COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
HARRISBURG, PENNSYLVANIA
17128-1100

THE SECRETARY (717) 783-3680

February 28, 2020

Honorable Stan Saylor
Majority Appropriations Chairman
House of Representatives
245 Main Capitol
Harrisburg, PA 17120

Honorable Matthew Bradford
Minority Appropriations Chairman
House of Representatives
512E Main Capitol
Harrisburg, PA 17120

Dear Chairmen:

Thank you for the opportunity to testify before the House Appropriations Committee on Tuesday, February 18, 2020. During the course of the hearing, questions were raised by committee members requiring follow-up after our testimony. In addition, we received follow-up letters from the committee on February 24th and from Representative Owlett on February 19th containing several questions for response. This letter is in response to both the individual members and the follow-up letters.

Representative Dunbar had several inquiries regarding the Governor's combined reporting proposal. In particular, the representative requested further information on the 2018 returns examined for the cash flow estimate compared to prior year estimates that showed a loss in the first fiscal year.

Tax payments from tax year 2018 were compared to payments from 2017 for all corporations that have filed returns for both years. Generally, corporations saw their labilities increase due to the base broadening in the Federal Tax Cuts and Jobs Act ("TCJA"). The data below show the change in payments in 2017-18 after the federal bill passed for those corporations with a liability increase. These payments generally would be the March and June estimated payments. While not all of these corporations increased their payments, it is clear that a majority of them (62%) did increase payments in anticipation of a higher liability. The overall percentage of a 26% increase was used to distribute the impact of those with increased liabilities from combined reporting.

2018 VS 2017 PAYMENTS	COUNT	TY 2017 2016-17	TY 2018 2017-18	% CHANGE
INCREASED	2,884	118.7	297.1	150%
DECREASED	1,747	206.7	111.4	-46%
TOTALS	**4,631**	**325.4**	**408.5**	**26%**

Representative Dunbar also asked whether HB 1445 (Daley) was still the Governor's combined reporting proposal language and conveyed his concerns over the safe harbor provisions under section 3003.3(d.1) contained on page 18 of the bill. HB 1445, while containing the Governor's combined

WL/ED/BB/RF 2/28/20

reporting language, was written for last year's budget proposal. For FY 20-21, an amendment would be needed to update HB 1445. Specifically, the amendment would only need to update the dates to conform to this fiscal year's proposal. We have provided a copy of the amendment to Rep. Daley.

However, the department is not recommending changes to section 3003.3(d.1). That section specifies that taxpayers should calculate the safe harbor amount for a combined group by adding together the tax amounts for the separate members for the safe harbor base year and making a rate adjustment. We do not believe that this section contradicts the revenue estimate on the legislation, because not every taxpayer relies on the safe harbor when making estimated payments. Many taxpayers attempt to make estimated payments consistent with their anticipated final tax liability, presumably to better manage their internal cash flow.

As noted above, we saw this in action following the passage of the TCJA. Many corporations increased their estimated payments due to an anticipated higher liability, despite no changes in the Pennsylvania safe harbor requirements. It is reasonable to expect that corporations will act this way again, and that the previous assumption that no increases in estimated payments would occur was too conservative.

If this language were to be removed from the bill, there would be a mandate in current law for taxpayers to recalculate their 2019 and 2020 tax using the combined reporting methodology in order to determine the safe harbor amount. That would be very difficult for taxpayers, and very difficult for the department to administer. As a result, we are recommending this more taxpayer-friendly approach to calculating the safe harbor amounts.

As with any legislative proposal, we welcome additional discussion about this important tax policy change while the bill progresses through the legislative process.

Chairman Saylor and Representative Gabler requested further details on the Governor's minimum wage proposal. The department utilized publicly available data sources to estimate the impact of the minimum wage increase. In fiscal year 2020-21, an increase in the minimum wage will increase commonwealth revenues by a total of $133.3 million.

The Personal Income Tax ("PIT") impact is composed of four components. The largest is the increase in personal income tax of $143.6 million from workers with increased wages. There is an additional $11.3M of PIT from taxpayers no longer receiving tax forgiveness due to increased earnings. Partially offsetting that is decreased personal income tax from business owners who have their profits decrease due to higher wages. That is a decrease of $99.2 million. In addition, there is a decrease in PIT of $5.6 million due to a decrease in the rate of employment growth. This slow-down in employment growth will increase profits for business owners, raising $3.8 million in PIT.

The department would like to clarify the slow-down in employment growth point above. While the department does not anticipate job losses as a result of the increase in minimum wage, in an attempt to be conservative with the revenue estimates, the effect of fewer jobs was included in the analysis. It is estimated that there would be 9,749 fewer jobs in 2020-21 as a result of the minimum wage increase. This is based on the Congressional Budget Office's report that shows a 0.16% decline in employment from a minimum wage increase to $12.00. This figure also can be interpreted as including people who previously worked multiple jobs may now be able to work only one job at the higher wage. These workers would be earning more per hour, but working fewer hours during the year, leading to an increase in annual earnings with no single worker "losing" due to the policy.

It is important to add context to all of these figures. Total PIT in 2020-21 is expected to be $15.4 billion. The net impact of $53.9 million in increased PIT is an increase of just 0.35%.

The increased sales tax revenue is also a net impact. The net impact of $79.4 million for 2020-21 reflects a 0.75% increase in that revenue source. A complete methodology, fiscal impact statement, and research studies for the minimum wage proposal are enclosed as "Appendix Item 1".

Chairman Saylor also requested additional information on the Governor's combined reporting proposal and the department's methodology. In brief, the department conducted a combined reporting study by linking tax returns from Minnesota (a state which has required combined reporting for many years) with Pennsylvania tax returns. When that match was not possible, simulations were run that used the Minnesota combined income with the Pennsylvania sales factors and estimated the tax effect.

There are a few important facts to point out about the department's study. Our study utilizes actual tax return data to compute changes in taxes at the company level while other studies have used publicly available data such as Census data or linked to other components such as Gross State Product to simulate the effect of combined reporting for Pennsylvania.

The bulk of current Corporate Net Income Tax ("CNIT") liabilities (68%) comes from corporations that filed in both Pennsylvania and Minnesota. Because of this, there are no estimation calculations completed for these returns – the tax increases reflect the data itself.

Moreover, some studies have claimed that they take into consideration the effect of companies changing behavior because of combined reporting. Our study, by using the Minnesota data, does that by default. To the extent that companies are already tax planning to minimize their liability in Minnesota, our study captures that effect.

Studies that do not use actual tax returns have several significant shortcomings. Any data utilized from the US Census Bureau represents cash payments less refunds on a fiscal year basis, which is not comparable to tax liabilities on a tax year basis.

In addition, cash payments reflect other major changes that may have taken place in the state simultaneously (such as rate changes, apportionment changes, and tax credits), so using these payments to estimate a combined reporting impact is likely to be inaccurate. It is impossible to break out the effect of combined reporting from other changes in the cash payments.

Furthermore, because corporate profits by state are not available, many studies have to rely on other economic data (usually gross state product) as a proxy for corporate profits. Gross state product is considerably less volatile than corporate profits and does not necessarily correlate with corporate profits.

Finally, many of these outside studies looked at states that implemented combined reporting at the time of an economic recession, making it impossible to determine the effect of combined reporting separately from the recession and the decline in corporate profits on cash payments. The results of the department's combined reporting study including fiscal impact statement and methodology are enclosed under "Appendix Item 2".

Representative White inquired as to why there was a decline in the revenue estimate for the financial institutions taxes and Insurance Premiums Tax. Beginning in 2018, banks were permitted to deduct from their tax base (total bank equity capital) equity attributable to Edge Act corporations. These corporations act as holding companies for banks' foreign investments, and they conduct other permitted overseas activities. The provision allowed for 20% of Edge Act corporation equity to be deducted in 2018, phased-in evenly up to a 100% deduction in 2022, which is why the commonwealth is seeing a decline in this area.

The Insurance Premiums Tax is expected to decline 5.3% in 2019-20 and 9.5% in 2020-21. The main cause of the decline is tax credits that were created as a result of the liquidation of Penn Treaty by the Commonwealth Court of Pennsylvania. The Pennsylvania Life and Health Insurance Guaranty Association system ensures that consumers can purchase insurance products with the knowledge that their coverage will be protected in the event of a future company failure or insolvency. Companies that are assessed by the Association are also permitted to claim tax credits based on those assessments. The effect of claiming these tax credits has led to the lowering of collections over the next few years. The Innovate in PA tax credit also lowers revenues in these years to a lesser extent. In addition to the tax credits, anticipated taxpayer behavior changes and market conditions affect future years we well.

Within the follow-up letter, the committee also requested additional information on the amount of each tax credit estimated to be used to offset the IPT in 2019-20 and 2020-21. The estimated impact of credits on IPT is below.

INSURANCE PREMIUMS TAX	**2019-20**	**2020-21**
BUDGET FORECAST	**420.7**	**380.8**
TAX CREDITS - ACT 84 OF 2016	-3.1	-3.1
NAP INCREASE - ACT 100 OF 2018		-0.4
INNOVATE IN PA	-20.0	-20.0
PLHIGA - PENN TREATY LIQUIDATION	-34.9	-44.9
TAX CREDITS - ACTS 13 & 16 OF 2019	-3.4	-4.4

Representative Kim asked the department to provide a fiscal impact statement for SB 79 PN 1389 (Tartaglione), which increases the minimum wage gradually to $9.50 by January 1, 2022. The estimated impacts are shown below.

FISCAL YEAR	PIT IMPACT	SUT IMPACT	TOTAL
2019-20	--	--	--
2020-21	$3.9	$5.6	$9.5
2021-22	$10.1	$16.1	$26.2
2022-23	$11.9	$19.4	$31.3
2023-24	$11.9	$19.4	$31.3
2024-25	$11.9	$19.4	$31.3

Additionally, a breakdown of the impacts from SB 79 was requested per the follow-up letter from the committee. The breakdown is enclosed as "Appendix Item 3".

Representative Wheeland requested the PA Lottery's methodology from its fiscal impact study of Games of Skill on Lottery sales. The PA Lottery's methodology is enclosed as "Appendix Item 4". At the current saturation point, it is estimated the illegal gambling machines marketed as "Pennsylvania Skill Games" are negatively impacting Lottery sales by more than $200 million a year. Because these games are rapidly spreading to locations across Pennsylvania and siphoning off millions of dollars in funding for the senior programs that older Pennsylvanians rely upon, we are urging the General Assembly to take action to address these illegal machines by supporting House Bill 931, proposed by state Rep. Ed Neilson, and Senate Bill 710, proposed by state Sen. Tommy Tomlinson. Both bills would address illegal gambling machines marketed as "Pennsylvania Skill Games" while protecting funding for senior programs. Taking action now will ensure that Pennsylvania seniors will continue to receive property tax relief, meals on wheels, services at senior centers, low-cost prescription drugs and other critical support that the Lottery funds on an annual basis.

The representative also inquired about the costs related to hiring outside counsel to assist in issuing the lottery systems request for proposal ("RFP") issued by the Department of General Services on behalf of the PA Lottery. No outside legal counsel was utilized to assist on the RFP. However, two firms were hired to assist in the RFP solicitations. Gaming Laboratories Inc. provided expertise in requirements gathering on the RFP and their work is complete and the company is no longer involved in the procurement. Additionally, Treya Partners provided research regarding lottery systems and best practices for these systems and consulting services during the procurement process. For Gaming Laboratories' work, the company was paid $858,900 and Treya Partners has been paid $487,500. The funds for these expenses were paid from the PA Lottery's general operations budget.

Representative Rosemary Brown inquired about Act 109 of 2018, which requires booking agents to remit Hotel Occupancy Tax on accommodation fees, requesting current fiscal year collections, the 2020-21 fiscal year estimate, and further detail on the measures employed by the department to ensure compliance by companies operating in this industry. In 2018-19, $1.2 million was collected from sales tax on the accommodations fee. In 2019-20, $3.2 million has been collected through January. It is estimated approximately $5.0 million will be collected this fiscal year and that a similar amount will be collected in 2020-21.

To ensure compliance under the new law, the department has been actively working with the booking agents to educate them on their responsibilities under Act 109. Additionally, the department has posted extensive guidance on our website on how to file and remit and comply with the new Act.

On the enforcement side, the department has begun analyzing the form Schedule E that was filed with the 2018 PIT returns. The Schedule E reports Rents and Royalties that are subject to the PIT. Using that information, the department can verify that Hotel Occupancy Tax and/or tax on booking agent fees are being remitted from the taxpayer or the booking agent. Investigations can be done on those entities that are not compliant.

Representative McCarter wanted to know if the department could provide further information on the impact of combined reporting on the petrochemical industry. The department utilized the NAICS code 325110 to identify companies that are in the petrochemical manufacturing industry. Based on that data, we found 52 companies. Of the 52 companies with this NAICS code, 52% would see their tax decrease under combined reporting at the completely phased-in rate of 5.99%, 37% would see no impact (their tax is $0 in both scenarios) and 12% would see their tax increase. The figures at 5.99% are shown below.

	Count	Current CNIT	CR at 5.99%
Increase	6	$607,285	$2,712,335
Decrease	27	$8,243,708	$4,157,269
Neutral	19	$0	$0
Total	**52**	**$8,850,993**	**$6,869,604**

Additionally, the committee requested within their follow-up letter for further information on how combined reporting would affect specific industry groups. We have enclosed this information under "Appendix Item 5".

Representative Cephas inquired about the tax compliance gap and what the department is doing to ensure tax fairness within the commonwealth. The department's approach to compliance and the various methods we are utilizing to lower the tax gap can be found enclosed as "Appendix Item 6".

Representative Owlett had questions regarding our Bureau of Audits during the hearing and via a follow-up letter on February 19th. Specifically, the representative requested the number of audits conducted by the department for fiscal years 17-18, 18-19, and 19-20, the counties in which the audits were conducted, and the total amount of revenues collected from those audits. We have provided the amounts assessed as a result of the audit rather than the amount paid. Providing payment information related to these audits would require a time-consuming manual review of the accounts involved. Please note that all of the dollar amounts are net of positive and negative amounts. Some audits result in an adjustment in the taxpayer's favor if the auditor finds that tax has been overpaid and a refund is due. As a result, some of the county totals in the table are negative due to large refund audits. This data is enclosed as "Appendix Item 7".

Representative Topper asked about the Cigarette Tax estimates and why there was a difference between earlier department estimates and current budget estimates. The difference is related to the timing of the PA law change and then the subsequent federal law change. While the Pennsylvania change did not take effect until July 1, 2020, the federal change was effective immediately in December 2019.

The budget growth rates for Cigarette Tax are shown below. These growth rates are primarily influenced by a continued reduction in the tax base due to reduced smoking rates. Transfers and the federal change in the law to increase the smoking age to 21 also have an impact. Without the transfers and the federal law change (shown in the adjusted figures below), the growth rates would be closer to a 7% decline each year.

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
BUDGET	-18.0%	-10.2%	-8.9%	-9.1%	-9.2%	-9.0%
ADJUSTED	-6.2%	-7.3%	-6.9%	-6.8%	-6.8%	-6.8%

Representative Grove had several questions relating to personnel spending and what comprises fixed assets. While we provided answers at the hearing, we felt further clarification was necessary due to the various documents that were referenced.

As indicated in our hearing materials, the state funds in General Government Operations (GGO) (10208) for personnel in 2020-21 is being requested to increase by $10.414M or 11.93% while "other funds" (augmentation) used to help pay for personnel costs has been decreased $3.501M or -24.73%. The net change overall in the GGO (state & augmentation) for personnel increased $6.913M or 6.82%. The increase is attributable to timing in the hiring process, uncertainty with augmentation funding, and state employee contractual pay increases and benefit increases. Specifically, the AFSCME contract covers July 1, 2019 through June 30, 2023. The raises included in the contract are outlined in the chart below by fiscal year (FY). Assuming there are no drastic changes in benefit rates, we anticipate our personnel cost-to-carry to increase by about the same rate (6-7%) per year through the remainder of the contract. This is a result of the contractual raises and the associated salary-driven benefit costs.

AFSCME Contract Raises

July 1, 2019 through June 30, 2023

FY	Effective Date	GSI or Longevity	% Increase
19FY	July 2019	GSI	3.00%
	April 2020	Longevity	2.25%
20FY	Oct 2020	GSI	2.00%
	April 2021	Longevity	2.25%
21FY	Oct 2021	GSI	2.50%
22FY	Oct 2022	GSI	2.50%
	Jan 2023	Longevity	2.25%

The department's fixed asset budget is for software licenses, technology equipment refresh for network core hardware, which is 9 years old and at risk, and IBML scanners, which are used for tax form imaging and data capture as well as remittance processing. The IBML scanners are responsible for depositing over $6 billion of the commonwealth's revenue annually.

Furthermore, clarification was needed with regards to the department's modernization contract with Fast Enterprises, LLC due to how the contracts are shown on the Treasury website. The second amendment to the department's contract with Fast Enterprises, LLC (identified as contract number 4400018488.2 on the Treasury department website) expands the original scope of the contract to all of the remaining taxes that the department administers. This amendment executes the five one-year options to extend the original contract, resulting in the contract term being expanded to ten years.

This amendment also includes data subscription services for the expanded term of the contract. These services include, but are not limited to, the following:

- PIT refund fraud analytics;
- Verification of PTRR claims;
- Integrated search capabilities; and,
- Collection scoring analytics.

As a result of the expanded scope, current hosting services were also extended to ten years and to include the additional capacity necessary to accommodate the additional tax types. As a result, the new system will be entirely hosted at the vendor's data center.

Summary of Total Costs			
	Base Contract (5 years)	Amendment 2 Increase (10 years)	Total 10-year Cost
License Fee	$ 6,000,000	$ 4,000,000	$ 10,000,000
Services	$ 30,300,000	$ 31,350,000	$ 61,650,000
Subscription Services (FDS)	$ -	$ 12,612,181	$ 12,612,181
Hosting Services	$ 1,050,000	$ 19,431,000	$ 20,481,000
Maintenance	$ 4,300,000	$ 11,280,000	$ 15,580,000
Support	$ 4,000,000	$ 20,846,000	$ 24,846,000
	$ 45,650,000	$ 99,519,181	**$ 145,169,181**

The department's work with FAST is scheduled to occur in a series of rollouts:

1. Rollout 1 went live on January 28, 2019 with the implementation of motor and alternative fuel taxes and the international fuel tax agreement (IFTA) tax;
2. Rollout 2 went live on October 15, 2019 with the implementation of realty transfer tax and inheritance tax;
3. Rollout 3 is slated to go-live in November 2020 with the implementation of personal income tax, pass through entity processing and the property tax/rent rebate program;
4. Rollout 4 will include the replacement of the department's Business Tax System (BTS) including implementation of employer withholding, sales, and corporation taxes, among others. While the schedule for this rollout is not finalized, it is our goal to replace all legacy tax systems no later than December 2022.
5. Rollout 5 will include implementation of miscellaneous taxes which are currently supported by standalone systems maintained by the department. While the schedule for this rollout is not finalized, it is our goal to replace all legacy tax systems no later than December 2022.

This expansion will bring all the taxes the department administers into one system by year six of the contract. The remaining four years of the contract primarily include maintenance, support and hosting costs.

The investment in the new system is replacing the cost to carry existing systems that are retired once their functions are replaced. After Rollout 3, the department will be able to shut down all mainframe-based tax systems as their functions are absorbed into PATH. In addition, the department is able to avoid costly upgrades and maintenance for systems that are scheduled to be replaced within the next three years. In particular, the current BTS would require costly upgrades in hardware and software to keep it running beyond 2022. By consolidating our major systems on one platform, significant cost increases can be avoided.

Based on our analysis, by rolling the BTS into PATH the department will avoid $9.1 million in future maintenance costs. These future maintenance costs avoided are realized by year eight of the contract. Moreover, the department will save more than $25 million in cumulative costs avoided by year ten of the contract simply by eliminating the annual costs to maintain our dated systems. These avoided costs will continue to increase annually as efficiency gains are realized.

Contract Year	Fiscal Year	Current Annual Cost to Maintain related DOR systems	Projected Annual Cost to Maintain related DOR systems as a result of this amendment	Annual Costs (Savings)	Cumulative Costs (Savings)
Year 1	2017-2018	$ 14,264,346.33	$ 14,264,346.33	$ -	$ -
Year 2	2018 - 2019	$ 20,689,730.31	$ 19,589,730.31	$ (1,100,000.00)	$ (1,100,000.00)
Year 3	2019 - 2020	$ 21,488,608.50	$ 18,888,608.50	$ (2,600,000.00)	$ (3,700,000.00)
Year 4	2020 - 2021	$ 31,641,963.92	$ 26,241,963.92	$ (5,400,000.00)	$ (9,100,000.00)
Year 5	2021 - 2022	$ 18,534,762.12	$ 26,618,095.12	$ 8,083,333.00	$ (1,016,667.00)
Year 6	2022 - 2023	$ 19,657,765.56	$ 18,653,978.33	$ (1,003,787.22)	$ (2,020,454.22)
Year 7	2023-2024	$ 20,344,957.81	$ 24,889,315.57	$ 4,544,357.77	$ 2,523,903.54
Year 8	2024-2025	$ 21,054,879.58	$ 11,928,954.54	$ (9,125,925.04)	$ (6,602,021.50)
Year 9	2025-2026	$ 21,668,054.63	$ 12,466,833.33	$ (9,201,221.30)	$ (15,803,242.80)
Year 10	2026 - 2027	$ 22,438,515.70	$ 12,846,333.33	$ (9,592,182.36)	$ (25,395,425.16)

In addition to these cost savings, we have already seen a number of other benefits from our modernization project. For example, taxpayers with obligations for motor and alternative fuel taxes are increasingly using myPATH, the user-friendly portal the department launched in February 2019. Some examples of realized benefits thus far include:

- A 74% reduction in the turnaround time for our customers to receive their supplemental decals;
- The new portal, myPATH, provided our IFTA customers with online self-service options for first time. IFTA customer usage is already approaching 75% and has resulted in efficiency gains.
- The department has realized an almost 90% reduction in the error rate in IFTA returns received via myPATH as compared to the legacy paper-based system.
- myPATH has also brought additional online self-service options to our motor and alternative fuel tax customers, including the ability to file amended returns electronically, the ability to request refunds, and the ability to register electronically.

The contract amendment that was executed will eventually expand many of the same benefits noted above to all of the department's customers. These benefits align with the department's strategic goals related to streamlining agency processes, improving customer service, boosting tax compliance and improving the public's confidence in the department.

Representative Ortitay inquired if any cost savings were realized from the department's Lean projects, bureau reorganization, and call center merger. While the department strives to create cost savings with every new improvement, the overall concept of Lean is built on the premise of improving internal processes and creating efficiencies to improve customer service. In some cases, those projects do result in cost savings.

Over the last 10 years, the department's authorized complement has declined by 300 positions, with 100 of those being lost within the last four years. As a result of this sharp decline in staff, backlogs increased, and customer service decreased. Returns and payments could not be processed as timely, which led to more notices being issued and increased phone calls to an already stressed inbound call center. The reorganization was necessary so that the department could leverage the efficiencies that come from functionalization, resources could be realigned, and customer service could be improved.

The reorganizations realized an overall savings of approximately $100,000. Since the reorganizations began in September of 2019, we have all but eliminated return and payment backlogs. The call centers have gone from constant busy signals to being able to allow a larger number of taxpayers in queues. The wait times in those queues are steadily decreasing as well. The Lean initiatives support the larger reorganizations by empowering front line staff to find efficiencies in their daily tasks. While there have not been significant cost savings to date, these changes have allowed us to absorb cost-to-carry increases in our personnel budget without requesting additional budget increases.

I hope that you find this information to be helpful. If you or any of the committee members have questions or need additional information, please feel free to contact our Legislative Director Andrew Moser at 717-783-4024.

Sincerely,

C. Daniel Hassell

C. Daniel Hassell
Secretary of Revenue

Enclosures

APPENDIX ITEM 1

Impact of Minimum Wage Increase

$12/hr July 1, 2020; Phased-in to $15/hr July 1, 2026

$millions

TIPPED WORKERS INCLUDED				
Fiscal Year	**Minimum Wage ($)**	**PIT Impact**	**GF SUT Impact**	**GF Total**
2019-20	$7.50	--	--	--
2020-21	$12.00	$53.9	$79.4	$133.3
2021-22	$12.50	$63.4	$94.1	$157.5
2022-23	$13.00	$75.1	$110.6	$185.7
2023-24	$13.50	$87.0	$128.9	$215.9
2024-25	$14.00	$99.6	$146.7	$246.3
2025-26	$14.50	$112.7	$167.4	$280.1
2026-27	$15.00	$127.1	$187.2	$314.3

Notes:

1. Estimates use data from the American Community Survey Public Use Microdata Sample, 1-year estimate for 2017.
2. The PIT impact includes employment impact, SP savings, and the impact on businesses that owe PIT due to the increase in pay.

BREAKDOWN OF PIT IMPACTS IN PROPOSAL
FISCAL YEAR 2020-21; $12 MINIMUM WAGE
($M)

	PIT	SUT
IMPACT FROM WAGE EARNERS	143.6	123.5
TAX FORGIVENESS IMPACT	11.3	na
IMPACT FROM CHANGE IN BUSINESS INCOME	-99.2	-40.7
EMPLOYMENT GROWTH IMPACT ON WAGES	-5.6	-4.9
EMPLOYMENT GROWTH IMPACT ON BUSINESS INCOME	3.8	1.6
	53.9	79.4

NOTE:

The PIT impact is estimated using Census' American Community Survey data for wage earners. Impacts to PIT due to pass-through entities raising the wages of their workers are also calculated using Census data. The impacts due to changes in employment growth are calculated using Congressional Budget Office estimates.

SUT impact is estimated using data from the Consumer Expenditure Survey to determine the proportion of household income spent on taxable goods by household income levels. It is assumed that those who have gains in income due to increased wages will spend a greater proportion of that increased income on taxable goods, rather than the percentage associated with their overall income level. For those experiencing business income losses due to the increased minimum wage, the proportions below are applied to the net change in income for each income level. Therefore, the overall percent of wages spent on taxable goods is greater for wage earners.

INCOME RANGE	% OF INCOME SPENT ON TAXABLE GOODS
Less than $20,000	70%
$20,000–$39,999	40%
$40,000–$59,999	29%
$60,000–$74,999	29%
$75,000–$99,999	29%
$100,000–$149,999	19%
$150,000 or more	19%

Minimum Wage Increase Methodology

DATA SOURCES

- **2017 American Community Survey 1-year estimates**
- **2016 Economic Annual Surveys (US Census)**
- **Consumer Expenditure Survey (Bureau of Labor Statistics)**
- **Congressional Budget Office: *The Effects of Employment and Family Income of Increasing the Federal Minimum Wage*, July 8, 2019 (interactive tool)**

POPULATIONS AFFECTED

- **1: Workers making less than proposed wage**
  - Excludes individuals who are unemployed, self-employed, working without pay, or under 16
  - Excludes workers making less than current minimum wage who do not work in traditionally tipped sectors
- **2: Business owners - individuals identified as self-employed**

IMPACTS

- **Positive Personal Income Tax impact: population 1**
  - Hourly wage estimated using weeks worked, usual hours per week, and wages/salary earned in the last 12 months
  - Assumes that workers making less than proposed wage will have hourly wage increased to the proposed level; no change for other workers
  - Increase in wages results in increased PIT remittances and reduced tax forgiveness
  - Individuals working in traditionally tipped sectors making less than minimum wage are assumed to be made whole by employers under current law and the proposal (enhance

- **Negative Personal Income Tax impact: population 2**
  - Census data indicates that approximately 69% of PA workers are employed by small businesses (fewer than 250 employees)
  - Assumes that 69% of wage increases in population 1 will be experienced as personal income losses in population 2 (i.e. by small business owners)
  - Decrease in personal income results in decreased PIT remittances

- **Sales and Use Tax impacts**
  - Person records are matched with household records to distribute both populations across income bands
  - BLS data indicates proportion of household income spent on taxable goods by income level
  - Individuals in population 1 are assumed to spend increased income according to BLS proportions for their income band, increasing SUT remittances
  - Income losses for population 2 are distributed across income bands based on business income proportions from ACS data; income losses cause decrease in spending and

- **Employment impact: populations 1 and 2**
  - CBO data predicts changes in employment growth due to increased minimum wage
  - These changes slightly mitigate the size of PIT and SUT impacts in both populations
  - Any slowing in employment could benefit small business owners by increasing net profits

Minimum Wage Studies

During our exchange with committee members regarding the Governor's minimum wage proposal, the department cited several academic studies that found no evidence of job losses due to increasing the minimum wage. The citations for the studies and reports are below.

- Jeanna Smialek, "As Push for Higher Minimum Wages Grow, New York Offers a Test Case." The New York Times, November 13, 2019, https://www.nytimes.com/2019/11/13/business/economy/minimum-wage-new-york-pennsylvania.html

- Sylvia Allegretto, Anna Godoey, Carl Nadler and Michael Reich. *The New Wave of Local Minimum Wage Policies: Evidence from Six Cities*. Center on Wage and Employment Dynamics, Institute for Research on Labor and Employment, University of California, Berkley. September 6, 2018. http://irle.berkeley.edu/files/2018/09/The-New-Wave-of-Local-Minimum-Wage-Policies.pdf.

- Doruk Cengiz, Arindrajit Dube, Attila Lindner, and Ben Zipperer. *The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator*. CEP Discussion Paper No. 1531. Centre for Economic Performance. February 2018. http://cep.lse.ac.uk/pubs/download/dp1531.pdf.

- Dale Belman and Paul J. Wolfson. *What Does The Minimum Wage Do?* Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, Chapter 4, 2014.

- Sylvia Allegretto and David Cooper. *Twenty-three Years and Still Waiting for Change: Why It's Time to Give Tipped Workers the Regular Minimum Wage*. EPI-CWED Briefing Paper # 379. Economic Policy Institute. July 2014. https://www.epi.org/publication/waiting-for-change-tipped-minimum-wage/.

- David Cooper. *Raising the federal minimum wage to $15 by 2024 would lift pay for nearly 40 million workers*. Economic Policy Institute. February 2019. https://www.epi.org/publication/raising-the-federal-minimum-wage-to-15-by-2024-would-lift-pay-for-nearly-40-million-workers/.

APPENDIX ITEM 2

CNIT - COMBINED REPORTING METHODOLOGY -- TAX YEAR 2015 RETURNS

WHAT IS COMBINED REPORTING?

CURRENT LAW
- Corporations are required to file tax reports on a separate company basis.
- Affiliated groups of corporations separately account for each of the affiliated companies in computing PA CNIT liabilities.
- Only members of an affiliated group with nexus in PA are required to file a PA return.

COMBINED REPORTING
- Governor's proposal is for mandatory unitary combined reporting.
- Affiliated corporations engaged in a unitary business enterprise in PA would be required to combine their income and apportionment factors in calculating PA tax liability.

METHODOLOGY

BACKGROUND
- Impact is measured on tax year 2015 returns using tax year 2019 law
- Returns used:
  - Pennsylvania separate company returns
  - Pro-forma federal information (Schedule 7004 or Form 851)
  - Minnesota combined reporting returns

CORPORATION BREAKOUT

		CNIT LIABILITIES ($M)	
	COUNT	CURRENT LAW	CR 9.99%
POPULATION	**120,940**	**2,359**	**3,036**
FEDERAL MATCH	50,488	199	199
MINNESOTA MATCH	11,935	1,601	2,104
IMPORTANT	1,110	370	445
NON-C?	36,604	0	0
OTHER	20,803	190	288

FEDERAL MATCH
If a corporation's EIN matches federal data (both tax period and income), it is assumed that the corporation is unaffected by combined reporting. The only CNIT effect these corporations would see under the Governor's proposal is a rate cut.

MINNESOTA MATCH
These are corporations that filed returns in both PA and Minnesota. Because of this, it is possible to directly calculate the impact of combined reporting.

Information needed from PA return:	Apportionment numerator
	Net operating losses
Information needed from MN return:	Income to be apportioned
	Apportionment denominator

IMPORTANT
The corporations remaining after the two matches above are broken into three categories - IMPORTANT, NON-C?, and OTHER. IMPORTANT corporations are defined as those that have either a current law CNIT liability greater than $1M or have PA sales greater than $500M.

The first step necessary to calculate the CR impact from these corporations is to examine the corporation's pro-forma federal return (either Schedule 7004 or Form 851). In many cases, these corporations are in a group that was in the Minnesota data even if the particular EIN was not. If the corporation was in a group that filed in Minnesota, it is possible to directly calculate their CR impact (in the same manner as the MINNESOTA MATCH group above).

If the entity is not in a Minnesota group, it is necessary to use other methods to determine their CR impact. The first alternative is to use the form 10-K filed with the Securities & Exchange Commission. This form is filed by all publicly traded companies. This form can be used to determine the income and apportionment information needed to calculate the CR impact.

For the remaining corporations, it is necessary to use a Monte Carlo simulation to determine the CR impact. Using data from the groups above (MINNESOTA MATCH and IMPORTANT corporations in a MN group), it is possible to create a probabilistic model:

SEPARATE/COMBINED	Σ PROBABILITY	RATIO
+/+	0.8331	1.2213
+/-	0.9522	-1.0278
+/0	1.0000	0.0000
-/+	0.4097	-0.8677
-/-	0.9345	0.8535
-/0	1.0000	0.0000

The SEPARATE/COMBINED groupings above show the signs of pre-NOL income under current law and under combined reporting. The first line (+/+) means that the corporation had positive pre-NOL income under current law and under combined reporting.

The Σ PROBABILITY line shows the likelihood of each possible combination. For each category (positive and negative), the sum of the three possibilities must be 1. The first line (0.8331) means that 83.31% of the time corporations that have positive pre-NOL income under current law will also have positive pre-NOL income under combined reporting.
The figure under RATIO shows the relationship between the current law and combined reporting pre-NOL income. The first line (1.2213) means that for corporations that have positive pre-NOL

income under current law and combined reporting, the combined reporting income will be 22.13% larger than the current law income.

A simulation is then created using these pieces of information. Based on a random number generator, each corporation will have their pre-NOL income under combined reporting determined. Using this along with NOL data, it is possible to calculate a combined reporting impact.

In a Monte Carlo simulation, the model is run hundreds (or thousands) of times and the average of all of those runs is used as the effect. The impact from IMPORTANT corporations is the sum of these groupings - Minnesota group, 10-K, and Monte Carlo.

NON-C?

This group is made of entities that filed returns and did not 'check the box' to declare that they were not C corporations. However, they have no income or apportionment information, so it looks like they should have done so.

Because these corporations have no income or apportionment information, it is assumed they would be unaffected by combined reporting or the rate changes.

OTHER

This group is made up of all of the corporations that weren't in the other groups above. The CR impact of these corporations is determined using the Monte Carlo simulation described above.

CASHFLOW

The end result of the above calculations are liabilities under current law and under combined reporting. The next step is to determine how those liabilities will be paid.

In previous combined reporting estimates, it was assumed that the only taxpayers that would immediately react to the proposal (CR plus rate reduction) were those that were unaffected by combined reporting. The assumption was that because these corporations only had their taxes lowered by the rate cut, they could immediately start reducing their payments (March and June estimated payments for calendar year filers). The corporations that were affected by both CR and the rate change were assumed to make no changes to their payments until their third estimated payment (September for calendar year filers). This had the effect of lowering collections in the initial fiscal year (2020-21) but increasing collections in fiscal years two and three (2021-22 and 2022-23).

In the 2020-21 budget, these assumptions were changed to acknowledge that taxpayers react more quickly to changes in their liabilities - both up and down. This timing pattern was calculated by examining payments between tax years 2017 and 2018. Changes in the federal Tax Cuts and Jobs Act (TCJA) caused many taxpayers to have significantly larger CNIT liabilities in 2018 vs. 2017. Many of these taxpayers began adjusting to these changes earlier in the tax year (i.e. - increasing their estimated payments as early as March and June). The assumption here is that the changes caused by CR would be paid in a manner similar to the changes caused by TCJA. Taxpayers should know fairly early on if their liabilities will increase (especially those that will go from $0 to a non-$0 liability).

Taxpayers are broken into three categories:

- NO CHANGE: CNIT liability was $0 in 2017
- INCREASE: 2018 liability is greater than 2017 liability
- DECREASE: 2018 liability is less than 2017 liability

These categories line up with the results of the combined reporting estimate:

		CNIT LIABILITIES ($M)	
CLASS	**COUNT**	**CURRENT**	**CR 5.99%**
NO CHANGE	74,427	0	0
INCREASE	5,863	224	863
DECREASE	40,650	2,136	958
	120,940	**2,359**	**1,821**

The payment patterns determined from the 2017 to 2018 comparison are then used to determine the payments under the scenario (CR and rate change).

CNIT - COMBINED REPORTING & RATE CHANGE

PAYMENT LEVELS - OCTOBER 2019 FORECAST

$M

COMBINED REPORTING: TY 2021 AND AFTER

NOL CAP: LOSSES ARE COMBINED (BEFORE AND AFTER 2021). CAP IS 40% OF TAXABLE INCOME.

RATES:

TY	RATE
2020	9.99%
2021	8.99%
2022	8.29%
2023	7.49%
2024	6.99%
2025+	5.99%

TAX YEAR	CURRENT LAW	CR	SUBTOTAL	RATE ADJ	PROPOSAL	IMPACT
2020	3,565.4		3,565.4		3,565.4	0.0
2021	3,555.7	29%	4,576.1	-10%	4,118.0	562.3
2022	3,558.7	29%	4,579.9	-17%	3,800.5	241.8
2023	3,593.0	29%	4,624.0	-25%	3,466.8	-126.1
2024	3,661.6	29%	4,712.3	-30%	3,297.2	-364.4
2025	3,690.6	29%	4,749.6	-40%	2,847.9	-842.7

FISCAL YEAR	CR	RATE ADJ	IMPACT
2019-20	0.0	0.0	0.0
2020-21	292.9	-53.4	239.5
2021-22	988.7	-572.8	415.9
2022-23	1,007.9	-833.9	174.0
2023-24	1,040.5	-1,171.0	-130.5
2024-25	1,082.2	-1,517.5	-435.3

NOTES

Combined reporting estimate is calculated using tax year 2015 Minnesota tax return data.

The cashflow is calculated on a micro-basis. Taxpayers are broken into four groups:

Current Law = $0
Proposal > Current
Proposal < Current
Monte Carlo

Payment patterns for all of the classes are determined using a comparison of tax year 2017 to tax year 2018 data. Using this data allows for behavioral responses by taxpayers.

APPENDIX ITEM 3

BREAKDOWN OF SB 79 IMPACTS
FISCAL YEAR 2022-23; $9.50 MINIMUM WAGE
($M)

	PIT	SUT
IMPACT FROM WAGE EARNERS	32.6	29.3
TAX FORGIVENESS IMPACT	2.1	na
IMPACT FROM CHANGE IN BUSINESS INCOME	-22.4	-9.2
EMPLOYMENT GROWTH IMPACT ON WAGES	-1.2	-1.0
EMPLOYMENT GROWTH IMPACT ON BUSINESS INCOME	0.8	0.3
	11.9	19.4

NOTES:

The PIT impact is estimated using Census' American Community Survey data for wage earners. Impacts to PIT due to pass-through entities raising the wages of their workers are also calculated using Census data. The impacts due to changes in employment growth are calculated using Congressional Budget Office estimates.

SUT impact is estimated using data from the Consumer Expenditure Survey to determine the proportion of household income spent on taxable goods by household income levels. It is assumed that those who have gains in income due to increased wages will spend a greater proportion of that increased income on taxable goods, rather than the percentage associated with their overall income level. For those experiencing business income losses due to the increased minimum wage, the proportions below are applied to the net change in income for each income level. Therefore, the overall percent of wages spent on taxable goods is greater for wage earners.

INCOME RANGE	% OF INCOME SPENT ON TAXABLE GOODS
Less than $20,000	70%
$20,000–$39,999	40%
$40,000–$59,999	29%
$60,000–$74,999	29%
$75,000–$99,999	29%
$100,000–$149,999	19%
$150,000 or more	19%

APPENDIX ITEM 4

GAME OF SKILL IMPACT ANALYSIS: EXECUTIVE SUMMARY AND METHODOLOGY OVERVIEW

Game of Skill Machines continue to proliferate across the commonwealth. The negative effect of this growth impacts lottery scratch sales by more than $200 million in our most recent Game of Skill Impact Model. Because this impact estimate is built with actual weekly retailer sales, the estimate varies slightly every week. These results are, however, consistent with research done over the past two years, and demonstrate a statistically sound methodology and quantify the growing threat to the Pennsylvania Lottery's core business and revenue.

It is also critical to consider that this impact estimate cannot capture the total negative effect of Game of Skill machines because it cannot measure the negative effect of machines in non-lottery locations. Further, reports from Lottery sales representatives indicate that the presence of these illegal machines is having a dramatic negative impact on our ability to recruit new retailers for our new monitor games, Keno and Xpress Sports.

These additional immeasurable negative effects suggest that the estimate of over $200 million per year may be significantly understated.

BACKGROUND

The Scientific Games Business Intelligence team was tasked with 1) tracking the growth of the Games of Skill machines across the commonwealth and 2) estimating the effect, if any, of the proliferation of skill machines on Lottery sales. The first part of our report documents the growth of the skill machines and part two estimates the effect of the skill machines on lottery sales.

SKILL MACHINE PROLIFERATION

With the assistance of weekly reports from the Lottery Retail Operations team, counts of the skills machines at lottery retailers were tallied starting in September 2017 to the current week. The numbers by themselves illustrate how quickly the skill machines entered the gaming environment at Pennsylvania retail establishments. For example, there were more than 4,000 new Game of Skill Machines added at lottery retailers in calendar year 2019. There are now nearly 7,000 machines spread across only 2,472 PA Lottery retailers.

EFFECT OF SKILL MACHINES

To estimate the effect of the skill machines on lottery retailers' scratch sales, the Business Intelligence team collected data on weekly sales per retailer, the weekly average age of the lottery games per retailer, the weekly number of facings or bins of lottery games per retailer, and the number of skill machines at each lottery retailer each week. The data collection started in September 2017 and runs through January 27, 2020. With 9,700 retailers and over 125 weeks, there are over 1.2 Million observations to examine the effect of the skill machines at lottery retailers while also accounting for the age of lottery games and the number of product facings or bins at each lottery retailer.

All of the regression models (linear and non-linear) run through 2018 and 2019 show that the Games of Skill have a strong and statistically significant effect on lottery sales. Specifically, as the count of the Games of Skill increase at a retailer, the lottery sales of that retailer decrease. Further the results of the regression models estimate the per machine impact on lottery sales.

Below are the results for the most recent linear regression model. This model estimates the effect per machine on weekly lottery sales per retailer is -$569 with a lower bound estimate of -$642 and an upper bound estimate of -$497. Extrapolating from the midpoint of -$569, the yearly effect on lottery sales is over $200 million (-$569 per machine x 52 weeks x 6,883 total machines).

Since the skill machines have proliferated so extensively in the commonwealth and there are now observations of lottery retailers with 12, 13, and 14 games of skill in their establishment, a non-linear regression model was added to the analysis. The logic behind the non-linear model is that the first 5 or 6 skills machines have the most deleterious impact on lottery sales; while the 8th, 9th, or 10th machine, have a slightly less negative effect on lottery sales. This non-linear model also accounts for product facings or bins and average age of games at the retailer.

This model shows the impact of each machine and lists the effect below. The non-linear model shows all machines are not equal, but the strongest effect on lottery sales occur when a retailer has up to four games of skill. After a retailer installs five or more machines, the negative effect to lottery sales is still present, but not as strong. Because the first 4 machines have most effect on lottery scratch sales, the non-linear model has slightly higher estimates.

Number of Games of Skill	Weekly Impact Per Retailer
1	-$993
2	-$1,564
3	-$2,013
4	-$2,240

This allows a more precise estimate of the impact at each individual retailer, relative to the number of machines it has have installed.

These findings have remained robust for nearly two years of tracking and updates, giving a high confidence in their explanatory power.

APPENDIX ITEM 5

COMBINED REPORTING AT 5.99% - IMPACTS BY INDUSTRY GROUP

		CNIT LIABILITIES ($M)	
CLASS	**COUNT**	**CURRENT**	**CR 5.99**
NEUTRAL	74,427	0.0	0.0
INCREASE	5,863	223.9	863.0
DECREASE	40,650	2,135.5	957.7
	120,940	**2,359.4**	**1,820.7**

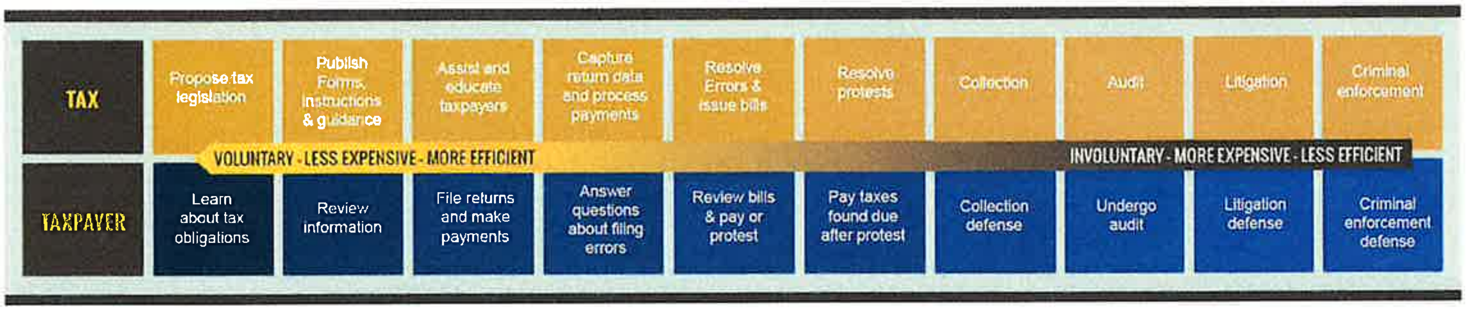
	DECREASE			INCREASE			NEUTRAL		
INDUSTRY	**COUNT**	**CURRENT**	**COMBINED 5.99**	**COUNT**	**CURRENT**	**COMBINED599**	**COUNT**	**CURRENT**	**COMBINED 5.99**
AGRICULTURE	182	5.5	2.4	14	0.0	0.1	332	0.0	0.0
MINING	163	32.4	9.7	51	0.5	18.3	373	0.0	0.0
UTILITIES	106	106.8	37.6	37	9.6	46.1	127	0.0	0.0
CONSTRUCTION	3,216	57.3	28.4	306	2.2	11.8	8,322	0.0	0.0
MANUFACTURING	2,784	292.1	135.6	404	35.8	145.0	2,512	0.0	0.0
WHOLESALE TRADE	4,858	365.8	180.0	787	52.1	161.6	3,988	0.0	0.0
RETAIL TRADE	3,227	196.5	100.2	337	41.7	104.9	5,007	0.0	0.0
TRANSPORTATION & WAREHOUSING	1,383	73.0	27.2	142	6.3	15.4	1,682	0.0	0.0
INFORMATION	743	202.5	77.9	169	5.2	51.8	1,114	0.0	0.0
FINANCE, INSURANCE, & REAL ESTATE	3,363	201.8	91.0	409	14.1	51.9	5,780	0.0	0.0
PROFESSIONAL SERVICES	3,612	107.7	46.9	446	16.5	54.9	5,932	0.0	0.0
MANAGEMENT	282	54.5	25.8	132	4.6	26.0	448	0.0	0.0
ADMINISTRATIVE SERVICES	1,222	41.2	15.2	171	3.1	13.7	1,901	0.0	0.0
EDUCATIONAL SERVICES	176	4.1	1.4	27	0.0	0.4	338	0.0	0.0
HEALTH CARE & SOCIAL ASSISTANCE	1,654	31.9	12.4	112	2.5	9.6	2,709	0.0	0.0
ARTS & ENTERTAINMENT	305	6.4	3.5	28	0.0	0.7	583	0.0	0.0
ACCOMMODATION & FOOD SERVICES	1,853	30.6	18.5	152	2.0	6.6	3,789	0.0	0.0
OTHER SERVICES	2,108	44.1	18.9	212	7.0	19.5	3,968	0.0	0.0
MISCELLANEOUS OR UNKNOWN	9,413	281.3	125.2	1,927	20.6	124.9	25,522	0.0	0.0
	40,650	**2,135.5**	**957.7**	**5,863**	**223.9**	**863.0**	**74,427**	**0.0**	**0.0**

NOTE: DETAIL MIGHT NOT ADD TO TOTAL DUE TO ROUNDING.

APPENDIX ITEM 6

CLOSING TAX GAPS AND INCREASING TAX COMPLIANCE RATES

The department utilizes various approaches to address taxpayer compliance for all tax types, industries, and size/dollar amount. One of our core values is increasing voluntary compliance. In order to empower taxpayers to become and stay compliant we use a continuum of treatments that range from voluntary, less expensive treatments to involuntary, more expensive actions.



The department collects the majority of the commonwealth's revenue from honest individuals and businesses that are compliant with the laws and regulations of Pennsylvania. This principle impacts how we administer the collections program and where the department invests its resources to achieve the goal in our Strategic Plan to "Enhance the Effectiveness of Tax Compliance". There are two tasks that must be accomplished to support this goal:

1. Assure taxpayers have the knowledge and tools to voluntarily comply, and
2. Conduct a focused and effective direct enforcement effort to safeguard tax fairness

Many of our program efforts are directed to achieving voluntary compliance. These initiatives go beyond traditional audit and collection actions, which enforce tax compliance. For example, developing and recommending legislative improvements, issuing clear guidelines and forms, and expanding the outreach and education efforts are key initiatives geared to attain and sustain high rates of voluntary compliance.

In the most recent fiscal year, direct audit and collection efforts accounted for only about 2.4% of the General Fund revenue These direct enforcement efforts are relatively expensive but constitute a necessary commitment to close identified tax gaps and reinforce the fairness of Pennsylvania's tax system. Specifically, the department has the following initiatives in operation to increase compliance:

- Personal Income Tax Desk Reviews- The department receives data extracts of IRS tax returns and information returns to ensure all income sourced to Pennsylvania is being reported to the department. We manage the following desk review programs:
    - CP2000 Program
    - PIT Non-filer Program
    - PA Schedule C Evaluation

   - EOAD (audit reports from IRS revenue agents compiled in the IRS's Examination Operational Automation Database)
   - K-1 Matching
   - Partnership/S Corporation Reviews
   - Referrals from Audits

- Sales and Use Tax – The department and the General Assembly have made significant strides to close the tax gap in sales and use tax over the last fifteen years. Two major components of the SUT tax gap are derived from underreporting of PA businesses and from out-of-state online retailers. To address these two areas, we have the following initiatives:
   - Outreach and Education for business use tax and voluntary compliance
   - Transactional Use Tax Program (including aircraft, watercraft, US Customs reported imports, and Audit referrals)
   - Inclusion of consumer use tax reporting line on PA-40
   - Utilization of 1099-K data to identify under reporters
   - Electronic Sales Suppression legislation and audit program
   - Act 43 of 2017 and Act 13 of 2019 – Marketplace Sales Tax and Economic Presence
   - Discovery of unregistered online retailers and other vendors subject to sales tax
   - Utilizing Certified Service Providers to ease compliance for out-of-state remote sellers who have only an economic presence in PA

- Corporation Taxes – The department utilizes field audit data to address potential tax gaps in corporation tax. Additionally, Governor Wolf has outlined issues with the current Corporate Net Income ("CNI") tax structure, which makes it difficult to enforce. Pennsylvania is a separate company state, which means corporations that are a part of a larger entity structure have the ability to shelter income to avoid paying tax through inter-company transactions. This is the primary reason that Pennsylvania has many large multistate corporations that operate here, file CNI reports, but do not owe and pay tax. Our two main compliance programs for CNI are:
   - Field Audit Program for CNI and Specialty Taxes
   - Desk Review Program for CNI and Specialty Taxes

APPENDIX ITEM 7

Please note the data for the "2019-20" columns are from 7/1/2019 through 2/18/2020.

County	2017-18 Audits	2017-18 Assessments	2018-19 Audits	2018-19 Assessments	2019-20 Audits	2019-20 Assessments
Adams	13	$ 226,349	9	$ 72,316	5	$ 29,096
Allegheny	203	$ (5,998,719)	193	$ 18,151,641	89	$ 6,333,918
Armstrong	4	$ 48,842	8	$ 250,916	5	$ (188,016)
Beaver	17	$ 271,749	10	$ 330,457	12	$ 183,502
Bedford	9	$ 88,270	13	$ 178,563	4	$ 2,017,025
Berks	116	$ 1,864,107	103	$ 3,236,428	63	$ 745,178
Blair	25	$ 387,664	25	$ 1,089,282	10	$ 221,724
Bradford	18	$ 101,836	10	$ 43,927	6	$ 17,632
Bucks	89	$ 1,354,609	97	$ 2,315,897	42	$ 1,096,792
Butler	38	$ 6,625,722	29	$ 8,549,502	19	$ 629,193
Cambria	30	$ 466,532	19	$ 630,088	7	$ 111,871
Cameron	3	$ 8,634				
Carbon	15	$ 94,713	13	$ 116,143	5	$ 44,453
Centre	42	$ 2,876,989	25	$ 818,115	14	$ 971,189
Chester	60	$ 8,830,225	57	$ 7,769,610	24	$ 395,378
Clarion	7	$ 94,567	8	$ 102,220	5	$ 118,292
Clearfield	12	$ 1,082,042	11	$ 140,524	**	**
Clinton	12	$ 147,778	7	$ 157,164	9	$ 49,734
Columbia	12	$ 762,168	27	$ 6,628,160	8	$ 439,829
Crawford	20	$ 277,967	27	$ 146,655	17	$ 186,042
Cumberland	43	$ 949,183	39	$ 917,679	26	$ 4,162,486
Dauphin	50	$ 2,391,625	38	$ 1,149,615	25	$ 772,930
Delaware	56	$ 888,514	43	$ 1,606,774	26	$ 696,266
Elk	**	**	8	$ 172,305	4	$ 126,507
Erie	135	$ 1,138,286	92	$ 1,142,654	69	$ 598,326
Fayette	30	$ 590,939	22	$ 4,415,783	13	$ 837,516
Forest	**	**			**	**
Franklin	14	$ 119,510	19	$ 464,239	7	$ 176,819
Fulton	**	**	**	**		
Greene	6	$ 256,751	11	$ 36,261	**	**
Huntingdon	4	$ 12,505	5	$ 8,610	**	**
Indiana	21	$ 1,167,310	17	$ 757,539	6	$ 96,727
Jefferson	8	$ 907	7	$ 105,231		
Juniata	**	**	3	$ 47	3	$ 8,956
Lackawanna	69	$ 610,972	65	$ 447,022	61	$ 496,339
Lancaster	57	$ 1,466,147	75	$ 3,615,277	36	$ 1,810,677
Lawrence	14	$ 201,457	7	$ 23,476	10	$ 180,121
Lebanon	17	$ 90,982	28	$ 656,926	7	$ 237,631
Lehigh	103	$ 3,007,862	81	$ 1,041,713	51	$ 742,692
Luzerne	100	$ 1,816,570	100	$ 1,379,922	42	$ 556,341
Lycoming	34	$ 270,989	29	$ 528,737	25	$ 390,680

County	2017-18 Audits	2017-18 Assessments	2018-19 Audits	2018-19 Assessments	2019-20 Audits	2019-20 Assessments
McKean	8	$ 91,125	7	$ 44,363	13	$ 190,978
Mercer	29	$ 291,015	25	$ 806,521	22	$ 444,300
Mifflin	4	$ 352,701	3	$ 1,968	**	**
Monroe	36	$ 248,438	21	$ 268,624	26	$ 675,741
Montgomery	143	$ 6,969,695	142	$ 13,282,876	79	$ 2,610,272
Montour	6	$ 100,489	6	$ (187,899)	4	$ 24,052
Northampton	78	$ 1,002,689	91	$ 2,011,566	54	$ 888,661
Northumberland	16	$ 77,344	25	$ 2,887,520	22	$ 334,932
Perry	7	$ 118,608	4	$ 269,075		
Philadelphia	78	$ 3,565,087	126	$ 8,902,327	64	$ 9,090,451
Pike	15	$ 192,517	8	$ 150,191	11	$ 74,813
Potter	**	**	9	$ 90,028	3	$ 9,038
Schuylkill	51	$ 558,523	28	$ 455,391	15	$ 118,305
Snyder	13	$ 66,512	10	$ 137,933	5	$ 25,854
Somerset	9	$ 8,524	11	$ 193,272	3	$ 180,541
Sullivan	**	**	**	**	**	**
Susquehanna	12	$ 126,302	11	$ 119,614	8	$ 57,914
Tioga	16	$ 167,223	9	$ 232,371	6	$ 7,489
Union	11	$ 226,003	16	$ 195,026	10	$ 74,521
Venango	7	$ 26,324	11	$ 6,389	5	$ 12,152
Warren	17	$ 83,570	11	$ 50,680	9	$ 505,319
Washington	50	$ (4,766,507)	27	$ 1,833,549	22	$ 475,592
Wayne	9	$ 17,853	15	$ 287,786	14	$ 68,048
Westmoreland	32	$ 1,024,064	36	$ 1,274,636	22	$ 1,446,728
Wyoming	5	$ 20,415	5	$ 304,304	**	**
York	31	$ 1,868,068	43	$ 472,844	31	$ 444,376
Blank	28	$ 389,091	8	$ (1,675,734)	6	$ 111,960
Out of State	569	$ 315,720,776	478	$ 413,839,562	204	$ 141,644,775
Totals:	**2,796**	**$ 363,190,824**	**2,569**	**$ 515,470,974**	**1,422**	**$ 185,243,008**

** Data deleted to prevent disclosure of confidential taxpayer information. The totals include all amounts.

Total Assessments Breakdown			
	FY 2017-18	**FY 2018-19**	**FY 2019-20**
Sales Tax Audits	$ 118,879,154	$ 187,181,125	$ 87,524,334
All Other	$ 244,311,670	$ 328,289,848	$ 97,718,674
Total Assessed:	$ 363,190,824	$ 515,470,974	$ 185,243,008