

Philadelphia Tax Reform Commission

Quantitative and Qualitative Findings
from Diverse Small Business
Communities

November 18, 2024



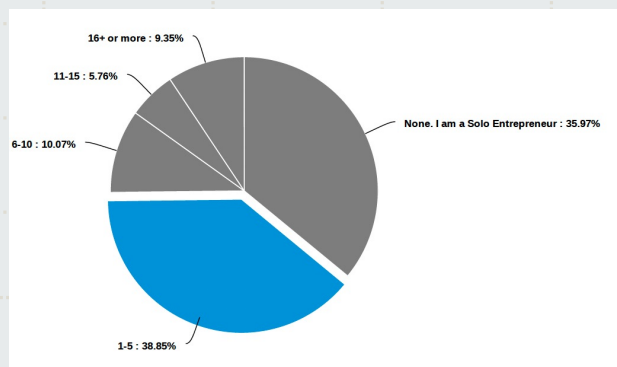
Summary of Data Collection:

- Diverse Chamber Coalition of Philadelphia (DCCPHL) had collected responses to identify trends since 2021. The most recent survey was conducted through September and October of 2024.
- The survey had 252 respondents from diverse entrepreneurial communities, and 171 were completed to compile a representative sample of Philadelphia's business community.
- The survey was complemented by a similar survey conducted by the Chamber of Commerce of Greater Philadelphia to add perspectives of larger businesses and individuals in the workforce.
- Two focus groups were conducted for the Tax Reform Commission (TRC), one virtually on September 30, 2024 and one in person on October 7, 2024. A total of 15 individuals participated, including business owners, group representatives, and TRC Advisory Committee members.
- High level findings presented today. Anonymized copies of the raw data are available.

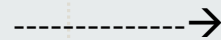


Who are the business owner respondents?

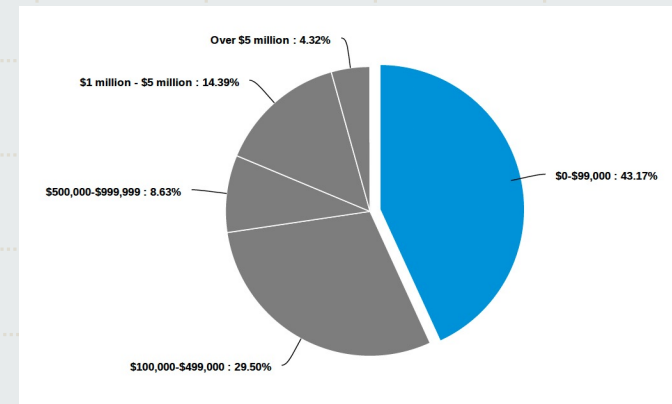
- Diverse array of zip codes and years in which the business was established.
- Collected information from businesses affiliated with 4 DCCPHL entities, WBEC, Chamber of Commerce of Greater Philadelphia, Sustainable Business Network, several neighborhood business entities, and various overlap with other regional chambers (e.g. Delco, SNJ.)
- Annual revenue of businesses surveyed was varied, but about 70% of respondents had an annual revenue below \$500,000.
- Varied number of employees, but the critical mass of respondents were either solo-preneurs (~36%) or had 1-5 employees (~39%).



Annual revenue

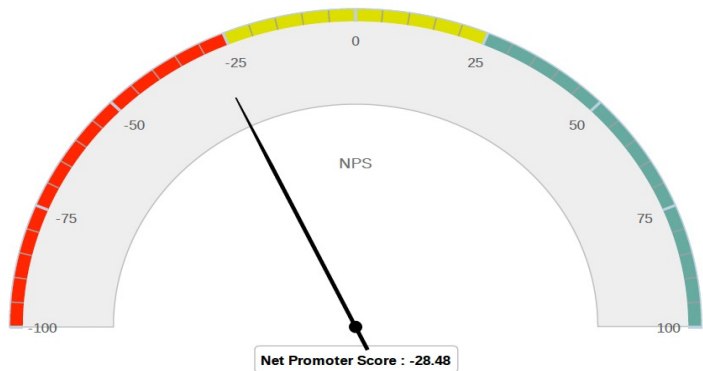


Number of employees



The Big Picture – Net Promoter Score

Considering your experience as an entrepreneur in Philadelphia, how likely are you to recommend the City as a place to do business to other entrepreneurs?



Net Promoter Details

Answer	Count	Percent	20%	40%	60%	80%	100%
Promoters	34	21.52%	<div></div>				
Passive	45	28.48%	<div></div>				
Detractors	79	50%	<div></div>				
Total	158	100 %					

The Net Promoter score for experience as an entrepreneur in Philadelphia is -29, on a scale of -100 to 100.

Good news: The score is trending in the right direction. The last 2 scores were -55 and -33.

Bad News: Small business owners/operators continue to be highly critical of Philadelphia as a business-friendly environment.

Why a Negative Net Promoter Score?

- *"Sometimes the city make things harder than what they are."*
- *In the restaurant space, It often feels like the city is working against us,*
- *As a small business, I find the business taxes to be expensive and a difficult process.*
- *A business could be successful in Philadelphia, but the city wage tax makes success as a business tenuous.*
- *As small Business owner, based on the resources we posses it is very difficult to have a fast start.*
- *The city taxes are pretty high, several times higher than state tax*
- *Hay mucho impuestos y regulaciones que a veces son poco probables de cumplir y también innecesarias.*
- HOWEVER
- People love the City and WANT to stay here.
- People appreciate some of the services when they are able to find them and when customer service is good.

Overall Business Environment

Indicate how you feel about the following aspects of the business environment in Philadelphia

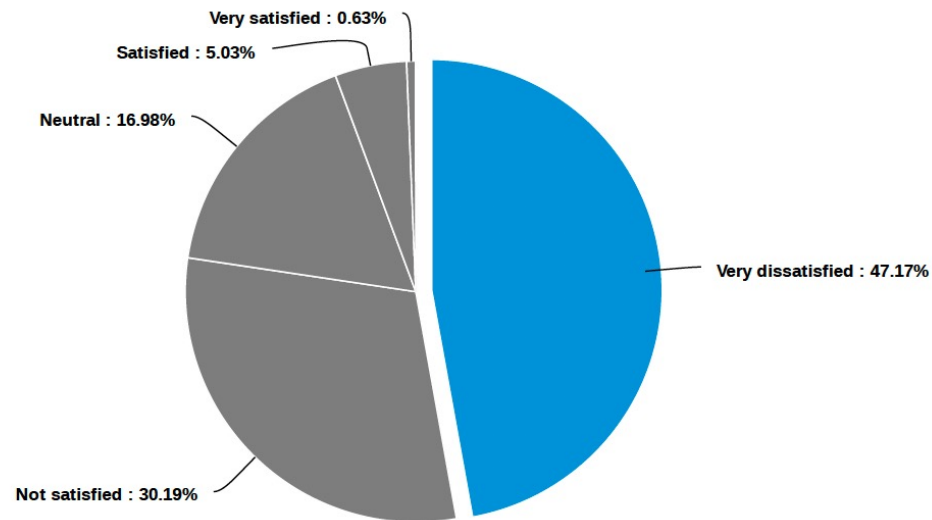
Statement	Very dissatisfied	Not satisfied	Neutral	Satisfied	Very satisfied	Overall
SEPTA	33 20.75%	25 15.72%	56 35.22%	41 25.79%	4 2.52%	159 n = 159
Levels of Crime	69 43.4%	55 34.59%	26 16.35%	9 5.66%	0 0%	159 n = 159
Business Taxes	75 47.17%	48 30.19%	27 16.98%	8 5.03%	1 0.63%	159 n = 159
Cleanliness	67 42.14%	43 27.04%	31 19.5%	16 10.06%	2 1.26%	159 n = 159
Cost of Complying with Regulations	65 40.88%	22 13.84%	49 30.82%	22 13.84%	1 0.63%	159 n = 159
Complexity of Complying with Regulations	74 46.54%	23 14.47%	45 28.3%	16 10.06%	1 0.63%	159 n = 159



Business Taxes

Approximately 77% of respondents are very dissatisfied or not satisfied with state of business taxes.

Business Taxes



Of course they are - no one loves taxes. But Philadelphia's reputation for high tax bears out in the survey. Would be interesting to compare to other cities if that were possible.

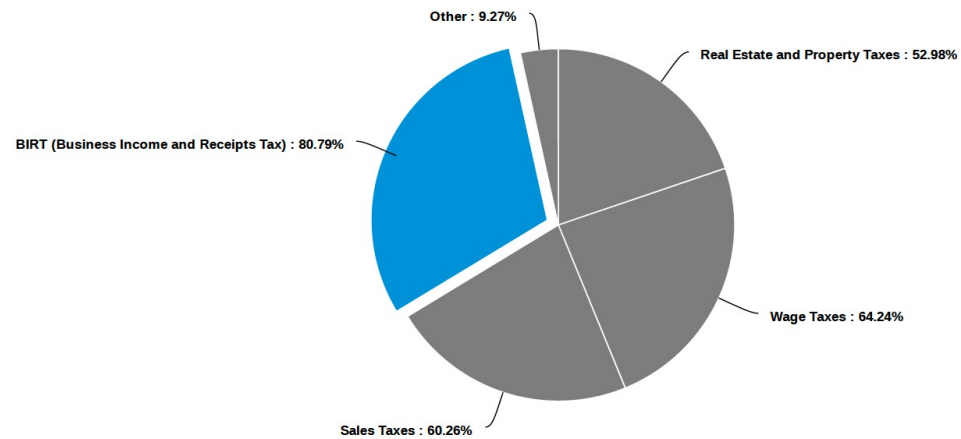
Business Support

Which types of support would help you succeed? (select all that apply)

Answer	Count	Percent	20%	40%	60%	80%	100%
Mentorship Programs	50	32.05%	<div></div>				
Business Incubators	47	30.13%	<div></div>				
Industry-specific Networks	61	39.1%	<div></div>				
Business Development Training	51	32.69%	<div></div>				
Peer Learning Groups	44	28.21%	<div></div>				
Equity Investments/Venture Capital	58	37.18%	<div></div>				
Grants or Low-Interest Loans	100	64.1%	<div></div>				
Market Access Programs	43	27.56%	<div></div>				
Tax Incentives	108	69.23%	<div></div>				
Regulatory Relief	49	31.41%	<div></div>				
Other	17	10.9%	<div></div>				

Which taxes do you pay?

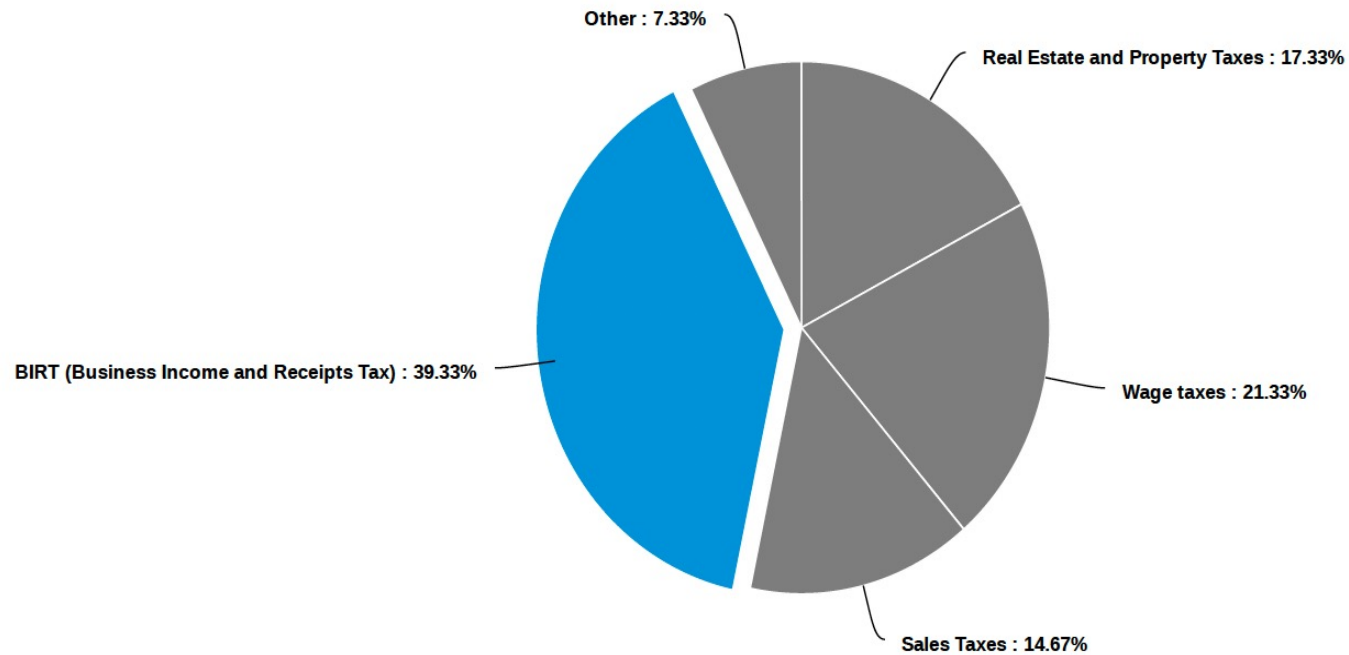
Which of the following types of taxes do you pay to the City of Philadelphia? (Select all that apply.)



Answer	Count	Percent	20%	40%	60%	80%	100%
Real Estate and Property Taxes	80	52.98%	<div></div>				
Wage Taxes	97	64.24%	<div></div>				
Sales Taxes	91	60.26%	<div></div>				
BIRT (Business Income and Receipts Tax)	122	80.79%	<div></div>				
Other	14	9.27%	<div></div>				
Total	404	n = 151					

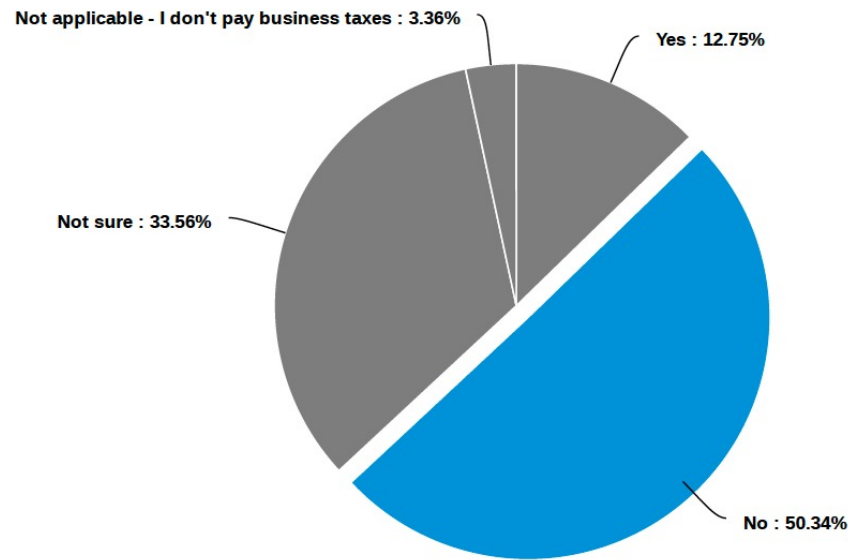
The Most Onerous Taxes for Business Owners

If the City of Philadelphia were going to decrease one tax rate, which tax rate decrease would most help you?



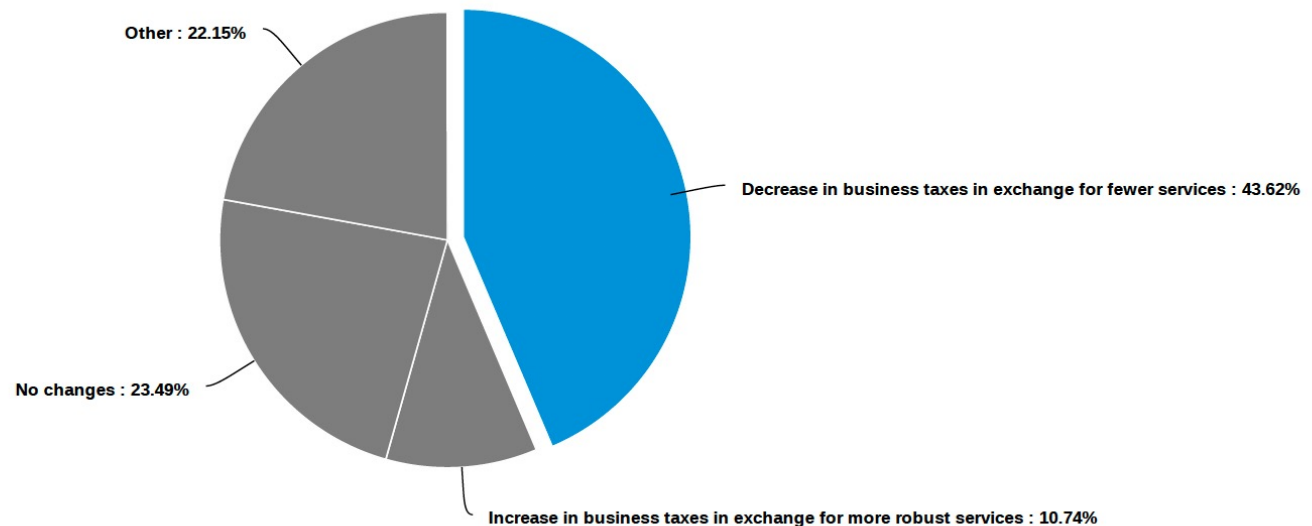
More than half need more tax guidance.

Do you think the City offers enough filing guidance for business taxpayers?



Tax/service trade-offs.

The City's taxes represent trade-offs between different interests and goals. In the future, which would you find most acceptable?



Note that we might extrapolate from this that many business taxpayers are unaware of what services they are receiving for the taxes they are paying – or they are unaware that services exist. Either way, there is a disconnect in taxes paid for services rendered.

Counterpoints on City Service Trade-offs:

However, our focus groups had more pronounced desire to not cut services in any way, even if it meant status quo in tax rates.

Also, in the qualitative section of the survey for this question, we heard the following on the trade-off scenario:

- *Please provide current services paid for?*
- *Decrease business taxes. What robust business services does the city actually provide?????*
- *increase business taxes on multimillion dollar business for most robust services for all businesses.*
- *No more birt for business that don't show a profit. Sole proprietor shouldn't have to pay double taxation on ss.*
- *Offer tax credits for businesses whose owners also reside in Philadelphia. People who live AND work in their neighborhood often make great leaders within their communities.*
- *Why not both? This doesn't seem fair and I do believe this is possible. May cut the fancy dinners at city hall?*
- *Decrease taxes -- we don't get any services so increasing taxes for an additional nothing is not the way to go. Alarm fee? Trash fee? Business Privilege tax?*
- *Lower taxes and bring more people into the city increase spending which will grow your sales tax*
- *Menos impuestos más atención a los servicios*
- *Decrease in business taxes with an improvement in quality of service.*
- *Robust services to increase the economy without raising business tax percentages which will generate more tax dollars*

Focus Group Findings:

- **Business Environment & Tax Burden:**

- - Many participants, particularly small business owners, expressed concerns about the complexity and burden of Philadelphia's tax system, specifically the Business Income and Receipts Tax (BIRT) and wage taxes. As businesses grow, taxes become increasingly burdensome, prompting some to move outside the city. Additionally, safety, parking, and other operational costs were noted as deterrents. They mentioned how these taxes create significant challenges for businesses, especially those operating on thin margins or trying to grow. Some considered relocating to avoid the tax burden. “
- Some businesses know that once they make a certain amount of money, it’s time to move across the border to the suburbs.”

- **Transparency & Simplification:**

- - Business owners highlighted the need for greater transparency and education about the city's tax system. Several participants found the process confusing, with unclear guidelines and difficulty in understanding how taxes like BIRT are calculated – or what services they fund. . They called for a more streamlined and user-friendly system, especially for new and small businesses.

Focus Group Findings (cont.)

Impact on Hiring & Talent Retention:

Wage taxes were noted as a deterrent for hiring employees. Some participants reported difficulties in attracting and retaining talent, as potential employees preferred working in the suburbs where wage taxes are lower. This, coupled with safety concerns, made it harder for businesses to compete with suburban areas, where taxes and living costs are lower. There is also concern that Philadelphia's tax structure makes it difficult to attract large companies and corporate headquarters.

Perception & Support:

Many participants expressed a lack of support from the city, feeling that they rely more on external chambers and associations. They also mentioned a need for better communication on how tax revenue is being used and the benefits of paying these taxes.

Perception problem – the actual temperature vs. real feel.

Focus Group Reform Suggestions

- **Reform Suggestions:**
 - The focus group suggested several reforms, including lowering or eliminating BIRT, simplifying the tax filing process, and providing more tax incentives for small businesses. Some also proposed raising the exemption threshold to ease the tax burden on small businesses while maintaining taxes on larger companies. (\$200k or above?)
 - Participants highlighted a perception problem with Philadelphia's tax environment, which deters businesses from setting up or expanding in the city. Suggestions for reform included reducing BIRT, offering tax abatements for small businesses, and creating tax incentives to promote growth, especially for startups and diverse businesses.
 - Participants emphasized the need to simplify the city's complex tax system and suggested scaling exemptions based on business size. They also stressed the importance of incentivizing homegrown businesses and promoting equity in taxation.
 - The groups emphasized that Philadelphia's current tax structure hampers growth and discourages new businesses, suggesting that reforms could make the city more business-friendly while still supporting essential services. They strongly advocated for reforms that would encourage economic growth, simplify taxes, and reduce the financial burden on businesses, especially those in underserved or minority communities.

What other concerns or comments, if anything, do you have related to changes in Philadelphia's tax structure?

- *- Taxing businesses using BIRT on top of 10% liquor and the wage tax drives people and businesses out of the city.*
- *- There's no way that a developer or anyone building a project in Philadelphia should get a 10-year abatement while everybody around them has to suffer with higher taxes because of what they built.*
- *- Give newer businesses a lower tax rate for a limited time (2 to 3 years) until they have established themselves.*
- *- The reality is small business pays taxes equally as a big business. this is a big disadvantage.*
- *- Have we considered a land value tax like Harrisburg, Allentown, and Scranton?*
- *- BIRT taxes penalize businesses that lose money in the fiscal year*
- *- We need cleaner streets and more safety! Fund it however we can! Please don't cut services that improve quality of life.*
- *- BIRT is the biggest business killing tax in the city of Philadelphia. It drives business directly out of Philadelphia.*
- *- Making it easy to communicate with the Dept of Revenue and making the taxation process smoother and easier. We need more education on the tax code for businesses.*
- *- If I saw positive impact from my tax dollars I'd be less likely to complain about taxes because I'd know and see the impact it'd be making*
- *- To improve and invest in Philadelphia's local economy, make it a good business environment for small and medium businesses and not just major corporations.*
- *- As a Philadelphia resident for many years and a business owner in the city for nearly 14 years taxes are the most frustrating part of running a business in the city. First off, the city tax department is a complete mess and has caused so many problems with messing up our taxes that has taken hours of corrections from my accounting team. Then this is on top of an extremely high tax rate for wage and BIRT that really offers no tangible benefits. Myself and every small business owner I've ever met in the city has this as their number 1 issue with the city and we all actively weigh the benefits of leaving the city for this specific reason.*