APPENDIX D – ACT 32 COLLECTION PROJECT DOCUMENT # 5: FINAL REPORT ON EIT COLLECTION PRACTICES

ISSUING ENTITY

{WESTMORELAND COUNTY TAX COLLECTION COMMITTEE}

RFP NUMBER

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Appendix D

Section II –Final Report on EIT Collection Practices

A. Scope of Document

This document is the Ajilon Project Team's final report to the Department of Community and Economic Development (DCED) on Earned Income Tax Collection Systems in the Commonwealth of Pennsylvania.

This document contains the following sections:

- **Section 2 – Report Summary.**
- **Section 3 – Act 32 Requirements.** This section lists all of the requirements in Act 32 that pertain to an EIT collection system. By definition, such requirements must be considered best practices for an EIT collection system. Requirements that do not pertain to an EIT collection system are not listed.
- **Section 4 – Best Practices.** This section presents the list of best practices for any proposed Earned Income Tax (EIT) collection system designed to implement the requirements of Act 32 as passed by the Commonwealth of Pennsylvania. These best practices were developed jointly by the Act 32 project team of Ajilon Consulting and the Act 32 Implementation Team of the Department of Community and Economic Development (DCED). The best practices were derived from the requirements of Act 32, a survey of the existing EIT collection systems of several large tax collection agencies (both government bureaus and third party providers) and the IT expertise of the Ajilon Consulting project team. These best practices will be used to develop sample work statements for any proposed Act 32 EIT collection system.

B. Report Summary

This report is the result of a study commissioned by the Department of Community and Economic Development (DCED) to review Earned Income Tax Collection Systems in the Commonwealth of Pennsylvania.

1. Background

Act 32 of 2008, the Earned Income Tax Collection System legislation, provided for the consolidation of the collection system for the Earned Income Tax into 69 Tax Collection Districts by January 2012. DCED has a number of significant responsibilities to perform under Act 32 to ensure a smooth transition to the new system. One of the most significant is the completion of a study of the current EIT system to identify best practices especially in inter-municipal collection systems that can be used as a model for others.

The EIT study is to be completed by December 2009 and distributed to each of the 69 Tax Collection Committees (TCC). Study elements include identifying, collecting and comparing practices, methods, structures, procedures, regulations, software, info systems, governance alternatives, risk management strategies and other characteristics that appear to promote the greatest likelihood of effectiveness, cost efficiency, loss prevention and intergovernmental cooperation.

Ajilon Consulting was charged with the task of completing the study of the information technology element of the above more comprehensive study. This involved a review of existing earned income tax collection software, a review of system requirements of Act 32, an assessment of best practices in information technology related to the EIT collection process, the development of system requirements and a request for proposal for use in the acquisition of software systems for EIT administration. The engagement also reviewed and reported on the feasibility of contracting on a statewide basis for the development and procurement of appropriate software systems that can be adopted and purchased by the TCC's.

Ajilon performed the work under the direction of staff from the Governor's Center for Local Government Services in DCED and met with and obtained input from the EIT Advisory Committee established by DCED and from selected EIT collection offices identified by DCED.

All work under this engagement was completed in the required timeframe.

The following describes Ajilon understanding of the DCED EIT Collection System study requirements:

- **Contract Award**: The study commenced on August 17, 2009 and was completed on time:
- **The Work**: The review, collection and documentation of the above stated deliverables were published in multiple MS Word documents.
- **Infrastructure**: DCED provided access to DCED leadership for the purposes of interviewing and provided onsite space for the project team to meet and work with DCED and project members. Offsite space at Ajilon local district office was used by the Ajilon team members when not onsite at DCED. Visits to several of the designated EIT collection offices as noted on the contact list also required offsite work.

This report provides the details regarding two of the deliverables that were requested by DCED:

- **Act 32 Requirements** – Section 3 of this document.
- **Best Practices – Section 4** of this document.

C. Act 32 Requirements

The following table contains the requirements in Act 32 that pertain to an EIT collection system. The table assigns each requirement a unique ID #, describes the references where in Act 32 the requirement appears.

Req. #	Description	Reference
1	Business with multiple locations across the state will be permitted to remit to the county where they are headquartered. If businesses elect to use this option, they must remit withholdings and employee wage taxes detail electronically on a monthly basis.	Section 511
2	If an out of state business does not have a headquarters in Pennsylvania, that business can pick the tax collection district to which it remits withholding and employee wage taxes detail electronically on a monthly basis.	Determination by DCED Legal
3	Employers are required to withhold EIT for all non-residents. They are also required to remit all withholdings to the Tax Collection District where they are located within thirty (30) days of the end of each quarter, unless they have multiple locations and elect to use the option outlined in Requirement #1.	Section 511
4	Tax officers are required to remit all withholding to the taxing jurisdictions no later than sixty (60) days after receipt for all taxes received prior to April 1, 2013. Taxes received from employers after April 1, 2013 must be remitted to the taxing jurisdictions no later than thirty (30) days after receipt. The TCC can require more frequent distributions.	Section 513
5	Tax officers must maintain a record of all income taxes distributed. This record must include all reporting information required by the DCED, the date of distribution and the PSD or TCD to which the income taxes are distributed. The record shall be provided to another TCD at the time of the distribution.	Section 513
6	Employers and tax officers must use the PSD and TCD codes prescribed by the DCED.	Section 513

7	Tax officers must, within twenty (20) days after the end of each month, provide a written report, on forms prescribed by the DCED, to the secretary of the TCC and to the secretary of each PSD within the TCD, that details the breakdown of all income taxes, income generated from investments, penalties, costs and other money received, collected, expended and distributed for each PSD served by the tax officer, and of all money distributed to other TCD's.	Section 509
8	Tax officers must keep records of every dollar received and distributed, and submit monthly reports accounting for each dollar.	Section 509
9	The TCC must provide for an annual audit by the end of the calendar year of the Tax Officer. The audit is to include all the books, accounts, financial statements, compliance reports and records. The audit report must be issued in a standardized format developed by the DCED and filed with the Department and all PSDs within the TCD by September 1 of the succeeding year.	Section 5054h
10	In calculating EIT, net losses from one of a taxpayer's business may be used to offset net profits from another business owned by the same taxpayer. Net losses cannot be used to offset earned income.	Section 502

D. Best Practices

This section presents the list of best practices for any proposed Earned Income Tax (EIT) collection system designed to implement the requirements of act 32 as passed by the Commonwealth of Pennsylvania. These best practices were developed jointly by the Act 32 project team of Ajilon Consulting and the Act 32 Implementation Team of the Department of Community and Economic Development (DCED).

The best practices were derived from the requirements of Act 32, a survey of the existing EIT collection systems of several large tax collection agencies (both government bureaus and third party providers) and the EIT expertise of the Ajilon Consulting project team. These best practices will be used to develop a Request for Proposal (RFP) for the Act 32 EIT collection system.

The best practices are listed in Section 2. They are then further broken down, by area, into the following subsections:

- **Act 32** - Best practices that are required by act 32. These best practices will also appear where appropriate in the other subsections. These practices are derived from Act 32 requirements detailed in Act 32 EIT Collection Project Document 1: Act 32 Requirements.

- **Identification** – Best Practices for identifying employers, employees and the self employed.

- **Collection** – Best practices for collecting EIT funds.

- **Transfers** – Best practices for transferring EIT funds to the appropriate political subdivisions.

- **Hardware** – Computer hardware recommendations.

- **Software** – Computer software recommendations.

- **Reports** – Best practices for report generation.

- **Auditing** – Best practices for auditing procedures.

- **Disaster Recovery** - Best practices for a disaster recovery plan.

In each subsection the best practices are compared to the existing systems of the taxing authorities interviewed for the Act 32 EIT Collection Project Document 2: Survey of Current EIT Collection Practices. A determination is made if the current systems conform to the defined best practices, and if not, whether they will be upgraded in the future to conform to those best practices. The following coding system is used:

- **Yes** – The system adheres to the Best Practice.

- **No** – The System does not adhere to the Best Practice.

- **Under Development** – The system does not adhere to the Best Practice, but the tax collection agency is actively working on an upgrade that will bring the system into adherence.

- **Future Enhancement** – The requirements for the Best Practice have not yet been defined.

- **NA –** The Best Practice is not applicable to the system in question (i.e., site security for a vendor that does not host the system).

- **Not Determined –** Not enough information was provided to determine if the tax collection agency adheres to the Best Practice.

The tax collection agencies included in the document are:

- Berkheimer Tax Administrator

- Centax

- City of Hermitage/mega Software Services

- Logi-Tek Solutions

- State College Area EIT Office/RBA Professional Data Systems. Inc.

- West Shore Tax Bureau/BIG – Business Information Group

1. **Best Practices**

Best Practice ID#	Area	Description of Best Practice
1	Identification	The System must use the PSD and TCD codes prescribed by the DCED (Act 32 Requirement #6).
2	Identification	The system must access the DCED Municipal Statistics database and extract tax information directly from it, or the system must maintain its own internal copy of the data from the DCED Municipal Statistics database.
3	Identification	The system must be able to identify employer's errors in employee withholding information, including wrong PSDs and tax rates. The system must be able to correct the error and inform the employer of the error.
4	Identification	The system must be able to upload and organize bulk lists of employers, employees or the self-employed, such as would be provided by a census by the local PSD or from the list of taxpayers in a PSD from the Department of Revenue. EIT and LST taxpayer lists should be cross-referenced.

Best Practice ID #	Area	Description of Best Practice
5	Collection	The system must handle monthly electronic files from employers containing withholding and employee wage details (Act 32, Requirement #1).
6	Collection	The system must have the capacity to handle very large monthly electronic files from out-of-state employers containing withholding and employee wage details (Act 32, Requirement #2). Out-of-state businesses that do not have headquarters in Pennsylvania may remit their withholding and employee wage taxes detail electronically to any TCD in the state.
7	Collection	The system must accept taxpayer funds withheld by employers (Act 32, Requirement 3). Employers are required to withhold EIT for all non-residents and residents. They are also required to remit all withholdings to the Tax Collection District where they are located within thirty (30) days of the end of each quarter, unless they have multiple locations and elect to use option outlined in Act 32 Requirement # 1.
8	Collection	The system must be able to accept all forms of document submission from employers and taxpayers, ranging from paper documents to online filing.
9	Collection	The system must be able to accept electronic fund transfers via standard EFT methods.
10	Collection	The system must have full ACH (Automated Clearing House) and credit card capabilities.
11	Collection	The system must provide online filing for employers.
12	Collection	The system must provide online filing for taxpayers.
13	Collection	The system must allow married couples to file their EIT tax returns together. However, only the final refund or tax due for each individual can be combined together into one figure.
14	Collection	The system must, when calculating EIT, allow the net losses from one of a taxpayer's businesses to be used to offset net profits from another business owned by the same taxpayer. Net losses cannot be used to offset earned income. (Act 32, Requirement #10).

Best Practice ID #	Area	Description of Best Practice
15	Collection	The system must be able to collect the LST (Local Services Tax) as a separate tax.
16	Collection	The system should have the capacity to collect other taxes aside from the EIT and LST.
17	Collection	The system must track EIT and LST exemptions.
18	Transfer	The system must remit all withholdings to the taxing jurisdictions no later than sixty (60) days after receipt for all taxes received prior to April 1, 2013. Taxes received from employers after April 1, 2013 must be remitted to the taxing jurisdictions no later than thirty (30) days after receipt. The TCC can require more frequent distributions. (Act 32, Requirement #4).
19	Transfer	The system must maintain a record of all income taxes distributed. This record must include all reporting information required by the DCED, the date of distribution and the PSD or TCD to which the income taxes are distributed. The record shall be provided to another TCD at the time of the distribution. (Act 32, Requirement #5).
20	Transfer	The system must handle all fund transfer electronically.
21	Transfer	The system must provide an audit trail of the transfer showing both the transfer out and the transfer in to the PSD.
22	Transfer	The system must provide an acknowledgement from the receiving PSD to the originating TCD confirming the transfer.
23	Hardware	Minimum configuration is Windows/UNIX/LINUX server with a minimum of four (4) Windows-based workstations (including PCs and laptops) to handle the workload of the TCD and to provide appropriate separation of duties. In a small TCD, it may be allowable to utilize less workstation since the job duties and separation of duties may not be as much of a concern.
24	Hardware	Implement an imaging system to capture paper documents (manual returns, correspondence, checks, etc.) and link them to electronic files.

Best Practice ID #	Area	Description of Best Practice
25	Hardware	Printer minimum configuration must be Laser jet printers.
26	Hardware	Broadband network connections to the Internet must have firewalls enables on the Router. The minimum site security must be a lockable server room with fire and water protection. Site security must be compliant with the SAS 70 Type II audit.
27	Software	Minimum software configuration for workstations is Windows environment (Any appropriate version of Windows).
28	Software	Minimum sever software configuration is Windows/UNIX/LINX server.
29	Software	Minimum software security: User ID must have password protection. The User ID limits the user to relevant work areas of the system. Other limitations should be based on standard accounting business rules.
30	Software	Workstations (including PCs and laptops) must have their own firewalls and appropriate encryption.
31	Software	Commercial grade anti-virus software must be placed on all servers and all workstations.
32	Software	Commercial grade anti-spyware software must be placed on all servers and all workstations.
33	Software	At a minimum, the system should provide backup and recovery for the databases and all related application components. Incremental backups must be done at least once daily, full backups at least once a week. A TCD must establish a backup and restore plan that includes all data, images, and application components.
34	Software	Servers must have a redundant update process.
35	Software	Systems must be well-integrated, with extensive drilldown capability and ease of navigation.

Best Practice ID #	Area	Description of Best Practice
36	Software	System must work with an integrated office productivity suite (MS Office, Open Office, etc.).
37	Software	System must have a PDF viewer capability.
38	Report	The system must, within twenty (20) days after the end of each month, provide a written report, on forms prescribed by the DCED, to the secretary of the TCC and to the secretary of each PSD within the TCD, that details the breakdown of all income taxes, income generated from investments, penalties, costs and other money received, collected, expanded and distributed for each PSD served by the tax officer, and of all money distributed to other TCD's (Act 32 Requirement #7).
39	Report	The system must keep records of every dollar received and distributed, and create monthly reports accounting for each dollar (Act 32 Requirement #8).
40	Report	The system must have ad hoc report generation capability (ability to generate report formats easily by the user).
41	Report	The system must generate forms for employer and taxpayer returns.
42	Audit	The system must provide any reports or records requested by auditors during the annual audit of the Tax Officer (Act 32, Requirement # 9).
43	Audit	The system must provide an audit trail for every transaction.
44	Audit	The system must have ad hoc audit report generation capability (ability to generate report formats easily by the user).
45	Disaster Recovery	The system must have a disaster recovery plan which is audited and tested annually.
46	Disaster Recovery	Copies of full backups (databases and application libraries) must be sent to an off-site facility that is at least 30 miles away from the site.
47	Disaster Recovery	The TCD must have a contract with a backup facility to run their operation if their facility is severely damaged or disastrously lost. As noted above, a test of the disaster recovery plan should include actually bringing up the system at the disaster recovery site using the current offsite backups.