Please provide the following information, adding space as necessary:

State: Pennsylvania

Assign Program Category (applicant): Government Operations and Technology – Revenue

Program Name: Pennsylvania Tax Clearance Initiatives – Licensee Tax Responsibility Program and Commonwealth Employee Tax Clearance Program

Administering Agency: Pennsylvania Department of Revenue
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1. How long has this program operated (month and year)? Note: the program must be between 9 months and 5 years old as of April 5, 2012 to be eligible for this year’s award.

Tax clearances have been a part of the Pennsylvania Department of Revenue tax enforcement program for over twenty years. Over the past five years, DoR has refined and expanded the use of the tax clearance treatment or tool to enhance state tax compliance and support collection of delinquent taxes. Two efforts are highlighted for your consideration through this application. First is the establishment of a Commonwealth Employee Clearance Program (‘employee clearance’) in August 2010. This effort provided for all employees and candidates for employment under the Governor’s jurisdiction to become compliant with state taxes. Second is the reinvigoration of the business and professional license clearance program. The renewed effort culminated in the issuance of Executive Order 2011-06 by Governor Corbett in September 2011 for the Licensee Tax Responsibility Program (‘LTRP’). As a result, all those who are extended financial privileges by the Commonwealth of Pennsylvania are obliged to be in state tax compliance with DoR.
2. Describe the program:

- Why was it created?

The enhanced tax clearance program is being pursued to underscore the fairness of the Pennsylvania state tax system.

The Department of Revenue (DoR) is responsible for the administration and collection of Pennsylvania’s business and individual taxes that in fiscal year 2010-11 totaled $27.5 billion. DoR has established strategic initiatives to:

1. Improve customer service and build trust with all stakeholders,
2. Create efficiencies, reduce redundancies, lower costs and improve productivity, and
3. Enhance the equitable collection of taxes due.

DoR has sought to pursue these initiatives by working closely with other state agencies.

Stimulating and retaining voluntary compliance by taxpayers is the key to achieving these strategic initiatives. DoR compliance efforts are structured to identify and encourage delinquent taxpayers to return to tax compliance. These enforcement efforts affirm the remarkable voluntary participation and compliance of Pennsylvania taxpayers in timely reporting and paying the taxes that fund state programs and services. Fairness to the great majority of taxpayers who do timely report and pay the taxes they owe is the key. A robust tax clearance program illustrates the equitable treatment of Pennsylvania’s taxpayers and undergirds the fairness of Pennsylvania’s state tax system.

The Commonwealth has had a successful compliance review program for state vendors over the past twenty years. New vendors were not approved and payments on existing contracts were withheld pending resolution of state tax delinquencies. Other economic privileges bestowed by the Commonwealth were not treated similarly. The program efforts described in this application rectified that fact. Specifically, over the past five years, DoR has partnered with other Commonwealth state agencies to build clearance programs for business and professional licensees and Commonwealth employees.

- Why is it a new and creative approach or method?

There are three clear areas that illustrate the innovation of the Pennsylvania Tax Clearance Initiative: (1) Large-scale systemic approach, (2) Scalable application and high-volume capabilities of the operation, and (3) Outstanding interagency cooperation.

Pennsylvania has initiated tax clearances for state contractors, business licensees and government employees. We have done so systemically using a custom application referred to as RICS (Revenue Integrated Clearance System) for licensees and employees and a similar decision engine for contractors.

To emphasize the breadth of the operation and scalability of the application, DoR performed 1.8 million compliance checks through RICS (this equates to over 300,000 per year in the six years since implementation), identifying and working to resolve 257,000 potentially non-compliant taxpayer accounts (this equates to about 43,000 per year since implementation).
The business license and Commonwealth employee clearance efforts constitute a growing partnership with other state agencies, including independent agencies that are not under the direction of Governor Tom Corbett.

- **What are the specific activities and operations of the program in chronological order?**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Act 46-2003 mandated delivery of a report by DoR to the General Assembly on business license clearance</td>
</tr>
<tr>
<td>2005</td>
<td>No statutory authority granted</td>
</tr>
<tr>
<td>2006</td>
<td>Executive Order issued to implement an administrative directive, the Business License Information Exchange Program (BLIX)</td>
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<tr>
<td>2006</td>
<td>RICS developed and implemented</td>
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<tr>
<td>2007</td>
<td>Initial implementation of business and professional license clearance working with Departments of Banking and Insurance</td>
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<tr>
<td>2009</td>
<td>BLIX implementation continues working with Department of State. Initial licensing board was Accountancy</td>
</tr>
<tr>
<td>2010</td>
<td>Employee clearance program instituted administratively working with Governor’s Office of Administration (OA). First compliance cycle working with state employees</td>
</tr>
<tr>
<td>2011</td>
<td>Rebranding of BLIX through issuance of Executive Order by Governor Corbett for the Licensee Tax Responsibility Program (LTRP)</td>
</tr>
<tr>
<td>2011</td>
<td>Second cycle of employee clearance including first independent agencies, PA Gaming Control Board and Office of Attorney General</td>
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- **Is it effective? Provide tangible results and examples.**

There are qualitative benefits as well as quantitative positive results.

Regarding the LTRP, Governor Corbett’s commitment to fairness in the administration of state taxes is evidenced in the following quote from Executive Order 2011-06 issued September 15, 2011:

‘The Commonwealth requires an efficient and dependable program to identify business licenses and/or applicants for business licenses who have not met their state tax obligations, in order to safeguard the public trust in commonwealth licensing and to ensure that the economic business privilege delivered through such licensing is appropriately granted.’

The fairness of the tax system is strengthened when those who are in tax compliance become aware of the DoR’s vigilance in identifying and resolving delinquent tax accounts.

As noted previously, the RICS processing of clearances provides for compliance review of large case volumes. Since 2006 1.3 million business and professional licensees were reviewed for tax compliance, and over 100,000 were identified as having compliance issues needing to be reviewed and/or resolved. In most cases, business license tax clearance
actions serve as leverage to assist DoR in resolving existing delinquent accounts. For certain licensing agencies, the tax status of an individual or entity is considered in the granting or renewal of a business or professional license. Actual program collections are limited to those accounts identified as being delinquent during the license clearance review. These delinquent collections total $2.3 million since Fiscal Year 2009-10.

Following are several illustrations of the case-specific effectiveness of the LTRP.

*For the Department of Insurance* – Patrick J. Fleming, Sr. had his Department of Insurance license suspended on April 13, 2011. The main cause for the suspension was his failure to pay state income taxes. The Department had filed liens against Mr. Fleming that totaled more than $18,000. (Normally this level of information is confidential for tax purposes. However, the suspension of the license by the Department of Insurance is public. See the following link: [http://www.portal.state.pa.us/portal/server.pt/document/1065667/fleming_pdf](http://www.portal.state.pa.us/portal/server.pt/document/1065667/fleming_pdf))

*For the Department of Banking* – A large entity owed liabilities for corporation tax in excess of $1 million. The entity planned to appeal to Commonwealth Court. The company was advised that it was well outside of the statutory timeframe to appeal. The entity was told if it did not pay the amount due that the Department of Banking would be advised of the tax noncompliance. The entity paid the liability the day before Banking was to be notified.

*For the Department of State* – A chiropractor contacted the Department wondering why he received a letter of tax noncompliance. The chiropractor was advised that he had a Pennsylvania address but no record of any personal income tax filings for his business. The chiropractor filed seven years of personal income tax returns, and paid over $10,000 in tax, interest and penalty.

Regarding the employee clearance program, DoR employees have Pennsylvania tax compliance as a condition of employment. Other state agencies are now working with the DoR to encourage state employees to comply with their state tax obligations. The principle of fairness was applied to all state employees under the Governor’s jurisdiction in 2010. The Corbett administration believes that employees working for Commonwealth agencies under the Governor’s jurisdiction must set an example by timely filing their tax reports and paying all state taxes due.

The qualitative benefits of the employee clearance program dovetail the LTRP. Pennsylvania citizens and taxpayers become aware that those who have direct economic dealings with the Commonwealth are obliged to be compliant with their state taxes. The overall fairness of the tax system is again enhanced.

Pertaining to the quantitative benefits of employee clearance, in each of the two years of conduct of the program, in excess of 83,000 employee records have been reviewed for tax compliance. In excess of 6,400 individuals received non-compliance letters in 2010. This was reduced to 2,600 in 2011. For the two years, over $250,000 was directly collected through this initiative.

Another significant benefit from the program has been the partnership of DoR with other agencies. Building on the Corbett administration’s value for increased fairness exhibited by Pennsylvania government, all agencies under the Governor’s jurisdiction and an increasing number of independent agencies are participating in the LTRP, employee clearance or both.
3. Did this program originate in your state? If YES, please indicate the innovator's name, present address, telephone number, and e-mail address.

Deputy Secretary for Compliance Robert P. Coyne’s senior program team for Pennsylvania’s Tax Clearance Initiatives has included:
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4. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?

The innovative nature of the Pennsylvania Tax Clearance Initiatives was the three-pronged approach established by DoR to address tax obligations of those receiving economic benefits from the Commonwealth: (1) state contractors (previously in place), (2) business and professional licensees (added in 2007), and (3) Commonwealth employees (added in 2010). Furthermore, the approach has integrated the processing of the compliance checks in a single workflow and supporting application RICS.

While many states have one or two of these clearance programs, we do not have specific knowledge of another state having all three arrayed in an integrated fashion.

5. What limitations or obstacles might other states expect to encounter when attempting to adopt this program?

Obstacles include acquiring the requisite business knowledge in taxation and compliance methods, having skilled information technology staff resources, and the organizational will and commitment.

CSG reserves the right to use or publish in other CSG products the information provided in this application. If your agency objects to this policy, please advise us in a separate attachment.
Use these as guidelines to determine the appropriate Program Category for your state’s submission and list that program category on page one of this application. Choose only one.

**Infrastructure and Economic Development**
- Business/Commerce
- Economic Development
- Transportation

**Government Operations and Technology**
- Administration
- Elections
- Information Systems
- Public Information
- Revenue
- Telecommunications

**Health & Human Services**
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- Children & Families
- Health Services
- Housing
- Human Services

**Human Resources/Education**
- Education
- Labor
- Management
- Personnel
- Training and Development
- Workforce Development

**Natural Resources**
- Agriculture
- Energy
- Environment
- Environmental Protection
- Natural Resources
- Parks & Recreation
- Water Resources

**Public Safety/Corrections**
- Corrections
- Courts
- Criminal Justice
- Drugs
- Emergency Management
- Public Safety

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Contact:
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