



CURT HUDSON

David Caplan isn't the only accountant who's had enough of Pennsylvania's love affair with multiple tax jurisdictions.

Bookkeepers cry 'uncle!' over tax districts

G.W. MILLER III

SPECIAL TO THE BUSINESS JOURNAL

If you operate a business in Pennsylvania, chances are your accountants are working a lot harder than you may realize.

Pouring through employer records and filing state and federal taxes are difficult enough chores, but in Pennsylvania, businesses are required to file local taxes that have varying rates and regulations from municipality to municipality, and from school district to school district.

The state has 560 tax collectors for 2,878 local jurisdictions. Most employers pay local taxes to at least two separate collectors.

"Compliance is burdensome to both the employer and the accountant," said Albert Zepp, a CPA with accounting firm Yampolsky Mandeloff Silver Ryan in Philadelphia. "This is a real problem."

Because of the confusion, millions of dollars that would normally fund schools and social services are getting lost in the shuffle. In 2004, the Governor's Center for Local Government Services estimated that \$100 million was misplaced annually because of the "fragmented and dysfunctional" collection system.

"We're a mess," said Peter Calcara, vice president of government relations for the Pennsylvania Institute for Certified Public Accountants (PICPA).

A new bill in the Pennsylvania State

House would clean house: House Bill 1458 proposes to reduce the number of collectors from 560 to 500 — one collector for every school district. Philadelphia County would be excluded because it draws local revenue from the city wage tax.

The proposed bill would also standardize forms, create an oversight board for dispute resolution and mandate auditing practices.



Calcara

"This legislation will be a pretty big deal," Calcara said. "If this were an easy issue like property tax reform, it would have been solved 30 years ago."

Calcara said that some school districts and municipalities are reluctant to support tax reform legislation because they want to maintain control of local revenue.

"There's a fear that if you consolidate, you'll lose control to somebody else — Harrisburg will take control, that sort of thing," he said. "It's just more of a mindset in Pennsylvania. We like our local control. We want to keep our money here. We want to keep our taxes local."

The PICPA supports the proposed legislation. Too many things have changed, Calcara said, since the passage of Act 511 in 1965, which led to the current situation in which tax collectors are left to interpret evolving rules.

For individual clients, accountants

must learn what taxes were taken out of paychecks (if at all), where the money went, to whom it should go and what other jurisdictional taxes might apply.

Making things more difficult is the fact that local filing and collection pro-

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David Caplan
CPA

cesses are not automated. With no uniformity across the state, accountants say the process can be maddening.

"Sometimes you can have two clients who live in the same school district, but they live in different municipalities," said David Caplan, a Lafayette Hill CPA who is leading the charge for reform. "Sometimes you can have two clients who live in the same municipality but live in two different school districts. It's almost impossible to keep track of all the rules."

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'The ideal situation is ... getting rid of local taxation altogether.'

David Caplan
CPA and tax reform advocate **P22**



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TAXES: Bill would reduce tax collectors

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As a result, revenue is frequently lost in jurisdictional limbo, with tax money sitting in collection agency bank accounts while everyone determines who owes what to whom.

"The ideal situation is the repeal of Act 511 and getting rid of local taxation altogether," said Caplan.

Pennsylvania is one of only 12 states that permit local income taxes, and of those states, Pennsylvania has nearly twice as many jurisdictions as all of them combined. There are 1,457 collectors for Ohio, Iowa, Kentucky, Indiana, Maryland, Michigan, Alabama, Colorado, New York, Missouri and Delaware compared with 2,878 in Pennsylvania.

Rather than repealing Act 511, the debate is focused on the level of reform that is needed.

The Pennsylvania Chamber of Business and Industry is pushing for a more drastic reduction in the number of tax collectors than House Bill 1458 proposes. Where HB 1458 allows for one tax collector for every school district, the Pennsylvania chamber prefers to have one tax collector for each of the state's 66 counties (excluding Philadelphia).

"It's not worth the time and effort to move the legislation for such an incremental change," said Sharon Roth, the chamber's director of government affairs. "Statewide is the most preferred but not politically doable. County-wide is."

A state-wide collection system would eliminate local tax collectors. Instead, local taxes would be funneled through the state government.

Even the Pennsylvania Earned Income Tax Officers, Administrators and Collectors Association (PEITOAC), which represents more than 200 tax collectors, believes that the current tax collection system is too cumbersome and needs to be changed.

"No taxpayer should have to file two local tax returns," said Abbott.

The association is supporting HB 1458, but it has reservations about wholesale reform.

"Our primary concern is the loss of control over the actual process," said Mary Abbott, president of (PEITOAC).

"To not have control over how that revenue is collected and dispersed could be very detrimental to the municipality."

In addition, Abbott said that for many people — especially those in the more rural areas of the state — the tax collector is the only municipal officer they interact with.

"You're reducing a lot of contact with local taxpayers by reducing local collection," she said.

Tax reform legislation initially passed through the House during the previous session but was stalled in the Senate Fi-

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nance Committee. The previous bill was tabled and then dropped when the session ended. The new bill was introduced on June 1.

"It's clearly a compromise bill," said Caplan, the CPA. "What we wanted was statewide collection. The next step down is county-wide collection. The third level is school district collection."

Proponents of the school district-wide collection system predict that there will be even greater consolidation as larger collection companies — Berkheimer Tax Administrator in Bangor and Cen-Tax of Bridgeville being the two largest — absorb multiple jurisdictions.

The unwieldy and burdensome taxation has not kept businesses from operating in the state, said Roth of the Pennsylvania chamber, but it does add to the perception that Pennsylvania is a difficult state to do business in.

"It is confusing, and it's just something that, if we can streamline it, we can make business a little bit easier for them," she said. ■