Testimony Presented by

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Good morning Chairman O’Neill, Chairman Wheatley, and members of the House Finance Committee. My name is Susan Howe. I am a CPA, a past president of the Pennsylvania Institute of Certified Public Accountants, and chair of the PICPA’s Fiscal Responsibility Task Force. Joining me this morning is Dan Schulder. Dan is a CPA and partner with the law firm Cozen O’Conner here in Harrisburg. He currently chairs the PICPA Committee on State Taxation. The PICPA represents more than 22,000 CPAs from across the Commonwealth, and membership is composed of CPAs in public accounting, business and industry, government, and education. The PICPA was founded in 1897 and is currently the fourth largest CPA organization in the country. The PICPA’s mission is to preserve the legacy and propel the integrity of the CPA profession, while also upholding the public interest by serving as an advocate for and articulating positions on professional and public issues where the knowledge of CPAs is relevant.

Pennsylvania, like most states, is in the midst of significant, long-term fiscal challenges. At all levels of government, our elected officials are being challenged to find the resources to provide basic governmental services. In 2010, PICPA Council established the Fiscal Responsibility Task Force to provide objective, nonpartisan analysis from CPA experts to help Pennsylvania’s decision makers address our state’s fiscal challenges. CPAs are uniquely qualified to assist the new governor and the General Assembly with meeting the fiscal challenges that lie ahead: We routinely succeed in developing strategic plans of action to return businesses or individual clients to sound financial footing. The task force, representing a cross section of the PICPA’s membership, recently met to discuss a range of challenges and opportunities related to pension reform, implementing the principles of good tax policy, and governmental transparency in fiscal matters.

The task force presents several policy options in this report, and we encourage legislators to consider the report as they work to navigate through these challenging economic times.

First, let’s address pensions.

This year’s report looks at two separate and distinct pension crises – state pensions and municipal pensions.

The underfunded status of pensions is the most pressing threat to the state’s long-term financial health, and many municipalities face a similar crisis. Failure to adequately fund and control growing pension obligations could cause hardships for current and future retirees, and could result in municipal or state bankruptcy if steps are not taken to remedy the situation. There has been a great deal of debate over potential movement from defined benefit to defined contribution pension plans. The report explains the benefits of both, as well as the funding requirements to make a shift from one to the other. From a state perspective, the State Employees Retirement System (the SERS) and Public School Employees Retirement System (the PSERS) could have unfunded liabilities of $65 billion by 2021. We propose the following policy options for consideration:

- Ensure no change in benefit levels for all existing retirees.
- Establish a defined contribution pension system for all new public school teachers, state employees, and lawmakers.
- Prohibit pension obligation bonds or other funding mechanisms that create liabilities outside the domain of the plan.
- Require pensions be funded to actuarially determined levels on an annual basis.

For municipal pensions, the Public Employees Retirement Commission estimates that there are 54,000 participants in underfunded local government pension plans. Pennsylvania CPAs present the following policy options for consideration:

- Shift from defined pension benefits to a hybrid plan for new hires.
- Establish pension plan portability options for new hires.
- Decrease the vesting period but increase the retirement age and length of service.
This is not an exhaustive list of policy options suggested by the task force. A complete list is available in the report.

I’d like to now move on to taxation principles.

Attracting and retaining businesses is a goal of every state, and that goal leads to a discussion of a state’s tax policy. The main debate in this area usually centers on raising or lowering tax rates; however, the question of whether a proposed tax change is “good tax policy” has been largely overlooked. The task force believes first and foremost that any proposed change to the state’s tax structure should meet the 10 Guiding Principles of Good Tax Policy, developed by the American Institute of Certified Public Accountant’s Fundamental Tax Reform Task Force. Four of the 10 principles are highlighted in our report, and are deemed to have a broad impact on the state: these are certainty, convenience of payment, economy of collection, and economic growth and efficiency.

Let me briefly explain:

Certainty, with regard to tax policy, is defined as knowing when a tax is to be paid, how it is to be paid, and how the tax is to be determined. Pennsylvania currently has two distinct corporate taxes – a capital stock/foreign franchise tax and a corporate net income tax. Both taxes are discussed in the report. The long-delayed and frequently modified phase out of the capital stock tax has been detrimental to certainty in planning for tax expense by Pennsylvania corporate taxpayers. Discussions surrounding changes to the basis of income taxation for Pennsylvania corporate taxpayers have also created uncertainty. This uncertainty is not good for businesses in the state of Pennsylvania.

Convenience of payment provides that any tax due is payable in a manner that is convenient for the taxpayer. Economy of collection provides that the costs to collect the tax should be kept to a minimum for taxpayers and the government. And economic growth and efficiency is a concern in cases such as Pennsylvania’s corporate net income tax rate, which is the second-highest in the country.

Recommended policy options with these four principles in mind include:

- Shift remittance and collection of local earned personal income taxes to the state level, and
- Consider ways the corporate net income tax could be altered to make Pennsylvania’s tax regime more competitive with other states, and thus attract new business.

Finally, the report talks about transparency in governmental fiscal matters.

There is a growing call for transparency in governmental fiscal matters. The availability of information at our fingertips has given rise to demands for greater accountability from those who hold positons of authority. Information on the current use of government funds is readily accessible; however, this only tells part of the story. To be truly transparent, future funding obligations must also be disclosed. Stewards of government funds should look to meet these requests. Policy options to increase transparency include ensuring the following:

- Budget line items are visible at the “checkbook level.”
- Sources and total cost of funding for programs are made available.
- Costs and benefits of tax breaks are available.
- And a timeline of obligations and the future financial burdens of current decisions are disclosed.
Greater transparency will help ensure that taxpayers are not locked into obligations that prove to be disproportionately burdensome in the long term and that shift the costs of today’s programs onto future generations of taxpayers.

As I mentioned in the beginning of this presentation, these are some of the options to implement over the long term. There is no silver bullet and no quick fix. We will continue to offer guidance and technical analysis to Governor Wolf and the General Assembly as they work through this process. Our goal is to provide support for developing a successful and effective state government.

Now I would like to turn it over to Dan who will talk about the PICPA’s tax legislative priorities.

Thank you Susan. As Susan said, I am Dan Schulder. I am a CPA and attorney with Cozen O’Conner and currently serve as chair of the PICPA Committee on State Taxation. I will discuss the PICPA’s four top legislative tax priorities for this year. Briefly, these are opposition to an expansion of the state sales and use tax to accounting, tax, and related professional services; passage of Senate Bill 4; enactment of Rep. Dunbar’s House Bill 245; and clarification for filing amended tax reports.

The PICPA unequivocally opposes a sales tax on accounting, tax, and related professional services. A tax on accounting, tax preparation, and other related services—even one that exempts business-to-business transactions—is an unfair taxation on the very services necessary to comply with state tax laws. Individuals depend on accounting services to comply with both state and federal tax laws, and taxing compliance with these laws compounds the tax burden borne by individuals. This could lead to many individuals preparing their own returns, which in many instances could result in costly mistakes or, more importantly, noncompliance.

Please keep in mind that only Hawaii, New Mexico, and South Dakota have a broad-based gross receipts tax on services, and it is the tax burden borne by businesses, not the consumer. Four other states have enacted a sales tax on professional services in the past—Florida, Massachusetts, Michigan, and Maryland—but all four were quickly repealed before or shortly after they went into effect because of concerns of an unfair impact on in-state providers versus out-of-state providers as well as taxpayer backlash.

Next, the PICPA supports Senate Bill 4, a state constitutional amendment that addresses the separation of powers between the courts and the legislature. You have in the packet of information from the PICPA our letter of support on SB 4 that provides greater detail as to why we support the measure. It explains that PICPA’s support for SB 4 is centered on a key guiding principle of good tax policy: Certainty. It is important to a taxing system because it improves compliance and increases respect for the system. Certainty comes from clear statutes as well as timely and understandable administrative guidance that is readily available to taxpayers. SB 4 provides greater certainty to Pennsylvania’s not-for-profit taxpayer community as well as the communities receiving the revenue.

Rep. Dunbar’s House Bill 245 addresses concerns raised by the PICPA and other tax practitioners with regard to Act 32 of 2008, the Earned Income Tax Collection Reform law. Over the years it has become apparent that some technical changes to the act are required. Rep. Dunbar’s bill includes the following:

- Taxpayers with no income do not have to file a local return.
- Clear and concise safe harbor language for estimated taxes.
- Oversight of local Tax Collection Committees.
- Clarification of temporary job assignments (what tax rate should be withheld for an employee on a temporary assignment).
- W2 reporting requirements.
- Definition of a nonresident.
- Audits of taxes received and disbursed on a calendar year basis only.

Lastly, the PICPA is working on legislation that would allow taxpayers to file an amended report to correct an error on an original report otherwise not reportable on the Report of Change. Our proposal will require the Department of Revenue to review the amended report and communicate acceptance within one year of its filing.

In closing, thank you for the opportunity to share with the committee the PICPA’s legislative priorities for the new year, and we look forward to working with this committee. We will be happy to answer any questions.

Thank you.