

FY 2019 Delinquent Tax Collection Strategy

The Mission

The Philadelphia Department of Revenue is efficient and effective in the collection of outstanding tax dollars. Philadelphia residents and businesses must have confidence that the City is doing everything it can to collect all revenue owed to the City and School District. Over the past five years, the Department of Revenue has made tremendous progress in reducing tax delinquency. We are proud of this trend; however, it also creates new challenges.

As Revenue continues, the costs and efforts for each additional dollar collected will increase as the number of delinquent accounts decreases. For FY 2019, the Department will continue to improve its collection efforts by identifying new, more effective and efficient strategies to raise funds for the City and School District.

The Goal

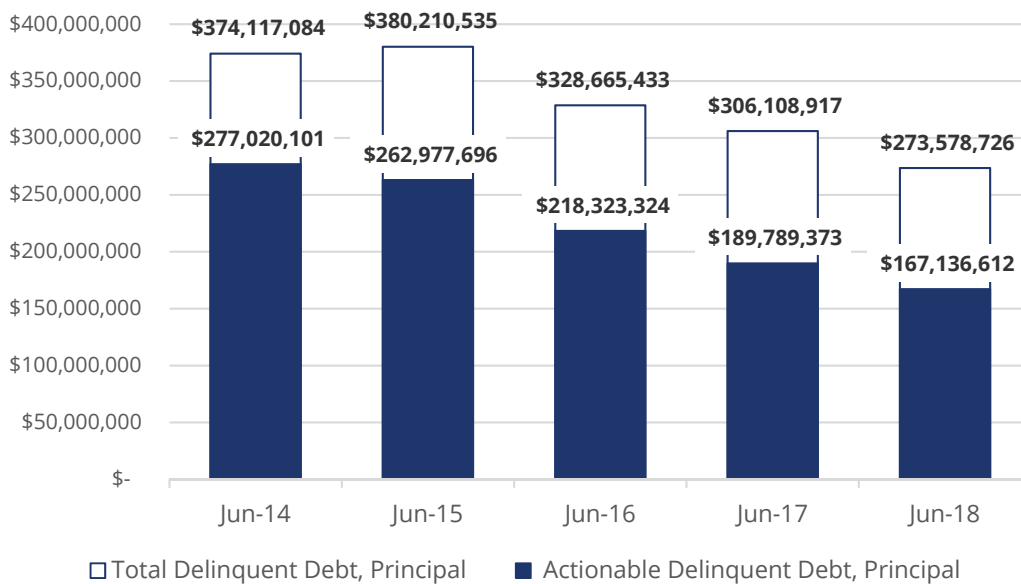
Collect past due and delinquent tax dollars for the City and School District of Philadelphia

Where are we now?

On-time collections for Real Estate Taxes paid within the year they are due, increased again to a historic high of 96.1% in 2017, up from 88.8% ten years earlier in 2008. The Department of Revenue is doing a better job collecting on-time taxes and pursuing delinquent accounts. By innovating and testing strategies, and taking advantage of changing technology, the total principal of actionable delinquent tax balances fell by 39.7% in the last five years, across all taxes.

Five-year trend for delinquent tax debt across all tax types

Total principal and total for actionable amounts, by year



The graph above includes the principal amount of total and actionable delinquent debt for active periods. Active periods are the previous seven years for business taxes, and ten years for Real Estate Tax. Actionable debt – or debt that the City can enforce - includes accounts in the Commercial Activity License Revocation and Sequestration program, in the Sheriff Sale pipeline, sent to collection agencies, or placed with other internal collections processes. Total debt includes non-actionable accounts; those accounts that are in bankruptcy, in a payment plan, under appeal or became delinquent in the last 90 days. The City is barred from acting on these additional accounts because of their status. Presenting principal amounts of active periods is reflective of reasonable expectations for collections.

Setting Ourselves Up for Success

A successful Delinquent Tax Collection Strategy begins with a manageable and accurate pool of delinquent tax accounts. The Department reduces the potential size of the delinquent portfolio by:

Preventing delinquencies before they happen – improving the customer experience

- **We've expanded and improved the payment process** - We upgraded our cashiering system, allowing us to accept credit card payments at all our service centers and accelerate payment processing. We added electronic filing and payment options for nearly all taxes and upgraded our web portal to be compatible with all web browsers. We also made paying by eCheck free and reduced fees for credit card payments. Last year taxpayers made 70% of payments electronically.
- **We've made it easier to talk to us** - We expanded walk-in hours during tax season. We've upgraded our phone system for shorter wait times and installed a new intake system at the Municipal Services Building allowing visitors to manage appointment times from their mobile phones. Average wait times (not in tax season) in-person are four to eight minutes, and two to four minutes on the phone. In the past year, wait times during tax season was just below six minutes on the phone and just below 12 minutes for in-person visits.
- **We're getting better at talking to you** - We've implemented an email correspondence system to more effectively manage and consistently meet the needs of our customers. We've also replaced a manual process for looking up customers' payment histories with a faster automated process that saves us over 25 hours of staff time each week and reduces processing time of requests by 97%.
- **We've improved our communications** - Since 2017, we've doubled the number of notices that are sent to delinquent accounts. We're focusing on human-centered design and sending letters in plain language, making it easier for taxpayers to understand the consequences of non-compliance, what they need to do to get back on track, and the benefits and availability of our many assistance programs.

Over the past fiscal year, we've doubled the number of community outreach events we attended. We also expanded our social media presence by launching a YouTube channel ([youtube.com/PhilaRevenue](https://www.youtube.com/PhilaRevenue)) allowing taxpayers to stay engaged, informed, and in touch. For example, the Department published a Q & A about the School Income Tax to dispel misconceptions about the tax as well as a line-by-line explanation of the School Income Tax return itself.

Improving our data

- One of our most exciting investments to improve our responsiveness has been the full implementation of a Data Warehouse in FY17. We are now able to consolidate information across multiple departments, as well as state and federal agencies to design more data-driven strategies. The Data Warehouse allows us to identify candidates for audit, Sequestration, Sheriff Sale, and Commercial Activity License Revocation (CAL Rev). The Department now has a complete look at individual taxpayer activity across the city. The Data Warehouse supports many of the enforcement strategies listed in this document.
- We're part of an interdepartmental working group, including the Office of Property Assessment, the Department of Records, and City Council, to remove outdated or erroneous information from Real Estate Tax and assessment records. This means more accurate reporting of assessment and tax information.
- Working collaboratively with the Department of Licenses and Inspections and the Law Department, we have identified incorrect delinquency data and removed uncollectable tax debts from our systems. These include accounts associated with publicly owned property, balances dating from before a sheriff sale, and tax debts that are no longer legally enforceable. These efforts allowed us to identify about \$118 million in uncollectible debt, and enables Revenue to focus its collection efforts on debt that is more likely to be paid.

Encouraging compliance through flexible payment plans

- In FY17 we created more flexible business tax payment plans for individual and businesses. These taxpayers now have up to five years to resolve their debt and may be eligible for reduced penalties if they pay their obligation more quickly. We've also expanded the Owner-Occupied Payment Agreement (OOPA) program to further assist vulnerable homeowners in Philadelphia. Very low-income households can now qualify for a \$0 a month payment agreement. These programs act as a safety net, allowing taxpayers to become tax compliant with affordable monthly payments.

What's the Strategy?

The Philadelphia Department of Revenue's FY 2019 Delinquent Tax Collection Strategy is built on two key elements – early intervention and data-driven enforcement.

Early intervention – alerting taxpayers quickly and clearly about their debts and what they need to do to resolve them. This ensures that debts are more manageable for the taxpayer to address, improves the ability of the Department to locate the taxpayer, and increases the likelihood of compliance.

Data-driven tactics - While all accounts receive baseline enforcement in the form of delinquent billing, additional enforcement treatments are prescribed based on the characteristics of the debtor and the debt to maximize payment and minimize the time and effort required. The Department assigns the best enforcement strategy to an account through careful evaluation and utilization of the new data tools available.

Tactics for early intervention: Real Estate Tax

The Department of Revenue sends Real Estate Tax bills in December the year before they are due. For example, the Department will mail Real Estate Tax bills for 2019 to property owners in December of 2018. The deadline to pay the Real Estate Tax is March 31. Once a taxpayer misses this deadline, Revenue considers their account "overdue." We then take a variety of steps to prompt payment. If the account remains unpaid after January 1 of the following year, it is "delinquent," and the Department takes more serious action against the account.

- **Frequent billing** – Revenue moved from a 60-day billing cycle to a 30-day billing cycle, increasing the frequency that customers receive a statement. Revenue adopted more frequent billing following a joint study with researchers from the University of Pennsylvania published in 2017, which demonstrated that the costs of more frequent billing were greatly exceeded by the additional revenue collected.
- **Pre-placement letter campaign** – a new tactic in FY19, the Department is sending additional noticing to alert taxpayers that their delinquent accounts are at risk of being sent to a collection agency, increasing the collection fees owed on their bills.
- **Placement of past due accounts with collection firm** – this enhances the Department's capacity to contact accounts that are overdue but not yet delinquent. In 2018, over 23,000 past due accounts were placed with a collection agency, representing \$36.9 million in past due Real Estate tax debt.
- **Placement with co-counsel** – co-counsel are outside law firms that represent the City's interest in court and give the Department more flexibility in account enforcement. The Department can strategically choose which accounts to pursue themselves, and which accounts to place with co-counsel.
- **Requiring Tax Clearance** for businesses who pursue City contracts, apply for license and permit applications, or receive a City benefit, such as enrollment in Philadelphia Department of Commerce programs or a loan from the Philadelphia Industrial Development Corporation. Tax clearances are also required before hiring an employee for a City job.

Data-driven tactics: Real Estate Tax

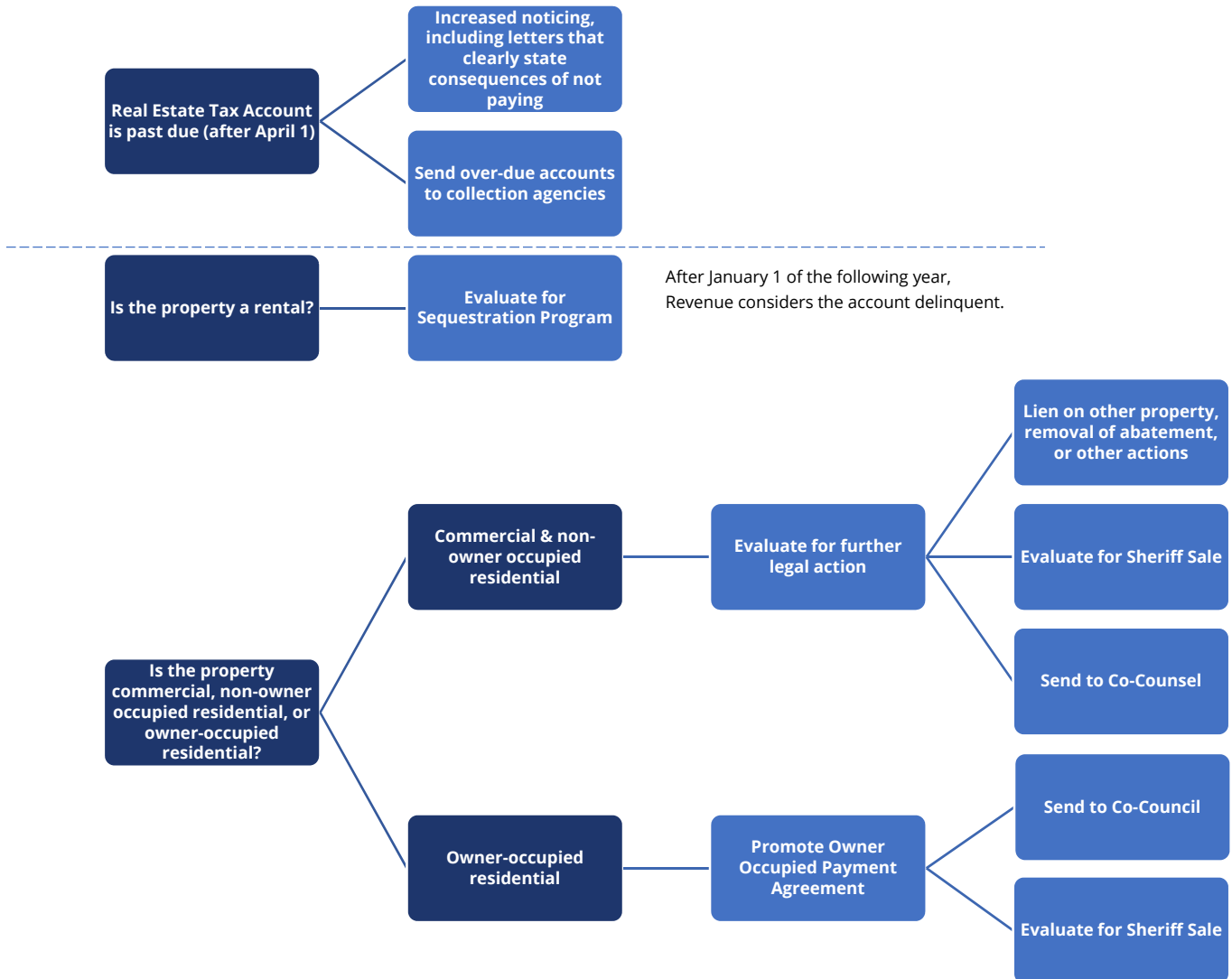
Revenue uses these tactics after the Real Estate Tax debt is delinquent, beginning January 1 the year after the bill was due. Each of these tactics requires sophisticated data analysis to combine multiple data sources and evaluate each account to match to an appropriate enforcement strategy.

- **Sequestration** - a legal process by which the City can request court appointment of a "sequestrator" to collect, rent, manage a property and pay its expenses until any debts to the City are paid off. In FY18, one in fifteen of all delinquent properties were in the Sequestration pipeline. Most landlords opt to comply, rather than have a sequester appointed for their property. Though Sequestration, we collected almost \$15 million in delinquent Real Estate Taxes in FY18.
- **Out-of-county Lien Transfer** - delinquent taxpayers with property in other Pennsylvania counties can have liens placed on property located outside of Philadelphia because of outstanding Real Estate Taxes in Philadelphia. In FY18, Revenue placed 39 liens on properties in Montgomery, Bucks, Chester, and Delaware. The total value of the liens transferred was approximately \$300,700. Current protections for property owners limits the Department's ability to utilize this tool. For example, the City cannot transfer a lien from a wholly-owned

LLC to an individual's home or from a property owned by an individual to a property that an individual owns with their spouse.

- **Sheriff Sale** –a public auction where a property can be sold to collect unpaid debt. Sheriff Sales are a tool of last resort, but an effective tool to motivate action. Nearly half of the properties that start the Sheriff Sale process were not sold at the sale. Most property owners either pay in full or enter into a payment agreement before the sale. In FY18, 5,644 new properties were listed for Sheriff Sale, with just 2,426 sold. This includes the amounts received from sales initiated by the City's two co-counsels.

Evaluation methodology for tactics to motivate payment of delinquent Real Estate Tax



Tactics for early intervention: Business and Income Taxes

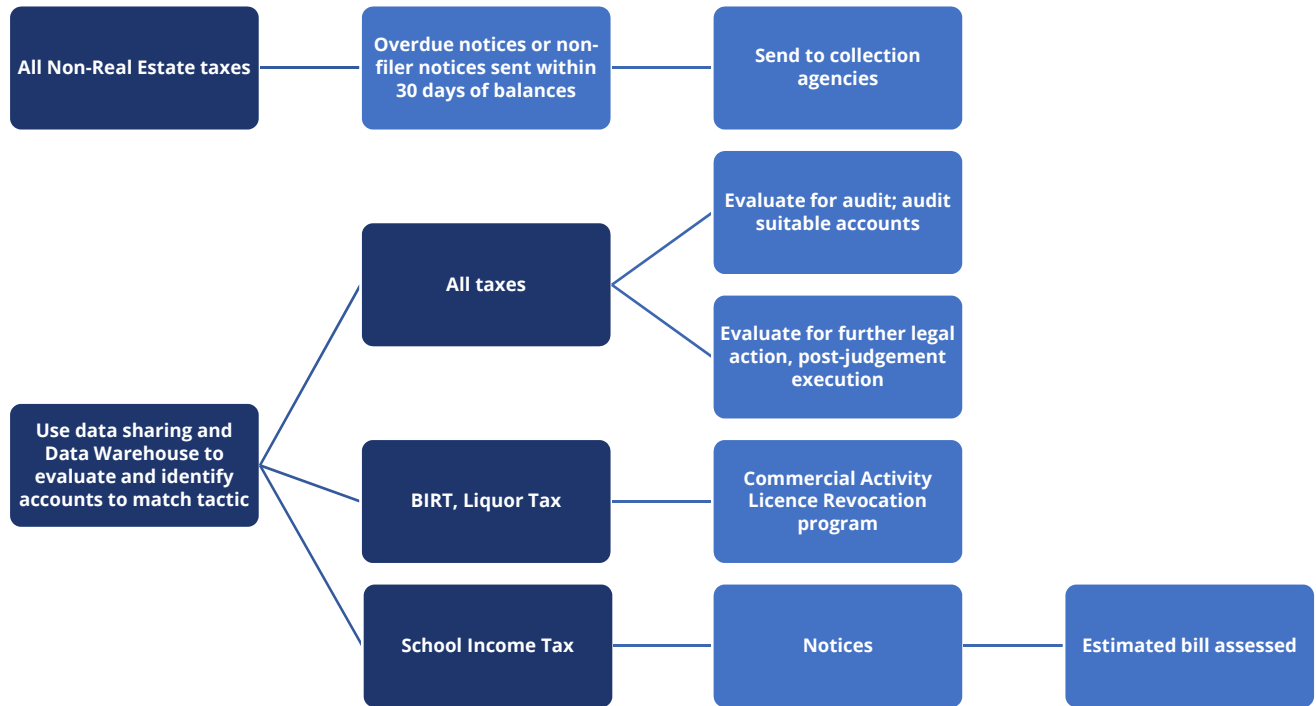
The Department's collection strategies to promote payment for delinquent business and income taxes vary depending on the tax type. Typically, Revenue will send notices as quickly as they are able to notify taxpayers about missing tax returns or payments. Unpaid accounts are subject to recurring billing, and are continually evaluated for the best strategies to effect payment.

- **Non-filer and non-payment notification** – more frequent notices are shown to spur action.
- **Requiring Tax Clearance** for businesses who pursue City contracts, apply for license and permit applications, or receives a City benefit, such as enrollment in Philadelphia Department of Commerce programs or a loan from the Philadelphia Industrial Development Corporation.
- **Placement of accounts with collection agencies** – gives the Department greater flexibility in pursuing accounts, as well as the added capacity to focus on other targeted projects. The Department sends accounts to collection agencies within 90 days of the first delinquent bill.

Data-driven tactics: Business and Income Taxes

- **Ongoing use of IRS data** to uncover unregistered businesses and underreporting.
- **Commercial Activity License Revocation (CAL Rev)** - revokes the activity licenses of businesses that fail to file and pay the City, forcing the businesses to stop operations. Most effective for businesses still operating and having a physical location within the City. Approximately, 80% of taxpayers opt to comply rather than close. In FY18, the CAL Rev program collected over \$22 million in delinquent taxes.
- **Post-Judgment Execution** - utilizing strategies such as asset discovery (identifying if taxpayers have resources that could be used pay their debts) and attaching bank accounts, our two post-judgment co-counsels collected a total of \$2 million in business taxes in FY 2018.
- **Employee and Pensioner Indebtedness** – using data matching capabilities now available to the Department through the Data Warehouse, we can match delinquent accounts to former and current City of Philadelphia employees. The City has the authority to garnish both wages and pension payments to pay the debt for those who don't enter into a payment agreement or pay in full.
- **Legal enforcement** – the City can take debtors to court to escalate enforcement, motivating payment. Over the last year, the City has increased the use of outside counsel to pursue long-time debtors.

Evaluation methodology for strategies to motivate payment of delinquent business & income taxes



Appendix – Tactics Matrix

	Real Estate	All Other Taxes
Early Interventions	<ul style="list-style-type: none"> • Frequent Billing • Pre-placement letter campaign • Placement of past due accounts with a collection firm • Placement with co-counsel • Requiring Tax Clearance 	<ul style="list-style-type: none"> • Frequent non-filer and non-payment notification • Requiring Tax Clearance • Placement of accounts with collection agencies
Data-driven Enforcement tactics	<ul style="list-style-type: none"> • Sequestration • Out-of-county Lien Transfer • Sheriff Sale • Employee and Pensioner Indebtedness 	<ul style="list-style-type: none"> • Ongoing use of IRS data • Commercial Activity Revocation program (CAL Rev) • Post-judgment Execution • Legal Enforcement