

RockTheCapital.org

Press Release

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RTC Asks the IRS and Department of Revenue to Issue Tax Opinions on “Unvouchered Expenses”

(Harrisburg, Pa.) - RockTheCapital.org (RTC) announced that it has asked the Internal Revenue Service and the Pennsylvania Department of Revenue to investigate the state and federal tax implications of “unvouchered expenses.” While public pressure forced the repeal of the illegal raises last year, many lawmakers are refusing to return the money to the taxpayers and others have opted to repay it over time.

Eric Epstein, RockTheCapital.org's coordinator stated, “We should not reward people for doing the wrong thing. The voluntary repayment system is not working and has created disincentives for legislators to pay the money back to the General Fund.”

At issue is how the Internal Revenue Service (IRS) and the Pennsylvania Department of Revenue (PDR) will define, account, assess, monitor and verify the additional income.

Epstein said, “The most important question is establishing the tax definition of ‘unvouchered expenses. We believe that the pay hike has been calculated and disbursed as a gross wage, and should be treated as such by the IRS and the Department of Revenue.”

“ ‘Expenses’ ” for tax purposes imply deductibility in the real world,” Epstein said. RockTheCapital.org has requested that both agencies determine what accounting or reporting method (if any) qualify this form of remuneration as a legitimate expense.

Epstein stated that the group asked for Opinions on charitable deductions and donations, tax free loans and repayment arrangements. Epstein asked, “Can expense ‘reimbursements’ be considered both income for the purpose of a charitable donation and a business expense for the purpose of an IRS tax deduction?”

RockTheCapital.org also noted that some legislators are paying back the "unvouchered expenses" over several years which constitutes a *de facto* interest-free loan from the public coffer.

Epstein inquired, “Does the IRS or Department of Revenue consider extended repayment terms as a loan? If so, are legislators in violation of tax rules on repayment of overpayment? Should inputted interest be applied at the applicable federal or state rate even if no interest is actually accruing? Does avoided interest count as income for IRS or PDR purposes?”

In addition to specific questions, RockTheCapital.org requested official Opinions on the propriety of allowing those who refuse to forfeit the raise to receive additional benefits in the form of increased pensions.

Epstein observed, “Legislators who do the right thing, and return the money to the Treasury, do not qualify for an enhanced retirement package.” Mr. Epstein lamented, “Unfortunately, we live in a time and a place where we need to incent legislators not to break the law.”

RockTheCapital.org is a nonprofit, nonpartisan voter education organization, that was formed to rally against the pay raise, Rendell the “unvouchered expenses” and advocate for full repayment to the Department of Treasury.

RTC seeks to ensure the lawmakers abide by federal and state law in reporting “unvouchered expenses” as income and paying any and all applicable taxes.

Background

The Pennsylvania House and Senate passed Act 44 at 2 a.m., July 7, 2005 increasing the salaries of officials in all three branches of government without public hearings, public debate or public knowledge.

As a result of public pressure created in part by RTC activities, the General Assembly passed and Gov. Ed Rendell signed Act 72 of 2005 repealing the raise November 16, 2005. Act 72, however, did not require those who had received increased salaries to return the funds.

In total, 158 lawmakers at some point accepted the raise. Numerous legislators have opted not to repay the ‘unvouchered expenses’ or donated the money to charity. These amounts can be applied toward pension calculations and verified through the State Employees Retirement System.

Internal Revenue Service

Additional information can be obtained by visiting the the IRS web site, <http://www.irs.gov/> and downloading form 3949(a) by just typing in the form number in the appropriate window.

You can also get obtain relevant data by opening the government tab on the IRS site, and searching that area by typing in “Public Corruption” or its equivalent. The IRS has a solid track record when it comes to going after public officials, and quasi public officials, and they are one the most professional, nonpartisan enforcement agencies in the federal government.

