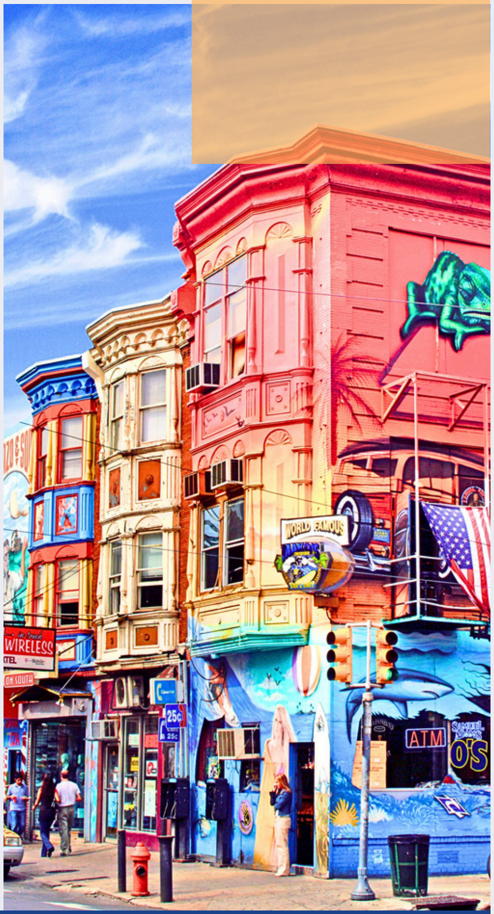
City Council PHILADELPHIA



JUMPSTARTING JOBS:

A Report on Investing in Tax Reforms and Inclusive Strategies for a Thriving Philadelphia

Interim Report of the Philadelphia Tax Reform Commission

February 25, 2025

Report Overview

Philadelphia's tax structure hinders growth, driving away businesses, talent and residents, and increasing poverty. Reform is necessary to avoid stagnation.

The Tax Reform Commission proposes bold action: eliminating the burden of the business income and receipts tax (BIRT) and reducing the wage tax below 3% to attract residents and jobs.

However, tax cuts alone won't suffice; targeted investments are needed to supercharge businesses and job growth.

Strategic tax reform will make Philadelphia regionally and nationally competitive and ensure the city's long-term prosperity.

To the Citizens of Philadelphia:

Philadelphia lost more than 50,000 residents between 2020 and 2023 – a 3.3% drop putting our population at 1,550,542.[i] While factors including COVID-19 contributed, this decline marks the city's largest three-year population loss since the 1970s[ii] and is in stark contrast to the surrounding counties, which grew or maintained their populations during these same years. Philadelphia's current population is also far below the city's historic peak.

It's a deeply troubling trend, one fueled in part by years of anemic job and business growth. While Philadelphia experienced a 7.8 % increase in jobs since 2001, it still lags behind Washington D.C. (13%), Boston (18.2%) and New York City (20.4%).[iii] Even before the COVID-19 pandemic, Philadelphia was among the slowest-growing large U.S. cities, with just 1.2% of average annual private-employment growth from 2011 to 2019. In 2021, Philadelphia rebounded from COVID-related job losses, but only to resume its slow rate of growth, leaving us 21% below 1970 levels, while our neighboring counties have between 46% and 183% more jobs than they held in 1970.[iv]

Working Philadelphians also generally earn less than workers in other Northeast cities – and also our surrounding counties (as is often the case in cities versus suburbs). From 2019 to 2023, the annual median earnings for Philadelphia residents aged 16 and older were $42,478, compared to $57,638 in Bucks County, $60,912 in Chester County, $49,255 in Delaware County and $59,488 in Montgomery County. Annual median earnings for Washington D.C. residents were $81,274, while in Boston they were $56,359, and in New York City, $50,451.[v] Put another way, we are growing jobs, but not enough are higher-paying, family-sustaining jobs.

We have the power to reverse this trend. In this report, our initial findings and recommendations outline how we can add between 31,200 and 93,200 more jobs to the city over the next five years – beyond those already projected and far more than we will gain otherwise. Our report may purportedly be about taxes, but it is really about creating jobs, and because of that it is about reducing poverty.[vi]

Our research shows that one key impediment to the city's economic growth is deep dissatisfaction with Philadelphia's tax structure, in particular the business income receipts tax (BIRT) and the wage tax. In recent focus groups with small business owners, the singularly most compelling sentiment shared was that once a small business earns a certain level of revenue, it makes financial sense to flee the city, its costly taxes and relocate to the suburbs. One major Philadelphia business that was recently studying its relocation options determined that even relocating to Manhattan would result in lower taxes for their firm than Philadelphia. This dynamic threatens our ability to retain and attract businesses. And without more businesses, there can be no more jobs.

> "It is well known that if you are small or experience modest success, you can stay in Philly. But once you reach a certain level or income, the burdensome tax system means you need to move your business across City Line Avenue."
>
> *- Philadelphia small business owner speaking at a focus group convened by the Tax Reform Commission*

Another cause for alarm is the current and historic 23.5% vacancy rate in Center City office buildings – equal to 10.2 million square feet of unoccupied space, twice what it was in 2019 and the highest percentage in the last two decades. One recent analysis points to an even higher vacancy rate by 2027 as leases continue to expire and businesses make different choices about operating here. More vacant office space can lead to higher tax burdens on homeowners and consumers as needs emerge to compensate for lost revenue and can result in reduced tax revenues stemming from lower business activity. It also means fewer jobs,[vii] including those held by professional and blue-collar workers, janitors, mechanics and service employees in surrounding retail shops and restaurants.

Our tax system is broken, suffocating Philadelphia's economic future, limiting our ability to meet the needs of our residents and hindering us from seizing opportunities befitting a world-class city.

We must invest in our future by reducing the burden of taxes. It is imperative that we act to the burden of taxes. It is imperative that we act to encourage businesses to launch, relocate to or stay within the city, spur job growth and put more income in the pockets of our residents. But it is not enough to merely make the investment to reduce taxes; we need to make targeted investments to supercharge businesses and job growth. Today, on the cusp of the nation's 250th anniversary, it's time for another revolution – a jobs revolution to support our entrepreneurs, strengthen our existing business community and attract new companies.

Today, on the cusp of the nation's 250th anniversary, it's time for another revolution – a jobs revolution to support our entrepreneurs, strengthen our existing business community and attract new companies.

This report outlines how we can achieve these goals.

We are fortunate to have exceptional leadership from Mayor Cherelle Parker, who has eagerly anticipated this report and whose commitment to making Philadelphia the safest, cleanest and greenest big city in the nation – with access to economic opportunity for all – has already driven significant progress in her first year. With the foresight and keen judgment of City Council President Kenyatta Johnson in convening this Commission, the Mayor and City Councilmembers share a unified vision to expand family-sustaining jobs and revitalize small businesses. While Philadelphia has seen notable growth in industries like biotech and life sciences – key drivers of economic growth in the city – significant challenges remain. We recognize uncertainties surrounding the new federal administration's policies and initiatives, and note that the city's budget benefits from diverse revenue streams, including federal and state funding.

With the changes recommended in this report, over the next four years we have the opportunity to:

- **Double the skills and salaries of 15,000 Philadelphians.**
- **Accelerate the success of over 1,000 small, diverse businesses.**
- **Recruit hundreds of new businesses to our city.**

Together, we can and will open Philadelphia for greater investment and economic growth, a result well within our reach.

In recent years, Philadelphia's competitive position has improved due to the tax reform initiatives of previous commissions and mayors, which laid the groundwork for making steady reductions in the BIRT and wage tax rates. These have helped, but as even they have acknowledged, we need much more. This Commission builds on that legacy, advocating for the continued pursuit of these reforms to make Philadelphia a premier city for businesses of all sizes and generate job opportunities for residents in every neighborhood.

Through public testimony, focus groups and survey data, our Commission has listened to concerns and carefully considered feedback. The recommendations presented in our report are the result of rigorous analysis and data-driven methodologies. We consulted with policy experts, business leaders and community members to ensure a holistic and practical approach to tax reform.

We also acknowledge and thank members of the Commission's Advisory Committee. These individuals care deeply about the city and contributed valuable ideas included in this report.

As we present this report, we are staunchly optimistic about Philadelphia's future. By acting boldly and advancing smart, job-producing policies, our businesses will grow, our workers will thrive, and our neighborhoods will flourish.

Respectfully submitted,
2024 Philadelphia Tax Reform Commission

- Khine Zaw Arthur
- Ryan Boyer
- Allan Domb
- Victor Garrido
- Jovan Goldstein
- Derek Green
- Jennifer Karpchuk
- Folasade (Sade) A. Olanipekun-Lewis
- Paul Levy
- Daniel McElhatton Sr.
- Gregory L. Segall
- Matt Stitt (Co-Chair)
- Jerry Sweeney
- Richard Vague (Co-Chair)
- Zach Wilcha

OUR GUIDING PRINCIPALS

The Commission was guided in its work by the following principles to ensure that our recommendations advance economic development through inclusive job growth, a higher minimum wage and an increase in the average wage of Philadelphia residents, all while recognizing the constraints within which fiscal and legislative priorities operate:

- Create a competitive business environment to attract and retain businesses.
- Advocate for a fair and equitable tax system for all Philadelphians.
- Acknowledge the need to balance tax reform with supporting essential city services.
- Reduce poverty and revitalize the city's post-COVID economy by creating quality jobs.

RECOMMENDATIONS GROUNDED IN SOLID AND NEW RESEARCH

Following the Tax Reform Commission's convening in the spring of 2024, extensive research was conducted by City Council and Administration staff. This comprehensive body of work served as a crucial foundation for the Commission's deliberations and informed their subsequent recommendations. For a detailed examination of this research, please refer to the Appendix, which is available at the link provided below.

Appendix - Tax Reform Commission

https://phlcouncil.com/taxreform/

Several organizations throughout Philadelphia, which were represented on the Commission and Advisory Committee, contributed to the research for this report. Those organizations include:

- Center City District
- The Chamber of Commerce for Greater Philadelphia
- African-American Chamber of Commerce of PA, NJ and DE
- Asian American Chamber of Commerce of Greater Philadelphia
- Independence Business Alliance, Greater Philadelphia's LGBT Chamber of Commerce
- Greater Philadelphia Hispanic Chamber of Commerce
- Community Legal Services
- Pennsylvania Policy Center

In addition, the Council and Administration staff who contributed to the research are listed below:

City Council

- Helen Loughead, Chief Financial Officer, Philadelphia City Council
- Stefan Johnson, Deputy Chief Financial Officer, Philadelphia City Council
- Christina Kuhlmeier, Policy Analyst, Philadelphia City Council

Department of Revenue

- Department of Revenue
- Kathleen McColgan, Revenue Commissioner
- Rebecca Lopez Kriss, Deputy Commissioner for Policy, Outreach, and Taxpayer Assistance Programs
- Laurice Smith, Director of Tax Policy and Planning
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Law Department

- Frances Ruml Beckley, Revenue Chief Counsel, Law Department
- Marissa O'Connell, Divisional Deputy City Solicitor, Law Department
- Mary McDow, Assistant City Solicitor, Law Department

REALITY CHECK: PHILADELPHIA'S ECONOMIC CLIMATE

Under the leadership of Mayor Parker and Council President Johnson, Philadelphia has embarked on an ambitious agenda to address its challenges while capitalizing on its strengths. Philadelphia has a diverse economy, centered around life sciences, healthcare, higher education and hospitality. Additionally, the city's strategic location, diverse talent pool and extensive transportation infrastructure provide a competitive advantage for attracting businesses.

While Philadelphia faces challenges, there are reasons to be optimistic about its future. In January 2025, S&P Global Ratings upgraded Philadelphia's credit rating to A+.[viii] Part of the reasoning for the upgrade is the improved status of the City's Municipal Pension Fund, which is 62.2% funded – the highest level in at least 20 years – and on track to be fully funded in less than a decade. This has been a laudable development.

Yet by almost any economic measure, Philadelphia's economy viewed over time is underperforming. These realities undermine the city's economic foundation because they mean fewer job opportunities to help people climb out of poverty, less potential tax revenue to invest in improving the overall quality of life for residents and fewer families who can afford to invest in their homes and support local businesses. The inescapable truth is that Philadelphia must take bold, comprehensive actions to build a healthy financial future – it cannot afford not to.

- **At 20.3%, Philadelphia's poverty rate is the highest among the 10 largest U.S. cities,** and about one in 10 Philadelphians live in deep poverty, with annual incomes of $15,000 or less. The poverty rate is even higher in neighborhoods with the fewest jobs. Philadelphia also has one of the lowest annual job growth rates compared with other cities, a situation aggravated by a mismatch between available jobs and workforce skills, as well as cyclical employment with workers constantly transitioning between jobs. Additionally, Philadelphia's unemployment rate for high school graduates remains one of the highest in the country. Taken together, these poverty and employment challenges directly impact the City's ability to generate tax revenue, fund services and manage its budget efficiently. (See Appendix A.)

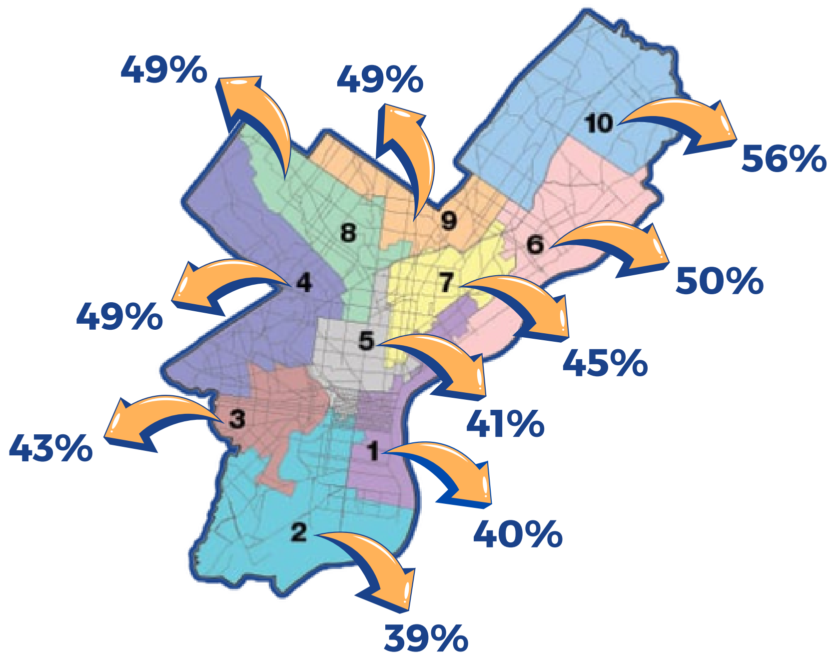
- **Philadelphia ranks as the worst city in America for economic mobility,** according to a 2024 analysis by a Harvard University-based research group, Opportunity Insights. Philadelphia ranks 50th in the research group's study of economic mobility across 50 U.S. metropolitan areas. In other words, Philadelphia's low-income children are poorer than their parents. Specifically, children born in Philadelphia in 1992 made $27,000 at age 27, down almost 13 percent when compared to those born in 1978. Philadelphia families fare worse than all other families in their study. (See Appendix B.)

- **The vast majority of small- and medium-business owners in Philadelphia are dissatisfied with their experience in the city,** and alarmingly few would recommend starting a business here. A 2024 survey of 171 diverse businesses rated the city with a "net promoter score" of -29, on a scale of -100 to 100. That low score is a cry of distress, underlining serious problems that make entrepreneurship in Philadelphia frustrating and unappealing. The survey, conducted by the Diverse Chamber Coalition of Philadelphia, also found that while crime levels and cleanliness are major concerns, the single biggest issue causing dissatisfaction among business owners is actually the city's complex and burdensome tax system. Taxes create significant challenges especially for those operating on thin margins or trying to grow. (See Appendix C.)

- **An average of 46% of working residents in each City Council District reverse commute to suburban jobs or work from home,** with another average of 25% of residents working in Center City. With the exceptions of Center City, University City and Philadelphia International Airport, job density and opportunities are concentrated in the adjacent suburbs. Lower- and middle-income residents working in the suburbs are incentivized to flee the city and receive an automatic pay raise as their wage taxes drop. Some suburbs actively advertise their tax advantage over the city. (See Appendix D.) The rate of reverse commuting has grown in the last two decades, and many areas with high rates are seeing population decline and rising poverty.

AN AVERAGE OF 46% OF RESIDENTS ACROSS CITY COUNCIL DISTRICTS WITH PRIVATE SECTOR JOBS COMMUTE TO WORK OUTSIDE PHILADELPHIA.

2022

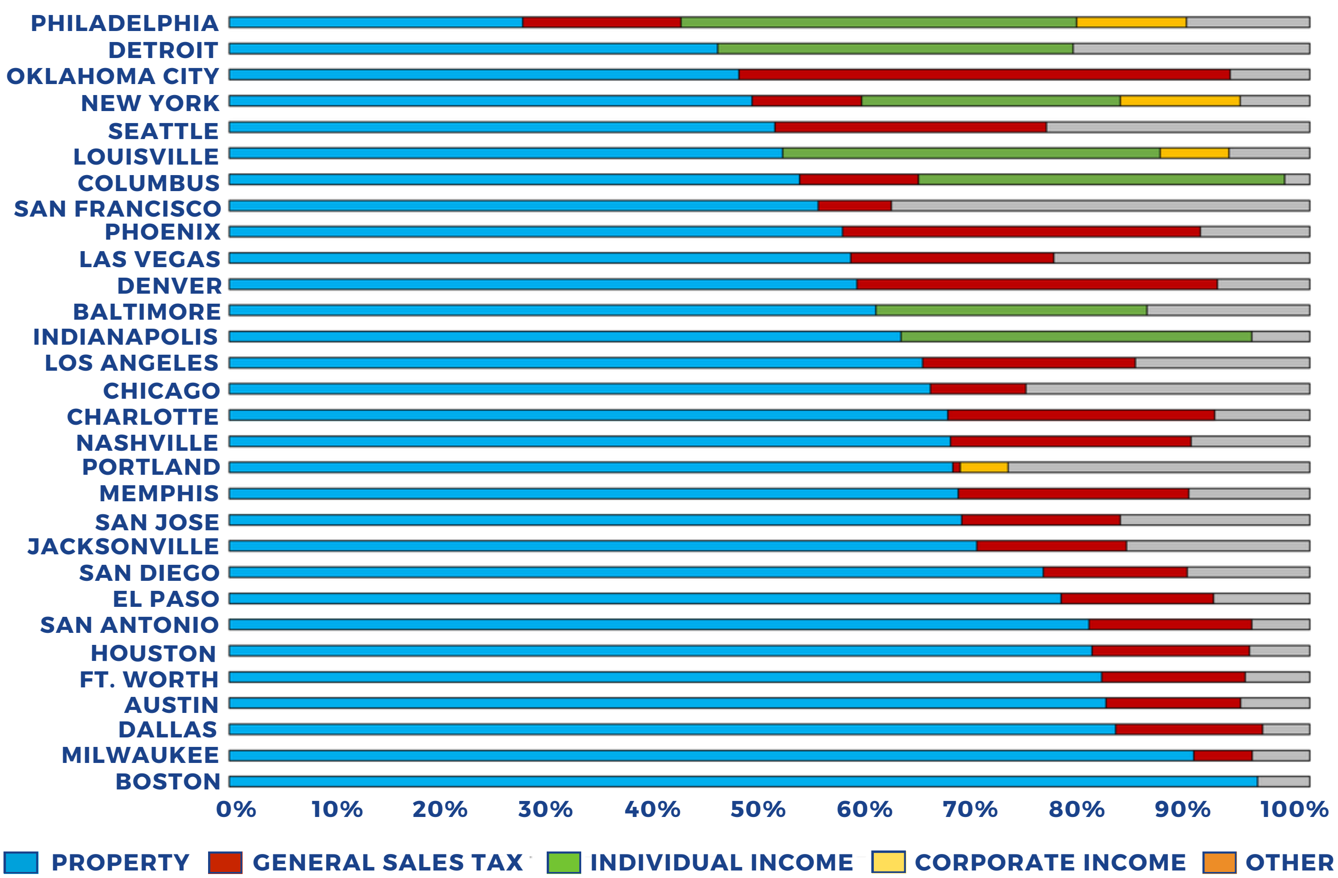


SOURCE: U.S. CENSUS. LONGITUDINAL EMPLOYER-HOUSEHOLD DYNAMICS

Philadelphia is more dependent on wage tax revenue and less reliant on property tax revenue than any of the largest 30 cities in the U.S. Given this over-dependency on BIRT and wage taxes, Philadelphia's tax base should shift from mobile sources (wages and businesses) to immobile ones (real estate) to encourage economic growth. In the budget for fiscal year 2024, 43% of local tax revenue comes from the wage and net profits tax; 20% comes from the property tax, and 15% comes from the BIRT.[ix] But the Commonwealth's Uniformity Clause prohibits Philadelphia from charging a different tax rate to different types and classes of real estate. This prevents the City from raising taxes on commercial buildings without also increasing them for residential buildings, leading to the City's reluctance to raise real estate taxes.

PHILADELPHIA RELIES LESS ON PROPERTY TAXES FOR REVENUE THAN ANY OF THE 30 LARGEST CITIES IN THE U.S.

FISCAL YEAR 2021

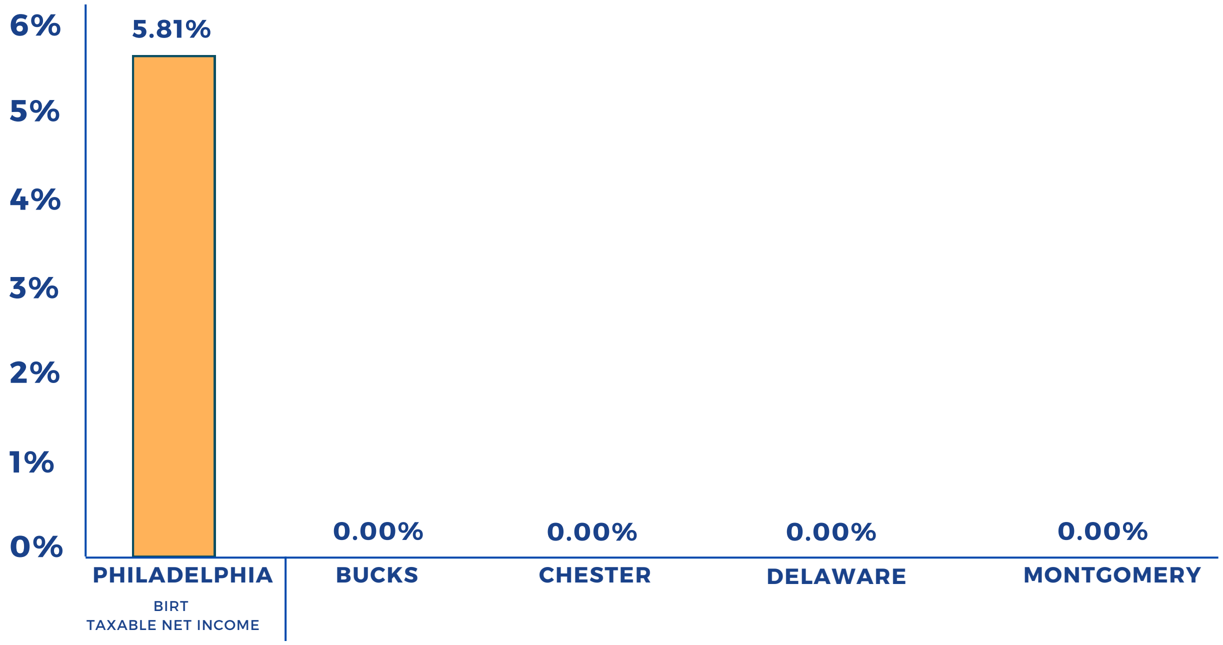


SOURCE: LINCOLN INSTITUTE OF LAND POLICY. FISCALLY STANDARDIZED CITIES DATABASE

- **The tax disparity versus the suburbs is too high.** No place in the greater Philadelphia region levies a net income business tax on proceeds (5.81%) – after all expenses – except Philadelphia, and in addition to a gross receipts tax of $1.415 per $1,000. Our heavy reliance on business and wage taxes – those most likely to drive residents and businesses away – has hindered our economy for decades, restraining tax revenues and our ability to finance essential services.

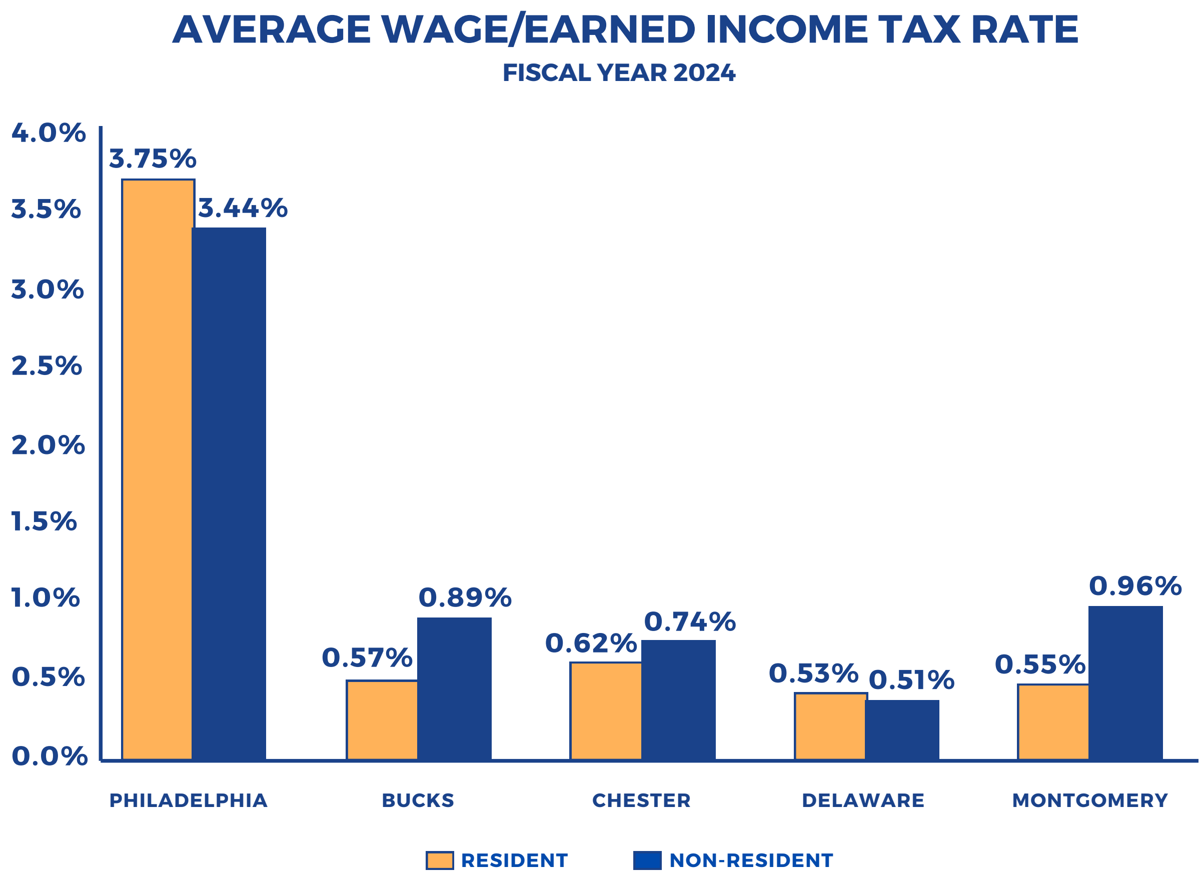
BUSINESS INCOME TAX RATES (NET INCOME)

FISCAL YEAR 2025



SOURCE: PENNSYLVANIA DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT. MULTI-YEAR MUNICIPAL TAX INFORMATION. OFFICE OF THE PHILADELPHIA CONTROLLER, MUNICIPAL MONEY MATTERS JULY 2024

- Philadelphia's wage tax is two to four times higher than that of surrounding townships. (See Appendix E.) and the city's gross receipts tax is also higher than those in the suburbs. (See Appendix F.)



SOURCE: PENNSYLVANIA DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT. EIT / PIT / LST TAX REGISTERS (REAL-TIME)

PHILADELPHIA'S COMPETITIVE POSITION IN THE REGION IS WEAKENED BY HIGH BUSINESS AND WAGE TAX RATES.

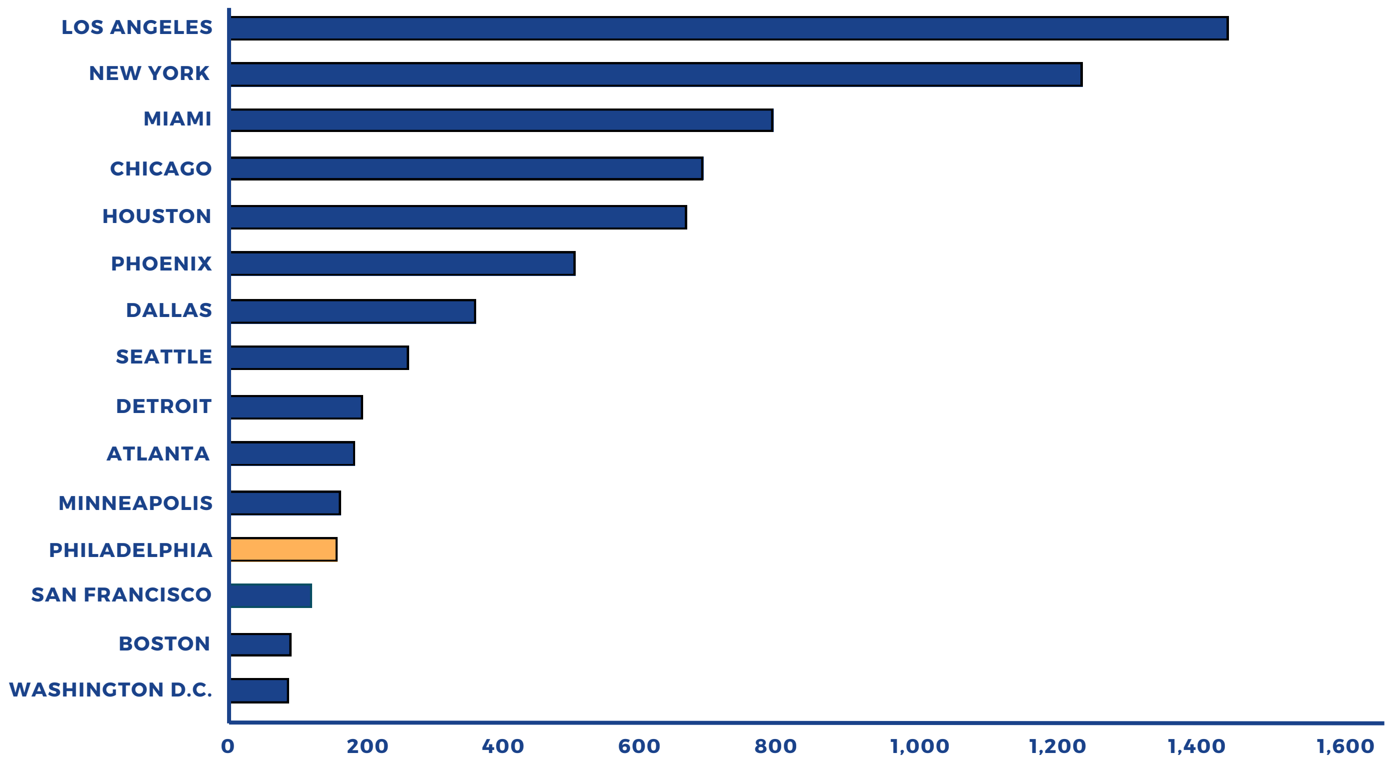
City	BIRT		Wage Tax % (Resident Rate)	Net Profits Tax % (Resident Rate)
	Business Net Income Tax Rate %	Business Gross Receipts Tax Rate %		
Philadelphia	5.81	0.1415	3.75	3.75
Boston	0.00	0.00	0.00	0.00
Baltimore	0.00	0.00	3.20	0.00
Washington D.C.	8.25	0.00	4.00 - 10.75	0.00
New York City	4.425 - 9.00	0.00	3.078 - 3.876	0.00

SOURCE: DEPARTMENT OF REVENUE = BUSINESS INCOME AND RECEIPTS TAX. DC BUSINESS FRANCHISE TAX RATES | OTR. DC INDIVIDUAL AND FIDUCIARY INCOME TAX RATES | OTR. BUSINESS CORPORATION TAX. NEW YORK INCOME TAX CALCULATOR - SMARTASSET

- The sheer number of businesses we have versus other major cities is low, thinned out by decades of high business taxes. As a result, Philadelphia has one of the slowest annual rates of job growth when compared with other large U.S. cities. Additionally, with just under 152,000 private business establishments in 2022, Philadelphia ranked fourth lowest among the core cities in the 15 largest U.S. metropolitan regions. When normalizing business counts by population, Philadelphia has the lowest number of businesses among 15 peer cities – 153 private establishments for every 1,000 working-age residents. (See Appendix G.)

PHILADELPHIA HAS THE FOURTH LOWEST NUMBER OF PRIVATE BUSINESSES AMONG CITIES IN THE 15 LARGEST U.S. METROPOLITAN REGIONS.

2022



FIGURES ARE IN THOUSANDS

SOURCE: U.S. CENSUS BUREAU - QUICK FACTS.

> These tax reductions are investments in Philadelphia's future.

Without decisive action, Philadelphia faces ongoing challenges as slow job growth and population loss will almost certainly continue. Now is the time for renewed and accelerated commitment to tax reform so our city can generate more job opportunities, reduce poverty, enable small and disadvantaged businesses to grow more quickly and create a vibrant and competitive place for all. Moreover, as nine of the city's 10 largest employers are nonprofits,[x] more tax reform benefits will flow downstream to smaller and medium-sized businesses. By moving away from a piecemeal approach and adopting these comprehensive reforms, Philadelphia can regain its competitive edge and secure a prosperous future for all its residents.

Over the past decade, numerous reports have illuminated a clear path forward for Philadelphia: We need a more balanced and equitable tax structure and a more efficient government. Building on these previous efforts, the 2024 Tax Reform Commission has crafted a comprehensive set of recommendations, and an action plan designed to transform and revitalize our city's economy – and create 31,200 to 93,200 new jobs in the city over the next five years. (See Appendix H.)

Since 1996, tax reduction efforts have predominantly focused on wage tax and gross receipt taxes; This report's emphasis on the net income portion of the BIRT elevates consideration of the tax code-driven impediments to job formation that small businesses face.

RECOMMENDATION 1: ELIMINATE THE BIRT TAX BURDEN

The Commission recommends the complete elimination of the Business Income and Receipts Taxes (BIRT) burden over the next 8 to 12 years. BIRT includes two primary components: the net income tax and the gross receipts tax. The net income portion – by far the largest component of BIRT – taxes all businesses based on their profit-making activities, creating a significant financial burden for companies, particularly small and mid-sized enterprises. The current BIRT net income tax rate is 5.81% - and no similar tax exists anywhere else in the region. For that reason, the priority focus should be on first eliminating the burden of the net income portion of the BIRT, then reducing wage taxes (as discussed below) and thereafter turn to eliminating the burden of the gross receipts portion of the BIRT.

Concurrently, the Commission recommends that conforming changes be made to the Net Profits Tax (NPT) to ensure continued equitable tax treatment across all types of businesses and entities and to avoid creation of unintended gaps in the tax base. The NPT is imposed on the net profits (i.e. revenue less allowable expenses) from the operation of a trade, business, profession, enterprise or other activity at rates of 3.75% for residents and 3.44% for non-residents. To the extent the NPT is not appropriately amended, then conforming changes would instead be made to the BIRT to ensure equitable alignment remains across all types of businesses and entities.

RECOMMENDATION 2: REDUCE WAGE TAX RATE TO 3% OR LESS

The Commission recommends a program for wage tax reduction to achieve an eventual tax rate at or below 3%. The wage tax is a payroll tax levied on people working within the city, regardless of whether they live in the city. It is also levied on city residents when they work outside the city, alongside suburban residents in jobs who are paying a far lower wage tax to their home township, or perhaps none at all. The wage tax is one of the City's primary revenue sources, funding essential services such as sanitation, public safety and infrastructure. However, Philadelphia's wage tax rates are among the highest in the country and the region and are a disincentive for retaining workers and businesses. The current wage tax rates are 3.75% for city residents and 3.44% for non-residents. Wage tax reductions should resume immediately, and accelerate as the benefits of BIRT elimination accrue, excess funding needs for city pensions abate and budget surpluses accumulate, as projected in our analysis (see Appendix I.)

RECOMMENDATION 3: STAY THE COURSE ON COMMITMENTS TO LOWER TAXES

The Commission recommends that Philadelphia's commitment to tax reform be steady and reliable to foster a predictable business environment that encourages long-term investment and economic growth. Once reductions in business and wage taxes are approved, the City must implement them as planned, ensuring employers and workers can confidently make financial decisions based on a clear, credible trajectory. Sudden policy shifts or delays can create uncertainty, discouraging businesses from signing long-term leases, expanding and hiring. Exceptions to this consistent approach should only occur in response to exceptional, unforeseen crises of a magnitude comparable to the COVID-19 pandemic. Otherwise, maintaining predictability is essential to strengthening Philadelphia's economy and competitiveness, enabling small businesses to grow and established firms to move in the city.

While there are many roads that city government may take to eliminate the BIRT tax burden and reduce the wage tax, we are providing suggested ranges for the size and pace of annual reductions, fully recognizing that larger and faster reductions become more feasible in the later years of this timeline for two important reasons: those later years will enjoy better revenue growth as the benefit of earlier reductions takes root and accelerates, while also seeing declining excess pension contributions as the city's plans approach full actuarial stability.

To aid the decision-making process of the City's elected officials, this report presents three potential options or pathways toward achieving our established goals, as provided in Appendix I. This approach is intended to offer flexibility, rather than provide a restrictive single recommendation.

The first two illustrate alternatives starting with 40 and 30 basis point annual reductions in the BIRT net income tax as well as modest reductions to the wage tax. We note that the cumulative effect of these changes would be as or more substantial than any tax reforms implemented under any Mayor in the last quarter century.

The third example shows an ambitious plan to achieve faster reductions in both BIRT and wage taxes. The proposal considers the City's better-than-projected growth rate and revenue receipts as evidence that it can afford to be aggressive in reducing these long-languishing taxes.As with any plan, our elected officials will have to appropriately balance economic trends and competing priorities in considering this approach.

These examples illustrate the effects of tax reductions on the city's budget and the potential for faster job growth. This is based on the city's experience with significant tax reductions from 1996 to 2008 and economic models predicting how reductions influence residents' decisions on where to live and businesses' decisions on expansion, hiring, or relocation. An increase in jobs and firms in Philadelphia expands the city's tax base, allowing for lower tax rates and increased revenue to support necessary services.

Our hope and belief is that these options will provide useful guidance to our Mayor, City Council President and City Councilmembers as they prepare our City's new five-year budget and seek to balance today's immediate needs with forward-looking investments in tax changes that can position Philadelphia for increased economic vibrancy and competitiveness and more robust job and business growth in the coming years. To the extent that financial results are substantially better than forecast, we recommend consideration of increased reductions larger than shown in these examples.

The primary goal of tax reform is to create more job opportunities for residents and make Philadelphia a more competitive place for businesses to start, expand or relocate. The more jobs and firms there are in Philadelphia, the more the city's tax base grows, enabling more workers and businesses to pay lower rates but generate more tax revenues to support needed services. But tax rate cuts alone won't supercharge the growth of businesses and jobs in Philadelphia and make up for years of disinvestment and access to capital and opportunity for disadvantaged residents and businesses.

Tax rate cuts alone won't supercharge the growth of businesses and jobs in Philadelphia and make up for years of disinvestment and lack of access to capital and opportunity for disadvantaged residents and businesses.

RECOMMENDATION: LAUNCH A DYNAMIC, WELL-FUNDED AND BOLD BUSINESS ATTRACTION AND RETENTION PROGRAM TO SUPERCHARGE BUSINESS AND JOB GROWTH

The Commission recommends putting an amount equal to 10 percent of the BIRT tax rate reduction into a special investment fund, the Jumpstart Fund, to supercharge business and job growth in Philadelphia. For instance, if the total BIRT rate reduction investment amounts to $30 million over a given period, the Commission recommends allocating $3 million of that to the Jumpstart Fund, with the remainder to businesses in the form of a tax reduction. The Commission additionally recommends that the City partner with the business community and institutional organizations to solicit contributions to match the BIRT revenue funds.

To ensure a high level of business engagement and financial commitment, the Jumpstart Fund should be led by a six-member board that is reflective of a true public-private partnership, evenly comprised of City officials and leaders of the business community, with a seventh member serving as Chair who is nominated by the Mayor and confirmed by the other members.

The new money generated should be invested in:

- Providing career enhancement and workforce development programs for Philadelphia's low-income population to support doubling current incomes, while meeting the employment needs of Philadelphia's fast-growing businesses.
- Providing capital for diverse, small businesses to supercharge their growth.
- Supporting the recruitment of new businesses to Philadelphia.

This effort will not establish any new programs. Rather, it will be a mechanism for allocating funds, including from the private sector, to existing programs, such as those of the City Commerce Department, the Philadelphia Industrial Development Corporation or Philadelphia

Works, and other similar initiatives throughout the city.

Initiative 1: Capital for small, diverse businesses. A key target for this fund should be small, diverse businesses with growth potential but weighed down by heavy costs associated with loan obligations. In such cases, this investment program would serve to reduce or eliminate those loan costs, and the businesses in turn would commit to hiring more workers. Through this program, we believe 1,000 businesses will be supercharged with job growth. This funding will fuel innovation, create local jobs and strengthen Philadelphia's entrepreneurial ecosystem, driving long-term economic growth and resilience.

Initiative 2: Career enhancement and workforce development programs. These programs would match two important constituencies: Job seekers looking to expand their skills and secure higher-paying employment but currently unable to afford the training to upskill, and Philadelphia businesses whose growth and operations are compromised by an under-skilled workforce. The programs would feature employers providing employment specifications, training institutions to carry out the training to those exact specifications, and an employer commitment to hiring for at least one year – but hopefully permanently – individuals who complete training. These training programs would be focused on low-income and unemployed individuals, and where appropriate formerly incarcerated individuals. The data shows that people who complete this type of training at least double their salaries. Over the next several years, this fund would grow to train thousands of Philadelphians.

Initiative 3: Economic development incentives. This fund would be used to offer financial incentives to attract new businesses and enhance Philadelphia's competitive edge among major cities. The result will put more money in the pockets of working residents and lower the barriers to entry for both new businesses and new residents. This has worked before: When Philadelphia began adding jobs after 2010, the poverty rate declined. (See Appendix J.)

HELPING SMALL BUSINESSES THRIVE

The city provides significant benefits to small businesses by exempting their first $100,000 in gross receipts from the business income and receipts tax. The Commission views support for small businesses of this type as being critical and supports this exemption as good tax policy. Here's how it helps businesses:

1. Lower Tax Burden: Small businesses, especially those with lower revenues, can avoid paying the BIRT on the initial $100,000 in gross receipts. This reduces the overall tax liability for small business owners, allowing them to retain more of their earnings.

2. Simplifies the Filing Process: Businesses with $100,000 or less in Philadelphia taxable gross receipts are exempt from filing the Business Income & Receipts Tax (BIRT) return. This exemption significantly reduces the administrative burden on small businesses, saving them valuable time and resources.

3. Encourages Growth and Sustainability: By reducing the financial burden early on, the exemption helps small businesses reinvest in their operations, hire more employees, or improve services/products. This support is particularly vital for startups or businesses in their early stages.

4. Increased Cash Flow: With the exemption, small businesses have greater flexibility in managing their cash flow. They can allocate funds toward business development, marketing or other essential activities that drive growth.

5. Support for the Local Economy: As more small businesses thrive due to this tax relief, they contribute more to the local economy, fostering job creation, innovation and community development in Philadelphia.

This type of relief ensures small businesses can continue to grow and succeed, as it helps alleviate financial pressures, encourages entrepreneurship and strengthens the foundation of the local economy.

PARTNERING WITH STATE GOVERNMENT FOR GROWTH

Philadelphia needs support from the Commonwealth of Pennsylvania to better manage the city and expand its ability to generate more revenue. The Commission has identified the priorities below for a joint and targeted advocacy effort to be launched by Philadelphia's elected officials, representatives of the business community, residents and other key stakeholder groups. The Commission also recommends that the city explore ways to conform with federal and state accounting and reporting practices where practicable.

RECOMMENDATION: RAISE PHILADELPHIA'S HOURLY MINIMUM WAGE TO $15

The Commission recommends raising the minimum wage in Philadelphia by seeking state legislative approval for a $15 minimum wage in cities of the first class. Pennsylvania's minimum wage is $7.25 - the same as the federal minimum wage - and has not changed in 15 years, meaning it has not kept pace with the rising cost of living. All surrounding states have higher minimum wages – New Jersey ($15.49), New York ($16.50 in New York City and $15.50 elsewhere), Delaware ($15), Maryland ($15), Ohio ($10.70) and West Virginia ($8.75).[xi] Philadelphia's current minimum wage does not adequately support workers, particularly in high-cost urban environments, leading to challenges such as increased poverty rates and economic instability. This can be accomplished through coordinated and targeted advocacy efforts by city and state officials, and business and community leaders.

RECOMMENDATION: KEEP THE STERLING ACT AS IS

The Commission recommends opposing amendments to the Sterling Act. Each legislative session, there are proposals aimed at amending the Sterling Act to require Philadelphia to remit non-resident wage tax revenues to jurisdictions that impose local taxes on earned income. Such amendments would significantly undermine the City's revenue stream, likely leading to painful cuts in services and potential increases in tax rates.

RECOMMENDATION: ADVOCATE FOR MARKET-BASED SOURCING

In 2022, the City Council passed legislation that adopts market-based sourcing for sales of services and intangibles. This change in sourcing methodology requires state-authorizing legislation and will be effective for the tax year after the year the state legislation is enacted. The Commission recommends state approval of this legislation.

ADDITIONAL RECOMMENDATIONS

THE TAX REFORM COMMISSION ADDITIONALLY RECOMMENDS:

- **Increasing enrollment in tax relief programs** by exploring auto enrollment opportunities when possible and cross outreach/enrollment with other city government relief programs. The Commission recommends that the City Revenue Department review existing relief programs and identify opportunities for cross-enrollment to ensure greater accessibility and efficiency, including the dedication of additional staffing resources. For example, if a senior citizen is participating in a relief program through the city's Water Department, can they be automatically enrolled in the city's property tax relief program for seniors? The Revenue Department should lead cross-departmental coordination efforts to achieve this goal effectively.

- **Revising the process for low-income workers to request a city wage tax refund** to make it easier for eligible residents to receive the refund. The city wage tax refund and state tax forgiveness programs have identical eligibility rules, but far fewer city residents receive the city refund. To eliminate this gap, the city should automatically apply low-income tax filers for the city tax refund when they complete their application for the state tax refund. The city should additionally revise the income limits upward to match the levels for the PACE program, and be required to pro-actively identify and contact eligible residents, which would put an estimated $25 million[xii] in the pockets of low-income Philadelphians

- **Creating an Office of the Tax Advocate** to support taxpayers in navigating the complexities of the tax system. Historically, many taxpayers face challenges in understanding tax obligations and processes, often leading to frustration and confusion. An Office of the Tax Advocate would centralize resources, providing clarity and assistance to promote compliance and foster positive relationships between taxpayers and the city. It would also help increase tax relief program enrollment and streamline communication between taxpayers and the city to help reduce the administrative burdens on city departments.

- **Expanding access to federal and state government benefits.** The City needs to create more centralized, aggressive and effective strategies to strengthen ongoing efforts by the City's Office of Community Empowerment and Opportunity to ensure eligible low-income Philadelphians can access federal and state benefits (such as SNAP, Medicaid and the Pharmaceutical Assistance Contract for the Elderly known as PACE). A lack of effective communication by government agencies, confusing application forms, insufficient resources and other obstacles play a role in an estimated $450 million[xiii] in benefits currently left on the table by eligible individuals and families. (See Appendix L.)

- **Allowing all businesses to pay estimated BIRT taxes quarterly** to offer more flexibility.

ADDITIONAL RECOMMENDATIONS

- **Finding ways to improve communication about various business taxes to ensure better compliance.** During the Commission's community engagement process, particularly in focus groups, both large and small businesses consistently expressed concerns about the City's communication regarding taxes, citing it as unclear and confusing. While the Commission acknowledges the progress the City Revenue Department has made in its outreach and communication efforts, it urges the allocation of additional resources to expedite and enhance these improvements for greater effectiveness.

- **Reforming how parking operators are taxed** to help strengthen the viability of many hotels and restaurants. Philadelphia’s parking tax is significantly higher than in peer cities like New York, Los Angeles, Boston, and Washington D.C. Parking operators in the city pay 13 federal, state, and local taxes. At the same time, over the last 10 years the city has lost more than 9,000 parking spaces, which along with the impact of the COVID-19 pandemic have raised concerns from the retail and hospitality industries about the overall impact on businesses. This is especially concerning as Philadelphia prepares to welcome more visitors and tourists in 2026 to celebrate the 250th anniversary of the Declaration of Independence. To address these concerns, the city’s Use and Occupancy Tax for parking operators could be reduced and offset with a $1 increase for on-street parking.

- **Enabling the City of Philadelphia’s Assessment Equity Task Force** to continue addressing and improving fairness in the property assessment process, particularly for communities that may be disproportionately affected by property taxes. This includes examining current practices, identifying disparities and recommending solutions to ensure property assessments are accurate, equitable and transparent. Additionally, the city should continue efforts to improve the accuracy of the property assessment process.

- **Exploring creation of a temporary 20-year tax abatement** for the conversion of hardship buildings. The impact of COVID and the rise of remote work have created a structural decline in the need for commercial office space and the value of commercial office buildings. The need to repurpose many of these buildings has become acute, but the 10-year tax abatement is simply not a sufficient incentive for the conversion of many of these. We can alleviate this crisis and restore vibrancy to our city if, for the next five years, we create a temporary 20-year tax abatement for the conversion of hardship buildings. The city should also review the two-year tax abatement program for startups and consider extending it. Coupled with this should be grants or low interest loans for improvements to buildings that will remain as offices.

- **Continuing investments in technology** to enhance tax administration.

- **Resuming the comprehensive annual review** of city tax incentives’ performance and ROI.

CHANGE IS FINANCIALLY FEASIBLE

The Tax Reform Commission is united in its belief that our recommendations will strengthen the financial profile of Philadelphia and can be implemented without any reduction in city services. Moreover, it is our desire that services remain robust and grow as needed. Several independent organizations have studied how tax reductions will expand the tax base and increase tax revenue by enabling Philadelphia to attract new businesses, retain existing businesses and incentivize existing businesses to expand and create more jobs – something which has been emphatically corroborated by the Commission's research. Some organizations have demonstrated the financial justification for various tax reduction proposals. (See Appendix M.)

It is notable that even though the city has now been reducing BIRT and wage taxes incrementally for almost 30 years, both BIRT and wage total revenues have generally increased each year during that span (with the obvious and understandable exception of the atypical collections during the COVID-19 pandemic).

The Commission contemplated multiple factors and conducted varied cashflow and other analyses to ensure that the proposed reform options were as practical, equitable and feasible as possible. Working with both the Mayor's and City Council's finance teams, the Commission requested and received focused, targeted analyses including specific longer-term projection calculations to guide the proposed recommendations – realizing that there are many factors unknown at this time that could impact cashflow – both positively and negatively – within and beyond the next five years.

Specifically, with regards to the BIRT and wage tax rate reduction scenarios, the Commission wanted to present multiple options to allow for maximum flexibility if cashflow projections realize material variances (positive or negative) – each scenario represents a more aggressive, baseline and more conservative option.

The following items were assumed or considered when determining each of the proposed recommendations:

1. Scenarios assume that not all growth or surplus revenues would further drive reductions (i.e., a portion would be shared with the General Fund).
2. Scenarios contemplate the City maintaining an appropriate combined (restricted and unrestricted) fund balance target for the General Fund (current City policy is 6% to 8%)
3. The City's revenue base should continue to grow year-over-year and service delivery should not be negatively impacted.
4. The City's ending General Fund balance has generally exceeded adopted projections.

5. Future reductions in General Fund fixed costs — the City is currently projected to realize material reductions of fixed liability payments in future years, including (but not limited to) reduction in certain annual pension fund costs once the fund becomes fully funded by 2033. In addition, the City's debt service is scheduled to fall by $200 million in FY30.
6. “Historical” growth estimate — the City’s wage/jobs growth experience has been higher than the recently adopted estimates in the FY 25-29 FYP (reference data) – the city also has a unique opportunity in 2026 with the influx of activity that the 250th anniversary of the Declaration of Independence, FIFA World Cup games and other activities are expected to generate, in addition to potential upside stemming from predictability of a planned tax rate reduction schedule.

Though the Commission believes predictable, planned tax rate reduction schedules will contribute to the momentum of Philadelphia being perceived as business friendly, which may increase efficiency of business decision-making and potentially further catalyze job growth, the Commission also believes that the plan to grow well-paying jobs in an inclusive and equitable manner will require a multifaceted, aligned effort with actions beyond reducing tax burdens.

Given the many uncertainties in the economic environment and the practicalities associated with maintaining adequate cash flow, we understand the City’s Finance Department may recommend adhering to certain fiscal or budget-related benchmarks or ratios, or may implement other “guardrails” to ensure the continued fiscal soundness of the city.

The Commission will collaborate with City Council to develop related legislation and take necessary actions to implement the proposed reforms responsibly.

A SECOND PHASE FOR THE TAX REFORM COMMISSION

This report represents the Commission's first phase of recommendations for tax reforms and other action to jumpstart the job market and economy in Philadelphia. As we look ahead, the Commission will consider several additional proposals – including simplifying taxes and the effectiveness of tax credits and abatements – with the overall goal of lowering the cost of doing business in the city, fostering an environment for greater collaboration between the City and the Commonwealth and building a tax system with more efficiency and capacity.

For example, one area we will further explore is how Philadelphia's complex tax structure complicates the decision-making process for major businesses considering locating in the city versus our surrounding counties and other urban centers. We believe that too often Philadelphia finds itself only able to attract and retain large businesses because of economic incentive programs such as Keystone Opportunity Districts. But the need for these districts only underscores the fact that BIRT drives businesses out of the city, while high wage taxes and employee parking costs cause regional firms to choose cheaper suburban locations.

Among other proposals, the Commission is considering recommendations that the City:

- Use the vastly improved pension funding status to explore opportunities to accelerate the scale and timing of wage tax reductions. (See Appendix N.)
- Develop a strategic plan advocating for revising the Uniformity Clause in the Pennsylvania Constitution to permit cities of the first class – i.e. Philadelphia – to assess commercial properties at a higher tax rate than residential properties. The additional revenue raised would be earmarked for reducing business and wage taxes to create a more competitive city and accelerate growth in the City's and School District's tax base. A key goal of this effort would be to shift the city's tax structure from an over-dependency on businesses and jobs (mobile sources), and a greater reliance on property (immobile sources), while holding harmless the School District's annual millage appropriation.
- Authorize a study to examine the Sugar Sweetened Beverage Tax, with particular attention focused on revenue collections and the impact on jobs and grocery sales by comparing Philadelphia to its surrounding counties, New Jersey and Delaware. Regardless of intent, the tax may have adverse effects that are worth reviewing. The Commission may further recommend an examination of the impact of the tax on small retail businesses and the regressive nature of the tax on the low-income Philadelphians who do not have the resources to travel to neighboring counties. The Commission understands the need to adequately raise revenue for our city, though we should be wary of doing so at the expense of our economy and treating all Philadelphians equitably.
- Review eligibility guidelines and grants for the Property Tax and Renters Rebate Program with a goal of stabilizing or reducing property taxes for low-income households.

- Conduct a comprehensive review of tax policies as they relate to Philadelphia's nonprofit entities including, among other considerations, the impact of recent legal rulings.
- Simplify government interactions by establishing clear rules for doing business with the city. The Commission recommends the City Commerce Department lead the charge by building upon the progress initiated through the Mayor's Business Roundtables and the "Open for Business" initiative to further streamline and enhance how businesses interact with the city.
- Establish or call on an existing agency to regularly conduct independent fiscal analysis of the City's finances. This would provide neutral analyses to help evaluate decisions related to the city's annual budget, as well as public policy proposals related to hiring and investment in the city. The office would be akin to the Commonwealth of Pennsylvania's Independent Fiscal Office. The Independent Fiscal Office offers revenue projections and impartial analysis of fiscal, economic and budgetary matters to help both Commonwealth residents and the General Assembly assess policy decisions. In this role, the Independent Fiscal Office neither supports nor opposes any policies it examines, does not make policy recommendations and discloses the methodologies, data sources and assumptions behind its published reports and estimates.
- Continue to make the tax system fairer by resuming evaluations of tax incentive programs.
- Upgrade its capacity to conduct tax analyses and improve the tax system, including an investment in technological improvements.
- Examine the City's tax credit programs, including analyzing tax credits for hiring low-income and unemployed individuals, and tax credits for low-income renters

THANK YOU

It has been a privilege to present a report filled with thoughtful recommendations to meaningfully reduce poverty and strengthen the vitality of our city. The Commission expresses deep gratitude to the Mayor, City Council President and City Councilmembers for their invaluable leadership – and to the indomitable residents of Philadelphia who make our city extraordinary! More to come!

PHILADELPHIA TAX REFORM COMMISSION

[i] U.S. Census, Annual Estimates of Resident Population for Counties: April 1, 2020 to July 1, 2023
https://www.census.gov/data/tables/time-series/demo/popest/2020s-counties-total.html

[ii] Federal Reserve Bank of St. Louis, Resident Population in Philadelphia County
https://fred.stlouisfed.org/series/PAPHIL5POP

[iii] Quarterly Census of Employment and Wages : U.S. Bureau of Labor Statistics

[iv] BEA 25-24 | U.S. Bureau of Economic Analysis (BEA)

[v] U.S. Census Bureau, U.S. Department of Commerce. "Earnings in the Past 12 Months (in 2023 Inflation-Adjusted Dollars)." American Community Survey, ACS 5-Year Estimates Subject Tables
https://data.census.gov/table/ACSST5Y2023.S2001?q=median

[vi] See report by Econsult Solutions in Appendix.

[vii] Based on analysis done by CBRE, there are 101 commercial office buildings in Center City with 43.4 million square feet of space, and 10.2 million square feet is now vacant, an historic high of 23.5% for downtown during the last two decades. An analysis of leases that expire between 2025 and 2027 leads CBRE to project vacancies will rise to 25%, leaving 10.9 million square feet empty by the end of 2026. Based on estimates done by the Building Owners and Managers Association (BOMA) pre-pandemic, every million square feet of occupied office space provided 6,700 office jobs at all skill levels, 36 janitorial positions, 24 security jobs and 10 building engineers. Workers within the building generated $3.6 million in annual retail sales in surrounding shops and restaurants and drove demand for transit, taxi and ridesharing jobs. Business travelers to firms occupying each million square feet of office space also created demand annually for 22,000 hotel rooms. Thus each 1 million square feet of vacant office space means a direct loss of about 6,800 jobs.

[viii] Philadelphia Receives Rating Upgrade from Standard & Poor's, Achieves Highest Combination of Bond Ratings in Decades | City Treasurer's Office | City of Philadelphia

[ix] https://www.phila.gov/media/20240315151607/five-year-plan-FY25-proposed.pdf

[x] Philadelphia_County_Top_50.pdf

[xi] State Minimum Wage Laws | U.S. Department of Labor
http://www.dol.gov/agencies/whd/minimum-wage/state

[xii] Philadelphia City Council, City Refunds More than $241,000 in Wage Taxes to 1,400 Low-Income Philadelphians (Aug. 26, 2021)
https://phlcouncil.ocm/city-refunds-more-than-241000-in-wage-taxes-to-1400-low-income-philadelphians/

[xiii] Philadelphia City Council, Weekly Report: Special Committee on Poverty Gets Underway (Oct. 11, 2019)
Pew Charitable Trust, Benefit Data Trust's Closure Should Prompt Us to Rebuild the Flawed Public Benefits System (Aug. 6, 2024)