



CITY OF PHILADELPHIA

DEPARTMENT OF REVENUE
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FRANK BRESLIN, CPA
Revenue Commissioner
Chief Collections Officer

May 24, 2016

The Honorable Darrell Clarke
City Council President
City Hall, Room 490
Philadelphia, PA 19107

Dear Council President Clarke:

This letter is in response to questions raised at the April 6, 2016 hearing before the Committee of the Whole on the Fiscal Year 2017 proposed Operating budget for the Finance Department. At this hearing, the following questions were asked:

From Council President Clarke:

How many retailers are there in the city that sell sugary products?

There are 23,200 taxpayers we believe are likely to sell sugary drinks at retail. Please see attached table that indicates the type of retailers (ex. convenience store, grocery store, restaurant...) and number of taxpayers per category.

How frequently do we audit the average retailer?

There is not an average frequency, as not all accounts are equally likely to be selected for audit in a given year. Audit selection is not random; it is based on areas of known problems or data from the IRS or other sources that indicate information reported to Philadelphia is not consistent and is likely to result in an assessment. Audits are not tracked by the type of business. Audit projects are typically focused on a particular tax type or aspect of a tax return. In FY 2015, 599 audits were completed, resulting in more than \$14 million in assessments (nearly \$25,000 per audit on average). With the implementation of the Sugary Drinks Tax, a customized compliance plan will be developed and implemented to ensure that distributors and dealers of sugary drinks comply with the new law. Early and comprehensive enforcement is part of our commitment to collect this new revenue stream.

Provide sugar sweetened beverages consumption estimate methodology Rudd Institute.

The Rudd Center methodology for consumption estimates is attached and can be found at:

[http://www.uconnruddcenter.org/resources/upload/docs/what/economics/Rudd%20Data Methods T ax%20Calculator.pdf](http://www.uconnruddcenter.org/resources/upload/docs/what/economics/Rudd%20Data%20Methods%20Calculator.pdf)

Regarding the Use & Occupancy Tax, has any thought been given to us assessing based on square footage and then taxing the property owner, rather than being self-reporting?

The Use & Occupancy Tax is now required to be filed online on a monthly basis. Taxpayers are presented with the maximum tax due (the total assessed value of the property less the \$163,500 exemption for all properties times the tax rate of 1.21% divided by 12 – we divide by 12 since this is a monthly tax). If there are any exemptions, for example due to vacancy or residential usage, this must be entered by the taxpayer to recalculate the tax due at an amount lower than the maximum tax.

Provide opinion that responsibility will not shift from distributor to retailer, despite provision being included in the legislation.

The tax will be assessed on distributors for the amount of sugar-sweetened drinks they sell. Distributors are required under the proposed legislation to obtain a license, regardless of their location. If the distributor has obtained a license to sell sugar-sweetened beverage, the Revenue Department will be able to collect the tax from that distributor. If the retailer chooses to purchase sugar-sweetened beverages from an unlicensed distributor, then the retailer ultimately is responsible for paying the tax to the Department.

From Councilwoman Reynolds-Brown:

There's \$1.8 million in the budget allotted for staff for enforcement—how many staff members will that allow?

15.

Submit a list of all taxes, what departments benefit from collection of particular tax, and which tax do we experience greatest success with collection rates and which has worst collection rate?

This was provided prior to the Department of Revenue's budget hearing on May 11, 2016.

From Councilwoman Quiñones-Sánchez:

How many distributors are in the city?

There are 31 existing Business Income and Receipts taxpayers identified as either Soft Drink & Ice Manufacturing or Flavor Syrup/Concentrate Manufacturing. Address data from BIRT returns is not reliable for determining the physical location of each entity (as many use a central office or accountant's mailing address); however we estimate 6 are located in Philadelphia, 25 are outside of the city based on the zip code on their tax return. We are currently working to identify their physical locations. Some manufacturers may handle their own distribution, others may not. There is not a NAICS code for Beverage Merchant Wholesaling (distribution), so this information cannot be drawn from tax registration and return data. Even at the 6-digit NAICS code level, the Merchant Wholesaling category would also include things like pet food and margarine, in addition to beverages. Based on the total number of wholesale trade taxpayers for all products (about 2,000 – around 2% of all BIRT taxpayers), it is reasonable to expect that the number of entities engaged in beverage wholesaling is relatively small.

How many distributors are within a 15-minute drive?

We cannot accurately identify how many are within a 15-minute drive of the city because address data from BIRT returns is not reliable for determining the physical location of each entity (as many use a central office or accountant's mailing address). We are currently working to identify their physical locations.

From Councilman Jones:

How much money has been collected going after property owners outside of Philadelphia who own property in city and are tax delinquent?

The Department of Revenue commenced a pilot in January 2016. This small scale pilot is necessary to ensure we understand the unique court procedures in each county to place the liens. We identified a sample of 300 properties which yielded 95 liens for which there existed a property located in another PA jurisdiction. Of the 95 liens, 62 have been transferred from Philadelphia to another property in an outside county, resulting in 5 payments in just the early days of this effort and additional payments are anticipated. To date, \$12,000 has been collected with another \$3,500 under agreement.

How much expects to be collected from liens on properties outside the city? And when will project be fully-fledged?

This project will expand to over 10,000 properties once the 3rd party service provider provides the City with an estimate of the cost to run searches necessary to find properties located outside of the City. It is anticipated that this project will be fully operational by December 2016.

Need specific number of collections.

Please see the attached reports for General Fund and School District collections through February 2016 for FY 2016. The Department of Revenue posts collections data online at <http://www.phila.gov/Revenue/aboutus/Pages/ReportsandPublications.aspx> on a monthly basis.

From Councilman Domb:

Which tax has the best collection rate?

This was provided by the Department of Revenue budget hearing on May 11, 2016.

Can we see a plan of the 20 or so delinquent taxes that we plan to collect? (In follow up to Jones' question).

This was provided for the Department of Revenue's budget hearing on May 11, 2016.

From Councilman Taubenberg:

Can we have a list of 31 distributors?

State and federal taxpayer confidentiality laws prevent the Department of Revenue from disclosing individual account information collected as part of the registration or tax return; including the industry of the taxpayer. For this reason, the list may not be disclosed.

From Councilman Henon

Provide implementation schedule of Data Warehouse.

The Department of Revenue is implementing a Data Warehouse and Case Management System as part of Revenue's effort to increase dollars collected for Schools and City services by upgrading its technical infrastructure. We will leverage existing City, State, and IRS data, some of which we have previously not had access to and have never had consolidated in one place, to identify, score and proceed with proper collection action on delinquency (tax, water, fees and fines) owed to the City. Implementation is scheduled as follows:

Data Load Package 1: Summer 2016

- TIPS – General Taxpayer information data
- BASIS2- Water Department tax and billing data
- Law4D – Law Department data
- Co-Counsel – Collections data from primary outside collection firms

Data Load Package 2: Fall 2016

- Outside Collection Agency – Data from other outside collection agency partners
- Tax Review Board - Petitions and decision data from the Tax Review Board
- Records Department - Deed and mortgage information from the Records Department
- Internal Revenue Service - Data from Federal Government IRMF and IMF/IRTF files
- Licenses & Inspections - Business Licenses
- Municipal Courts - Decision and appeal data from the Municipal Courts

Data Load Package 3: Winter 2016

- Court of Common Pleas - Decision and appeal data from the Court of Common Pleas
- Board of Revision of Taxes - Assessment appeals and other data from the Board of Revision of Taxes
- Office of Property Assessment - Assessment data from the Office of Property Assessments
- Liquor Control Board - Liquor License, sales, and tax data from the Liquor Control Board

Implementation of Case Management, Analytics and Collections Initiatives: Spring 2017

- Additional data sources loaded, such as Pennsylvania Department of Revenue income tax data, as available.
- Maintenance and Support – Ongoing Program Refinement, including knowledge transfer operations from vendor to Revenue IT staff through January 2020

From Councilwoman Blackwell:

Provide clarification of products that would be exempt from sugary drink tax.

The legislation as drafted provides exemptions for all products that:

- Are not sugar-sweetened
- Contain milk as a primary ingredient
- Baby formula
- Unsweetened drinks to which the purchaser can add or request the seller to add sugar at the point of sale
- The Administration anticipates introducing an amendment to exempt medical foods, as defined by the Orphan Drug Act, from the tax.

- The Department of Revenue is authorized to promulgate regulations to clarify the inclusion or exclusion of particular products; and to exclude particular products with respect to which, because of their ingredients or other administrative or health-related reasons, exclusion would be consistent with sound public policy and the purposes of this Ordinance.

From Councilwoman Parker:

How much revenue is not being collected for properties that have multiple exemptions?

This was provided by the Department of Revenue prior to the budget hearing on May 11, 2016.

Very truly yours,



Commissioner Frank Breslin, CPA
Chief Collections Officer

Attachments

1. Retailers likely to sell Sugary Drinks by Category
2. City & School District Revenue Collection Report – February 2016
3. Rudd Center methodology for consumption of Sugary Drinks