

Opinion

## DN Editorial: Net prophet?



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ONE OF THE longest stories ever told is the story of tax reform in this city.

Few disagree about the need to overhaul antiquated tax structures that punish growth, but finding consensus on how to change is more complicated.

Changing the property-tax structure, for example, which finally resulted in the Actual Value Initiative, took more than a decade. Business-tax reform is no exception, but it looks as if there may be progress there - if a bill co-sponsored by Council members Bill Green and Maria Quinones-Sanchez advances when Council returns next year.

This year, the city will collect nearly \$390 million in business taxes. Seventy-five percent of the money comes from the city's 6.45 percent tax on net profits; 25 percent comes from a 1.4-mill tax on a business sales called the gross-receipts tax.

Businesses hate the net-profits tax. They say that in combination with federal and state taxes, a Philadelphia business will lose half its profits to taxes. One easy way to avoid that is to move out of town because suburban communities don't tax profits.

We don't need incentives for companies to move out of town. We need incentives to get them to move into Philadelphia or to stay here once their company starts to grow.

Green, Sanchez and a number of tax experts agree that our net-profits tax is a jobs killer, driving away employers.

Their answer, in a bill now before Council, is to do a swap. Lower the net-profits tax over the next five years until it reaches zero, while raising the gross-receipts tax each year until it totals 5.2 mills, the equivalent of 52 cents on each \$100 in sales.

Under this plan, the amount of money the business tax will bring in would remain the same, while the mix of taxes would change dramatically.

This is an improvement over the existing mix of taxes for a number of reasons. For one thing, it is easier to enforce. Profits can be hidden more easily, actual sales cannot.

For another, it means that large businesses headquartered in other states but with operations in Philadelphia will pay a higher share of taxes. A company incorporated in Delaware doesn't pay our net-profits tax, but retailers headquartered out of state, such as Target, Walmart and Macy's, do have large stores in the city with high sales. They would pay more under the Green-Sanchez bill.

Sanchez started to champion business-tax change three years ago. Since then, pieces of reform have been enacted, including one that exempts startup businesses from paying any city taxes for their first two years of operation. Another amendment exempted the first \$100,000 in sales from the gross-receipts tax. That protects small businesses like corner stores.

The Nutter administration has said it is inclined to favor this tax reform, but has withheld final judgment until it verifies that the change will be revenue neutral. Council won't act until the administration finishes its analysis.

If it gives a green light, Council should move quickly to enact the law. At last, we will be able to say we did something about tax reform.

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