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CITY TAX WITHHOLDING FROM CERTAIN FEDERAL EMPLOYEES

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HEARING BEFORE THE SUBCOMMITTEE ON POWER AND CIVIL SERVICE OF THE COMMITTEE ON OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES NINETY-FOURTH CONGRESS

SECOND SESSION
ON

H.R. 13297

A BILL TO AMEND TITLE 5, UNITED STATES CODE, TO
PROVIDE FOR THE APPLICATION OF CITY WITHHOLDING
TAXES TO FEDERAL EMPLOYEES WHO ARE RESIDENTS
OF SUCH CITY

JUNE 15, 1976

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CITY TAX WITHHOLDING FROM CERTAIN FEDERAL EMPLOYEES

TUESDAY, JUNE 15, 1976

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON MANPOWER AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met at 11 a.m. in room 311, Cannon House Office Building, Hon. David N. Henderson (chairman of the subcommittee) presiding.

Mr. HENDERSON. The subcommittee will come to order.

The Subcommittee on Manpower and Civil Service is meeting to consider H.R. 13297.

This bill, introduced by Congressman Clay, provides under certain circumstances for mandatory withholding of city income tax from a Federal employee's salary, even though his place of employment is located outside the taxing city's jurisdiction. Under the law as presently written, the Federal employee must work within the city's limits before mandatory city income tax withholding can take place.

I understand that a number of cities have experienced some problems in collecting taxes under the present law. This morning we look forward to learning more about these problems in an effort to decide if H.R. 13297 is the best way to deal with them. We also will welcome testimony from the Department of the Treasury concerning its views of the situation.

I do want to make one thing clear at the outset. The changes in the law contemplated by H.R. 13297 affect only individuals who live and work in the same State. In the case of someone who lives in a city—for example, Cincinnati—and who commutes to a Federal installation which is not only outside of Cincinnati, but across the Ohio River in Kentucky, this individual would not be affected by the bill before us.

The whole question of taxing interstate commuters is a highly emotional, as well as a highly political, issue. I do not think we want to try to deal with it today. H.R. 13297 is limited in application, and if it will solve some problems the cities are having, I believe the subcommittee should attempt to mark it up and report it out immediately after the close of the hearing this morning.

It is my pleasure at this time to call as our first witness our colleague, the distinguished gentleman from Missouri, Mr. Clay.

(1)

STATEMENT OF HON. WILLIAM L. CLAY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MISSOURI

Mr. CLAY. Thank you, Mr. Chairman.

Mr. CHAIRMAN, I appreciate the opportunity to appear here today. I am very pleased that the Subcommittee on Manpower and Civil Service has moved so quickly to consider H.R. 13297, which I have authorized and introduced.

Earlier in 1974, I sponsored legislation—H.R. 8660—which became Public Law 93-340, that provided for the mandatory withholding of local income taxes from Federal employees. Since enactment of this law, however, certain problems in its implementation have come to my attention. H.R. 13297 aims to correct some of these problems.

As matters now stand, the withholding of local taxes from Federal employees who live within a locality but are employed elsewhere within the State is voluntary. Thus, localities are unable to ensure that their taxes are withheld from such Federal employees. Often such employees must meet tax obligations in a lump sum causing a financial hardship.

My bill would require withholding of local earnings taxes from wages of such employees. Localities, which are already hard pressed for funds, are carrying an increased financial burden because some residents do not or cannot meet their tax obligations. Not only are the localities suffering, but individual employees must meet a sudden and substantial yearend tax liability. Sometimes employees may be unable to meet their tax liabilities.

In St. Louis, for example, certain city residents have a problem because they work at Federal Government agencies which are outside the local taxing jurisdiction and they are not paying their St. Louis taxes. There are four Federal agencies located in the suburbs of St. Louis which employ some 1,300 residents of the city. One of the largest employers—the Aeronautical Chart and Information Center (ACIC)—occupies a unique position. The city line passes right through the center of this building. Therefore, one group of its employees is subject to mandatory withholding of taxes. Another group of its employees is subject to it only on a voluntary basis. This is an unfair and inequitable system.

H.R. 13297 in no way effects the current law concerning the status of nonresidents. Neither current law or H.R. 13397 provides for mandatory withholding for those who reside in one State and work in another.

We are fortunate today in that we have representatives from cities and localities around the country here who can testify in greater detail as to the problems which their localities are now encountering. In fact, I am pleased to say that two of the people here are from my own city of St. Louis.

I hope the subcommittee acts quickly in reporting out this legislation. Thank you.

Mr. HENDERSON. Thank you very much.

Without taking the time at this moment to ask questions of you because we can get to you almost anytime, I am going to proceed with the other witnesses. We may have questions later.

Thank you very much for introducing the legislation and for your appearance this morning.

Our next witness is Michael T. Smokovich, Acting Director, Government Accounting Systems, Bureau of Government Financial Operations, Department of the Treasury.

It is a pleasure to welcome you this morning, sir.

STATEMENT OF MICHAEL T. SMOKOVICH, ACTING DIRECTOR, GOVERNMENT ACCOUNTING SYSTEMS, BUREAU OF GOVERNMENT FINANCIAL OPERATIONS, DEPARTMENT OF THE TREASURY

Mr. SMOKOVICH. Mr. Chairman and members of the committee, I am pleased to appear before you today to discuss providing for mandatory withholding of city income tax for employees who are residents of cities with which the Treasury has tax withholding agreements.

As you know, Public Law 93-340 authorized the Treasury to enter into tax withholding agreements for cities. While that legislation provided for mandatory withholding on employees who worked in a city, it did not take account of those who resided in a city with which we had an agreement, but who worked elsewhere.

At the request of a number of city officials, the Treasury and the Civil Service Commission developed procedures which were released in August 1975, which allowed employees who are residents of cities, but who work elsewhere, to have city tax withheld on a voluntary basis.

H.R. 13297 would make this type of withholding mandatory except for those persons who reside in a city with which the Treasury has an agreement, when they work outside the State where that city is located.

Our view is that we have no objection to the proposal. It should be no burden for Federal employers. And, it will provide for automatic withholding on those persons who have a liability to the jurisdiction where they reside; with the one exception—for those who are employed out of State.

Mr. Chairman, that concludes my prepared statement.

Mr. HENDERSON. Thank you very much, sir. Your statement is to the point and most responsive. I don't believe I have any questions. If we do, we can contact you through the staff and obtain your written responses and include them in the record.

I am most appreciative of your appearance this morning.

For the other witnesses who are scheduled, we have a quorum call which will take possibly 15 minutes to make and return. I think it would be best if we make the break at this time. I will come back and try to round up the other members and get their attendance for your appearance.

The subcommittee will adjourn to answer the quorum call.

[Short recess taken.]

Mr. HENDERSON. The subcommittee will come to order.

Our next witnesses are Mr. Charles E. Dorfman, Commissioner of Revenue, Philadelphia, Pa.; Mr. A. Robert Manzi, Deputy Commissioner of Revenue, Philadelphia; Mr. A. G. Hays, Assistant Director of Finance, Kansas City, Mo.; Mr. Joseph W. Daly, Assistant Collector of Revenue, St. Louis, Mo.; and Mr. Robert E. Evans, Deputy Collector for City Earnings Tax, St. Louis.

If you have prepared statements or comments that each of you would like to make, you may proceed, after which I believe we do

have some questions. All five of you may sit at the table if you would like.

You may proceed any way you like. I have a statement from Mr. Travers, if you would like to present that.

STATEMENTS OF CHARLES E. DORFMAN, COMMISSIONER OF REVENUE, PHILADELPHIA, PA.; A. ROBERT MANZI, DEPUTY COMMISSIONER OF REVENUE, PHILADELPHIA; A. G. HAYS, ASSISTANT DIRECTOR OF FINANCE, KANSAS CITY, MO.; JOSEPH W. DALY, ASSISTANT COLLECTOR OF REVENUE, ST. LOUIS, MO.; AND ROBERT E. EVANS, DEPUTY COLLECTOR FOR CITY EARNINGS TAX, ST. LOUIS

Mr. DALY. With your permission, we will have Mr. Evans, Chief of the Earnings Tax Department, read it; it is prepared by Mr. Travers.

Mr. HENDERSON. That will be fine.

Mr. EVANS. Mr. Chairman and members of the committee, I wish to present the comments of the Collector of Revenue, the Honorable John K. Travers.

On July 10, 1974, the President of the United States signed an act providing for withholding of city income taxes from Federal employees. Subsequent to this signing, the Treasury Department renegotiated agreements with the various cities involved, providing for the implementation of this act. Basically, this agreement provides that where all Federal employees work within the jurisdictional boundaries of the city, the agency must withhold tax due and remit same to the city agency involved. Exceptions to this are nonresidents of the State who are employed within the city, and city residents who are subject to the tax, but employed outside of the jurisdictional boundaries of the city.

The amendment provided in H.R. 13297 seeks to eliminate the inequities involved. For example, in the city of St. Louis there is a Federal agency (Defense Mapping Agency Aerospace Center), whose building is located on the city/county line, dividing the building in half, one portion of which is located in the city of St. Louis and the other portion is located in the county, which is outside the city of St. Louis. In this instance, two employees working for the same agency, and both residents of the city of St. Louis, and both subject to the tax, it is mandatory that the agency withhold the tax from the one employee who works in the city portion of the building, and yet the other employee who might only work a few feet away (in the county portion of the building), is not subject to the withholding. We feel that this creates not only a problem for our office but a problem for the Federal Government and leads to dissension among Federal employees.

We further wish to point out that in all instances affecting several cities, there are currently voluntary programs permitting withholding of the tax due by the city residents from agencies not located within the jurisdictional boundaries within the city.

Presently there are four Federal agencies that are located outside the jurisdictional boundaries of the city of St. Louis, who have a voluntary program to withhold St. Louis city earnings tax from the wages of St. Louis city residents who work at these installations. The total number of St. Louis residents who work at these four agencies is approximately 1,300.

In most situations, a mandatory withholding program could be established without cost to the Federal Government, and yet provide for full implementation of the tax collection for the various cities.

If city income or earnings tax was withheld from all Federal employees who are liable for the tax, it would benefit them, since they would no longer be required to file a tax return on their annual wages.

Presently, all Federal employees are required to file their annual tax return, because city earnings tax is not withheld on all Federal employees who are liable for the tax. This is a different procedure than that required by private employers, and employees who are liable for payment of city earnings tax. A private employer is required to withhold on all employees whose earnings are subject to the tax, and none of these employees are required to file an annual return on their wages. This same procedure could be made available to the Federal Government if the withholding of the tax was mandatory for all those subject to the tax.

In St. Louis, approximately 80 percent of all Federal employees now are subject to mandatory withholding of city earnings tax. This 80 percent is required to file an annual tax return only because city earnings tax is not mandatorily withheld on the other 20 percent who are also liable for the tax (city residents working at a location out of the jurisdictional boundaries of the city, and out-of-State employees who work within the city). The cost involved in processing these thousands of annual returns is very substantial.

We feel that bill H.R. 13297 will eliminate the existing burden on many Federal employees, and will create no additional cost to the Federal Government, and will aid various cities in implementing their tax collections.

This presentation, signed by the collector, John K. Travers, ends this part of the presentation.

Mr. HENDERSON. Do the other gentlemen have any prepared statements they would like to make before we begin our questions?

Mr. HAYS. If I might, Mr. Chairman, and members of the committee, my name is A. G. Hays, assistant director of finance for Kansas City, Mo., and I want to supplement Mr. Evans' statement with three or four statistics I have.

In Kansas City, we have the same jurisdictional problem in administering our city tax ordinances as they do in St. Louis. Of the approximately 23,000 Federal employees in Kansas City, approximately 30 percent live outside the jurisdiction boundary lines; and by not having the tax withheld, it does result in considerable collection problems, expense to the city, and of course, embarrassment to the Federal agencies.

We feel that H.R. 13297 would alleviate or bring to an end a lot of the problems we now have. In Kansas City we are very much in favor of passage of this bill.

Mr. DORFMAN. Mr. Chairman and members of the committee, Mr. Manzi, Chief Deputy Commissioner, is to my left.

First I want to thank you for the opportunity to appear and present our position. Since Mr. Evans has covered most of the details with which we are confronted in the city of Philadelphia, I will not repeat most of those details. It does appear that the issue being considered by this committee in H.R. 13297 is the interpretation to be given

to section 1(a) of the act of July 10, 1974, which deals with withholding of city wage tax for Federal employees. That section provides that the United States must withhold taxes of employees whose regular place of Federal employment is within the jurisdiction of the city.

This interpretation would be consistent with the announced intention of Congress to put the Federal Government under the same plan as other employers in their obligation under Philadelphia's ordinance to withhold at the source. The use of the term "whose regular place of Federal employment is within the jurisdiction of the city" in section 5520 of title V is further argument in support of our position.

Had Congress intended a narrow application for withholding wage tax it would not have used the word jurisdiction. It could have said "whose regular place of Federal employment is within the city." Then it would clearly have intended no withholding when dealing with city residents employed outside the city, but by its adding the word jurisdiction it must have clearly intended the broader concept to withhold so as to include employees of the city outside the same.

The city of Philadelphia, of course, supports the passage of H.R. 13297, and we feel that it will increase the revenues due and to obtain more payroll data from Federal establishments. Our Federal employee accounts receivable will be reduced, thereby requiring less enforcement activity, and tax receipts will be accelerated, thereby reducing our need for short-term borrowing with resultant savings interest expense.

We believe it will be of mutual benefit to the Federal Government, to Philadelphia and other cities involved to insure the passage of this bill.

Mr. HENDERSON. Thank you very much.

I would like to have this question answered by each of the municipalities represented. In the case of a private employer who is located outside the city limits, are they required to withhold city taxes from employees who are residents of the city?

Mr. DORFMAN. Yes. If their activity in any part is within the jurisdiction of the city, the answer is in the affirmative.

Mr. HENDERSON. What I am trying to get now, if an employee simply lives in the city but works outside the city limits, is the employer outside the city limits required by ordinance or law to withhold the taxes of that employee?

Mr. DORFMAN. He is not except by mutual consent of the employee unless as I said before there is some activity or work done by the employee within the jurisdiction of the city.

Mr. HENDERSON. Is that true in all three cities?

Mr. HAYS. In Kansas City it has to be voluntary on the part of the employer outside the city. I checked this just before we left. We now have 176 employers outside the corporate limits of the city withholding for us in Kansas City. Now the employee who lives inside the city, if the money is not withheld, must file an annual return and pay the tax on his own.

Mr. HENDERSON. What I am getting at here is that under the present interpretation of a Federal law it is voluntary on the part of the employee; is that correct?

Mr. DORFMAN. No, sir. An employee who is a resident of the city of Philadelphia is required to file and pay the city income tax, regardless of where he earns that income.

Mr. HENDERSON. But to withhold it may be voluntarily done if the employee wants to do it?

Mr. DORFMAN. Yes, sir.

Mr. HAYS. And if the employer outside wants to.

Mr. HENDERSON. What I am trying to get, is it voluntary on the part of the employee under the Federal law? And if the employee wants to do it, then the Federal Government has to withhold?

Mr. DALY. Under this present law. Our nonresident employers—I think this is what you are trying to get at, Mr. Henderson—are not required to withhold on St. Louis residents working at an out-of-city location. It is voluntary on his part; even though the employee might want it, the private employer is not required to withhold.

Mr. HENDERSON. What is the case if the employer outside volunteers to withhold; does the employee have any choice?

Mr. DALY. No.

Mr. EVANS. Not at all.

Mr. HENDERSON. In the case of the Federal Government, if the employee wishes to have his city taxes withheld by the Government, the Government doesn't have any choice under the present arrangement; is that correct?

Mr. DALY. Yes.

Mr. HENDERSON. The bill would require the Federal agency outside of the city jurisdiction to withhold for all employees who are residents of the city liable for city taxes?

Mr. EVANS. Mr. Henderson, in order to further clarify that point, a nonresident employer, which would be an employer outside the city of St. Louis, if this employer had an office, warehouse, or branch within the city, then this nonresident employer would have to withhold city earnings tax from the residents of the city.

Mr. HENDERSON. I understand then that gives you jurisdiction because they are doing some business in the city.

Mr. DALY. If they have any type of establishment within the city of St. Louis.

Mr. HENDERSON. With regard to the statement on St. Louis, I understood from your statement that 80 percent of the Federal employees are now subject to mandatory withholding. With the passage of this bill the other 20 percent would become liable then, being city residents working outside the boundaries of the city but within the State. There would be a few employees living in the city that work outside the State, and of course under this bill they would not be covered by the mandatory provisions.

But would that fact make it necessary for St. Louis not to grant to all of the Federal employees working within the city and outside the city but within the State relief from filing their annual tax return simply because there are a few who work outside the State?

Mr. DALY. We would have to work that out. That would be our ultimate objective because employees working for private employers are not required to file an annual return.

Mr. HENDERSON. As I understand it, at the present time, because of the present law, 80 percent of all the Federal employees now being subject to mandatory withholding of city taxes still have to file a

tax return because of the number that live in the city and work for the Federal Government outside the city. It seems to me there is a possibility that if we pass this legislation you would have almost 100 percent of your city employees working for the Federal Government covered. I would hope that almost 100 percent could be relieved of the burden of filing an annual return, and that the city would not continue to require that of the 99 percent plus, or whatever that figure is, simply because we do not cover the city residents working outside the State.

If you could take this up with the city officials and give us an affirmative decision on that I think it would be most helpful to us and to the Federal employees.

Mr. DORFMAN. Mr. Chairman, I want to say in the city of Philadelphia, these Federal employees of whom you speak are not required to file returns, those who are subject to the mandatory withholding, so there is the distinction between Philadelphia and St. Louis.

Mr. HENDERSON. I am glad to have that on the record.

If the bill would pass, those who live in Philadelphia and work outside the city, but still in the State of Pennsylvania, if they became subject to mandatory withholding, they would not have to file city returns?

Mr. DORFMAN. That is correct.

Mr. HAYS. That same ruling, Mr. Chairman, would apply to Kansas City, Mo.

Mr. HENDERSON. Mr. Lott.

Mr. LOTT. Thank you, Mr. Chairman.

First I would like to say we appreciate the time and effort of you gentlemen appearing before the subcommittee as representatives of the various cities. We can certainly appreciate your interest.

We also have to be concerned on this committee with what benefit or harm might be involved to Federal employees. Is there any benefit in this bill for Federal employees?

Mr. HAYS. Yes.

Mr. LOTT. What would that be?

Mr. DORFMAN. Both Mr. Manzi and myself are former employees of the Federal Government, Internal Revenue Service. We have a combined career time of almost 60 years. During that period of time it became very apparent that virtually all Federal employees with whom I came in contact wanted to have their city income tax withheld which would relieve them of the filing requirements, of paying it in lump sums, and in many, many cases these liabilities would accrue to a point where the employee was unable to make the payment.

Mr. LOTT. If I understood the chairman's question, there is a voluntary system where they can have this done, isn't there?

Mr. DALY. Only for three States—three cities: Louisville, Philadelphia, and St. Louis.

Mr. LOTT. I would like to have an opportunity to hear your statement further on that. We just want to make sure this legislation is not going to impose a burden on Federal employees that a private employee wouldn't have to bear. That is something I think we have to address.

Mr. EVANS. I would like to address the committee now to this extent. I have dealt personally with thousands and thousands of Government employees whom it was necessary to place in suit be-

cause of the nonfiling and paying of city earnings tax, and I don't know of any case where they didn't express a desire—"why can't it be withheld?" This is a question that was asked. "If it is withheld from my biweekly pay I would never miss it, and I would not have to pay that lump sum at the end of the year. With other bills and so forth, I just can't do it. I intended to pay it 6 months ago but now I am in suit and because of being in suit I have to pay the additional penalties of interest and a court fine."

Mr. LOTT. Thank you.

Mr. HENDERSON. Under the voluntary system we have now, if Federal employees want withholding made, why do they have difficulty in having it made? Do you have any explanation for that? The voluntary withholding seems to be so advantageous to the Federal employee.

Mr. EVANS. I think there is a human element. They say, "I will perhaps sign up for this deduction next month," and they procrastinate. Maybe it is only \$2 or \$3 each pay. He says, I can use that \$2 or \$3 dollars so I will wait and use my Federal income tax refund at the end of the year to pay the city earnings tax.

But when they get this refund there are other bills and they just don't pay it. So we are dealing with human beings.

Mr. HENDERSON. I think that clarifies for the record exactly what I thought was the case, namely that the voluntary system is really not going to work. For the benefit of the tax collection for the city, and for the employee's benefit, is simply ought to be mandatory. When they come on board, it should be withheld and paid, and that would be the end of it.

Mr. HAYS. Mr. Chairman, I would like to recite a statistic I have on our collection experience last year from the Federal employees as I mentioned earlier. Of the 23,000 who should have filed by April 15, 1975, according to our records there were still 5,027 delinquent on November 17, 1975, some seven months later, so there is a real collection problem.

Mr. HENDERSON. I want to get that figure fixed in my mind; 23,000. Is that all of the employees in the city, plus those who work outside the city?

Mr. HAYS. Just work for agencies inside the city.

Mr. HENDERSON. There were 5,000 who worked for agencies inside the city?

Mr. HAYS. There are 23,000 working for agencies located inside the corporate limits of the city and of those 23,000, that were due to file returns on April 15, 1975, there were still 5,000—some delinquent on November 17.

Mr. HENDERSON. Was their tax withheld?

Mr. HAYS. No, sir, not last year.

Mr. HENDERSON. Why not?

Mr. HAYS. That was before there was any kind of withholding.

Mr. EVANS. Withholding didn't start until July of 1975.

Mr. HENDERSON. That would be eliminated this year under the present law?

Mr. HAYS. Yes, sir.

Mr. HENDERSON. What will be left are those residents of the city working outside for the Federal Government, for which this bill is designed as a remedy?

Mr. HAYS. Yes.

Mr. HENDERSON. Let me ask if you currently have any problems with the collection of the taxes under the mandatory requirements. Is it working well? Do you have any problems with it?

Mr. HAYS. It is working very well.

Mr. DALY. The same way in St. Louis.

Mr. HENDERSON. Then you don't anticipate problems with this additional group of residents who work outside the city? With enactment of this legislation, then both groups would be in the same pot?

Mr. DALY. We are fortunate in that we came under the voluntary program in 1971 so these Federal agencies outside the city of St. Louis are presently withholding the tax on people who voluntarily participated. Under this program they would mandatorily—they would get them all, all the citizens working outside.

Mr. HENDERSON. Do you have an idea of how many of those who could voluntarily participate are participating? Is it 50 percent or 75 percent?

Mr. DALY. It is greater than that. I would say under mandatory requirement it is practically 100 percent because they were compelled to withhold.

Mr. DORFMAN. I don't believe that was the chairman's question.

Mr. HENDERSON. My question is: among those employees of the Federal Government who are residents of the city but who work outside, what percentage of that group are voluntarily having their taxes withheld?

Mr. DALY. I would have no way of knowing that.

Mr. DORFMAN. I can speak for Philadelphia. Under the voluntary program, the paradox there was not more than 25 percent were voluntary, and the paradox is that as I said before, the great majority of Federal employees with whom we have come in contact in the past have expressed a desire to have mandatory withholding, yet Philadelphia was one of the three cities which had the test operation for voluntary payment, and the paradox is that not more than 25 percent participated, of those who lived in the city and worked outside.

Mr. HENDERSON. Could you give us an idea of how many residents working outside the city are voluntarily participating in withholding since your mandatory law went into effect inside the city? Has it increased significantly?

Mr. DALY. In our situation we have approximately 1,300 St. Louis employees working in St. Louis County. Out of that 1,300 maybe 25 percent of them are voluntarily having it withheld.

Mr. EVANS. Mr. Chairman, I think quite a number of the Federal employees who are residents of the city of St. Louis who work outside the city don't really realize they are liable for the tax. When they are informed and have the opportunity to voluntarily have it withheld, they still don't realize that they are liable for the tax. This keeps many of them also from participating in the voluntary program as it is now. They feel they are not liable even though there are publications available to them. They seem not to be interested perhaps in that phase of the news.

Mr. HENDERSON. Let me come back to the point that Mr. Lott of Mississippi made, because we do need a clear record, that we will be treating Federal employees the same as we would industry employees or other business employees.

As I understand your responses, if an employer with a place of business outside the city does business within the city, say has a warehouse or distribution center in the city or something of that sort, under your city ordinances this employer is required to withhold for all of his employees that are residents of the city. If you extended that to the Federal Government in your cities, as an employer operating outside but also having employees inside the city, the mandatory withholding would be applied to all Federal employees, both in the city and outside the city.

Mr. EVANS. That is correct.

Mr. HENDERSON. Are the payments of the Federal employees in the city under a mandatory program made monthly? Are payments made to the city at the same time the deductions are made?

Mr. EVANS. On a quarterly basis.

Mr. DALY. As private employers they pay on a quarterly basis.

Mr. HENDERSON. That is helpful to the city, of course, not only to get the taxes but to get them paid promptly.

Mr. DALY. Right.

Mr. MANZI. I think in the city of Philadelphia the same applies, except that if it is over a certain amount, they have to remit the funds to us 3 working days after the close of the payroll period.

Mr. HENDERSON. So with a very large employer, an agency with a large number, the payments are even faster than quarterly.

Mr. MANZI. That is right.

Mr. HENDERSON. Is that true with private industry in the city as well?

Mr. MANZI. Mr. Chairman, it is, and it does help the cities tremendously in tax burdens, and also in their borrowing powers.

Mr. HENDERSON. Have you had any problem expressed to you from Federal agencies about having to remit funds that quickly in the Philadelphia area?

Mr. DORFMAN. There has been no significant problem in that respect. As a matter of fact, the law and the regulation prescribing the accelerated payment is relatively recent. We simply asked council to enact such legislation which they did, and it is consistent with, to a great extent, the Federal tax structure, that is within certain amounts of money they are to pay within 3 banking days. Others pay less frequently.

Mr. HENDERSON. In the city of Philadelphia, do you relieve the residents from filing a tax return as they do in St. Louis?

Mr. DORFMAN. The Federal employee whose tax is withheld on a mandatory basis is not required to file a return.

Mr. HENDERSON. They may file a return if they are entitled to a refund?

Mr. DORFMAN. There is a procedure for obtaining a refund if there is an overpayment. The same of course applies to private industry.

Mr. HENDERSON. Is that true of Kansas City?

Mr. HAYS. Yes, sir.

Mr. HENDERSON. Could I ask that you gentlemen communicate with us after you get back to your city, and give us the very best statistics that are available to you on the number of Federal employees who are residents of your city, who work outside of the city, who have not voluntarily entered into withholding program. Or you may send it to us in another form by giving us the number of employees

who work outside, and the numbers who have voluntarily entered into the program. I think this statistic in our report will be most supportive of the legislation, as we attempt to show that the voluntary program is not working, and that the mandatory program will be helpful to the cities and to the Federal employees involved.

Mr. DORFMAN. I think it has been made very clear that the voluntary program as such was not successful to anywhere near the extent that it was hoped it would be.

Mr. HENDERSON. If you could write us a very brief statement to that effect for the record, then we could refer to that in our report. I think it would be most helpful to us as we take this legislation to the floor.

Mr. EVANS. Mr. Henderson, referring to an earlier question you presented, in our particular present requirement of all Federal employees to file an earnings tax return, it would be no problem at all to eliminate this requirement, because then we could by comparison from information supplied us by the agencies of the tapes or W-2's compare at a particular time who had paid and who hadn't paid, and simply bill those persons who hadn't paid, so it wouldn't create a problem to eliminate that particular requirement.

Mr. HENDERSON. In the case of private industries that withhold from their employees, does the city allow them any portion of the collected taxes to cover the expense of their bookkeeping and collection?

Mr. EVANS. In the case of St. Louis, there is a 1½ percent collection allowance.

Mr. HAYS. In Kansas City it is 3 percent.

Mr. DORFMAN. In Philadelphia there is none.

Mr. HENDERSON. It has not been suggested under the present program that any allowance be made to the Federal agencies for that, has there?

Mr. EVANS. No.

Mr. DORFMAN. We would hope not.

Mr. HENDERSON. But in all three of the cities, the system is already in place in the Federal agencies. All that would be involved would be adding the names of those employees of the agencies who work outside, and it is the opinion of all of you that the increased cost to the Federal agency would be minimal, if any.

Mr. DORFMAN. That is right, sir. Any additional would be actually de minimis as far as Federal agencies.

Mr. HENDERSON. And you would eliminate the problems of contacting the agency with regards to the delinquency of its employees, if you had a mandatory system.

Mr. DORFMAN. Yes, sir.

Mr. HAYS. I might add, Mr. Chairman, that in the Missouri legislature during this last session a bill was introduced for a 3-percent collection, a tax for employees and also a 1½ percent collection allowance for St. Louis. The bill did not come up for vote this year. However, it will be submitted again during the legislative session next year.

Mr. HENDERSON. Counsel points out to me that under Federal law Federal agencies are prohibited from getting any fee for collection. I was not suggesting that that would be a proper way of doing it. I think Federal agencies ought to be good employers, and whatever it costs is a help to the local government. I personally would like to

see this legislation enacted, and I am most appreciative of you gentlemen appearing today. I hope that we have been able to make a sufficient record to substantiate the need for the legislation. Thank you very much for your appearance today. If you find that you have any further information that you would like for us to receive, either for the record or by way of being helpful to us, feel free to submit that to us at any time in the near future.

Thank you very much, gentlemen, for your appearance today.

Mr. DORFMAN. Thank you, Mr. Chairman and members of the committee.

Mr. HENDERSON. The subcommittee will adjourn.

[Whereupon, at 11:10 a.m., the subcommittee was adjourned.]

[The following communications were received for inclusion in the record, subsequent to the hearing.]



CITY OF PHILADELPHIA

CHARLES E. DORFMAN
REVENUE COMMISSIONER

June 25, 1976

Mr. Alton Howard
Printing Editor
Post Office and Civil Service Committee
U. S. House of Representatives
Room 309, Cannon Office Building
Washington, D. C. 20515

Dear Mr. Howard:

This letter is in response to your request relative to Bill H.R. 13297 and the testimony given in Washington, D. C. on June 15, 1976 in connection with that Bill.

The facts concerning the voluntary program, about which inquiry was made during the hearing, are:

1. The voluntary program has been available to Federal employees since October 1, 1973.
2. Since the inception of this program, the City has received varying degrees of cooperation from different Federal agencies operative in Philadelphia, ranging from a fairly active encouragement of their employees to an apparent very negative view by management (which presumably reflects both personal views and internal relations within agencies and between management and employees).

3. Despite continuous and intensive efforts to accomplish the desired compliance, we have met with considerably less success than had been hoped for or anticipated. These efforts have included meetings with various Federal agencies, almost daily contact with Federal representatives, furnishing detailed and comprehensive material to the Federal Executive Board, which they distributed to the heads of all Federal agencies in Philadelphia for maximum distribution to the Federal employees.

The great majority (about 90%) who joined on a voluntary basis are the same people who have been voluntarily making payments either through the "Union Bank Program" or in regular quarterly remissions.

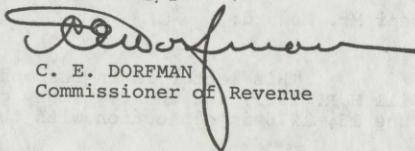
4. Voluntary withholding by Federal employees reached an average of only 21.4% participation.

The passage of Bill H.R. 13297 would increase Earnings Tax revenues, reduce the need for manpower utilization in our enforcement activities, and also accelerate the receipt of payments.

Mr. Henderson also asked if we could supply some statistics that may be helpful in consideration of the Bill before the Committee. Accordingly, based on certain statistics received from known Federal installations located outside Philadelphia, it is estimated that approximately 4,500 Philadelphia residents are employed in Federal installations outside of Philadelphia. Using an average salary of \$11,000 annually and computed on the tax rate effective July 1, 1976, the Earnings Tax yield to the City of Philadelphia would be in excess of \$2 million.

I trust that the information furnished will be helpful in the approval of Bill H.R. 13297.

Very truly yours,



C. E. DORFMAN
Commissioner of Revenue

John K. Travers

COLLECTOR OF REVENUE, CITY OF ST. LOUIS



ROOM 110, CITY HALL
ST. LOUIS, MO. 63103
TELEPHONE: 453-4101

June 24, 1976

Honorable David N. Henderson
U. S. House of Representatives
Chairman, Subcommittee on Manpower and Civil Service
Committee on Post Office and Civil Service
B-370 (B) Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Henderson:

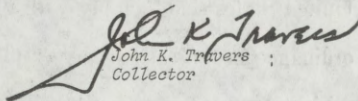
I did appreciate your allowing representatives of my office to appear before your committee and testify on H.R. 13297.

As you suggested we made a study of city residents working for federal agencies outside the jurisdictional boundaries of the City. There are approximately 1300 such employees of whom 60 to 70 percent have entered a voluntary withholding program. Unfortunately not all of these have the full amount withheld.

As a result of this 30 to 40 percent, ALL federal employees are currently required to file returns. If the law can be changed to include this small percentage, both federal employees and this office would benefit. Federal employees could be relieved of the onerous task of filing and our office could reduce our cost by not having to audit all these returns.

I think your objective and ours are identical, i.e. "to collect all tax due but to do so in the easiest and cheapest manner possible." Hopefully passage of H.R. 13297 will accomplish this.

Sincerely,


John K. Travers
Collector

94TH CONGRESS
2D SESSION**H. R. 13297****IN THE HOUSE OF REPRESENTATIVES**

APRIL 27, 1976

Mr. CLAY introduced the following bill; which was referred to the Committee on Post Office and Civil Service

A BILL

To amend title 5, United States Code, to provide for the application of city withholding taxes to Federal employees who are residents of such city.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That (a) the second sentence of section 5520 (a) of title 5, United States Code, is amended to read as follows: "The agreement shall provide that the head of each agency of the United States shall comply with the requirements of the city ordinance in the case of any employee of the agency who is subject to the tax and (i) whose regular place of Federal employment is within the jurisdiction of the city with which the agreement is made or (ii) is a resident of such city."

(b). The last sentence of section 5520 (a) of title 5, United States Code, is amended by striking out "not a resident of the State" and inserting in lieu thereof "not a resident of, or whose regular place of Federal employment is not within, the State".

SEC. 2. The amendments made by the first section of this Act shall take effect on the ninetieth day after the date of the enactment of this Act.



Finance Department

City of Kansas City, Missouri
Heart of America

Office of the Director

3rd Floor, City Hall
Kansas City, Missouri 64106

816 274-1732

June 25, 1976

George Pierce, Staff Assistant
Sub-Committee on Manpower & Civil Service
B-370(B) Rayburn House Office Bldg.
Washington, D. C. 20515

Dear Mr. Pierce:

I am writing with reference to H.R. 13297, the Bill that will require the withholding of City earnings taxes from Federal salaries in those cases where the Federal employee works in a city that imposes an earnings tax and maintains a residence within the State in which the city imposing the tax is located.

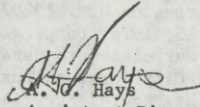
During the committee hearing on H.R. 13297 that was held in the Cannon Office Building on June 15, 1976, Congressman Henderson asked that we survey the Federal agencies in our cities to determine how many non-resident Federal employees are having the City earnings tax withheld from their salaries. Following is a list of the Federal agencies that are located in Kansas City, Missouri, the number of employees that were on the payroll of each agency during 1975, the number of employees having the earnings tax withheld, and the number of non-resident employees who chose not to have the tax withheld.

Federal Agencies	Total	Withheld	Not Withheld
National Guard	53	0	53
Dept. of Agriculture	848	847	1
Air Force	211	12	199
Richards-Gebauer Air Base	1,885	1,623	262
Army Reserve	1,761	0	1,761
Dept. of the Army	81	81	0
Army Leavenworth	23	23	0
Atomic Energy Comm.	155	127	28
Federal Aviation	807	774	33
Civil Service Comm.	17	10	7
Commerce Dept.	139	107	32
Dept. of Govt. Finance	6	6	0
Defense Dept.	32	32	0
Corps. of Engineers	861	610	251
FBI	181	109	72
Federal Deposit Ins. Corp.	13	11	2
Health, Education & Welfare	2,883	2,306	577

<u>Federal Agencies (cont'd.)</u>	<u>Total</u>	<u>Withheld</u>	<u>Not Withheld</u>
Housing & Home Finance	150	147	3
Interior Dept.	20	20	0
Interstate Commerce	18	18	0
Immigration Dept.	158	158	0
Labor Dept.	457	0	457
Marine Corps. Finance	753	636	117
Navy Dept.	328	0	328
Office of Economic Opportunity	113	113	0
Post Office	1,900	1,329	571
Railroad Retirement	18	16	2
Selective Service	5	5	0
General Services Adm.	1,575	1,388	187
Small Business	58	58	0
Federal Trade Comm.	27	21	6
Treasury Dept. IRS	3,966	3,102	864
Veterans Adm.	2,380	1,967	413
Environmental Protection Assn.	112	112	0
Weather Bureau	67	17	50
Open for Small Agencies	4	4	0
Totals	22,065	15,789	6,276

I want to personally thank you for your cooperation in assisting the cities with this legislation which is very important to the cities that have an earnings tax ordinance to administer.

Respectfully,



Assistant Director of Finance

AGH:ds

