

FY 2023 Delinquent Tax Collection Strategy

The Philadelphia Department of Revenue's (the Department) mission is the efficient and effective collection of tax dollars. It is imperative for the Department that Philadelphia residents and businesses have confidence that the City is doing everything it can to collect all revenue owed to the City and School District from those with the ability to pay, while simultaneously offering relief programs to those unable to meet their obligations. Prior to the COVID-19 coronavirus pandemic, the Department of Revenue, working in partnership with the Law Department ("Law"), made significant strides in reducing tax delinquency, cutting total actionable tax delinquency nearly in half between FY15 and FY19. The economic and logistical challenges presented by the pandemic forced the Department to realign its collection efforts response. This adjustment comes with a renewed focus on compassionate collection that includes new payment and customer service options. Together, these efforts will help the Department meet its collection goals while also providing the necessary resources to improve tax compliance.

What's the Goal?

With an emphasis on compassionate collection, collect all past due and delinquent tax dollars for the City and School District of Philadelphia.

Where are we now?

Two years from the onset of COVID-19's arrival in Philadelphia, individuals and businesses are still adjusting to the various economic and operational challenges presented by the pandemic. These hardships have affected previously compliant taxpayers and prevented non-compliant taxpayers who are trying to become compliant from meeting their tax obligations. In recognition of these hardships, the Department has adjusted its overall strategy to adapt to the evolving economic landscape with an emphasis on compassion, flexibility, and fairness.

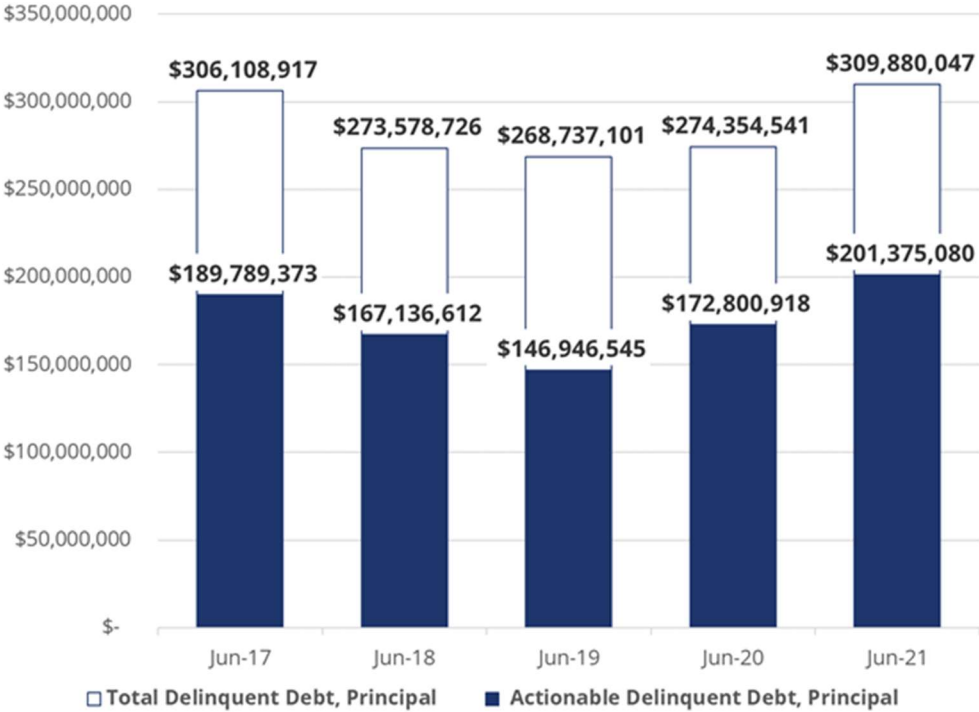
As shutdown orders were lifted in May 2020 allowing businesses to reopen, and enforcement actions could safely resume, the Department has maintained its "right tool for the right time" policy for enforcement. At first, many of our more intensive enforcement actions were paused as we placed a greater emphasis on softer approaches like frequent billing, noticing, and payment plans. In FY21, we were able to resume audit and discovery actions, collection agency placements, and petitions with the Court of Common Pleas. While some historically successful enforcement actions like Commercial Activity License Revocation and Sheriff Sales remain paused, we have added new enforcement tools to expand the Department's offerings to assist taxpayers trying to become compliant. In FY21, Revenue offered new Real Estate Tax payment agreement options. These new plans offer favorable terms to property owners who have become delinquent for the first time or have successfully completed a payment agreement in the past. In FY22, Revenue launched an Offers in Compromise program that allows eligible taxpayers to settle several delinquent accounts in one swift agreement. The status of each of our new and existing enforcement tools can be found in Appendix A.

Going forward, our enforcement toolbox will be supported by a major technology upgrade: the replacement of the City’s tax system of record, including a new public-facing customer website for opening accounts, filing, payments, and applying for payment agreements. The first phase of this project launched in November 2021 for most business taxes and School Income Tax, with full implementation of all remaining taxes planned for FY23. This major technology improvement will help businesses stay compliant by making filing and payments easier and improving the enforcement process through automation of many previously manual tasks.

The continuing challenges of the COVID-19 pandemic have also been accompanied by an increase in delinquency. Despite a 15% increase in total delinquent balances between June 2019 and June 2021, the Department is well positioned to reduce balances in the future. The resumption of previously paused enforcement actions, addition of new tools, and the implementation of new technology will allow the Department to leverage technology and early intervention tactics for newer delinquencies while providing expanded offerings for more complex delinquencies. These capabilities will allow the Department to continue to build on previous successes fostering tax compliance.

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 for the most recent years available. 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 works to reduce the size of the delinquent portfolio by:

Preventing delinquencies before they happen – improving the customer experience

- **In November 2021, the Department launched Phase 1 of its new tax system of record.** This phase included a new management system for all major business taxes and the School Income Tax. This system was also accompanied by a new public-facing website that vastly improves the customer experience, billing processes, and lowers barriers to compliance. Real Estate Tax and related taxes are anticipated to be added to the new system in FY23. In the new system, taxpayers can:
 - Manage their own accounts, schedule payments, and set language preferences (the entire site is available in Spanish)
 - Open and close accounts, view payment history
 - More easily apply for payment agreements and assistance programs
 - Experience an improved tax-clearance process
 - Automate processes to send and track notices sent through email alongside traditional methods like postal mail.
- **In FY22, we began collaborating with the USPS to improve our return mail processes.** Launched in October 2021, this collaboration effort helps us maintain better taxpayer contact information and reduce undeliverable mail. In its first three months, over 15,000 pieces of previously undeliverable mail has been forwarded to correct addresses. Prior to this, undeliverable mail would be returned and manually sorted.
- **Continue to improve our communications by re-writing letters in plain language.** Plain language makes it easier for taxpayers to understand the consequences of non-compliance and the benefits and availability of our many assistance programs. We revised three existing letter templates in FY21 and have more than a dozen letter template revisions planned for during the implementation of our new tax system.
- **Expand upon successful SMS texting pilot.** In 2020, we piloted an SMS texting campaign to assist taxpayers enrolling in Owner-Occupied Payment Agreements (OOPA). This program assists and protects all homeowners facing a hardship in Philadelphia who are unable to pay the Real Estate Tax. Very low-income households can qualify for a \$0 a month payment agreement. In FY22, we secured a vendor to expand texting services and improve digital outreach and access to other taxpayer assistance programs.
- **Continue to improve our multi-lingual communications** with a focus on underserved immigrant communities. In FY20, we partnered with community groups within the Chinese-

and French-speaking African communities to promote taxpayer assistance programs. The results of these partnerships include content that we can continue to use going forward. In FY22, Revenue hosted a VISTA who created an outreach plan to expand our capacity in Philadelphia's immigrant communities.

Improving our data

- As part of our tax system replacement project, the Department is **integrating its existing Data Warehouse capabilities into a single system** in FY22. In the future, we expect improved capacity through automation to identify, select, and manage candidates for audit, litigation, Sequestration, Sheriff Sale, and Commercial Activity License Revocation (CAL Rev).

Encouraging compliance through flexible payment plans

- In response to the disruptions caused by the COVID-19 coronavirus pandemic, the Department developed a targeted payment agreement program for business taxes. This program gives businesses that now find themselves unable to meet their obligations up to 12 months to meet their obligations without interest or penalty. This program will sunset as economic conditions continue to improve.
- Simultaneously, we continue to use our existing flexible payment plans to bring taxpayers into compliance at affordable monthly payments. These existing plans are a safety net to avoid enforcement action.
- Although the nature of in-person outreach has changed drastically, the Department continues to explore ways to meet taxpayers where they are to promote and enroll payment agreement options, including OOPA. .

What's the Strategy?

The Philadelphia Department of Revenue's FY23 Delinquent Tax Collection Strategy is built on two key elements – early intervention and data-driven enforcement.

Early intervention - alerting taxpayers quickly and clearly about the debt and what they need to do to resolve it. This ensures that debts are the most 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 data tools available.

Early intervention tactics: 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 2022 to property owners in December of 2021. 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.

- **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 tactic beginning in FY19, the Department sent 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. This, and all letter campaigns are currently under review as the City’s recovery from COVID-19 continues to evolve.
- **Placement of overdue accounts with collection firms** – this enhances the Department’s capacity to contact accounts that are overdue but not yet delinquent. In 2021, \$39.1 million in past due Real Estate tax debt was placed with collection agencies.
- **Placement with co-counsel** – co-counsel are outside law firms that represent the City’s interest in court and give the Department more capacity and flexibility in enforcement. The Department can strategically choose which accounts to pursue itself, and which accounts to place with co-counsel.
- **Requiring tax clearance** for businesses who pursue City contracts, apply for licenses and permit applications, or receive a City benefit, such as enrollment in Philadelphia Department of Commerce programs, a Real Estate Tax abatement, 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

If an account remains unpaid after January 1 of the following year, it is “delinquent,” and the Department, often working with Law, takes more serious action against the account. Revenue uses tactics that require sophisticated data analysis to combine multiple data sources and evaluate each account to match to an appropriate enforcement strategy.

- **Pursue delinquent accounts that also benefit from the 10-year Tax Abatement** - In FY22, Revenue began auditing properties with 10-year Tax Abatements that may have used misclassified labor and avoided withholding Wage Tax. In addition to penalties and interest, failure to resolve unpaid Wage Tax from worker misclassification can result in the revocation of the abatement. Through December 2021, Revenue initiated 19 audit cases for abated properties. Four cases have been completed with two assessments for \$1,900 in total.

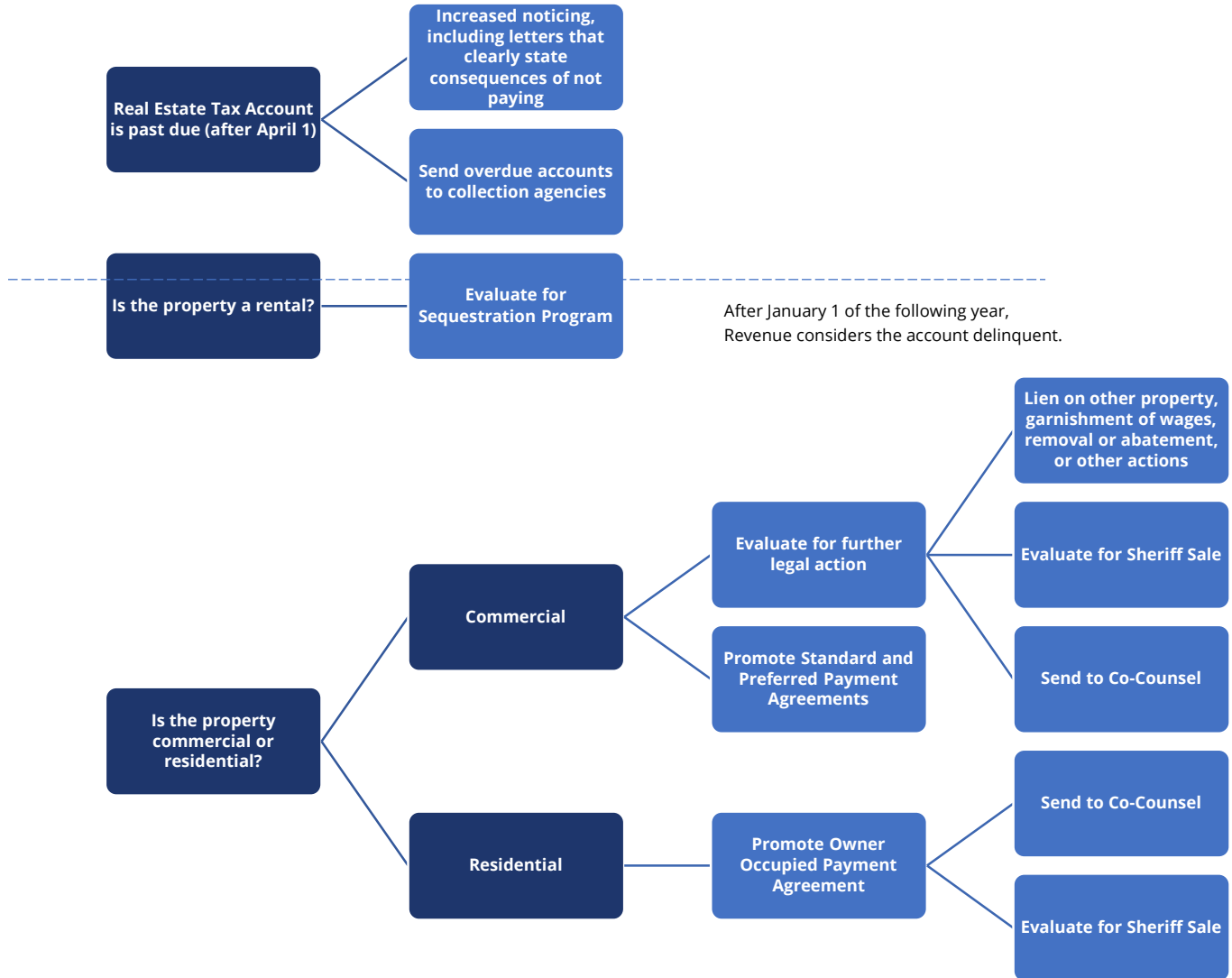
- **Sequestration** - a legal process by which Law can request court appointment of a “sequestrator” to collect rent, manage a property and pay its expenses until any debts to the City are paid off. Most landlords opt to comply, rather than have a sequester appointed for their property. Through Sequestration, we have collected almost \$4.6 million in delinquent Real Estate Taxes in FY21, the most recent complete year of data.
- **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 FY21, Law placed liens against 36 accounts with properties outside of Philadelphia. The total value of the liens transferred was approximately \$485,000. The enabling legislation as written limits the City’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. More than two-thirds of properties that start the Sheriff Sale process are not sold at the sale. Most property owners either pay in full or enter into a payment agreement before the sale. In FY19, 7,036 new properties began the Sheriff Sale process, with just 2,265 sold. The Department estimates about 5% of properties sold at sale were owner-occupied in FY19. This includes the amounts received from sales initiated by the City’s two co-counselors as well as Law.

Currently and for nearly all of 2021, Sheriff Sales are suspended. Sheriff Sales are anticipated to resume in 2022. With in-person outreach reduced, Revenue is also exploring new ways to reach homeowners who may be eligible for an Owner-Occupied Payment Agreement. Taxpayers who identify themselves as owner-occupants are referred back to Law by co-counsel for Owner-Occupied Payment Agreements.

In the future, Revenue and Law will also streamline processes to incorporate liens placed on a property due to unpaid receivables assessed by the Department of Licenses and Inspections in Sheriff Sales.

- **Filing Consolidated Actions for Multi-property owners** - This enforcement tactic groups delinquent balances for Real Estate, water, trash fees, and Licenses and Inspection violations into one complaint to efficiently handle multiple debt types at once. In FY21, Law was able to close seven cases and collect more than \$865,000 in delinquent balances, including \$280,000 in Real Estate Tax.

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 induce 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 spur payment.

- **Non-filer and non-payment notification** – more frequent notices are sent to motivate 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 as soon as 90 days from the first delinquent bill.
- **Encouraging enrollment in payment agreements** for businesses that have trouble paying their taxes. In FY21, the Department created a new payment agreement, with no down payment, for businesses affected by the COVID-19 pandemic or Hurricane Ida. In FY23, Revenue will increase the frequency of referrals and recalls from collection agencies to ensure that delinquent accounts are evaluated for appropriate action, then actively worked and taken to court if necessary.

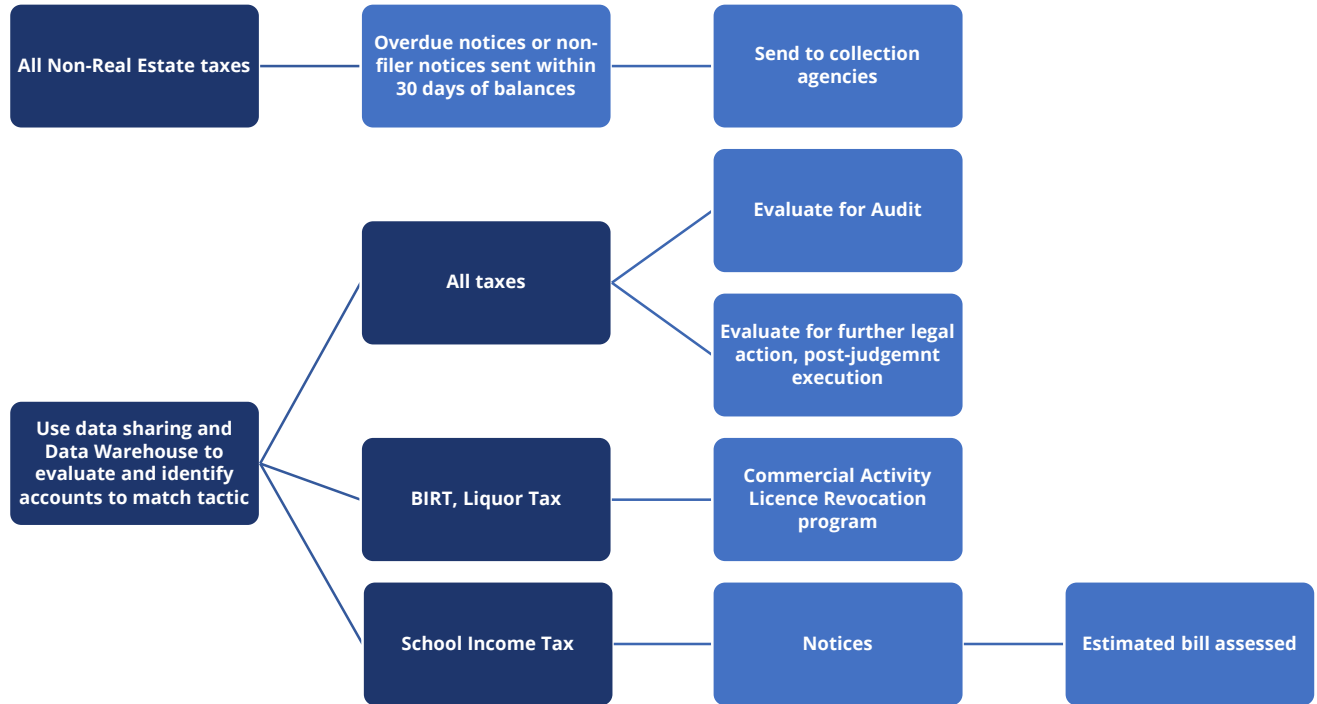
Data-driven tactics: Business and Income Taxes

- **Ongoing use of IRS and Commonwealth data** to uncover unregistered businesses and underreporting.
- **Leverage outside vendors to enhance discovery efforts** – Utilizes the expertise of private industry to uncover tax liabilities previously undisclosed to the City. In FY21, discovery efforts lead to \$4.2 million in collections.
- **Commercial Activity License Revocation (CAL Rev)** - revokes the activity licenses of businesses that fail to file and pay City taxes, forcing the businesses to stop operations. This is most effective for businesses that are still operating and that have a physical location within the city. Approximately, 80% of taxpayers opt to comply rather than close. In FY19, the CAL Rev program collected over \$15 million in delinquent taxes. For FY21, this program was paused due to the pandemic.

In FY22, the Department of Revenue slowly resumed the CAL Rev program once economic conditions stabilized. Revenue plans to increase the number of weekly mailed and hand-delivered letters to businesses with delinquent business taxes.

- **Post-judgment execution** - utilizing strategies such as asset discovery to identify whether taxpayers have other resources that could be used pay delinquent tax balances. By placing liens on assets like bank accounts, our two post-judgment co-counsel collected a total of \$1.6 million in business taxes in FY2021.
- **Offers in Compromise** - In FY22, Revenue relaunched an Offers in Compromise (OIC) program. This program mirrors similar programs offered by the IRS and Pennsylvania Department of Revenue to help taxpayers settle tax debts that they would otherwise be unable to pay. OIC works in the best interest of both the taxpayer and City as it enables the taxpayer to settle a debt for less than the total amount owed and provides the City with tax revenues that might have been uncollectable.

Legal enforcement – Law can take delinquent taxpayers to court to escalate enforcement, motivating payment. In FY21, Law resumed filing new petitions in the Court of Common Pleas, while



Municipal Court filings remained paused. **Evaluation methodology for strategies to motivate payment of delinquent business & income taxes**

Appendix A:

Resumption of enforcement activities once City offices open to the public

Tax Type	Action	Status	Resumption Date
All Taxes	Delinquent Billing, Noticing, and Interest/Penalty Accrual	Active	Never Paused
All Taxes	Lien filing, Bankruptcy claims, Judgement Payoffs	Active	Never Paused
All Taxes	Audit and Discovery	Active	June 2021
All Taxes	Collection Agency Placement	Active	April 2021
All Taxes	Common Pleas Court Filings	Active	May 2021
All Taxes	Municipal Court Filings	Paused	TBD
Real Estate and Water	Sequestration (Water and Real Estate)	Active	New Petitions resumed January 2021
Real Estate	Sheriff Sales	Paused	TBD
Real Estate	Consolidated Legal Actions	Active	Never Paused
Business Taxes	Offers in Compromise	Active	August 2021
Business Taxes	Post-Judgement Execution	Active	January 2021
Business Taxes	Commercial Activities License Revocation	Paused	February 2022

Appendix B - Tactics Matrix

	Real Estate Tax	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 Affordable payment agreement options 	<ul style="list-style-type: none"> Frequent non-filer and nonpayment notification Requiring Tax Clearance Placement of accounts with collection agencies Affordable payment agreement options New Offers in Compromise Program Automatic withdrawals for payment plans
Data-driven Enforcement tactics	<ul style="list-style-type: none"> Sequestration Filing tax liens Out-of-county Lien Transfer Sheriff Sale Employee and Pensioner Indebtedness Filing consolidated actions for multi-property owners 	<ul style="list-style-type: none"> Ongoing use of IRS data Leverage outside vendors Commercial Activity License Revocation program (CAL Rev) Legal Enforcement Post-judgment Execution