

Testimony Before the House Appropriations Committee
Pat Browne, Acting Secretary
Department of Revenue
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Chairman Harris, Chairman Grove, and members of the committee, thank you for the opportunity to meet with you today to discuss the Governor's Executive Budget for the Pennsylvania Department of Revenue. I am Pat Browne, Acting Secretary for the Department of Revenue and joining me today are members from my team: John Kaschak, Executive Deputy Secretary of Revenue, Amy Gill, Deputy Secretary for Tax Policy, Christin Heidingsfelder, Deputy Secretary for Administration, and Drew Svitko, Executive Director of the Pennsylvania Lottery.

Governor Shapiro's Budget Initiatives

Governor Shapiro and his Administration are focused on ensuring every child receives a quality education, making our communities safer, building an economy that works for everyone, and advancing real freedom here in the Commonwealth of Pennsylvania. The budget proposal that the Governor introduced earlier this month aims to move our Commonwealth forward in respect to each of these goals.

Expansion for Property Tax/Rent Rebate Program

Governor Shapiro knows many of our neighbors are being crushed under a mountain of rising prices, most of which are out of their control. That is why Governor Shapiro is calling for an expansion of the Property Tax/Rent Rebate Program, which hundreds of thousands of Pennsylvania seniors rely on to stay in their homes. This program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older. Since the program's inception in 1971, it has delivered more than \$7.6 billion in property tax relief.

However, the income limits for the program have not been changed since 2006, which has resulted in fewer Pennsylvanians being eligible for rebates as each year passes. As a result, Governor Shapiro is proposing to:

- Expand eligibility income to \$45,000 for both renters and homeowners. This will be a substantial increase for both homeowners (current income limit of \$35,000) and renters (current income limit of \$15,000).
- Increase the maximum standard rebate to \$1,000 for both homeowners and renters. Under current law, the maximum standard rebate is \$650 for both groups.

Under the Governor's proposal, more than 170,000 more Pennsylvanians will qualify and many of the 400,000 seniors who already qualify will see their rebates nearly double.

These changes will go into effect for claim year 2023 under the Governor's proposal.

New Individual Recruitment and Retention Tax Credit

A shortage of workers is one of the most pressing challenges our Commonwealth faces, with vital industries like nursing, law enforcement, and education dealing with thousands of unfilled positions. Attracting Pennsylvanians and people who move to Pennsylvania to work in these sectors is a key part of the Shapiro Administration's workforce development strategy. To address these workforce shortages, the Governor's budget invests \$24.7 million in a new Individual Recruitment and Retention Tax Credit to specifically attract more of these workers.

For anyone who earns a new license or certification in one of those three fields, or for anyone who has a license and decides to move to Pennsylvania for work, this budget proposes a refundable tax credit putting up to \$2,500 back in their pocket every year for up to three years.

Cellphone Tax Cut

The Governor's budget includes funding for the 911 system, one of the most important functions of public safety, and helps lower customers' phone bills by eliminating the Gross Receipts and Sales and Use Taxes on cell phone bills. This will put more money back in Pennsylvanians' pockets while increasing critical emergency funding for counties.

Under the Governor's proposal, mobile telecommunications services will be excluded from the Commonwealth's Gross Receipts and Sales and Use Taxes effective January 1, 2024.

For more than 90 years, the Department of Revenue (Department) has been the Commonwealth agency tasked with fairly, efficiently, and accurately administering the tax laws and revenue programs of the Commonwealth of Pennsylvania. The Department takes great pride in the fact that our daily work to collect and distribute tax monies due to the Commonwealth funds the vital programs and services that are essential to all Pennsylvanians.

Two highlights of last year's budget that the Department is focusing on this year are the administration of the Pennsylvania Child and Dependent Care Enhancement Tax Credit Program and the continued phase-down of Pennsylvania's corporate net income tax rate (CNIT).

The childcare tax credit program was established to help working individuals and families pay for childcare and dependent services necessary to maintain their jobs or seek employment, which in turn helps provide for their families while contributing to the economic growth of the Commonwealth. Modeled after the federal child and dependent care credit, this tax credit program allows individuals to receive a credit applied against their personal income tax liability up to 30% of their federal credit on their tax return for these expenses.

As for reducing the CNIT, the Department is eager to support the continued phase-down of the rate from one of the highest in the country at 9.99% in tax year 2022 to 4.99% by 2031. This improvement to Pennsylvania's business tax climate allows us to be more competitive with surrounding states while sending a strong message that our Commonwealth is open for business.

In addition to the collection and distribution of tax monies, the Department also administers the Pennsylvania Lottery, which was established by law in 1971. The Pennsylvania Lottery generates funding for programs that benefit older Pennsylvanians. Last year, the Lottery celebrated and recognized the 50th anniversary of selling its first ticket. Additionally, I am pleased to report that

the Lottery generated nearly \$1.2 billion during the 2021-22 fiscal year. This was the 11th consecutive year that the Lottery generated more than \$1 billion for the benefit of our Commonwealth's older residents. Since selling its first ticket in 1972, the Lottery has generated more than \$33.8 billion for those critical senior programs.

This work is an important part of Governor Shapiro's overarching goal of transforming Pennsylvania's government to become more effective and efficient in service to all Pennsylvanians. Meanwhile, the Department of Revenue is continuing its efforts to find ways to improve services for Pennsylvanians. The Department established several goals in its strategic plan that are designed to improve customer service, enhance effectiveness in tax compliance, and continue boosting sales and net profits for the Lottery in a responsible manner.

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 provide an overview of some of our recent work and important initiatives that are ongoing at our agency.

Success of Revenue Modernization Project

As you know, the Department has been working over the last several years to update its technology and computer systems to replace several legacy tax systems that have been in use for many decades. The Department has contracted with a leading vendor in the industry to help with this work, which I am proud to report has remained on time and on budget throughout the duration of the project.

Additionally, the Department reached a significant milestone over the last few months as we moved all business taxes the agency is responsible for into a new system, called the Pennsylvania Tax Hub (PATH). This successful transition, which included employer withholding, sales tax, and corporation taxes, represented the last major phase of the modernization project. This means that the Department has now converted all the taxes it administers into one unified system. In other words, we have achieved a longtime goal of implementing an integrated tax system that will not only be a huge benefit for our customers but will also improve our back-end processes and create many efficiencies. Here are some significant statistics that help to tell this great story:

- Since the beginning of our project, more than 713,000 accounts have been successfully created on myPATH, the Department's online customer service portal.
- Since inception of the new system in January 2019, more than 5 million refunds have been issued out of PATH totaling more than \$2.6 billion.
- Over 14 million payments have been processed in PATH for a total of more than \$55 billion. 99.5% of payments processed through PATH have not required manual intervention by a Department employee.

- Over 123,000 property tax/rent rebate applications have been submitted via myPATH since this new service debuted on November 30, 2020. This is a significant amount when you consider this electronic filing option was never available to Pennsylvania citizens before myPATH.
- Since the implementation of the final phase of the project, more than 484,000 Sales Tax returns have been processed by PATH, as well as over 388,000 Employer Withholding tax returns and over 1.2 million business tax returns.
- The new portal provided International Fuel Tax Agreement (IFTA) customers with online self-service options for the first time. Over 85% of IFTA customers are now using myPATH.
- The Department has realized more than a 90% reduction in the error rate in IFTA returns received via myPATH when compared to the legacy paper-based system.

It is important to acknowledge that this success is the result of a great deal of dedication and persistence displayed by our modernization project team, which is comprised of Revenue employees, staff from the Office of Administration, and employees from the Commonwealth's vendor. The Department is incredibly proud of the modernization project team's work and the long-lasting benefits created for our customers.

Lottery Success

As noted earlier in my testimony, the Pennsylvania Lottery closed another fiscal year in 2021-22 by generating nearly \$1.2 billion for programs that benefit older Pennsylvanians. This was the 11th consecutive year that the Lottery has generated more than \$1 billion in funding, including property tax and rent rebates, free and reduced-fare transportation, prescription assistance, and more.

Here are some other highlights from the fiscal year that ran from July 1, 2021, to June 30, 2022:

- Profit during this fiscal year was driven by the Lottery selling a total of \$5 billion in traditional games, which include Scratch-Off tickets and Draw Games, such as Powerball® and Mega Millions®. Meanwhile, the Lottery generated \$746.5 million in sales from its online games. The Lottery's online games continue to be very popular with players since their launch in May 2018.
- Sales of Scratch-Off games totaled more than \$3.5 billion, down by \$244.5 million, or 6.5 percent, from the previous year. These games account for 70% of total traditional sales.
- Sales of Draw Games in-store and online totaled more than \$1.3 billion for the fiscal year, down by \$48.9 million, or 3.6%, from the previous year's total. Draw Games currently available for purchase online include Powerball®, Mega Millions®, Treasure Hunt, Cash4Life®, PICK games and Match 6 Lotto.
- The Lottery totaled more than \$746.5 million in online play, down \$140.4 million, or 15.8%, from the prior fiscal year.
- Sales of Fast Play games totaled more than \$149.1 million, an increase of more than \$5.2 million, or 3.6%, from the previous fiscal year.

- Sales of Monitor Games, which include Keno and Xpress Sports games, totaled an estimated \$55.7 million this fiscal year, an increase of more than \$800,000, or 1.5%, from the previous fiscal year.
- Traditional game prizes paid to winners were more than \$3.3 billion. A total of 76 winning tickets of \$1 million or more were paid to players during the 2021-22 fiscal year.
- More than \$655 million in prizes were paid out to winners of online eInstant games and to winners who purchased Draw Games online.
- More than 10,000 licensed Lottery retailers statewide, many of them small and family-owned businesses, earned an estimated \$286.4 million in sales commissions.

While some of the sales numbers show a decrease, it is important to note that the previous fiscal year (2020-21) was an extraordinary year for sales, especially online sales. This was partly because of the COVID-19 pandemic. During this time, the Commonwealth benefited from the fact that some businesses which are also Lottery retailers remained open. At the same time, many players had more disposable income and fewer entertainment options available, such as eating out at restaurants, going to bars, or visiting the movies. Many of our players also took advantage of the fact that they could play online Lottery games from their homes when the pandemic forced mitigation efforts throughout the Commonwealth. Because of these COVID-related factors, the Department anticipated a decline in sales for fiscal year 2021-22 as sales returned to more normal levels.

As you can see, brick-and-mortar retailers continue to be the bedrock of the Lottery business. Scratch-Off games are incredibly popular with players, and sales trends thus far in the 2022-23 fiscal year confirm that is still very much the case.

In addition to the great success that the Department has seen from products offered at retail, online games also continue to be greatly successful. The Department launched online games in May of 2018 after the General Assembly passed Act 42 of 2017. The Department first started selling online by offering internet instant games. We have since launched several Draw Games online, including Powerball®, Mega Millions®, Treasure Hunt, Cash4Life®, PICK games and Match 6 Lotto. We expect to debut additional Draw Games online in the future, which we are confident will be popular with players.

The Department is incredibly proud of the progress that it has made to incorporate innovative ideas and expand the Lottery's portfolio of products. By becoming more diversified, we are in a better position to continue funding the vital programs that Pennsylvania's older residents rely upon.

The Lottery is asking the General Assembly to consider legislation that would eliminate the statutory minimum profit margin. Taking this legislative step would help the Lottery continue to thrive in a highly competitive entertainment market. Moreover, the requirement that the Lottery focus on the profit percentage is in direct conflict with the Lottery's mission of generating profit dollars. The Department appreciates the work of the previous administration and General Assembly to enact Act 137 of 2022, which extended the temporary reduction of the mandated margin rate of return from 25% to 20% through June 30, 2029.

Conclusion

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