

Testimony before the House Appropriations Committee
Dan Hassell, Secretary
Department of Revenue
Tuesday, February 18, 2019

Chairman Saylor, Chairman Bradford, and members of the committee, thank you for the opportunity to meet with you today to discuss the budget for the Pennsylvania Department of Revenue. I am Dan Hassell, Secretary for the Department. Joining me today are Amy Gill, Deputy Secretary for Tax Policy, Christin Heidingsfelder, Deputy Secretary for Administration, and Drew Svitko, Executive Director of the Pennsylvania Lottery.

As you know, for more than 90 years the Department of Revenue has been the Commonwealth agency tasked with collecting and distributing all tax monies due to the Commonwealth. We take great pride in the fact that our daily work funds the vital programs and services that are essential to all Pennsylvanians.

The department also administers the Pennsylvania Lottery, which was established in the early 1970s to generate funding for programs that benefit older Pennsylvanians. Last fiscal year, the Lottery sold a record of more than \$4.5 billion in games, from which it paid a record of more than \$2.9 billion in prizes to winners. This great work helped the Lottery generate more than \$1 billion to benefit older Pennsylvanians. It was the eighth consecutive year the Lottery eclipsed this benchmark.

We are proud of this work, which is an important part of Governor Wolf's initiative to provide Government That Works for the people of Pennsylvania. Meanwhile, we are continuing our efforts to find ways to become more efficient and improve services for Pennsylvanians. The department established several goals in its strategic plan that are designed to improve customer service, enhance our effectiveness in tax compliance and continue boosting sales and net profits for the Lottery.

Setting these goals has greatly helped the department in its objective to be a leading tax administration and public service agency known for its customer service, integrity, innovation and effectiveness. Please allow me to share with you an overview of several initiatives the department is working on.

Modernization project

For many years, the department has been working to update its technology and computer systems to replace several legacy tax systems that have been in use at the department for many decades.

Early last year, we took a big step in our modernization project by successfully launching PATH, which stands for Pennsylvania Tax Hub. This is a new, intuitive system that is already proving to be a great benefit for the department and the taxpayers we serve. Additionally, the department launched myPATH, a user-friendly, online self-service portal that taxpayers can access over the

Internet. To date, we have processed nearly 18,000 payments and collected more than \$3 billion in revenue using this new system. Additionally, more than 14,000 users have signed up for myPATH, which is providing those taxpayers with a better system to register their accounts, file returns, pay balances and manage their accounts online.

At this point, myPATH is a resource available for taxpayers with obligations related to motor and alternative fuel taxes. More specifically, the system is available for the International Fuel Tax Agreement (IFTA), Motor Carrier Road Tax (MCRT), Motor Fuel Tax, Alternative Fuels Tax and PA Fuel Transporter.

In October, myPATH also became available for county offices with Realty Transfer Tax and Inheritance Tax obligations. At that time, myPATH also became available for medical marijuana growers/processors who are responsible for remitting Medical Marijuana Tax.

The department is now focusing on the third phase of its modernization project that will move Personal Income Tax, the Property Tax/Rent Rebate Program, and Pass-through Entity processing into PATH. As part of this effort, Pennsylvania taxpayers will have a new electronic-filing option available through myPATH to file their Personal Income Tax returns. Applicants of the Property Tax/Rent Rebate Program will also have a new electronic-filing option through myPATH, which is expected to greatly help applicants and the department in the processing of applications and rebates.

We are very much looking forward to providing these new tools for our individual taxpayers and the claimants who benefit from the Property Tax/Rent Rebate Program. We are also proud to say that our modernization project has been running on time and on budget to date, and we are working hard to ensure that remains the case.

Reorganization plan and focus on Lean

In addition to our ongoing modernization project, we have also been implementing a reorganization plan to realign our resources to become more efficient and to better serve the taxpayers of Pennsylvania. Previously, the department was organized in silos by tax type. Recognizing this structure needed updating, in the winter of 2018 we launched a four-phase reorganization plan to functionalize the department. We began standing up new bureaus in the fall of 2019 and we're on track to complete the reorganization this February.

The first phase of this initiative was the merger of our inbound and outbound call centers. We made this move with the goal of improving the service that our customers receive over the phone during peak call seasons. With these two call centers now merged under a unified management structure, we have seen immediate results. We have been able to quickly cross train staff to answer some of the easiest, but most frequent calls. The department also adjusted, in real time, the number of employees available to take these calls based on call volume. This has been a tremendous benefit for our customers.

The next step in our reorganization plan was to establish new business tax bureaus. As part of this strategy, we eliminated the prior Bureau of Business Trust Fund Taxes and the Bureau of Corporation Taxes. Those bureaus have now become three new bureaus — the Bureau of Business Tax Return Processing, the Bureau of Business Taxpayer Accounting and the Bureau of Taxation Support. Meanwhile, the department's Tax Registration Office has been rebranded as the Bureau of Taxpayer Management. These changes have allowed for the opportunity to cross train staff and create a number of efficiencies. As part of this reorganization, we have also moved a number of time consuming and cumbersome annual projects to our new Bureau of Taxation Support, where they could be improved using Lean process principles.

There are two other phases that are part of our reorganization plan. One involved the consolidation of our field staff from four separate bureaus into one new bureau, the Bureau of Enforcement and Taxpayer Assistance. We are also moving forward with the consolidation of our desk review functions under a new bureau, the Bureau of Desk Review and Analysis. Both of these reorganizations are designed to ensure better coordination when the department interacts with taxpayers. Previously, the department may have had several field staff visiting the same taxpayer multiple times because the field agents were specialized by tax type. Similarly, one taxpayer may have received several notices from various parts of the department, as a result of multiple simultaneous desk reviews being conducted. Once this consolidation is fully implemented, this new coordination of effort should reduce the number of touchpoints that the department needs to have with a taxpayer, while also ensuring that all of the necessary information is being conveyed

As this work is ongoing, the department has taken Governor Wolf's direction and made a commitment to embracing the Lean concept, which is designed to help all employees look at how their current work processes can be improved. This concept allows employees to engage with one another and devise strategies for making small and incremental improvements in various aspects of their jobs.

I am pleased to share that more than 92 percent of our employees have attended Lean Awareness training, and there are more than 100 Lean projects that have either been completed or are underway throughout the department. We will continue working to bring this concept to all bureaus within our department, and we will continue to engage the Governor's Office of Performance Through Excellence to identify new strategies that can help us become more efficient and provide better customer service.

Marketplace Sales legislation/Impact of *South Dakota v. Wayfair*

With the signing of Act 13 of 2019, the Commonwealth established a requirement for online marketplaces and certain sellers of products on the Internet to register to collect and remit Pennsylvania Sales Tax. Specifically, vendors who have no physical presence in Pennsylvania, but whose direct sales and facilitated marketplace sales attributed to Pennsylvania annually

exceed \$100,000, must now register to collect and remit Pennsylvania Sales Tax. Act 13 of 2019 also suspended the election that previously existed under Act 43 of 2017 for sellers to send notices to their customers explaining that they may owe Pennsylvania Use Tax.

This move on the state level followed an important ruling in June 2018 when the U.S. Supreme Court issued an opinion in *South Dakota v. Wayfair, Inc.* The opinion overturned the court's previous ruling in *Quill Corp v. North Dakota*, which required a business to have a physical presence in a state in order for the business to be required to collect that state's Sales Tax.

With these developments taking place, I am pleased to report that we have been very successful in bringing Internet sellers into compliance with Pennsylvania Sales Tax duties. We estimate that we have collected \$430.9 million in Pennsylvania Sales Tax through December 2019 as a result of the marketplace sales requirements in Act 43-2017 and the economic presence threshold established in the *Wayfair* case that was later codified in Act 13-2019. Additionally, the combination of recent legislation and the department's compliance and collections initiatives has resulted in the collection of more than \$1.3 billion in Pennsylvania Sales Tax from taxpayers selling products over the Internet during the last five fiscal years.

In the meantime, the department has done a lot of work to help remote sellers who now have Sales Tax obligations in Pennsylvania, as well as many other states. We have entered into contracts with Certified Service Providers (CSPs) who offer software and services to aid in the registration, collection, reporting and remittance of Pennsylvania Sales Tax. Working through a CSP makes it easier for certain individuals and businesses selling products over the Internet to comply with their Pennsylvania Sales Tax obligations. We are hopeful that this initiative will not only help remote sellers, but further extend the department's ability to collect all of the Sales Tax that is due.

Lottery success boosted by launch of new products

As noted earlier in my testimony, the Lottery, which continues to be the only state lottery that designates all of its proceeds to programs that benefit older adults, is coming off a record year of sales. Profit generated for the Lottery Fund totaled more than \$1.14 billion, an increase of \$49.6 million from the prior fiscal year. The previous record profit was set in 2015-16, which totaled \$1.12 billion.

We accomplished this because of a strong year for our traditional games, which totaled more than \$4.5 billion; up by \$302.7 million, or 7.2 percent year-to-year, and breaking the previous sales record of \$4.2 billion from the 2017-18 fiscal year.

Additionally, the Lottery has launched several new products that were authorized by Act 42 of 2017 in an effort to remain competitive in a rapidly changing business environment. In May of 2018, Lottery launched iLottery, which are games purchased and played online. We anticipate that iLottery will generate more than \$47 million in profit in the 2019-20 fiscal year, which is

helping the Lottery remain competitive and fulfill its mission of benefiting older Pennsylvanians every day.

The iLottery games are similar to those offered in other states. Like popular scratch-off games, they offer players within Pennsylvania's borders the chance to win instantly. Pennsylvania Lottery players also have the ability to enjoy many of the same features on iLottery that they would when they visit a traditional Lottery retailer. For example, the popular multistate games Powerball and Mega Millions recently launched on iLottery, meaning that players can now buy their tickets for these games online without having to leave their homes.

To promote responsible play on iLottery, players have the option to set play and deposit limits, set "cool off" periods, and — should they wish — self-exclude from playing for 1 or 5 years. We are also encouraging players to contact the Problem Gambling Helpline, 1-800-GAMBLER, to seek help if compulsive gambling becomes an issue.

The Lottery has also taken other big steps forward with the 2018 launch of monitor-based games, including Keno and Xpress Sports, which are popular in bars, taverns and existing Lottery retailers. We anticipate that monitor-based games will generate an estimated \$12.6 million in profit in the 2019-20 fiscal year.

However, as we continue to move forward with these efforts aimed at diversifying the Lottery's gaming portfolio, we must also acknowledge the tremendous harm that the illegal gambling machines marketed as "Pennsylvania Skill Games" are causing for the Lottery. At the current saturation point, our researchers estimate that these machines annually cost the Lottery approximately \$209 million in sales. Because these games are rapidly spreading at bars, convenience stores and other locations across Pennsylvania, they are 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 and 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.

Governor Wolf budget initiatives

Governor Wolf is proposing to fund the budget with a revenue package that will make Pennsylvania more competitive and level the playing field for taxpayers.

Governor Wolf is proposing a thorough overhaul of the way Pennsylvania taxes corporations. The proposal will dramatically improve the competitiveness of the Commonwealth's economy with a lower tax rate. Meanwhile, it will level the playing field for all businesses with combined reporting. Both proposals will help Pennsylvania become a more attractive place to do business.

The Governor's plan will phase down the corporate tax rate from the current 9.99 percent rate, the third highest in the nation. The tax rate will be set at 8.99 percent in 2021, 8.29 percent in 2022, 7.49 percent in 2023 and 6.99 percent in 2024 and 5.99 percent in 2025. This will make it easier to attract business development that is turned away by the "sticker shock" of the current 9.99 percent tax rate.

At the same time, the Governor is proposing that combined reporting be required for taxpayers who are part of a controlled group of corporations. Under current law, each separate corporation reports Pennsylvania tax on its own income, even if it is part of a larger corporate group. This allows certain corporations to shelter income from tax with Delaware holding companies and similar inter-company transactions within the group.

Under combined reporting, corporations in a group will figure their income for the entire group, and each separate company owes tax on a share of the group income. Transactions between members of the group are eliminated, making it harder to shelter corporate income from state taxation.

Governor Wolf is also renewing his call to raise Pennsylvania's minimum wage to \$12 an hour with a pathway to \$15. The Governor's proposal raises the minimum wage to \$12 an hour on July 1, 2020 with annual 50 cent increases until reaching \$15 an hour in 2026.

The Governor's proposal would give a direct wage increase to 1 million workers, provide better financial stability for women, rural, and tipped workers, enable thousands of people to work their way off public assistance and grow the economy for everyone.

In closing, I look forward to working with each of you in the weeks ahead. Thank you for the opportunity to provide testimony on behalf of the Department and Revenue and the Lottery. My colleagues and I look forward to answering your questions.