A fact sheet from THE PEW CHARITABLE TRUSTS | Aug 2016


Getty Images

Philadelphia Business Tax Expenditure Facts

Overview

Philadelphia has one of the highest city business tax burdens in the country, and the tax structure is frequently cited as one reason for the city's relatively weak job creation record over the past several decades.

To help attract and retain companies, the city has adopted 21 tax incentives and exemptions, the most among the nation's 30 largest cities. The Pew Charitable Trusts sought to quantify these tax expenditures and compare them with those of other major cities to assist policymakers and the public in understanding the scope of the measures.[1] This analysis is the subject of a new report, *Philadelphia Business Taxes: Incentives and Exemptions*.

Among the study's findings:

Philadelphia has 14 business tax incentives. Forgone revenue due to these incentives averaged $109.6 million per year from 2010 to 2012 for the city and the school district, or nearly 7 percent of total city property and business tax revenue. A decade earlier, the forgone revenue totaled an inflation-adjusted $14.9 million per year, just under 1 percent of all property and business tax revenue.[2]

- The Keystone Opportunity Zone program, which exempts businesses within designated areas from state and local business taxes, was the largest source of tax incentives in 2010-12, resulting in an average of $54 million a year in forgone revenue.
- Forgone revenue due to tax abatements on new construction and building improvements to commercial and industrial property averaged $53.3 million in 2010-12.
- The city also offered smaller, targeted programs to reward companies that support community development, create jobs, and provide expanded health care coverage. These credits averaged $2.3 million a year in 2010-12.

Philadelphia has seven exemptions for certain industries. The industry exemptions resulted in at least $106.2 million in forgone revenue each year from 2010 to 2012—18 percent less than in 2001-03, when the exemptions totaled $129.5 million, adjusted for inflation.

- Philadelphia's industry exemptions for finance, insurance, and utilities are similar to those in many other cities. But its exemption for port-related businesses is unusual, even among cities that have ports.

Determining whether business tax expenditures achieve their goals is difficult. Philadelphia, like most other cities, does not conduct a comprehensive public review.[3] But previous Pew research on state-level tax expenditures across the country points to three steps that officials can take.[4]

- Regularly assess each program in coordination with other program evaluations, with responsibility assigned to specific departments or offices. Academic and private sector economists can also serve as evaluators.
- Consider the impact of individual tax expenditures on the community as a whole and over an appropriate length of time. Calculate the positive impacts on target firms and the potential negative effects on others, measuring them against alternative strategies designed to produce the same outcomes.
- Build effective evaluations into overall tax policy. Tax expenditures should be considered in the broader context of the city's economy, tax structure, and budget.

Given the increase in forgone taxes over the past decade, tax expenditures merit a place in Philadelphia's tax policy discussion. Knowing how much these tax exceptions cost, and whether they are meeting their goals, is a key component of a coherent and equitable city tax policy.

For more information and analysis, download the complete report:
pewtrusts.org/philadelphia-business-taxes

Endnotes

1 Only 11 of the nation's 30 largest cities impose levies on corporate profits or revenue, and only Philadelphia does so on both. The 11 cities are:

- Columbus, Ohio, in Franklin County, with small extensions into Delaware and Fairfield counties.
- Detroit, in Wayne County.
- Los Angeles, in Los Angeles County.
- Memphis, Tennessee, in Shelby County.
- Nashville, Tennessee, in Davidson County (consolidated with city).
- New York City, in New York, Kings, Queens, Richmond, and Bronx counties.
- Philadelphia, in Philadelphia County (consolidated with city).
- Portland, in Multnomah County.
- San Francisco, in San Francisco County (consolidated with city).
- Seattle, in King County.
- Washington, District of Columbia (functions as county and state).

2 Based on revenue calculations in city and school district Comprehensive Annual Financial Reports.

3 Of the 11 cities with local corporate taxes studied, only two—New York and Washington—routinely monitor and report on their tax expenditures in a comprehensive way.

4 The Pew Charitable Trusts, "Tax Incentive Programs: Evaluate Today, Improve Tomorrow" (2015), http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2015/01/tax-incentive-programs.

For further information, please visit:

pewtrusts.org/philaresearch

Contact: Elizabeth Lowe, communications officer
Email: elowe@pewtrusts.org
Project website: pewtrusts.org/philaresearch