



CITY OF PHILADELPHIA
DEPARTMENT OF REVENUE

FY17 Strategic Tax Collection Plan

May 2016

FOR SCHOOLS AND SERVICES

Commissioner Frank Breslin
Chief Revenue Collections Officer



Message from the Commissioner:

I am pleased to provide to you the Fiscal Year 2017 Strategic Tax Collection Plan for the Department of Revenue. This plan outlines a comprehensive set of goals and actions which will serve as a guide to continued success for the Department. The plan also reviews the significant progress made by the Department in its efforts to more effectively and efficiently fulfill its mission of collecting the tax revenues necessary to provide funding for City schools and services.

We are unique in that through our services and collection programs, the Department has the opportunity to interact with nearly every Philadelphian at some point during his or her lifetime. Our success in accomplishing our goals is in large part dependent on our relationships and communication with our taxpayers, stakeholders, and our employees.

I am proud of the work our team does at the Department of Revenue and I am confident that you will find this strategic plan comprehensive, informative, and useful.

Thank you,

Frank Breslin
Commissioner, Chief Collections Officer

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Introduction:

The Department of Revenue administers a total of 18 tax types, and is responsible for collecting tax revenues, as well as fees, fines, and water and sewer charges necessary to support the operations of the City and School District of Philadelphia. We employ 587 full-time employees, including 356 responsible for the billing, auditing, and collection of taxes owed to the City and School District. During Fiscal Year 2015, the Department's gross collections were \$4.35 billion, including \$3.7 billion in tax revenue.

Revenue compliance and collection is the most visible portion of our operations, and is the focus of this strategic plan. However, the Department is equally committed to the highest standards of tax administration by providing professional, accurate, and efficient service to taxpayers as they try to comply with the City's tax laws. The Department will continue in its efforts to educate and inform taxpayers of their responsibilities to file and pay their tax obligation timely, and to improve enrollment in assistance programs.

The Department encourages voluntary compliance through education and assistance programs, but as detailed in this plan, it also relies on enforcement of tax collection through audits, litigation, liens, sheriff sales and other methods to maximize compliance and revenues for the City and its residents.

Guiding Principles:

- Make it easy for people to voluntarily comply.
- Help taxpayers and customers who need financial assistance.
- Create a culture of compliance through strong enforcement efforts that reinforce the message that the City cannot subsidize businesses and individuals at the expense of children and residents.
- Support the Mayor's strategic goals to improve education and economic opportunities, while operating government efficiently and effectively with a diverse and respected workforce.

Internal Assessment

Strengths

- The Department has knowledgeable, competent employees who are very dedicated and sincere in their mission.
- Operational measures are trending in the right directions. We are meeting or exceeding most of the Tax Collection goals and assistance enrollment targets we have set.
- Adequate resources and tools at our disposal.

Challenges

The systems the Department uses to process billing and payment transactions and to collect taxes are in need of modernization. Basic programming changes and enhancements take many hours and extensive effort and testing to implement, and developers capable of operating in the system are scarce and difficult to recruit. While the current system is stable, it is not capable of supporting the Department's vision of a one-stop business portal, benefitting all those doing business with the City. The current system also lacks flexibility to change processes and procedures or to customize such procedures.

Opportunities

The full implementation of the Department's Data Warehouse will help the Department make better informed decisions about collection actions, including using a scoring and selection model that identifies and ranks debts, placing those with the highest potential for recovery first. This upfront analysis will be the basis for a tax collection plan designed to resolve the City's accounts using the most productive and cost-effective approach. The Department will also be able to use the data to generate leads for audit and discovery purposes, to identify problem industries, other registered accounts at the same address, under-reporting accounts, and unregistered or non-reporting accounts.

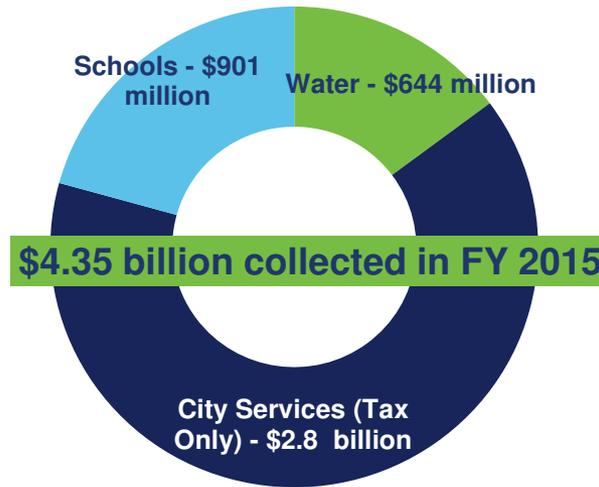


FY 2015 SNAPSHOT

Steady tax collections in FY 2015 were the result of improvements in many areas, and a decrease in others.

The most significant change was how Sales Tax revenues are disbursed by the Commonwealth of Pennsylvania between the City and School District.

If the entire 2% local Sales Tax still came to the City, FY 2015 total collections would have been up more than \$100 million.



MAJOR SUCCESSES

- +\$62 million in Wage, Earnings & Net Profit Tax
- +\$35 million in Realty Transfer Tax
- +\$9 million in Real Estate Tax
- +\$7 million in School Income Tax
- +\$81 million in e-Payments
- More than \$110 million in delinquent Real Estate Taxes collected for the City & School District
- **Sustained dramatic improvements in delinquent tax collections from FY 2014**



Expected Decrease

- -\$111 million in Sales Tax. Starting in FY 2015, \$120 million in Sales Tax funds go directly to the School District – without passing through City coffers. \$152 million in Sales Tax went to the City's General Fund in FY 2015.

REVENUE TRENDS FY 2008-2015

The average **annual revenue growth** was 2% between FY 2008 and FY 2015.

The largest percentage increase was 6% between FY 2010 and FY 2011, with a one-time spike from a tax amnesty.

3 Factors Determine Collection Growth:

- Changes in the base (# and size of taxpayers, # of water customers)
- Changes in tax rates and water/sewer fees
- Changes in collection administration & enforcement. The Department of Revenue has influence over collection administration and enforcement tactics.

Dramatic increases in Tax & Water collections were sustained in FY 2015



CITY OF PHILADELPHIA GENERAL FUND COLLECTIONS

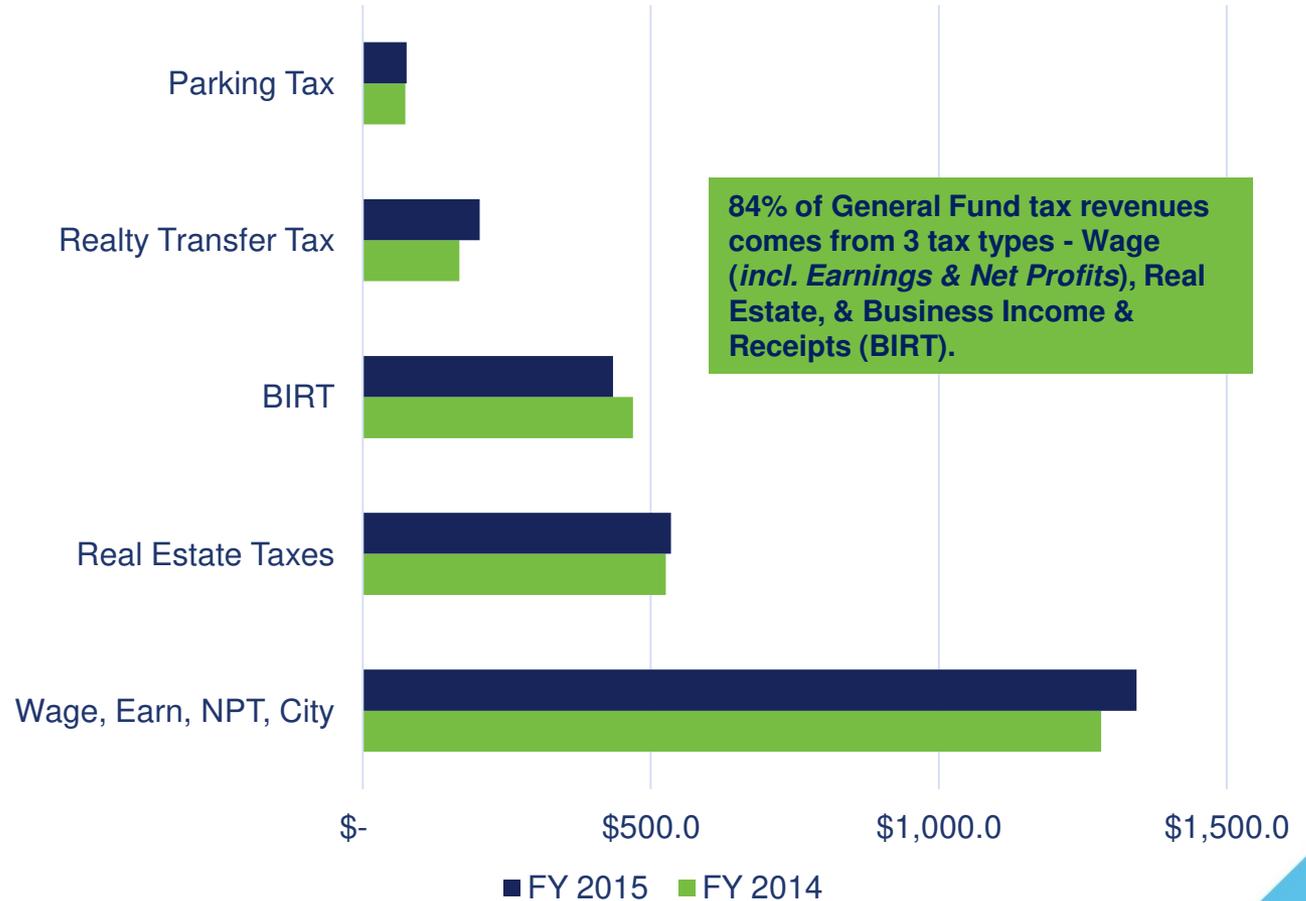
General Fund Tax Collections of \$2.8 billion exceeded the adopted FY 2015 budget by \$58 million.

With the real estate market continuing to improve, **Realty Transfer Taxes** increased from \$167 million in FY 2014 to \$203 million in FY 2015, a **21% increase**.

Tobacco and Valet Parking Taxes also had double digit percent growth.

The **biggest increase** in dollars from FY 2014 to FY 2015 was the **Wage, Earnings & Net Profits Tax** at **\$62 million**.

General Fund Taxes Collected by the City were \$73 million higher in FY 2015 compared to the prior year



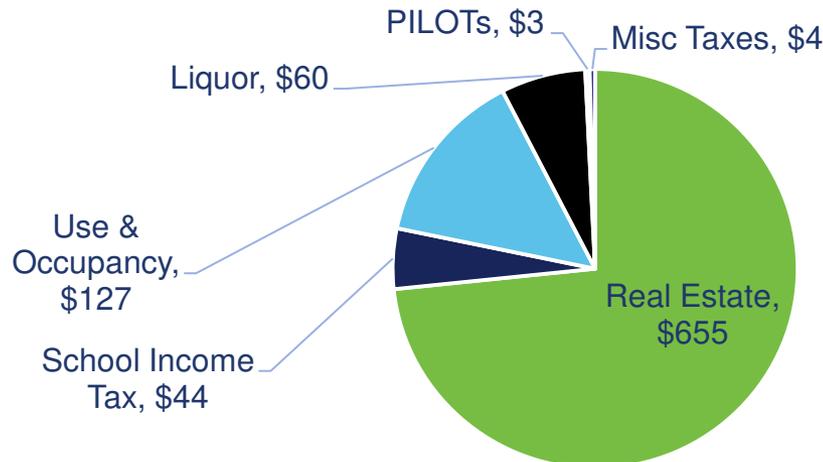
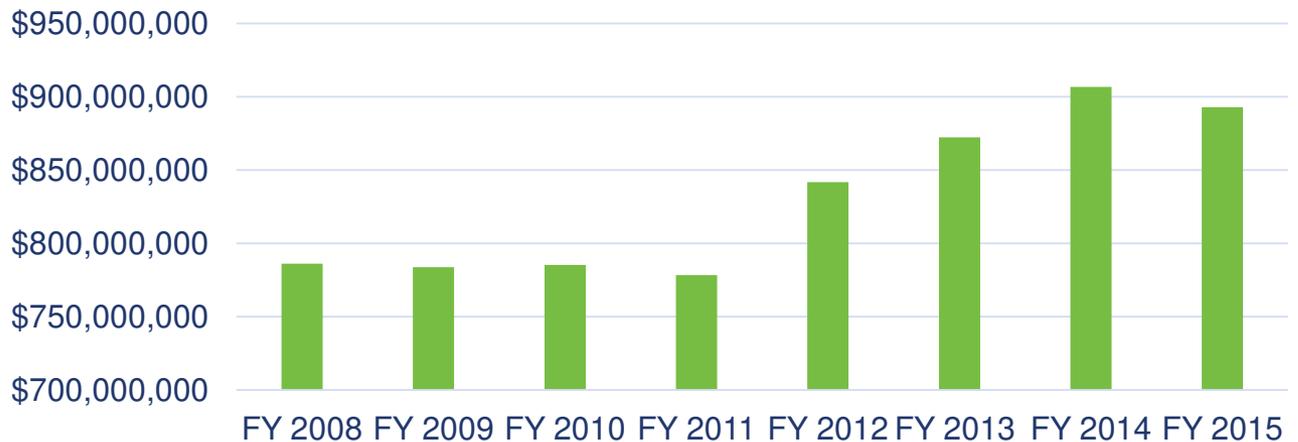
SCHOOL DISTRICT OF PHILADELPHIA TOTAL COLLECTIONS

- **\$893 million was collected for the School District** of Philadelphia primarily from 4 taxes – Use and Occupancy, Real Estate, Liquor Sales, and the School Income Tax.

- FY 2015 increases in School Income Tax collections were offset by reductions in Real Estate and Use & Occupancy Tax collections, resulting in a \$13 million decline overall.

- **Current year School Income Tax & Liquor Sales collections grew by \$3.7 million**, after efforts in FY 2014 to get more people on the tax rolls.

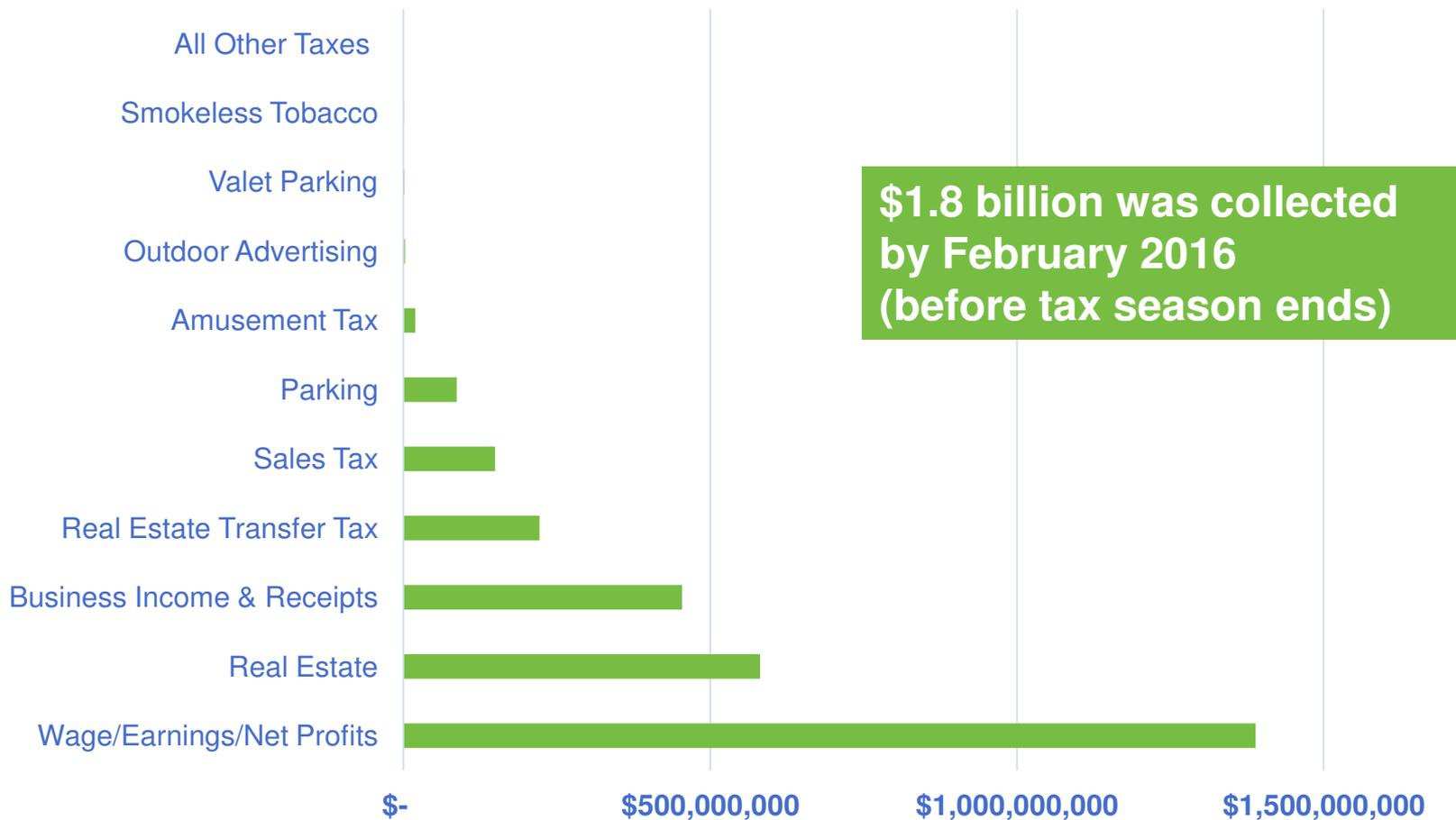
School District Taxes were above \$890 million for the second consecutive year



FY 2015 School District Taxes (in \$millions)

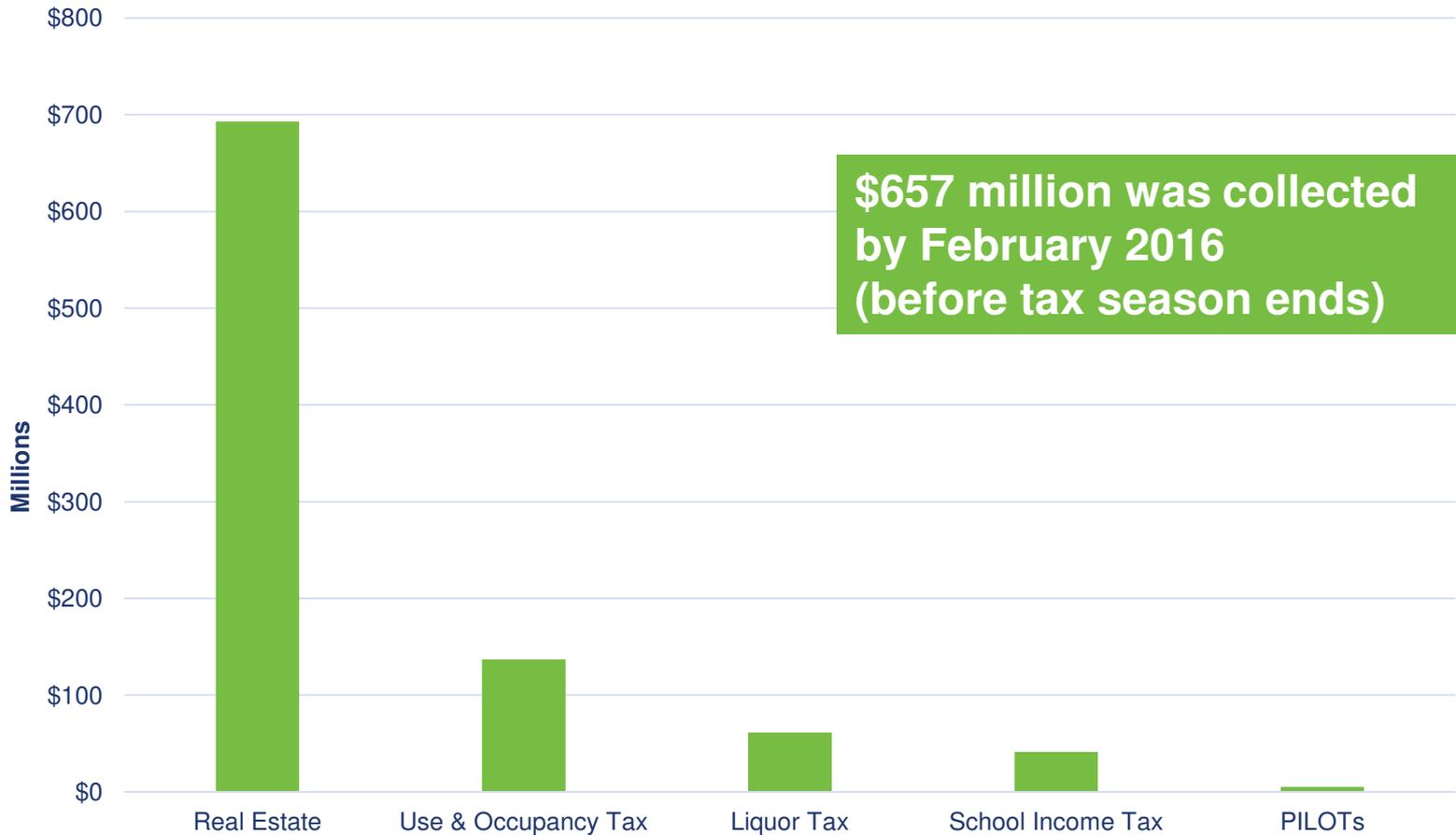
General Fund Tax Revenue Estimate

FY 16 Budget Estimate = \$2.9 billion



School District Tax Revenue Estimate

FY 2016 Budget Estimate = \$937 million



COLLECTION EFFORTS: DELINQUENT COLLECTIONS TOOLKIT

Clear communications

+

Easy payment options

+

Assistance programs

+

Enforcement

=

Maximum Compliance

The Department uses a variety of techniques to generate voluntary and involuntary payment of past due bills.

Customer Assistance

- Send past due notices & bills
- Enroll taxpayers in assistance programs to reduce amount due
- Offer payment plans to get people back on track

Moderate Enforcement

- Deny zoning variances, permits or tax credits
- Garnish wages for City employees with debts
- Withhold payment to businesses working for the City
- Place debt with a collection agency

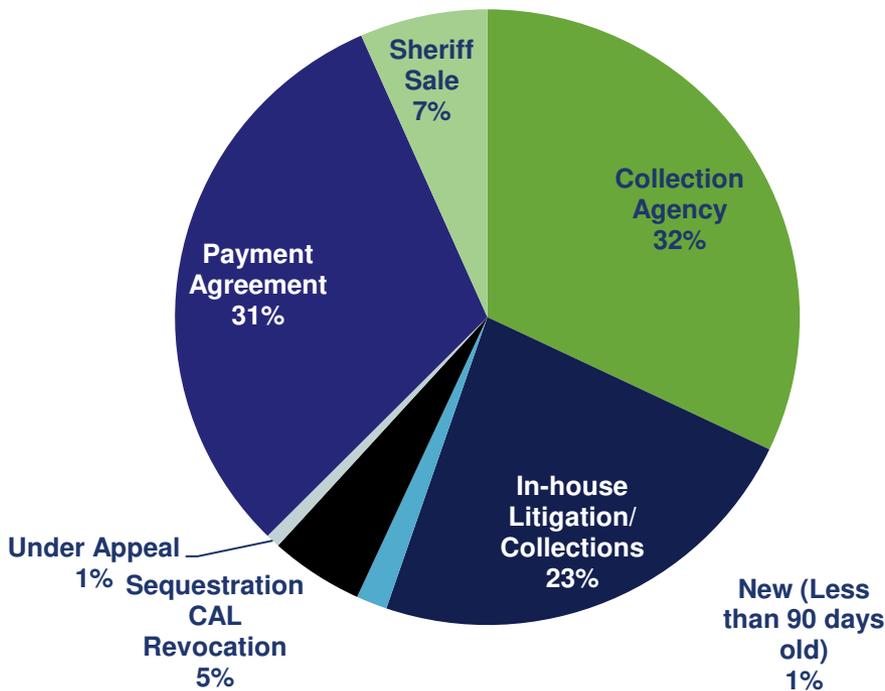
Maximum Enforcement

- Place a lien on a delinquent property (in other PA counties)
- Include property in Tax Lien Sale or Sheriff's Sale
- Appoint a receiver to collect rents (Sequestration)
- Close a business (Commercial Activity License revocation)

Collection Efforts – Enforcement Status (March 2016)

\$342 million in active tax delinquency (principal)

Real Estate Tax Delinquency



ENFORCEMENT STATUS	PRINCIPAL DUE
Collection Agency	\$26,191,808
In-house Litigation/Collections	\$61,417,696
New (Less than 90 days old)	\$16,482,090
Sequestration/CAL Revocation	\$14,248,555
Under Appeal	\$9,130,521
Payment Agreement	\$7,378,836
Sheriff Sale	\$57,083
TOTAL	\$134,906,590

Active tax delinquencies are up to 6 years old (10 years for Real Estate tax)

COLLECTION EFFORTS HIGHLIGHT – TAX LIEN SALES

\$260 tax collected for each **\$1 spent**

98¢ collected on each **\$1 of debt sold**

- In a tax lien sale, the City of Philadelphia sells the debt on a property to a 3rd party.
- The debt to the City is paid off, and now the property owner owes the 3rd party purchaser of the debt.
- In FY 2015 (June 2015) and FY2016 (December 2015), the City held its first two tax lien sales in 18 years and modernized its approach by selling individual liens online.

PRE-SALE:

- 8,118 Properties received notices that they may be in the June 2015 and December 2015 Tax Lien Sales
 - 2,809 Commercial Properties owed \$29.4 million
 - 5,398 Residential Properties (mainly vacant parcels in the June 2015 sale) owed \$23.6 million
- In total, property owners made payments of **\$10.4 million** and entered into 1,065 payment agreements for another **\$4 million** to remove their liens from the sales.

SALES:

- Tax Liens on 795 properties sold at the two auctions for **\$3.2 million**.

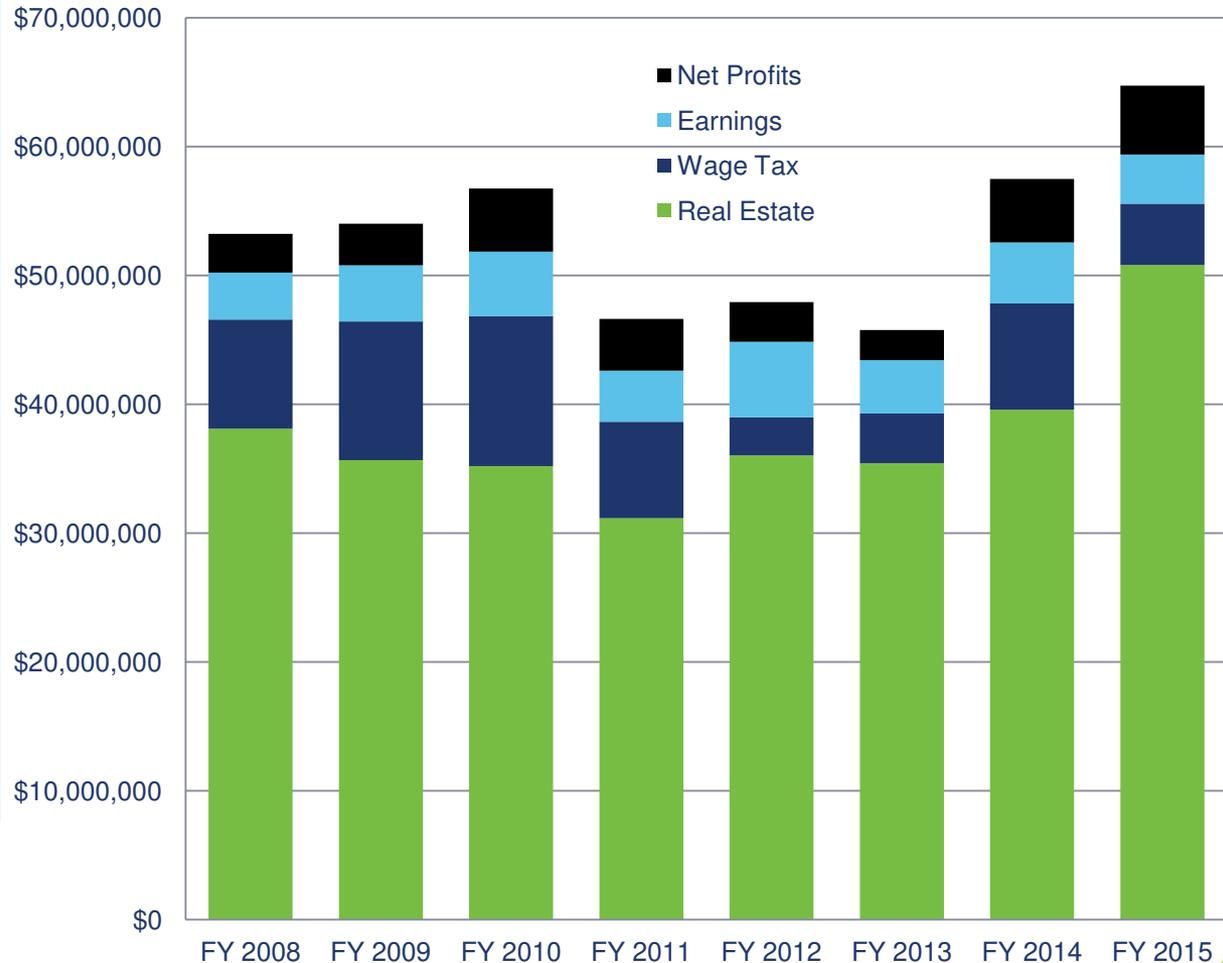
RESULTS:

- **General Fund → \$7.9 million**
- **Philadelphia School District → \$9.7 million**
- **Tax Lien Sale Impact → \$17.6 million**

COLLECTION EFFORTS – GENERAL FUND TAXES

Delinquent General Fund Tax Collections were at an All-Time High in FY 2015

The ongoing improvement in the collection of delinquent taxes is due to several factors, such as the **\$6.8 million increase in collections from cases we took to Sheriff's Sales** – a 42% increase.



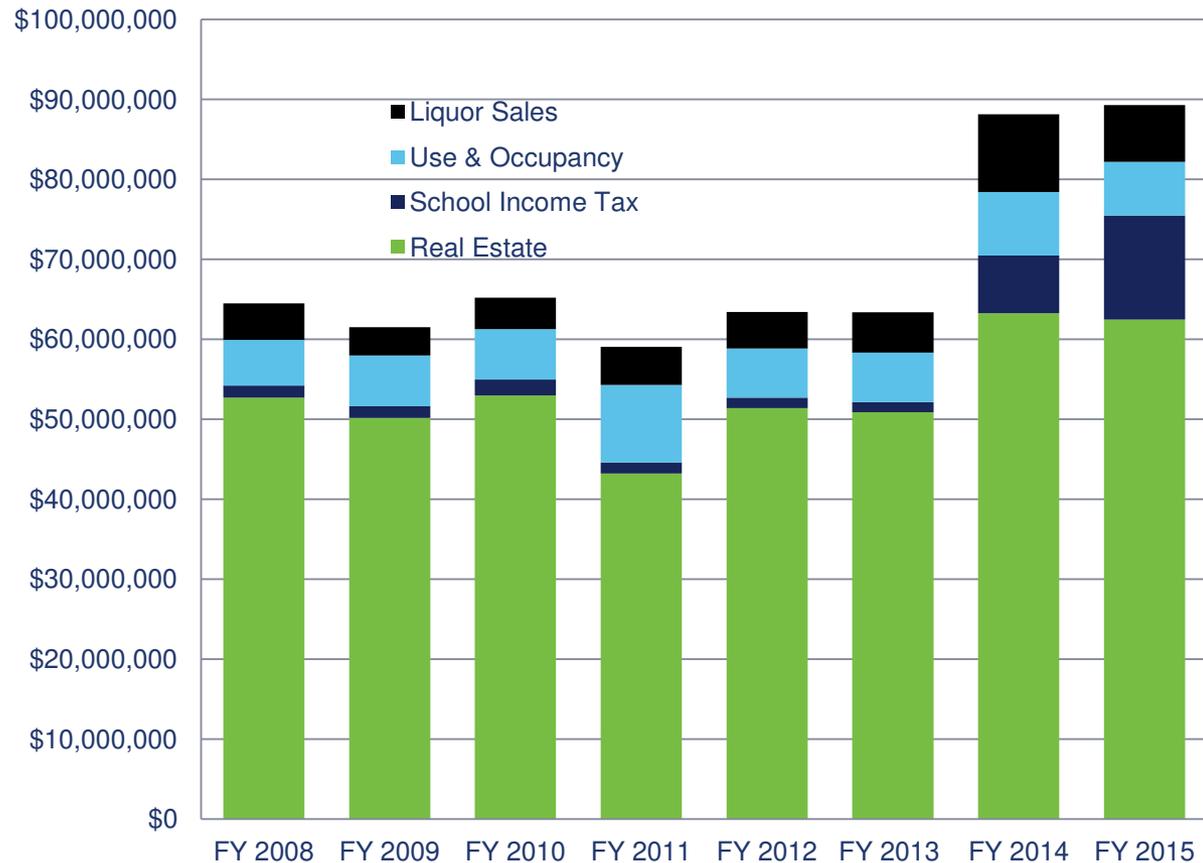
COLLECTION EFFORTS - SCHOOL DISTRICT OF PHILADELPHIA

School District delinquent collections for FY 2015

= \$89.3 million

- Efforts in FY15 sustained the dramatic increase in delinquent tax collections for schools from FY 2014.
- Continued success is attributed to:
 - Analysis of liquor license and purchasing data to ID Liquor Tax non-filers and under-reporters.
 - Focused enforcement with Commercial Activity License (CAL) Revocation and Sequestration; and
 - Ongoing use of IRS information to uncover School Income Tax non-filers and under-reporters.

Delinquent tax collections for the School District Fund Exceeded FY 2014



Plan for Maximizing Collection of Business and Real Estate Taxes

Philadelphia's tax system is based on a concept of voluntary compliance, with the expectation that taxpayers will voluntarily pay the right amount of tax and timely. The Department of Revenue engages in a wide range of activities that directly or indirectly promote voluntary compliance, stretching from activities that occur before the taxpayer begins to file a return or receives a bill to enforcement of the City's tax laws through legal enforcement.

PLAN GOALS

Maximize tax compliance. Taxpayers generally want to comply. This plan addresses the Department's activities that directly and indirectly encourage compliance with City's tax law.

Maximize operational efficiency and effectiveness. This goal focuses on streamlining the tax collection process, eliminating redundant activities, integrating programs to reduce costs, and collaboration with other City agencies.

Commitment to Assisting Taxpayers. The Department will continue its efforts to educate and inform taxpayers of their responsibilities to file and pay their tax obligations in a timely manner, as well as to improve enrollment in assistance programs among low-income Philadelphians. Where appropriate, automated filing and payment options will be made available to taxpayers for all tax types.

Commitment to Fair and Impartial Administration and Enforcement. The Department is committed to administering the City's tax laws fairly, equitably, and impartially, without regard to taxpayer's status, wealth, political affiliation, gender, race, color, sexual orientation, creed, or disability. In fairness to the vast majority of Philadelphians who pay their tax obligations on time, the Department will continue to identify and actively pursue those who do not voluntarily comply.

Commitment to Employees and Collection Partners and Services They Provide. The Department recognizes that its employees are its greatest asset and that they should be encouraged and empowered to use their creativity and resourcefulness in fulfilling the Department's mission. Only through teamwork, with other City agencies and with the Department's Outside Collection partners, can we ensure the highest rate of taxpayer compliance.



STRATEGIES FOR MEETING GOALS

Using Data, Technology & Innovation to Encourage and Compel Compliance

- Data Matching with State and Federal agencies to identify non-filers and under-reporters.
- Finding the right tools at the right time for the right accounts, including identifying the best candidates for License Revocation, Sequestration, Sheriff Sale, and Tax Lien Sales.
- Placing more accounts with Outside Collection Agencies, particularly those who generate the best collection results.
- University of Pennsylvania Delinquent Letter Project to test what type of messaging works best to motivate 1st time delinquent Real Estate taxpayers to pay
- Increased Sheriff Sales.
- Pilot Tax Lien Sale in June 2015, and a Phase 2 Sale completed in December 2015.
- Focused initiatives (License Revocation, Tax Lien Sales, Increase Sheriff Sales, Sequestration) on School District collections.
- Liquor Tax matching with Pennsylvania Liquor Control Board to know who is registered to operate with a liquor license in the City.

Making It Easier to File and Pay Taxes

- Cashiering system upgrade to take credit card payments at counter and improve payment processing.
- Expanding eFiling has led to a doubling in the number of electronic returns filed.
- Payment via eCheck is now free.
- Expanded hours for calls and walk-ins during tax season
- Annual U&O filing option offered and taken by 500 accounts, designed to make their administrative burden significantly less.
- New phone system, with modern features and designed to ensure shorter wait times.
- New queuing intake system at the Municipal Services Building.

STRATEGIES FOR MEETING GOALS (continued)

Learning More About our Taxpayers

- Focus groups on Senior Programs and Earned Income Tax Credit (EITC).
- Quarterly Tax Advisory Committee meetings with tax professionals, with a focus on Business Tax issues.
- Community Events and Outreach.
- Working with Universities and non-profits in inter-agency project to test what works best to expand enrollment in assistance programs.
- Conducting surveys of Delinquent Taxpayers, in-person taxpayers, and EITC filers.
- Implementation of Data Warehouse.
- Seminars with 1,000 + tax professionals annually.

Providing Assistance to Those in Need

- In FY15, more than \$100 million in tax relief was given to almost a quarter million households, including many of the City's most vulnerable families and seniors.
- New easier to read forms, with simpler instructions.
- Comprehensive outreach and free tax preparation to reach the 40,000 Philadelphians mission out on \$100 million in Earned Income Tax Credit refunds.

Real Estate Tax Collection

The City's Real Estate taxes are levied on January 1st of each year (Day 1), based on certified property values submitted annually by the City's Office of Property Assessment (OPA). The Department of Revenue is then responsible for billing and collecting Real Estate taxes owed. Taxpayers receive a one-percent (1%) discount if they pay their bill on or before February 28th. Of those properties that pay on-time, more than 9 out of 10 take advantage of the discount. The Department continues to work with several lending institutions to process bulk requestor payment files. Taxpayers are given until March 31st of each year to pay and to avoid the imposition of additions. Accounts which remain unpaid as of March 31st become past due on April 1st and are subject to the accrual of interest.

In early May, the Department mails the first of two notices of "Warning of Risk of Foreclosure" pursuant to 19-1305(2)(b)(.1) to all overdue accounts. It also sends out special bills to single-year overdue accounts, as a precursor to placing the accounts with collection agencies. The Department contracts with one collection agency and one law firm to conduct a 6-month collection campaign on single-year overdue accounts, from June through the end of December.

In September, the Department mails the second notice of "Warning of Risk of Foreclosure". In November, the Department mails an additional notice (pursuant to 53 P.S. 7106), warning property owners that a lien will be placed on the property at the end of the year and that attorney fees will also be added at that time. Recently, the Department began working with lenders to ensure that balances owned by their escrow and non-escrow customers are paid before becoming delinquent. The lenders are motivated to resolve the accounts on behalf of their customers, in order to protect their investment against tax liens and the potential effects of tax foreclosure sales.

Real Estate Tax Collection (continued)

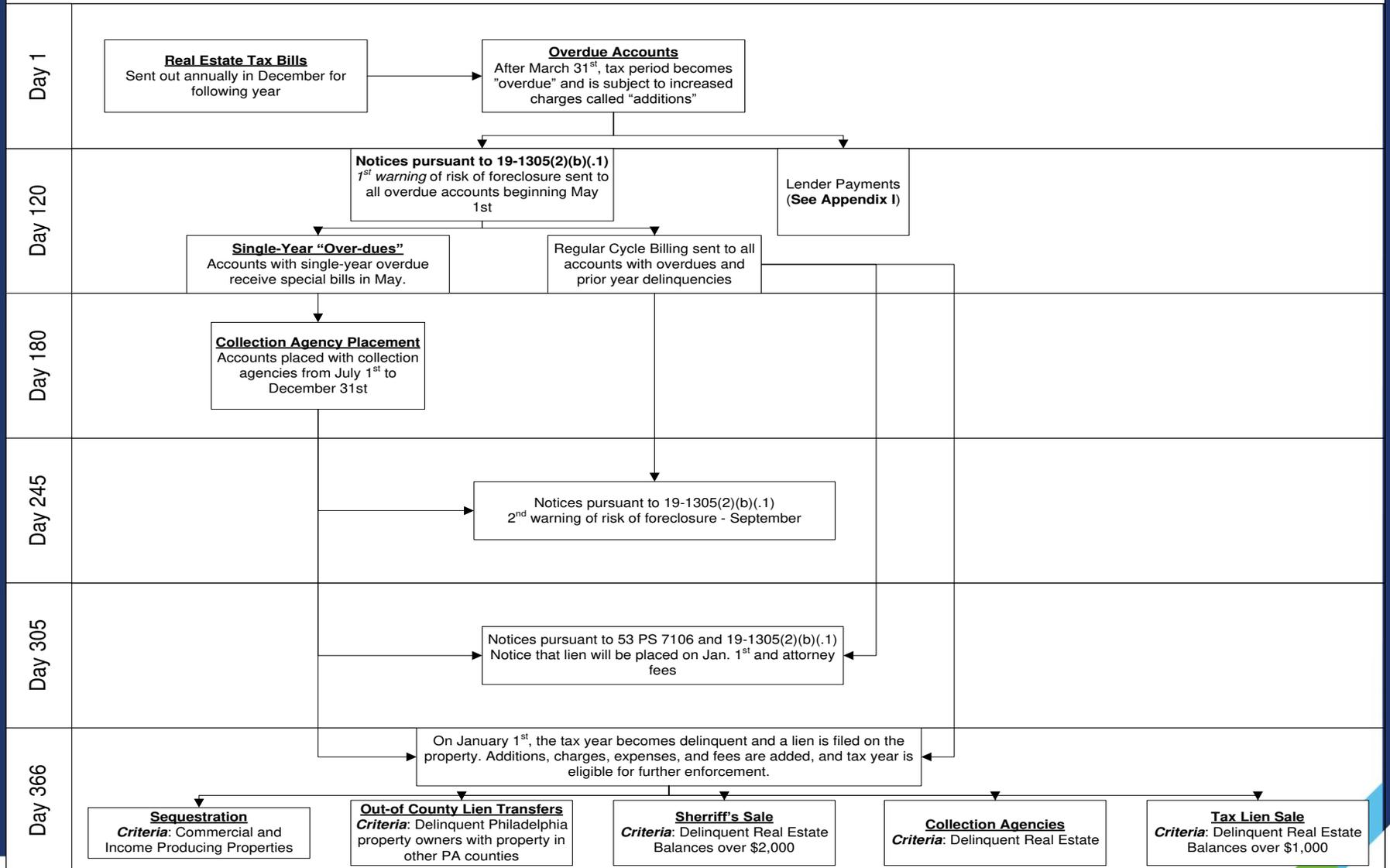
On January 1st off the following year (Day 366), the Department considers the property owner delinquent and begins the process of filing a tax lien against the property. As shown on the accompanying chart (titled “Real Estate Tax Collection Strategy”), the Department employs several enforcement programs once an account becomes delinquent, including placement with one of two collection firms, Sheriff Sale, and Sequestration. Each program is designed and chosen to compliment the Department’s collection strategy, applying the right enforcement tool at the right time to maximize payments and minimize administrative costs.

- Sheriff Sales
- Collection Agencies
- Sequestration
- Tax Lien Sales
- Out-of-County Lien Transfers

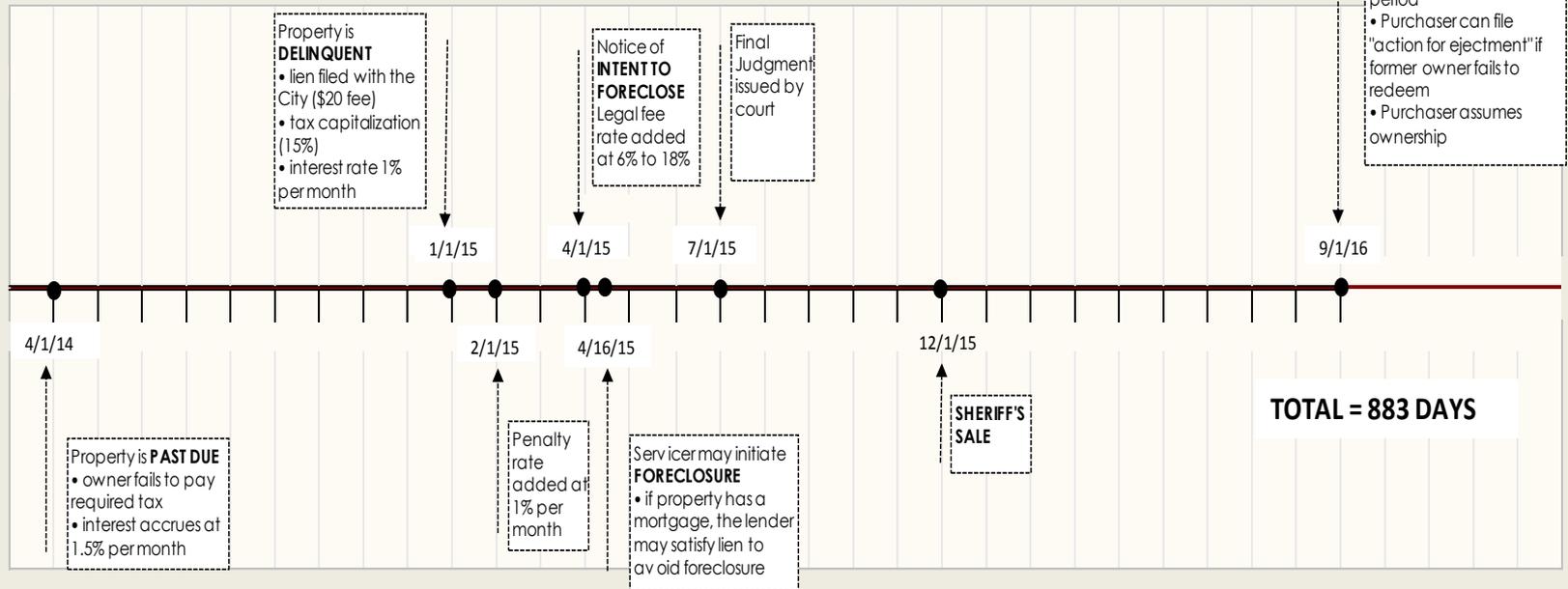
Note: Please refer to Appendix III for a description of each program listed above.



Department of Revenue Real Estate Tax Collection Strategy



Typical Real Estate Tax Delinquency Timeline



Business and Individual Tax Collection

Philadelphia's business and individual taxes are mostly self-assessed. This means that at the end of each business year (or other time period, depending on the tax type involved), businesses and individuals should complete tax returns and make payment. This places responsibility on the taxpayers to report their tax debt accurately and timely. It is therefore very important that all businesses and individuals be well acquainted with the City's tax laws.

It is important to note that even though the Department initially accepts tax returns, the returns are still subject to further review for accuracy and completeness, and to ensure that taxpayer have not under-reported their tax obligations. When an audit detects any undeclared or under-reported income, or disallowed deduction, an amended assessment will be issued and the taxpayer will be obliged to repay any tax owed, together with interest and penalty.

Taxpayers who fail to file their returns by the designated due date (filing deadlines and frequencies vary depending on tax type) receive multiple non-filer notices from the Department and are subject to code-enforcement complaints filed by the Law Department in Municipal Court.

As detailed in the attached chart, **Day 1** of the Business and Individual Tax Strategy begins when the tax receivable is created. Business and individual tax receivable are created either through voluntary taxpayer compliance (i.e., filing a return) or as the result of a Department of Revenue audit or discovery assessment.

After a **30-60 days** for initial billing, the receivable becomes overdue.

Business and Individual Tax Collection (continued)

At **90 days**, the receivable becomes delinquent and is eligible to enter the Department's collection path. The Department uses a blended approach between internal Law/Revenue collection programs and outside collection agencies, based on the age of the receivables, account types, and collection tools (license revocation, litigation) required.

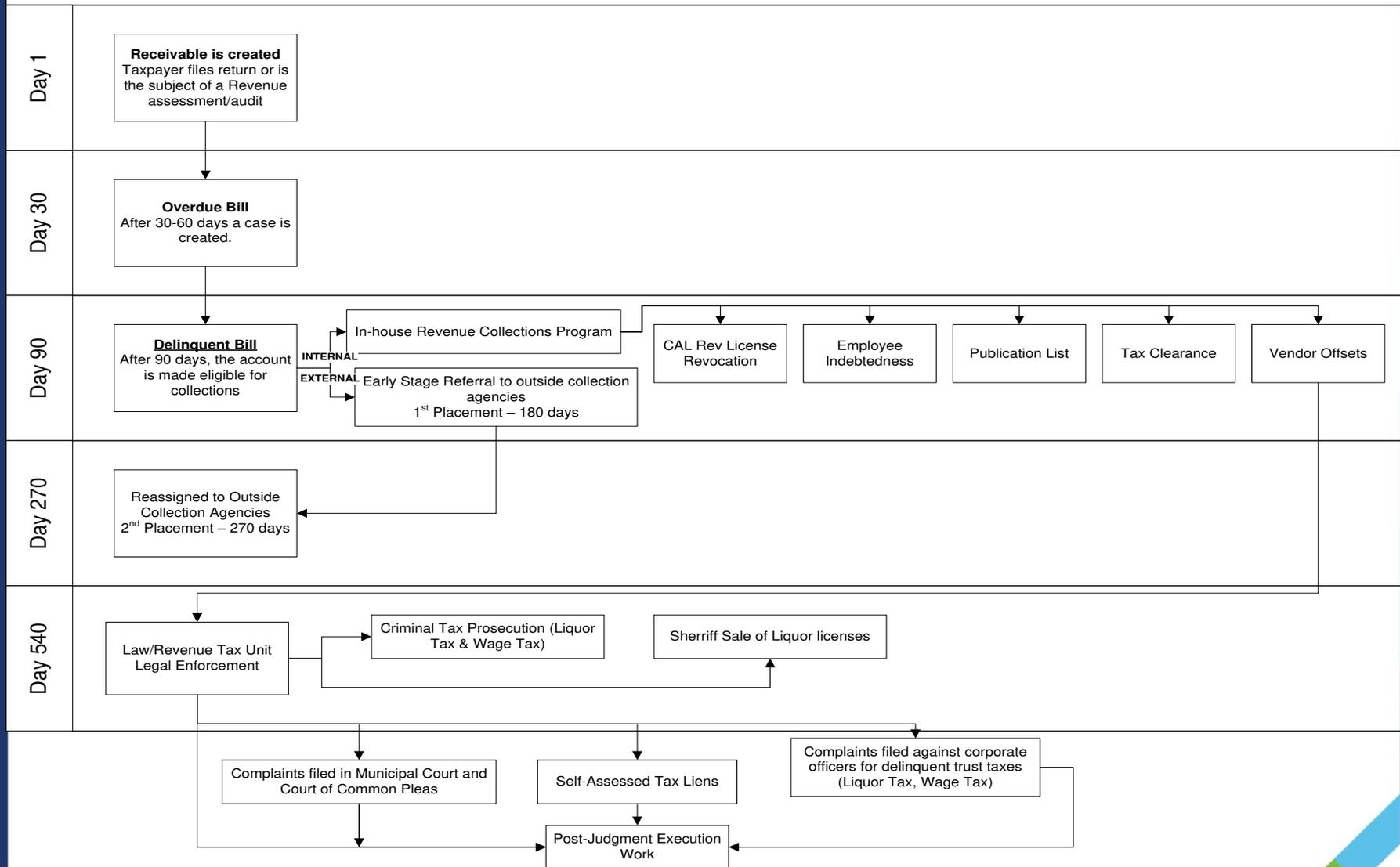
Internal collection programs include (please refer to Appendix III for full descriptions):

- License Revocation
- Employee Indebtedness
- Tax Clearance
- Publication List
- Vendor Offsets

Accounts which remain unresolved after placements with collection agencies, as well as those that are unresolved or unsuitable for internal collections programs, are forwarded to the Law Department for legal enforcement, including:

- Self-assessed tax liens, filed pursuant to 53 P.S. 7501.
- Code-enforcement complaints filed in Municipal Court for failure to pay business and individual taxes. Municipal Court has a jurisdictional limit of \$12,000.
- Lawsuits filed in the Court of Common Pleas on higher dollar (over \$12,000) accounts, including claims against corporate officers for failure to remit trust taxes (Liquor, Wage) to the City and School District.
- Post-Judgment Execution including: asset discovery, attaching bank accounts, and selling personal property.

Department of Revenue Business and Individual Tax Collection Strategy



LOOKING AHEAD – FY 2017

NEW COLLECTION INITIATIVES

- Automate placement of Business Tax debts with collection agencies to increase revenue and reduce manual efforts.
- Initiate Tax Prosecution program to seek criminal charges and penalties against delinquents (when allowed by law).
- Implement the Data Warehouse, which will improve analytical capability and case management. This is expected to increase delinquent revenue collection by more than \$25 million over 5 years.

NEW ASSISTANCE INITIATIVES

- Expand EITC outreach and support for tax preparation.

Appendix I: Philadelphia Taxes

Tax Type	Code	Description	Rates*
Amusement Tax	AMU	Imposed on the admission fee charged for attending amusements in Philadelphia	5% of admission charge
Business Income & Receipts Tax	BIR	Required if engaged in business in Philadelphia, whether or not the business earned a profit in the preceding year	1.415 mills on gross receipts, 6.41% on taxable net income
Cigarette Tax		Excise tax on the sale or possession of cigarettes or little cigars in PA. Tax is in addition to 6% state sales tax and 2% local sales tax.	\$2 per-pack tax on all cigarettes and little cigars sold in Phila.
Hotel Tax	HOT	Imposed on the rental of a hotel room to accommodate guests	8.5% on amount received for rental of rooms
Liquor Tax	LIQ	Imposed on sale of liquor by entities holding license or permit issued by the Commonwealth of Pennsylvania	10% on every retail sale of liquor or malt and brewed beverage that is not subject to Pennsylvania Sales and Use Tax
Mechanical Amusement	COI	Imposed on any machine or device for amusement or entertainment operated by insertion of a coin or token	\$100 per device per year
Net Profits Tax	NPT	Imposed on entire net profits of any business conducted in Philadelphia	3.9102% (city residents), 3.4828% (non-city residents)
Outdoor Advertising Tax	OAT	Imposed on the purchase, rental or licensing of space on any building, parcel and sign support structure for the purpose of installing, placing or maintaining an outdoor advertising sign	7% of the purchase price
Parking Tax	PRK	Levied on gross receipts from all financial transactions involving parking or storing vehicles in Philadelphia	22.5% of amount charged for parking
Real Estate Tax	RE	Imposed on all real estate in the City of Philadelphia	(Per \$1000 of taxable assessed value) city - .6317%, school - .7681%, total - 1.3998%
Realty Transfer Tax	RTT	Levied on the sale or transfer of real estate located in Philadelphia	city - 3%, state - 1%, total - 4% based on value of property transferred
Sales and Use Tax		Philadelphia Sales and Use tax collected by the Commonwealth of Pennsylvania	city - 2%, state - 6%, total - 8%
School Income Tax	SIT	Imposed on various classes of unearned income which are not subject to Philadelphia Business Income and Receipts Tax or Wage Tax	3.9102% on unearned income
Tobacco & Tobacco Related Products Tax	TOB	Assessed on tobacco and tobacco-related items sold by retailers and by vending machines such as rolling papers, cigars, smokeless tobacco, pipe tobacco or other loose tobacco	\$0.036 for individually rolled items, \$0.36 per pack of rolling papers, \$0.36 per ounce of all other tobacco and tobacco-related items
Use & Occupancy Tax	UOL	Imposed on business, trade or commercial use and occupancy of real estate in Philadelphia	\$4.62 per annum per \$100 of assessed value
Valet Parking Tax	VPT	Imposed on transactions involving the use of parking valet operators	22.5% of amount charged for parking
Vehicle Rental Tax	VRT	Levied on vehicles rented for 29 or fewer consecutive days	2% of amount received for renting a vehicle
Wage/ Earnings Tax	WAG ERN	Imposed on compensation paid to an employee, employed by or rendering services to an employer in Philadelphia	3.9102% (city resident), 3.4828% (non-city resident) on gross wages

*Rates in effect for calendar year 2016

Cigarette and Sales and Use Taxes are collected by the Commonwealth of Pennsylvania.

Appendix II: Summary of Collection Initiatives

Collection Initiatives	AMU	BIR	Cigarette	COI	ERN	HOT	HSP	LIQ	NPT	OAT	PRK	RE	RTT	SALES	SIT	TOB	UOL/UOT	VPT	VRT	WAG
Act 93 – Out-of-County Transfers												●								
Automated Collection Placements	○	○		○	○	○	○	○	○		○				○		○	○		○
Automatic Withdrawals for Payment Plans	○	○		○	○	○		○	○	○	○	○			○		○	○		○
Collection Agencies	●	●		●	●	●		●	●	●	●	●			●	●	●	●		●
Commercial Activity License Revocation	●	●		●		●		●	●	●	●					●	●	●		●
Criminal Tax Prosecution								○												○
Data Matching	●	●		●	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●
Data Warehouse	●	●		●	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●
E-Collect	●	●		●	●	●	●	●	●	●	●	●	●		●		●	●		●
Employee Indebtedness Program	○	○			○			○	○			○			○		○	○		○
Increased Billing Frequency	○	○		○	○	○	○	○	○	○	○	○	○		○	○	○	○	○	○
Increased Sheriff Sales												●								
Lender Payments												●								
Law Department Litigation	●	●			●	●		●	●	●	●	●			●		●	●		●
Pre-Delinquency Collection												●								
Publication List	○	○		○	○	○	○	○	○	○	○	○	○		○	○	○	○	○	○
Recording Review													●							
Sequestration												●								
Sheriff's Sale of Liquor Licenses								○												
Tax Clearances	●	●		●	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●
Tax Lien Sales												●								
Vendor Offsets	○	○		○	○	○	○	○	○	○	○	○	○		○	○	○	○	○	○

● Fully implemented

○ Will be implemented in FY 17

Cigarette and Sales and Use Tax are collected by the Commonwealth of Pennsylvania

Appendix III: Collection Tools and Programs

Act 93: Out-of-County Lien Project: Under Act 93, the Law Department recently began transferring Real Estate Tax liens accrued from Philadelphia properties to other counties in Pennsylvania where the delinquent owner owns additional property. The process from start to finish includes compiling the match list of delinquent Philadelphia property owners with their out-of-county properties, preparing the out-of-county filings, fielding calls and entering payment plans with taxpayers, and eventually filing out-of-county satisfactions of the liens when they are paid. The initial phase of the project began with 96 liens owned by individual owners, matching social security numbers on the Philadelphia and out-of-county deeds. In FY17, the Department plans to expand the project to other eligible owners, including EIN matches for corporate property holdings.

Taxes impacted: Real Estate Tax

Automated Collection Agency Placements: The Department is working to implement an automated referral system for Business Tax accounts. This will standardize the frequency of business tax referrals and recalls to and from collection agencies, consolidate cases within a single collector, and ensure that delinquent accounts progress through a collection path that is geared towards persistent and progressive enforcement.

Taxes impacted: All Business Tax types

Automatic Withdrawals for Payment Plans: The Department plans to offer automatic bank account withdrawals for customers in payment plans for delinquent taxes. This new service is aimed at making it easier for taxpayers to pay their bills and is expected to reduce the number of payment plans that are defaulted upon.

Taxes impacted: All tax types collected by the Department of Revenue.

Appendix III: Collection Tools and Programs (continued)

---**Collection Agencies:** Outside Collection Agencies (OCAs) are valuable partners in the Department’s overall collection program, and play a critical supplementary role to its collection efforts. The value added by collection agencies typically focuses on additional technologies the OCAs have at their disposal, such as predictive dialers, unattended messaging campaigns, self-service tools for taxpayers, and skip-tracking capabilities to locate taxpayers. Currently, the Department employs seven (7) outside agencies to help with its collection of taxes and fees, including two (2) law firms. The Department is confident that by utilizing performance data and generating consistent and timely referrals to its collection agencies, it will encourage competition among the agencies and drive their overall performance.

Taxes impacted: All tax types collected by the Department of Revenue.

Goehring, Rutter & Boehm (GRB)	Law Firm	Real Estate Taxes
Linebarger, Goggan, Blair & Sampson	Law Firm	Real Estate Taxes
AllianceOne Receivables Management	Collection Agency	Business Taxes
Penn Credit Corporation, Inc.	Collection Agency	Business Taxes
Pioneer Credit Recovery, Inc.	Collection Agency	Business Taxes, Trash Fees
Progressive Financial Services, Inc.	Collection Agency	Business Taxes, Trash Fees
Revenue Collection Bureau, Inc.	Collection Agency	Business Taxes, Discovery

Appendix III: Collection Tools and Programs

Commercial Activity License Revocation: The Department continues to utilize the Commercial Activity License (CAL) Revocation program which targets operating businesses that have resisted other enforcement actions. Through a memorandum of understanding with the Department of Licenses and Inspections, the Department has the authority to close a business that does not come into compliance. Nearly 3,700 businesses have been included in the program since its inception, generating \$47 million since the program began in late FY 13, with \$16.3 million collected in FY 15 and \$12.7 million collected through March 5th of FY16. The majority of businesses targeted under this program pay or enter into a payment agreement before the business is closed.

Taxes impacted: All Business Tax types for accounts with active commercial activity licenses.

Criminal Tax Prosecution: Failure to remit trust fund taxes, such as Philadelphia Liquor and Wage Withholding Taxes, is a crime under Pennsylvania law. Specifically, 18 Pa.C.S. 3927 states that a person who receives funds subject to a known legal obligation and fails to make the required payment of those funds is guilty of theft. The Department of Revenue, acting through its Law Revenue Bureau, plans to work with the District Attorney's Office to explore the feasibility of a Tax Prosecution Program. The expected impact of the program would be to serve as a strong deterrent to non-compliant taxpayers and to help increase the rates of voluntary compliance.

Taxes impacted: Liquor Tax and Wage Tax

Data Matching: The Department of Revenue has been able to leverage data from the Internal Revenue Service, the Pennsylvania Department of Revenue, the Pennsylvania Liquor Control Board, and other sources to uncover underreporting of tax liabilities. Armed with this information, Revenue auditors have issued assessments, generating dramatic one-time increases from prior year collections and ongoing benefits from getting new taxpayers on the tax rolls.

Taxes impacted: All Business and Individual Tax types

Appendix III: Collection Tools and Programs

Data Warehouse: In FY17, the Department will use its new Data Warehouse Management System to provide more accurate analysis of taxpayer information from internal source data, other City Departments, and other agencies like the Pennsylvania Department of Revenue and Internal Revenue Service. The Data Warehouse integrates information to provide more accurate analysis and drive collection efforts. The system will help the city realize revenue from delinquent collections. The Case Management System will be used to match the right collection effort to accounts likely to pay, and to automate many collection tasks.

Taxes impacted: All tax types collected by the Department of Revenue.

E-Collect: As a measure to reduce the incidence of bounced checks, the Department hired an agency (E-COLLECT) to handle a segment of the Bank Return Items (BRI) that are returned from Banks due to “Not Sufficient Funds” (NSF). Pursuant to notices displayed at all points of sale and included in all bill statements, E-Collect is able to electronically resubmit the returned items to the payer’s banks for collection. In addition to the amounts to be withdrawn from the bank account, E-Collect also collects a non-refundable fee of \$20.

Taxes impacted: All tax types collected by the Department of Revenue.

Employee Indebtedness Program: All potential City employees must be in compliance with all City financial obligations before being hired. Once hired, the Controller can garnish the wages of employees not in tax compliance. Former City employees who receive a pension from the City are also required to remain tax compliant. In FY17, the Department will conduct a comprehensive review of all current and retired City employee accounts, to ensure that all are in compliance with City financial obligations.

Taxes impacted: All tax types collected by the Department of Revenue.

Appendix III: Collection Tools and Programs

Increased Billing Frequency: Beginning in May 2016, the Department is increasing the frequency of delinquent bills that are sent to debtors. A FY 15 pilot project in partnership with the University of Pennsylvania (and a similar initiative by the Internal Revenue Service) demonstrated that increasing the frequency of delinquent bill mailings resulted in measurable increases in delinquent collections.

Taxes impacted: All tax types collected by the Department of Revenue.

Increased Sheriff Sales: By increasing the number of Sheriff Sales of tax delinquent properties, there are positive impacts on collections from those sales and a growing awareness in the community that there are real consequences to non-payment. In FY 15, collections from Sheriff Sales increased by \$6.8 million (a 42% increase). FY 16 also saw a successful pilot program that selected properties for Sheriff Sale based on the amount of Water debt owed. This is particularly effective for vacant properties and land where water shut off is not a viable collection tool. This program will be expanded in FY 17.

Taxes impacted: Real Estate Tax

Internal Collections Division: In FY15, the Department created an internal Collections Division to coordinate the placement of delinquent accounts among the Department's various collection agencies, the Collections Division, and the Legal Services Bureau. The Collections Division is also responsible for developing and implementing special collection programs and projects, to be handled in-house by the Division's collection staff or as joint enforcement initiatives with other Department of Revenue divisions.

The Collections Division is responsible for the day-to-day operations of the Commercial Activity License Revocation Program, and in FY16 supervised the completion of the Department's two Real Estate Tax Lien Sales.

Taxes impacted: All tax types collected by the Department of Revenue.

Appendix III: Collection Tools and Programs

Lender Payments on Delinquent Property Taxes/Fees: The Department of Revenue recently began working with lenders in an effort to collect delinquent taxes/fees for properties on which the lenders hold a mortgage. These include taxes/fees that can be liened, including Real Estate Taxes and Commercial Trash Fees. The Department has already partnered with one lender to match both escrow and non-escrow customers to delinquent debt due on subject properties. The first payment (\$1.5 million) from this lender for delinquent Commercial Trash Fees was received in mid-April and delinquent Real Estate Tax payments will soon follow.

Now that the process has been created and can be duplicated, the Department has contacted other lenders to give them the opportunity to reconcile debt which their customers may have with the City, and to protect their interests against potential tax foreclosure sales.

Taxes impacted: Real Estate Tax

Law Department Litigation: Accounts which remain delinquent after unsuccessful internal and outside collection efforts, eventually progress to the Law Department's Tax Unit for legal enforcement. The Tax Unit is responsible for initiating court action on all tax types and unfiled tax returns, including filing complaints and liens with the Court of Common Pleas and administering the Unit's Mass Litigation Project in Municipal Court. In addition to fielding calls and in-office visits, the Unit enters payment plans with taxpayers and performs post-judgment execution work to collect.

Taxes impacted: All Business tax types and Real Estate Tax

Appendix III: Collection Tools and Programs

Pre-Delinquency Collection Efforts: The Department of Revenue continues to employ two (2) collection agencies to pursue collection of “overdue” Real Estate taxes not paid by the March 31st due date. Also, in addition to mailing out its regular-cycle Real Estate bills, the Department will be sending multiple notices in 2017, warning property owners about the risk of foreclosure.

Taxes impacted: Real Estate

Publication List: The Department of Revenue plans to publish information pertaining to the largest uncollected tax liabilities owed to the Department. All detail provided on the Department’s website will be public information as a result of docketed judgments and liens.

Taxes impacted: All Business and Individual tax types and Real Estate Tax

Recording Review: The Tax Unit works closely with the Records Department to resolve any questions prior to the recording of new deeds. Whenever Record officials are not sure about an exemption claim from Realty Transfer Tax (RTT), they advise the taxpayers to review the claim for exemption from the tax with Law and Revenue.

Lien Project: The City has a list of post transfer delinquents and this year the lien unit filed approximately 50 liens.

Real Estate Company Transfers: The best collection activity that results in additional RTT assessments is through locating cases where no deed was required because the transfer of real property occurred through a transfer in the interest of the entity holding the property. To find these cases, the City reviews mortgage documents where no new deed is recorded but a large mortgage is recorded. Large financing often reflects the financing associated with the sale of all or a portion of the company interests. Revenue watches for press releases regarding real estate sale announcements. Revenue also works closely with OPA, who notifies Revenue of appeals by the new entity owner of companies owning real estate. OPA appeals are a good source of information on these types of hidden transactions.

Taxes and Fees impacted: Realty Transfer Tax

Appendix III: Collection Tools and Programs

Sequestration: Through a court-appointed Sequestrator, or receiver, the Department of Revenue is able to effect repayment of debts by collecting rents directly from building tenants, and the collected amounts are then used to pay off tax balances and to maintain building operations. Once the debt is repaid, the management of the property reverts to the owner. This initiative works best on income-producing properties, and is quicker than the Sheriff Sale process.

Since the program's inception in FY13, 7,759 properties have been included, generating \$44.4 million in collections to date. The program generated collections of \$17.5 million in FY15 and \$18.3 million has been collected so far for FY16. The majority of properties included in this program either pay or enter into a payment agreement before a Sequestrator is appointed.

Taxes impacted: Real Estate Tax

Sheriff's Sale of Liquor Licenses: In accordance with procedures promulgated by the Pennsylvania Liquor Control Board, the Department plans to launch a pilot program to execute upon liquor licenses for defunct entities by selling them at Sheriff's Sale.

Taxes and fees impacted: Liquor Tax

Appendix III: Collection Tools and Programs

Tax Lien Sales: In 2015, the City conducted two online tax lien sales, giving 3rd party purchasers the opportunity to buy and collect on Real Estate Tax delinquencies. Most of the revenues (\$14.3 million) from this effort came as a result of payment and payment agreements by property owners seeking to avoid having their liens sold. Nearly 800 properties had liens sold in 2015, generating an additional \$3.3 million. The overall impact of the two sales was \$17.6 million. The Department plans to conduct a feasibility study to properly evaluate the use of tax liens as a regular part of its collection strategy.

Taxes impacted: Real Estate Tax

Vendor Offsets: Pursuant to 53 P.S. 16082 the City Controller in auditing the claim of any person (including City vendors) for payment from the City, can inquire as to whether such person is indebted to the City. In cases where the claimant is indebted for taxes, the Controller may withhold his approval until such time as the tax is paid in full or placed under a satisfactory payment agreement. In FY17, the Department will work with the Controller's Office to conduct a comprehensive review of all claimant/vendor accounts, to ensure that all are in compliance with City financial obligations.

Taxes impacted: All taxes collected by the Department of Revenue.