. Milligan led the charge to acquire the services of LexisNexis both in the batch format and LexisNexis' Accurint tool. The batch format is used to validate and update addresses of personal income tax taxpayers that receive a collections notice. Ad hoc skip tracing is completed through Accurint.

Mr. Milligan also introduced the PA DOR to the benefits of acquiring data on businesses via Dun & Bradstreet. The PA DOR now contracts with Dun & Bradstreet and receives information on over 700,000 businesses. The PA DOR uses this data to skip trace and determine which delinquent taxpayers are at risk for not paying.

2012 Compliance and Collections Diagnostic

In the summer of 2012, Mr. Milligan began to engage in discussions with Mr. Joe Milack, a former executive with the New York Department of Taxation and Finance and a current consultant. The discussions focused on the PA DOR's collections process, which up to that point had been virtually unchanged for approximately 20 years. Recognizing that the environment for collections was changing, Mr. Milligan persuaded PA DOR leadership to engage Mr. Milack in a study that examined the current collections process, provided best practices for collections, and provided a roadmap to transform the collections process. This report touched on various topics such as the then new 1099-K, analytics, refund fraud, and organizational structure. The PA DOR has invested time and resources in all of these areas over the last eight years.



Enhanced Revenue Collections Account

Act 46 of 2010 created the Enhanced Revenue Collections Account ("ERCA"). ERCA was created to increase the review of tax returns, to conduct more audits, to ensure improper refunds were not issued, and to increase the effectiveness of tax collections. ERCA appropriates funds specifically for PA DOR staff and for projects to achieve the goal of increased tax compliance.

Mr. Milligan has been a key player in the ERCA planning since its inception. He spearheaded the efforts to increase staff for field audits, desk reviews for pass through businesses, and additional call center staff. But Mr. Milligan's most important impact has been through the use of ERCA funds outside of additional staffing. Mr. Milligan led the effort to expand the PA DOR's skip tracing efforts by engaging with Dun & Bradstreet. Dun & Bradstreet's vast array of data on businesses has helped locate non-registered businesses and prioritize delinquent business collection cases. Through the ERCA fund, Mr. Milligan was able to introduce the PA DOR to various consultants and to lead various pilot projects particularly with pass through business reviews.

Nudge Proof of Concept

The Nudge Notice Proof of Concept was a partnership between the PA DOR and The MITRE Corporation to apply behavioral insights theory to state tax compliance efforts.

A target population of Pennsylvania business taxpayers was identified. This population had delinquent business accounts receivable and had already received one delinquent notice. Nudges were utilized in a new reminder delinquent notice to accomplish the following objectives:

1. Increase taxpayer response rate to delinquent notices
2. Increase department collections

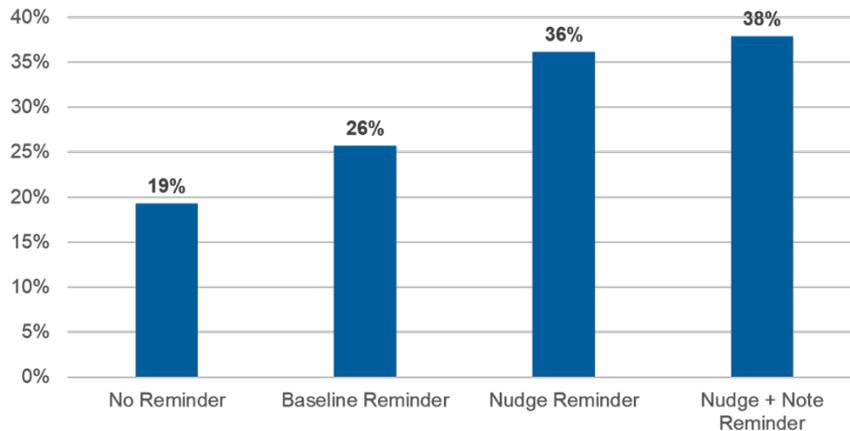
The PA DOR performed a twelve-week study with more than 3,000 delinquent businesses accounts to test potential improvements to the current delinquent collection notice. Three variations were developed using behavioral insights theory and compared to the results of a control group who received no reminder delinquent notice.

- Group A ("control group") received the current PADOR delinquency notice with no further action.
- Group B received a '2nd Notice,' 15 days after the original delinquency notice, which was the original delinquency notice with the words, "Second Notice," printed at the top of the letter.
- Group C received a newly designed '2nd Notice,' 15 days after the original delinquency notice, which contained four (4) behavioral nudges in the text of the letter.
- Group D received the same newly designed '2nd Notice' as Group C, but with a personal hand-written encouragement statement on the envelope.

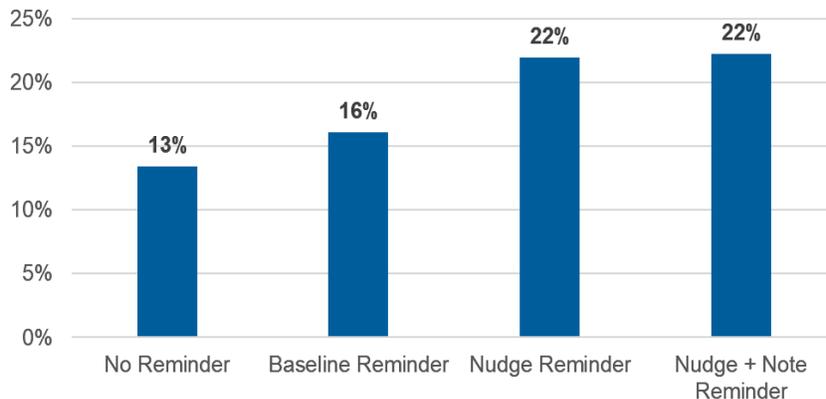


For this study, responses included incoming calls, promises to pay, partial payments, and full payments. Response types, dates and times of response types, and payment amounts were all recorded for any response received after the mailing date. All data collected during the evaluation period were analyzed to determine the most effective treatment/condition of the delinquent collection notice process.

Businesses who received the redesigned notices with nudge reminders (Groups C and D) were 50 – 100% more likely to respond than the businesses in the other conditions (Group A – control and Group B).



Businesses who received the redesigned notices with nudge reminders (Groups C and D) paid down 38 – 69% more of their debt (on average) than the businesses in the other conditions (Group A – control and Group B).



This proof-of-concept study produced compelling evidence that nudges could be effective in improving response rates and increasing delinquent collections. By creating a redesigned tax delinquency reminder notice, PA DOR achieved a 6% increase in taxpayers who paid down their tax debt, a 5% increase in business who paid off their tax debt, and a 10% increase in response rates by small businesses responding to delinquency notices.

The successful application of 'behavioral insight theory' encourages PA DOR to explore and more broadly apply this approach to improve taxpayer compliance and collections. The results demonstrate that by applying behavioral science nudge techniques we can produce better societal results to make government more effective. These recovered tax dollars will contribute to the PA budget and ultimately benefit PA residents themselves.



Nudges are inexpensive, easy, and effective ways to increase tax compliance. It was because of Mr. Milligan's strength in networking at FTA and NESTOA events that provided him with the knowledge of and contacts for a Proof of Concept study in the creative use of behavioral insight and human design in tax compliance efforts.

Agency Presence on LinkedIn

In 2015, the PA DOR engaged in an effort to update and publish an agency strategic plan, as well as work to institutionalize the strategic planning process within the department. Mr. Milligan was a catalyst for this effort and stressed the need for involvement of staff beyond the executive office. The 2015 strategic planning effort was driven by a group of 40 mid-level managers within the department. Coming out of this workgroup was the initiative to establish the department's presence on social media.

In 2017, the PA DOR reworked a Facebook page that had been established for a recent Tax Amnesty program, and the department launched into the world of social media. After becoming established on Facebook, Mr. Milligan pressed for the PA DOR to expand its presence onto a more professional platform, LinkedIn. At the time, the PA DOR was still working to integrate social media into its formal communication strategy.

Shortly after, Mr. Milligan personally took to LinkedIn and started to advocate and share ideas and thoughts regarding best practices, emerging trends and future issues in state tax administration. While done through his personal account and never attributing his thoughts to the PA DOR, he helped raise departmental awareness of the benefit and value of the LinkedIn platform. Mr. Milligan spoke at NESTOA in 2018 on the value of LinkedIn. In early 2019, the PA DOR joined LinkedIn.

Mentorship

Last, but certainly not least, Mr. Milligan believes in identifying, developing and investing in the leaders of tomorrow. It starts with the extraordinary effort he's made through the years to recruit young talent and convince them of the merits of public service. Within our organization, he gives back through mentorship. His mentorship is based on the transfer of institutional knowledge, tax technical information, and work experiences. This has been a priority for him throughout his career, and because of Mr. Milligan's vast experience throughout the department, he is able to facilitate continuous learning, offer unique work experiences, and provide support for his mentees. He generously dedicates his time and resources to move the agency forward by guiding new and young managers through all facets of tax administration. His mentorship has molded and created a solid foundation for future success for several of our agency's next generational leaders.

For many years, Mr. Milligan served as a formal mentor through the Commonwealth of Pennsylvania's Mentor Program. This program links individuals like Mr. Milligan to emerging leaders in state government. In addition to the formal program, Mr. Milligan has informally mentored countless PA DOR employees, some of which now serve in various senior management and executive-level roles.



External Accomplishments

In addition to the myriad of accomplishments internal to the PA DOR, Mr. Milligan has made his mark more broadly through collaborative efforts with other Commonwealth of Pennsylvania agencies, as well as tax administration agencies in other states. The accomplishments that follow represent his body of work from both periods of service with the PA DOR.

Establishment of the Fraud Detection Unit

In 2009, Mr. Milligan and another colleague began to advocate within PA DOR for the implementation of fraud detection measures for personal income tax refunds. It took almost seven years, but it was through Mr. Milligan's tireless efforts to bring this issue to the spotlight with PA DOR executives that the program was instituted.

Launched in 2016, the PA DOR Fraud Detection and Analysis Unit has partnered with state and federal tax administrators to address the rise in fraudulent tax returns filed by scammers. Armed with new analytical tools provided by the renegotiated software contract, the unit also has helped the PA DOR strengthen its automated fraud filters, which intercept fraudulent and erroneous refund filings. These filings mainly contain overstated expenses and incorrectly reported wages or withholding from W-2s.

Electronic Sales Suppression Prevention

Electronic sales suppression is an illegal practice that involves a person using software to systematically delete or alter sales and tax records. The practice is widespread throughout the nation and in Pennsylvania and it annually results in millions of dollars in lost tax revenue. Realizing this was a significant problem, a collaborative effort was started within the PA DOR in 2014 to address this issue. Staff from the Bureau of Audits, as well as staff from the Bureau of EPAD, under Mr. Milligan's directorship, began developing a plan to identify and respond to this problem. As usual, Mr. Milligan initiated and led the efforts.

The PA DOR used new procedures and analytical methods as it developed an evidence-based program to detect anomalies indicative of sales suppression. Using this data, a pilot audit program was launched with a focus on certain businesses in the restaurant industry suspected of sales suppression.

As a result of these efforts, the PA DOR was recognized in May 2018 with the Governor's Award for Excellence for its work in exposing electronic sales suppression. Anomalies indicative of sales suppression are identified through data analytics and field work, and are referred for field audit to expose sales suppression activities



Certified Service Providers for Marketplace Sellers

On June 21, 2018 the Supreme Court of the United States handed down a decision in *South Dakota v. Wayfair, Inc.* that changed the sales tax landscape across the country. The PA DOR issued Sales and Use Tax Bulletin 2019-01, *Maintaining a Place of Business in the Commonwealth*. This was later codified in Act 13 of 2019 by the Pennsylvania General Assembly. Per the Act, as of July 1, 2019, remote sellers and marketplace facilitators who have no physical presence but whose direct sales and facilitated marketplace sales attributed to Pennsylvania exceed \$100,000 are now required to register to collect and remit Pennsylvania sales tax.

Mr. Milligan led a group comprised of individuals from various areas of the PA DOR to develop an approach to sales tax compliance, designed to minimize the burden on small remote sellers, while avoiding the need to enact the Streamlined Sales Tax Compact into Pennsylvania law.

As a result, the PA DOR contracted with certified service providers (referred to as CSPs) approved by that organization to assist businesses now required to collect PA sales tax. A CSP is an agent certified under the Streamlined Sales and Use Tax Agreement to perform all the seller's sales tax functions. A CSP is designed to allow a business to outsource its sales tax administration responsibilities. Use of the CSPs aligns with our mission of fairly, efficiently, and accurately administering the tax laws and other revenue programs of the Commonwealth of Pennsylvania, as well as our core values of customer service, fairness, and accountability, a coordinated departmental approach began.

The program has collected revenues of over \$4 million through the CSPs as of February 29, 2020. This amount is expected to increase as more companies join with the CSPs. In addition, other remote sellers complying with Act 13 without CSP assistance bring the revenue collected through February 29, 2020 to almost \$105 million.

Out of State Lien Enforcement Program

The PA DOR possesses many enforcement tools to assist the agency in collecting delinquent taxes owed to the Commonwealth of Pennsylvania to ensure all citizens are paying their fair share. These collections tools are effective in-state, but when an out-of-state individual or business owes the commonwealth, the tools lose their effectiveness.

Approximately five years ago, the ability to file out-of-state liens became more prevalent in internal discussions regarding PA DOR's enforcement efforts. On April 22, 2016, the department received delegation from the Office of Attorney General (OAG) to take court actions against out-of-state taxpayers. Up until that point, only the OAG was recognized to represent the PA DOR in court on delinquent out-of-state taxpayers. This decision opened the door for out-of-state lien enforcement efforts.

In September 2018, the PA DOR began its out-of-state lien enforcement program. The process works by selecting out-of-state delinquent cases for out-of-state lien enforcement. The PA DOR ensures a lien has been filed in that state for the selected individuals or businesses. A final warning letter is sent to the selected individual or business on the 1st of the month and



provides 15 days to contact the PA DOR to resolve the issue. The department usually waits an additional 15 days before referring the case to Wong Fleming for out-of-state enforcement.

The PA DOR has seen success from the final warning letter itself. The total liability of the final warning letters sent to out-of-state taxpayers since September 2018 totaled over \$40.6 million. As of March 2, 2020, the DOR collected over \$4.7 million and overall collections are more than \$7.0 million.

For the cases referred to the vendor, it is important to note that the speed of the enforcement actions are much slower. Certified copies of the Pennsylvania liens have to be obtained, routed to the appropriate out-of-state jurisdiction, and docketed. Once completed, notification must be sent to the out-of-state taxpayer informing them of these actions and the intent to collect on Pennsylvania taxes. Since September 2018, over \$2.3 million in collections towards a total vendor referred liability of over \$16.4 million has been realized.

Mr. Milligan's private sector experience proved invaluable, from the initial idea through the procurement process. In his private sector career, Mr. Milligan's company conducted this type of work for the City of Philadelphia in the 1980's and into the 1990's. With his past success with this type of program, Mr. Milligan was a key force in advocating for the PA DOR to initiate this type of program.

Frequent Attendance at FTA/NESTOA Conferences

Mr. Milligan is well known to consistent conference attendees at various FTA and NESTOA conferences. When Mr. Milligan is not at a conference, it is noticed and attendees from the other states often ask about Mr. Milligan. It is through these conferences that Mr. Milligan has developed a wide network of contacts within other states and the vendor community. These relationships that Mr. Milligan has fostered allows PA DOR staff to easily reach out and discuss issues impacting the department, as well as to get different perspectives from the other states. In addition, these conferences have fed Mr. Milligan and his intellectual curiosity, allowing him to hear the best practices and innovative ideas from other state tax administration agencies. Armed with new ideas, he pushes for change and champions new initiatives within the PA DOR.