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For Businesses, Philadelphia's Tax Burden Differs by Size and Sector

Obligations are lower on smaller businesses, higher on some sectors

Contents

About this report

This report was researched and written by Thomas Ginsberg, a senior officer with The Pew Charitable Trusts' Philadelphia research and policy initiative. Essential guidance and assistance were provided by the certified public accounting firm Horsey, Buckner & Heffler LLP. Larry Eichel, a senior adviser to the initiative, and Katie Martin, project director, edited the report along with communications officer Jolene Nieves Byzon.

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Overview

Business taxes are a perennial subject of debate in Philadelphia. Critics say they're an obstacle to economic growth; defenders call them a way to make businesses pay their fair share. Underlying these arguments are basic questions about how the taxes impact various businesses: Are some industry sectors hit harder than others? Do small businesses bear a heavier tax burden than large corporations? How many pay no business tax at all?

In an effort to shed light on Philadelphia's business tax burden—and help inform Philadelphia government, business, labor, civic, and community leaders—The Pew Charitable Trusts' Philadelphia research and policy initiative undertook an analysis of the city's two business income taxes, which provide nearly 16% of local tax dollars for government services and operations. Pew analyzed roughly 921,000 tax returns filed by companies with the city's Department of Revenue, grouping the companies by sector, size, years on the tax rolls, and other characteristics. Researchers used data from 2017, 2018, and 2019, when the economy was strong, and 2021, when the economy was still badly shaken by the COVID-19 pandemic. (The year 2020 was excluded because of pandemic-related filing disruptions, and datasets for 2022 and 2023 were incomplete at the time of the research.)

Pew produced the research with support from the William Penn Foundation, as part of the "Philadelphia's Fiscal Future" series, which examines the economy of Philadelphia during and after the height of the pandemic.

The primary focus of the research was the two-pronged business income and receipts tax (BIRT), which is levied at a rate of 0.1415% on gross receipts apportioned to Philadelphia, as defined by city tax rules; BIRT also taxes net income from those sales, at rates ranging from 6.20% to 6.35% over the four years studied. The team also looked at the net profits tax (NPT), which is levied on profits of unincorporated businesses that are passed directly to individual owners or partners; the NPT rate was about 3.9% on residents and 3.5% on nonresidents during the four-year period. (The rates changed slightly over the study period and afterward.) No other taxes or fees, such as local commercial property taxes or state and federal business taxes, were included.

Rather than focus on tax rates as set by the local government, this research calculated how much tax businesses operating in Philadelphia businesses actually owed, relative to their income—their "tax burden." Tax burden refers to the relative load or weight of taxes on businesses. It can be measured by calculating the effective tax rate, which reflects the taxpayer's income. In this report, the effective rate is found by dividing total taxes due by net income received, with an additional percentage to account for the BIRT tax on gross receipts. The formula, described fully in the methodology section, differs from the most common method of calculating an effective tax rate because it needed to account for both sides of the BIRT, which is atypical; most other U.S. cities and states that tax businesses typically only tax gross receipts or net income, not both.

As a result, this report provides an informative and novel, albeit partial, tax portrait of businesses with sales in Philadelphia. While drawn from the period before and during the pandemic, this picture of business tax burdens and other characteristics of the payers and nonpayers remains illustrative.

The research found that businesses faced a BIRT effective tax rate of 3.5% at the median, meaning the two-pronged BIRT consumed 3.5% of their net income. (That figure does not include NPT liabilities, which were analyzed separately.) Our analysis also found that the smaller a business in terms of receipts, the lower its tax burden. Very small businesses, with median gross receipts of $124,000, had an effective tax rate of 0.8%, compared to 7.1% for very large businesses, with median gross receipts of $3.4 million. A major reason for this large gap is that the BIRT excludes from taxation the first $100,000 in gross receipts—and a proportionate amount of net income—attributable to sales in Philadelphia. This $100,000 exclusion provides disproportionate relief to smaller businesses and has freed many entirely from the BIRT since it was introduced in 2014.

The BIRT tax burden also differed markedly across industry sectors, ranging from a low of 2.1% on real estate and leasing to a high of 6.0% on wholesale businesses. Those differences illustrate how size matters: Many real estate companies in Philadelphia are small (low grossing), while wholesalers tend to be large. The variations also show how some types of businesses bear a heavier tax burden than others because of different profit margins on what and where they sell, as defined by the city's tax rules—even when they all face the same tax rate. Those rules, along with the size differences and $100,000 exclusion, can affect business tax burdens as much as the rates set by the city council and the mayor.

Among other key findings:

- Only around a quarter of businesses in the city (35,500, on average) had enough taxable sales even to incur a BIRT liability. The other three-quarters in the period studied had less than $100,000 in sales and paid no BIRT, although some still owed money separately on the NPT.
- The median BIRT bill was $1,315 over the four years studied. Among those owing more than the median, an average of 52 businesses owed $1 million or more every year. One-third of businesses subject to the BIRT—around 12,300 on average—owed tax on gross receipts but nothing on net income, due to credits or prior-year losses that canceled out profits.
- The two prongs of the BIRT hit business sectors very differently. For real estate and rental and leasing companies, 84% of their total BIRT bill resulted from the net income tax, reflecting the fact that their sales tend to bring sizable profits or losses. On the other hand, just 40% of BIRT bills for hotels, restaurants, and bars resulted from the net income tax, because the hospitality industry tends to have relatively thin profit margins. For businesses overall, a median of 67% of their BIRT bill came from the net income tax and 33% from the gross receipts.
- The BIRT tax burden varied somewhat by the number of years that businesses had been filing the city's tax returns. Companies in their first or second year of BIRT filing had a median effective tax rate of 2.3%, while companies with 11 or more years on the BIRT tax rolls had a median effective tax rate of 3.9%.
- Large, older, and professional/technical companies supply most of the city's revenue from the BIRT. About 86% came from companies with median gross receipts of $3.4 million, on average, over the four years studied. About 25% came from the professional, technical, and scientific sector, the most of any sector.
- In a separate analysis, researchers found that the median tax bill for those who had to pay NPT was $360. While NPT raises far less money than BIRT for city coffers, NPT payers outnumber BIRT payers in any given year: 56,100 versus 35,500, on average.

Private sector businesses are essential to Philadelphia's well-being. Over the years studied, they paid an annual average of $40 billion in wages and salaries while reporting $10 billion in net income on $99.4 billion of total gross receipts, according to city data and federal figures.[1] Their BIRT and NPT taxes provided a sizable portion of Philadelphia government revenue, an average 14.3% of local taxes over the years studied (12.5% from the BIRT and 1.8% from the NPT).[2] City officials closely track those collections, but they don't routinely measure the tax burden on payers. An understanding of how taxes and tax burdens affect different kinds of businesses is important to helping the businesses, and Philadelphia, prosper.

Measuring the business tax burden

In the years before the COVID-19 pandemic, Philadelphia's economy was performing relatively well, albeit with a bit of a slowdown in 2019. Job creation was robust, the number of educated workers was growing, and owners created slightly more businesses than they closed.[3]

However, compared to other major cities, Philadelphia has remained an economic underperformer in many ways. Some analysts and business advocates partially blame Philadelphia's business taxes, specifically the BIRT, saying it raises companies' costs and deters them from locating in the city, which in turn they say deprives residents of job opportunities and the city of tax revenue.[4] Critics say its rates are too high and its two-sided taxation is unfair and complicated; other U.S. cities, if they tax businesses directly at all, typically tax either net income or gross receipts, but not both. Philadelphia also separately imposes a net profits tax (NPT) on partnerships, sole proprietorships, and certain other pass-through entities.

In 2020 and 2021, driven by the need for revenue amid the economic shock of the pandemic, the city council and the mayor suspended previously scheduled business tax rate cuts and made other changes in the tax code. Table 1 shows the rates that Philadelphia imposed in the years studied. The rate cuts resumed in 2022, after the study period, including reduction of the BIRT net income rate to 5.81% and the NPT resident rate to 3.75%.[5]

Table 1

Philadelphia Business Tax Rates Over the Study Period

The city reduced some rates between 2017 and 2021; subsequent cuts not shown

	2017	2018	2019	2021
BIRT net income tax rate	6.35%	6.30%	6.25%	6.20%
BIRT gross receipts tax rate	0.1415%	0.1415%	0.1415%	0.1415%
NPT resident tax rate	3.8907%	3.8809%	3.8712%	3.8398%
NPT nonresident tax rate	3.4654%	3.4567%	3.5019%	3.4481%

Source: City of Philadelphia

Statutory rates, however, do not show how taxes and tax exemptions affect different sizes and kinds of taxpayers, especially when those rates are the same on all payers, as is the case in Philadelphia. (The Pennsylvania Constitution requires the rate of each tax, such as the BIRT, to be the same for all payers of that tax.[6]) The effective tax rate provides a useful way to compare the impact of a tax on different businesses. It measures how large a bite the taxes take out of a payer's total income in relation to the size of that income. The effective rate, for example, is different for a business with low income than another with high income, even when they face the same tax rate.

To find the effective tax rates, tax liabilities, and other aspects of Philadelphia's tax burden, the researchers obtained permission and assistance from Philadelphia's Department of Revenue, under a confidentiality agreement, to analyze all BIRT and NPT data from actual returns filed for 2017, 2018, 2019, and 2021. (On the department's advice, researchers skipped 2020 because of disruptions in filing deadlines and extreme anomalies during the first year of the pandemic. The 2022 and 2023 data were incomplete at the time of research.) In total, the department provided data from 516,200 BIRT returns and 405,135 NPT returns.[7]

Researchers first selected the BIRT returns reporting gross receipts over $100,000 in Philadelphia.[8] For both the NPT and BIRT analyses, researchers computed each taxpayer's effective tax rate and tax liability for each year. They grouped taxpayers by industry sector, years on the tax rolls, legal structure (e.g., corporation, sole proprietorship), and other characteristics using information on tax returns, and then found the median effective rates and median tax liabilities, among other calculations, for each group. To account for size, businesses were divided into five equal-sized groups by gross receipts (quintiles). Researchers then averaged all median figures over the four years studied, to smooth out spikes over what was a turbulent time. See methodology for details.

What Are BIRT and NPT?

Business income and receipts tax (BIRT): A tax on for-profit business activity in Philadelphia by any type of company, from large multinational corporations to local sole proprietorships, that made more than $100,000 from the sale of goods or services in Philadelphia, subject to location-sourcing rules. (See the appendix.) The BIRT contains two taxes at two different rates: one on **gross receipts**; and the other on **net income** (or profit) from those receipts after subtracting certain expenses. Businesses with $100,000 or less in gross receipts are exempt and, as of 2020, do not have to file a BIRT form.

Net profits tax (NPT): A tax on profits that a noncorporate entity, such as a partnership or sole proprietorship, passes directly to its owners or partners. Philadelphia taxes pass-through profits at the same rates it imposes on personal wage income, with the business entity typically paying the tax on behalf of the owners or partners. A noncorporate entity must also file a BIRT return if its gross receipts exceed $100,000, but it is allowed to deduct from its NPT liability an amount equal to 60% of its BIRT net income tax. The NPT is levied at two different personal-income rates: one for Philadelphia **residents** on profits derived from business conducted anywhere, including outside the city; and a lower rate for **nonresidents** on profits from business conducted in Philadelphia.

For the history of both taxes, see the appendix.

Glossary

Business or company: Any entity that filed a BIRT or NPT tax return on gross receipts or income for goods sold or services performed in Philadelphia, subject to various tax rules. The taxes apply to all firms that do business in the city, regardless of where they are located.

Effective tax rate: A percentage of taxes in relation to income that can be used to compare different kinds of taxpayers and periods. An effective tax rate of 0% means that taxes didn't consume any of a business's income, while a rate of 100% means that taxes took everything the company earned. The percentage can rise because of higher tax rates, lower profits, or both. The formula used in this analysis is total taxes due, minus exemptions or credits, divided by net income received, plus gross receipts tax due divided by gross receipts received. (Full explanation can be found in the methodology.)

Gross receipts: Revenue from sales of goods or services attributable to a Philadelphia location. The tax code defines Philadelphia location for some goods differently than for some services.

Net income: Income left over after certain expenses but before taxes.

Profits: Income left over after expenses but before taxes, comparable to net income.

Tax burden: The load or weight on a business from the taxes it owes. It is expressed in this report as a percentage of income, or "effective tax rate," and in dollar figures as "tax due" or "tax liability."

Tax due: Amount calculated from a statutory tax rate and owed each year, as listed on a tax return. It may be different from the amount a business actually pays (and the government receives) in a given year because of delinquencies or adjustments from prior periods. This figure is the numerator in the calculation of effective rates.

Tax rate: A percentage of each dollar of income, set by the city council and mayor for each tax. For example, the BIRT gross receipts tax rate during the period of this study was (and still is) 0.1415%.

Types of companies: When filing city tax returns, businesses must identify how they are structured.
A **corporation** receives taxable income and pays tax as an entity, separate from its owners (shareholders).
A **sole proprietorship** has one owner, who receives profits personally and owes income tax on those profits.
A **partnership** has two or more owners, who receive their share of profits personally and owe income tax on their share of profits.

Counting filers and payers

Approximately one-fourth of businesses registered in the city's tax system had enough sales to make them liable for the BIRT, an average of 35,500 companies a year over the period studied. The other three-quarters of BIRT filers owed nothing because they had less than $100,000 in sales.

While the number of businesses subject to BIRT held somewhat stable over the period studied, the number of total filers was decreasing even before the pandemic. That likely was due to a slowing economy before the COVID-19 outbreak, then to the pandemic itself, and later because the city lifted its BIRT filing requirement for companies with less than $100,000 in gross receipts, effective 2020. It also should be noted that 2021 returns were still trickling in when researchers conducted this research in 2023. See Table 2.

Table 2

Total BIRT Filers Dropped, but Liable Filers Remained Relatively Stable

Figures for 2021 were not final at the time of this research

	2017	2018	2019	2021
Total number of BIRT returns	140,908	133,904	123,362	118,026
Liable (over $100,000 in sales)	35,852	36,051	35,038	34,846
Exempt ($1 to $100,000 in sales)	75,553	73,045	68,334	39,763
No gross receipts ($0 sales)	29,503	24,808	19,990	43,417
Percent of filers that are liable	25%	27%	28%	30%

Source: Pew analysis of City of Philadelphia tax return data, 2017, 2018, 2019, and 2021

Among the average of 35,500 businesses that were liable for the BIRT, practically all owed at least some gross receipts tax, sometimes a small amount. But only two-thirds also owed taxes on net income from their Philadelphia operations; the other third—around 12,300, on average—reported no net income on their tax returns because of deductible losses from prior years, current tax credits, or other reasons. Businesses in this latter group, in other words, still owed some tax (on gross receipts) even though they had reported being unprofitable. From the city's perspective, the effect is a stable, continuing flow of business tax revenue. But that aspect of the BIRT, in addition to its rates, payment requirements, and other provisions, nonetheless has irked some business owners for many years.[9]

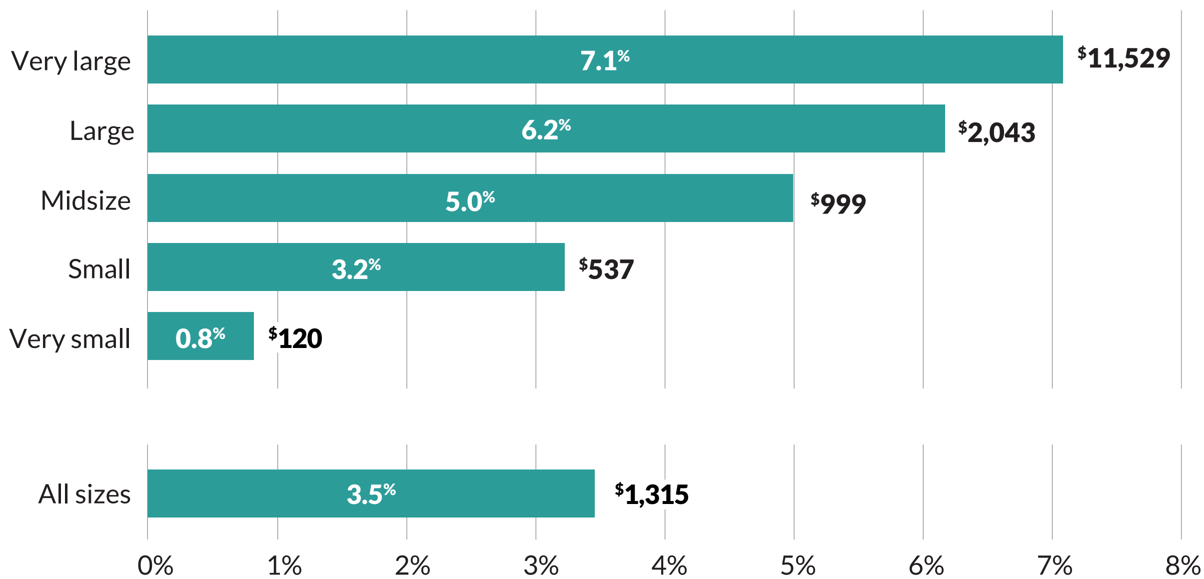
The smaller the company, the lower the tax burden

Across all sizes and types, businesses owed a median 3.5% of their net income in BIRT taxes, or $1,315. Half owed less and half more, some vastly more: An average of 52 companies each year owed at least $1 million. The effective tax rate on businesses with relatively low sales was much lower than on those with high sales; the lowest-grossing quintile group had a median effective rate of 0.8% and owed $120 in taxes, while the top-grossing group had an effective rate of 7.1% of net income and owed $11,529. See Figure 1.

Figure 1

Tax Burdens Are Lower on Smaller Businesses Than Larger Ones

Ranked by median effective rate in the bars; dollar figure is median tax due



Note: Median gross receipts of each quintile as follows: all sizes $365,500; very large $3,400,000; large $808,000; midsize $365,500; small $202,000; very small $124,000. Number of businesses in each quintile is 7,089, on average, over the study period.

Source: Pew analysis of City of Philadelphia business tax return data, 2017, 2018, 2019, and 2021

Part of the reason for the variation by size is Philadelphia's gross-receipts exclusion. It allows businesses to reduce their gross receipts by $100,000, along with a proportionate amount of net income, before they compute their taxes due. Phased in over three years from 2014 to 2017, the exclusion is given automatically to any business that properly completes a BIRT return. In percentage terms, it benefits small businesses more than big ones, and has been a major factor in limiting their tax burden. (It also caused a 65% decline in the number of businesses subject to the tax from the three-year period before 2014 to the three years afterward, and accordingly is believed to have reduced administrative costs for both businesses and the city.[10])

Variations by sector

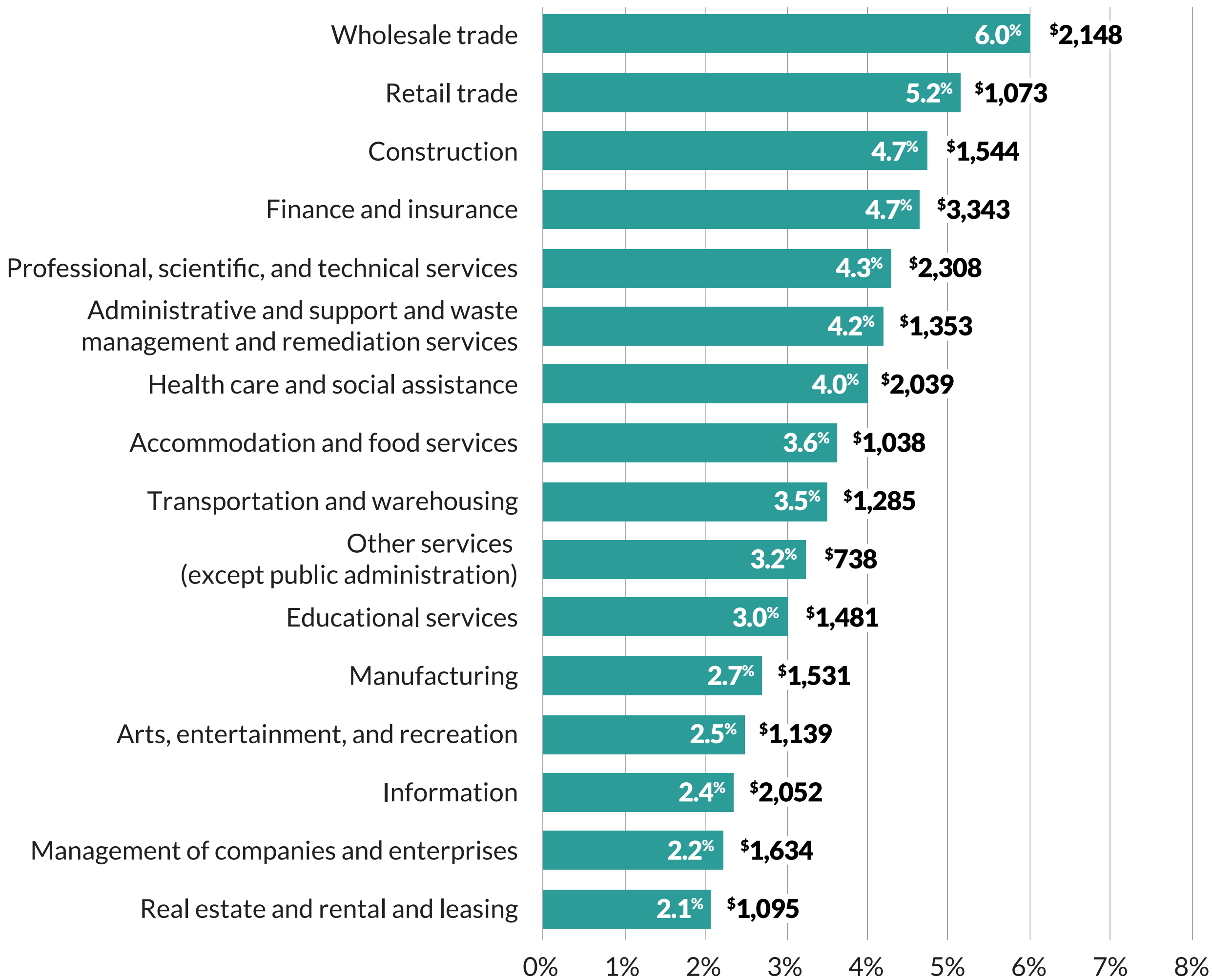
The two prongs of the BIRT, plus its various formulas and the rules businesses can use to determine taxable income, result in a different tax burden for each sector, even though they all face the same tax rates. (The uniformity clause of the Pennsylvania Constitution prevents the city from setting different tax rates for different sectors.[11]) Each sector also tends to have a different range of sizes of businesses, another driver of the variations.

Over the period studied, the BIRT effective tax rate was highest on wholesale businesses at 6.0% and lowest on real estate, rental, and leasing at 2.1%. Ranked by taxes due in dollars, finance and insurance firms had the steepest median tax liability at over $3,300, and service providers such as nail salons or dry cleaners (so-called other services) the smallest, at $738. See Figure 2. (The sectoral rankings are slightly different when broken down by company size. See the appendix.)

Figure 2

Tax Burdens Vary by Sectors' Gross and Net Income

Ranked by median effective rate in the bars; dollar figure is the median tax due



Note: Not shown are agriculture, mining, utilities, public administration, and unspecified sectors.

Source: Pew analysis of City of Philadelphia tax return data, 2017, 2018, 2019, and 2021

There are a few reasons for the cross-sector variation in effective rates. Each industry sector tends to have a unique proportion of gross and net income. Professionals such as lawyers or accountants charge fees based on their expertise, resulting in potentially more net income. Restauranteurs sell many meals but have high direct expenses that leave only a little profit. The sizes of businesses (by total receipts) in each sector also matter, as discussed previously.

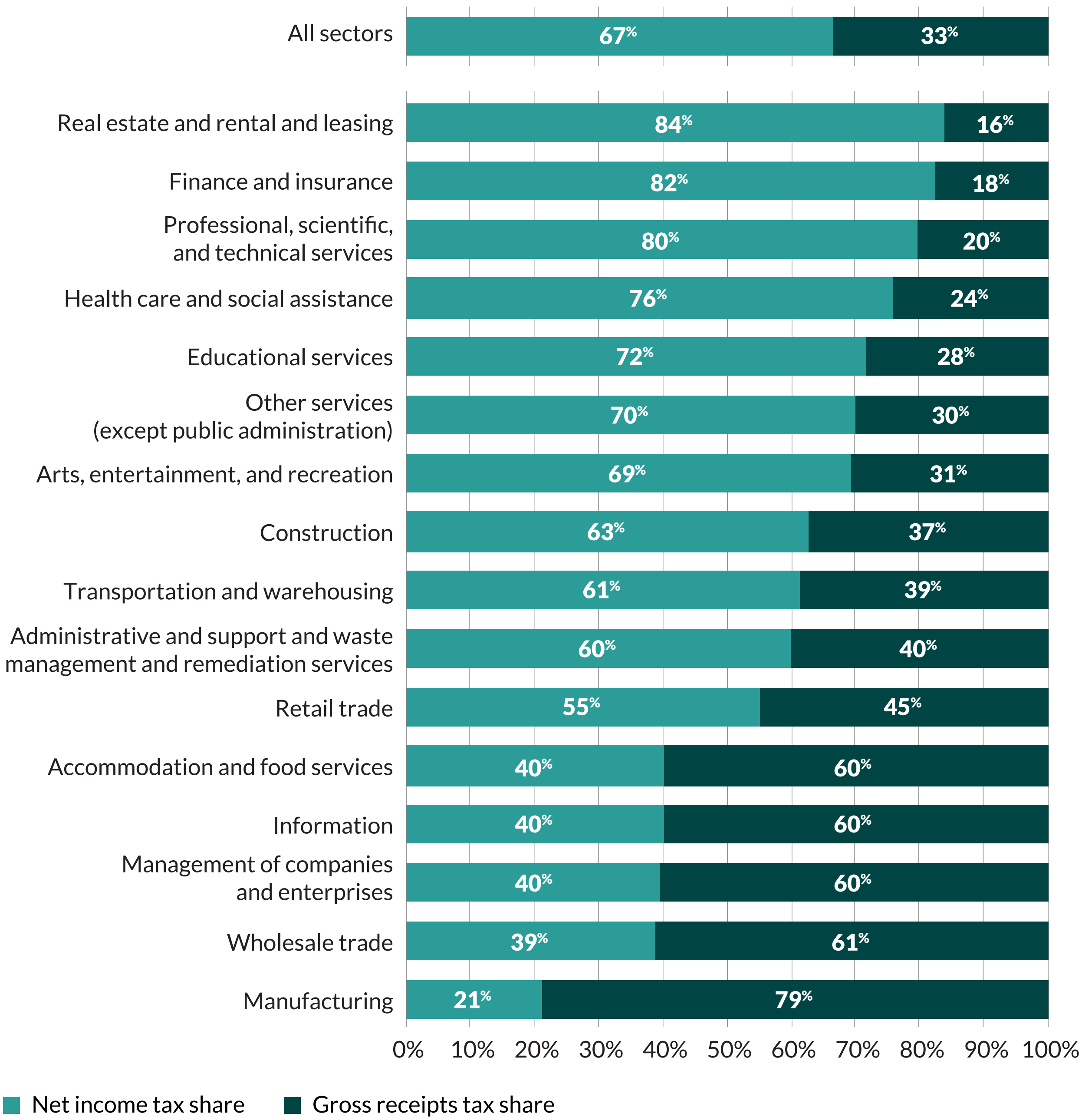
Over the years, city policymakers have also adopted provisions that can change the BIRT liability of certain kinds of businesses without touching tax rates. For example, the city provides an alternative formula that manufacturers and retailers may use to reduce their taxable gross receipts. Another provision lets port-related businesses and banks exclude some or all of their income from BIRT.[12] In 2015, the city adopted the "single sales factor" formula, which makes tangible products such as manufactured goods only taxable if they were sold in the city, not elsewhere. (A provision called "market-based sourcing" to extend that break to sellers of intangible services, such as legal advice, was proposed during the period studied but has not been enacted.[13]) The city's changes are meant to lessen the tax burden on city-based businesses and could have as much impact as reducing tax rates, according to some experts.[14] "Sourcing rules on [the location of] receipts is critical to a business's income tax," said Jonathon Liss, an adjunct tax professor at Villanova and Drexel universities and former senior revenue policy analyst at the Philadelphia Revenue Department, in an interview with Pew.

Across all sectors combined, the median net income tax portion of the BIRT accounted for the largest share of tax bills, 67% over the years studied. But the proportion varied widely by sector. For finance and insurance companies, 82% of their total BIRT bill came from the net income tax and 18% from the gross receipts tax. For manufacturers, 21% was due to net income and 79% to gross receipts.[15] See Figure 3.

Figure 3

Sectors Have Different Proportions of Net Income Tax to Gross Receipts Tax

Net income portion ranges from 21% to 84% of the BIRT totals



Note: Sectors ranked by net income as a percentage of all BIRT tax owed. Sectors not shown are agriculture, mining, utilities, public administration, and unspecified.

Source: Pew analysis of City of Philadelphia business tax return data, 2017, 2018, 2019, and 2021

New filers have slight tax advantage over old ones

BIRT tax burdens varied slightly by the number of years since businesses' initial BIRT filing.[16] Companies with up to two years on the tax rolls had a median effective tax rate of 2.3%, compared with 3.2% for those at 3-10 years, and 3.9% at 11 years or more.

New filers, including younger companies, tend to have less taxable income (and higher startup costs) than longtime filers, which may account for some of the gap in tax burden. Philadelphia also has two tax relief programs targeting younger companies. The main program, Jump Start Philly, seeks to "attract new businesses" under two years of age by exempting them from all BIRT (and NPT) taxes as well as several fees.[17] Another, smaller program targets companies under three years of age that follow certain social, environmental, and worker-friendly standards.

Still, around 3,700 companies with two or fewer years of tax-filing history appear on the BIRT rolls with a median tax liability of $893 per year. The Revenue Department told researchers that uptake of the credit may be low and attributed it to a lack of marketing and a complex application process.

Over the period studied, the median years of BIRT-filing history held steady at around 10 years, 10 months. In 2021, however, the median years for the newest group fell about three months below the overall median and rose by some 17 months for the oldest group, presumably reflecting the flurry of business closings and openings in that pandemic year.

Tax incentives and credits

Over the past several decades, Philadelphia has adopted an assortment of business tax credits and exemptions intended to offset the city's high tax rates and promote business growth.[18] The biggest by far is the Keystone Opportunity Zone (KOZ), which exempts companies located in designated geographic areas from state and local business and property taxes. The KOZ is many times bigger than all other tax-relief programs combined. Of the other tax-relief programs, the most popular are the Job Creation Tax Credit and the Community Development Corporation Tax Credit.

It was beyond the scope of this report to determine whether the city achieved its goals with those tax credits and exemptions, how much tax businesses avoided, or even whether companies knew about the credits. But for those businesses that did claim the credits, the overall result was a slightly lower BIRT tax burden. Among the businesses most active in claiming credits (larger firms in the finance, real estate, and professional sectors), recipients had BIRT effective tax rates about a half of a percentage point, on average, lower than comparable businesses that didn't receive credits. See Table 3.

Table 3

Effective Tax Rates Are Slightly Lower for Certain Businesses Receiving Credits

Comparison of financial, professional, and real estate businesses with above-median receipts

	Received tax credits		Did not receive tax credits	
	Number of recipients	**Median effective tax rate**	**Number of nonrecipients**	**Median effective tax rate**
Finance and insurance	41	6.6%	194	7.0%
Real estate and rental and leasing	47	5.7%	304	6.6%
Professional, scientific, and technical services	42	6.8%	221	6.9%
Total and average	**130**	**6.4%**	**720**	**6.8%**

Note: Businesses shown have gross receipts at least double their sectoral median, in line with typical claimants.

Source: Pew analysis of City of Philadelphia tax return data, 2017, 2018, 2019, and 2021

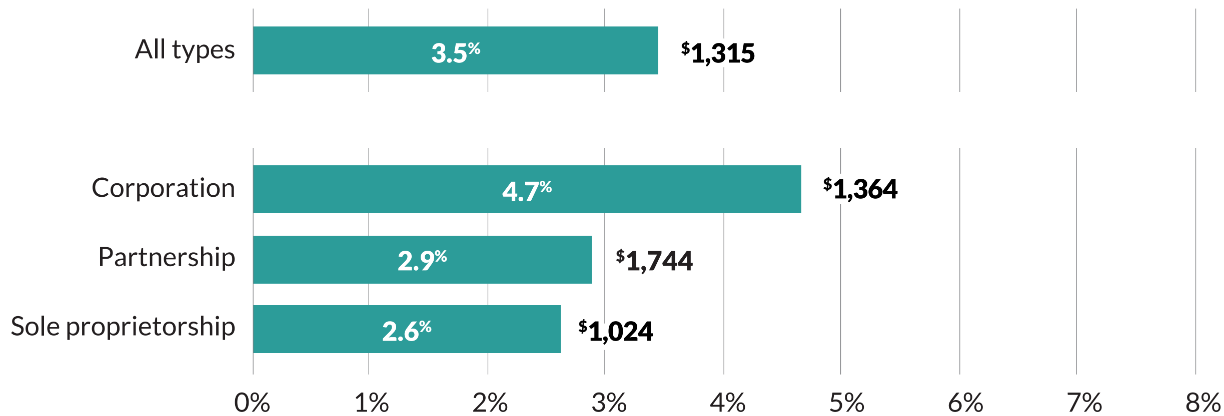
In contrast to other large variations in tax burden found in the analysis, this half-point difference appears marginal. It should be noted, however, that the analysis did not include reductions in other local and state taxes, a significant benefit to KOZ participants.

Sole proprietorships, partnerships, and corporations

In Philadelphia, corporations are only subject to the BIRT, while partnerships and sole proprietorships are subject to the NPT as well as the BIRT. The overlapping taxation can make it difficult to discern a clear difference in tax burden between one company type and another.

Among BIRT payers, the effective tax rates were notably lower on sole proprietorships (2.6%) and partnerships (2.9%) than on corporations (4.7%). (See Figure 4.)

Figure 4
Sole Proprietorships' BIRT Effective Tax Rate Is Below Corporations'
Ranked by median effective rate in the bars; dollar figure is median tax due



Note: Company types exclude estates and trusts, nonprofit organizations with for-profit activity, disregarded entities, and unspecified types.

Source: Pew analysis of City of Philadelphia business tax return data, 2017, 2018, 2019, and 2021

However, the low BIRT tax burden on sole proprietors and partners is offset to some extent by their NPT tax burden, which is discussed separately below. For sole proprietors, another factor is size: Their gross receipts and net incomes are much less than those of corporations and partnerships, resulting in a bigger boost from the BIRT's $100,000 exclusion.

Net profits tax

A separate part of this analysis looked at the city's net profits tax, which is levied on business entities, such as partnerships, that pass profits directly to owners. The NPT was created along with the city's wage tax in 1939 and is imposed at the same rates that the wage tax imposes on Philadelphia residents and nonresidents. (See rates in Table 1.) Similar to how employers withhold and pay the wage tax on behalf of employees, many NPT-liable businesses pay the NPT on behalf of their owners, who later report those payments on their personal tax returns.

Our analysis found that the median NPT bill, averaged over the four years of the study period, was $360. The effective tax rate did not vary much across taxpayer types and mostly tracked statutory rates, because the computation has only one type of income and few credits—unlike BIRT, with its variable shares of receipts and income and many credits and exclusions.

The NPT raises far less revenue for the city than the BIRT, about 1.8% of all local tax revenue on average over the years studied.[19] But NPT payers significantly outnumber BIRT payers in any given year—56,100 versus 35,500, on average, over the period examined. About two-thirds of those who paid NPT taxes were city residents, a share that mostly held steady before and during the pandemic.

More than 6 out of 10 NPT filers were sole proprietorships, a type of business structure that tends to be favored by lower-income entrepreneurs and family-owned businesses, which predominate in neighborhood business corridors outside Center City. They include what are sometimes described as small, local, independent mom-and-pop merchants, who often have just one location and a few employees if any. Research has found that such businesses are more likely than corporations and partnerships to have Black, Hispanic, Asian, and female owners.[20]

Another 2 of 10 NPT payers were partnerships, a structure often used by professional and financial firms that also tend to have higher net incomes. Many of the rest did not specify their company structure on the tax forms.[21]

All NPT payers must file BIRT returns if their gross receipts exceed $100,000. To avoid double taxation, businesses are allowed to reduce the NPT liability by an amount equal to 60% of their BIRT net-income tax liability. An average of 10,500 NPT filers, or about 1 of 5 with any reportable profits, deducted BIRT taxes from their NPT bills.

Where BIRT revenue comes from, from the city's viewpoint

Different businesses accounted for very different shares of the total BIRT taxes owed to the city each year, when examined by business sector, size, age, and type.

Grouped by sector, professional, scientific, and technical firms accounted for the biggest share, 25% of BIRT revenue, on average over the study period, according to the city's published data.[22] The next biggest share, 15%, came from real estate, rental, and leasing companies. The finance and insurance sector and the retail sector were nearly tied at 9% each. These shares don't necessarily reflect the importance of each business sector to the local economy: The health care and social assistance sector, which is dominated by large tax-exempt entities in Philadelphia, provides around 24% of jobs in the city but supplies just 5% of BIRT revenue from its taxable businesses, which are relatively small.

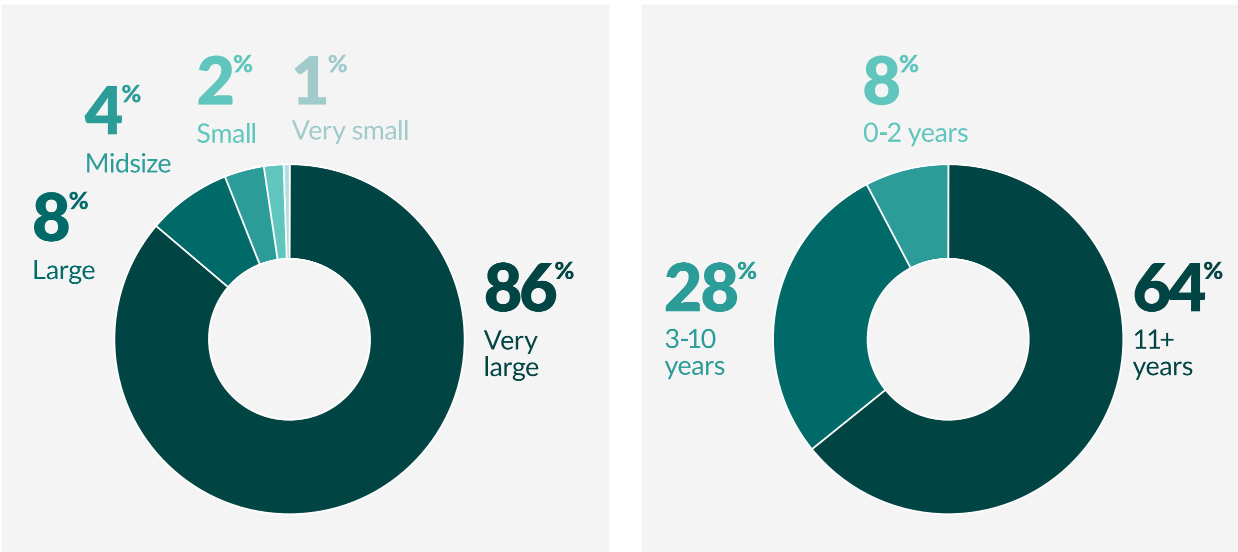
Viewed by size of the business, very large companies—the top quintile, with a median of $3.4 million a year in gross receipts—accounted for 86% of all BIRT dollars owed to the city on average over the period. Next was the large-company group (median $808,000 in gross annual receipts), which contributed 8% of BIRT revenue. The smallest company group (fifth quintile, with a median $124,000 a year in gross receipts) owed less than 1% of all BIRT revenue. See Figure 5.

When grouped by number of years they had been registered in the BIRT system, companies that had been listed for 11 years or more—the oldest in our analysis—supplied 64% of BIRT taxes, on average. The youngest group, those filing for less than two years, contributed 8%. See Figure 5.

Figure 5

Most BIRT Revenue Comes From Larger, Older Companies

Size based on gross receipts; age based on years listed in the BIRT system



Notes: Figures may not total 100% due to rounding. Each size group is a quintile of the whole dataset and consists of 7,089 companies. Each age group is based on years that a company was listed in the city's tax system.

Source: Pew analysis of City of Philadelphia tax return data, 2017, 2018, 2019, and 2021

When grouped by company type, corporations of any size or sector owed 48% of BIRT revenue. Partnerships were close behind, contributing 43% of BIRT revenue. Sole proprietorships supplied just 7%. (The latter two groups are also subject to the net profits tax, which is not included in this tally.) About 2% of BIRT revenue came from companies with unspecified legal structure.

As noted above, the BIRT contains taxes on both gross receipts and net income; 74% of its revenue came from the net-income tax and 26% from the gross-receipts tax, on average, according to the city's published data.[23]

Summary

Philadelphia's government, civic, and business leaders have long tussled over the size and scope of the city's business taxes, especially the BIRT. This analysis found that the BIRT's burden on businesses varies widely and could support many different interpretations of fairness or impact.

Over the recent period before and during the pandemic, BIRT-liable companies owed 3.5% of their net income, or about $1,300 in BIRT taxes at the median, to the city each year—half of them less and half more, in some cases vastly more.

Low-grossing (small) businesses had lighter BIRT tax burdens than high-grossing ones. New businesses and sole proprietorships also had relatively low BIRT burdens. City and civic leaders believe these are the kinds of businesses that can broaden economic well-being in the city. Their low tax burdens are due at least partly to Philadelphia's $100,000 gross-receipts exclusion. The decade-old tax break plays a big role in holding down the tax burden on smaller businesses and limiting the number of businesses that owe the tax, although its impact on overall economic growth remains an open question.

Wholesale and retail businesses have the highest BIRT tax burdens overall. The real estate sector has some of the lowest BIRT burdens, although many of those businesses also pay taxes as a result of the NPT, which is measured separately here. The city's most important sector in terms of generating tax revenue—the professional, scientific, and technical sector—had an effective tax rate that was slightly above the median. So did its most important sector for employment, health care and social assistance, although only its taxable for-profit segment; the biggest health-care providers are exempt from the BIRT on the bulk of their income. Across all sectors in the city, half of the 20 biggest nongovernmental employers are nonprofit entities that only owe the BIRT on the portion of their income not related to their tax-exempt mission.[24]

For BIRT-liable businesses, two-thirds of their tax bill comes from the net income portion and one-third from the gross receipts portion, although the latter falls on practically all businesses, even in small amounts. The city has been cutting the net income tax rate gradually for a decade. Some sectors, however, such as accommodations and food services, feel the bulk of the BIRT burden on their gross receipts side, where tax rates haven't changed since 2007.

Only around a quarter of the city's businesses—35,500 a year on average—file a BIRT return and owe any BIRT tax. The other three-quarters don't make enough money to be taxed under the BIRT, although many are still subject to the NPT.

Taxable businesses provide a sizable share of the jobs, amenities, and wealth for Philadelphia residents, as well as substantial tax dollars to City Hall. The tax burden that Philadelphia places on these businesses is a major factor in the city's economic and fiscal future, worthy of regular consideration in tax debates.

Appendix

Brief history of Philadelphia business taxes

The business income and receipts tax (BIRT) originated in 1952, when the Pennsylvania Legislature gave Philadelphia and other municipalities the right to impose a mercantile license tax on businesses' gross receipts received within the community's borders, with certain exceptions. In 1985, Philadelphia replaced that gross receipts tax with the business privilege tax (BPT), as allowed by special state legislation; the city retained the gross receipts tax and added a net income portion at a separate rate, resulting in the two-sided tax that remains unique nationally. (In 2012, Philadelphia renamed it BIRT to shed the word "privilege."[25])

In 1988, the city doubled its net income rate and began making tiny annual cuts to the gross receipts rate. It suspended the cuts in 2008 because of the fiscal crisis brought on by the Great Recession, but resumed cutting in 2014, this time on the net income side, reflecting a consensus that the BIRT's net income rate was too high.[26] That year, officials also launched the gross-receipts exclusion, first worth $50,000 and later $100,000 for every BIRT filer, resulting eventually in a 65% reduction in the number of businesses subject to the BIRT.[27] The city paused the net-income rate cuts in 2020 and 2021 due to the COVID-19 pandemic, then resumed them in 2022.

Over many years, the city also has added nearly two dozen special credits, exemptions, and exclusions to the tax code, although uptake on some is low and their impact is unclear.[28] Philadelphia also has modified various rules and definitions aimed at reducing the tax burden. One of the most significant changes, which took effect in 2015, was the "single sales factor apportionment" rule, which is used to determine how much of a company's net income can be apportioned to Philadelphia and is thus taxable. The single-sales factor rule originally applied only to receipts from tangible goods, such as T-shirts and beverages; it was later expanded to software and internet publishing.[29] Another major rule change was proposed during the study period but has not been enacted; "market-based sourcing" would allow providers of intangible services, such as lawyers and architects, also to avoid taxation of receipts and income received from customers who are located outside the city.[30]

The net profits tax (NPT) was created along with the wage tax in 1939, following the Great Depression, making it the first levy on business income in Philadelphia. The NPT applies to profits that unincorporated firms, such as sole proprietorships and partnerships, pass directly to their owners. It has resident and nonresident rates that mirror the city's wage tax rates. After Philadelphia adopted the BPT (later BIRT), it allowed owners to deduct from their NPT liability an amount equal to 60% of their BIRT net-income liability, to prevent double taxation.

BIRT tax burdens by sector and size

The body of the report described effective tax rates by industry sector and size. Researchers found that, on average, smaller businesses of any sector had lower effective tax rates than larger ones, and certain sectors had lower effective tax rates than others, on average, no matter the size of the business. In Appendix Table 1 below, the effective rates combine sector and size, dividing each sector into quintiles by gross receipts. Here effective rates vary slightly across sectors, compared to the all-sizes analysis reported previously in Figure 2. In Table 1, industry sectors are ranked by effective tax rates in the left-hand column for the all-sizes group cited in the body of the report. Each cell in the table contains a bar illustrating its effective tax rate sized at a uniform scale to show the variation from one sector and size to another.

Appendix Table 1

Sectoral Rankings by Effective Rates Differ Slightly by Company Size

Colored bars show median effective rate by sector and size quintile

	All sizes (median $365,500)	Very small (median $124,000)	Small (median $202,000)	Midsize (median $365,500)	Large (median $808,000)	Very large (median $3,400,000)
Real estate and rental and leasing	2.1%	0.6%	2.9%	4.6%	5.7%	6.2%
Management of companies and enterprises	2.2%	0.6%	2.2%	3.5%	3.3%	5.9%
Information	2.4%	0.8%	2.9%	3.6%	5.5%	4.4%
Arts, entertainment, and recreation	2.5%	0.7%	3.1%	4.9%	5.2%	5.2%
Manufacturing	2.7%	0.7%	2.5%	4.3%	6.0%	6.8%
Educational services	3.0%	0.9%	3.3%	4.7%	5.9%	5.0%
Other services (except public administration)	3.2%	0.9%	3.4%	5.2%	6.6%	7.2%
Transportation and warehousing	3.5%	0.9%	3.5%	5.1%	6.5%	6.9%
Accommodation and food services	3.6%	0.6%	3.1%	5.0%	6.2%	6.7%
Health care and social assistance	4.0%	1.1%	3.2%	4.9%	6.2%	7.0%
Administrative and support and waste management and remediation services	4.2%	0.9%	3.4%	5.3%	6.6%	7.7%
Professional, scientific, and technical services	4.3%	1.1%	3.3%	5.0%	6.1%	7.0%
Finance and insurance	4.7%	1.0%	3.3%	5.0%	6.0%	6.6%
Construction	4.7%	1.0%	3.5%	5.3%	6.7%	8.1%
Retail trade	5.2%	1.0%	3.7%	5.9%	7.2%	8.7%
Wholesale trade	6.0%	1.0%	3.5%	5.5%	7.1%	8.4%

Note: All columns are ranked by the effective tax rates in the left-hand column. Not shown are agriculture, mining, utilities, public administration, and unspecified sectors.

Source: Pew analysis of City of Philadelphia business tax return data, 2017, 2018, 2019, and 2021

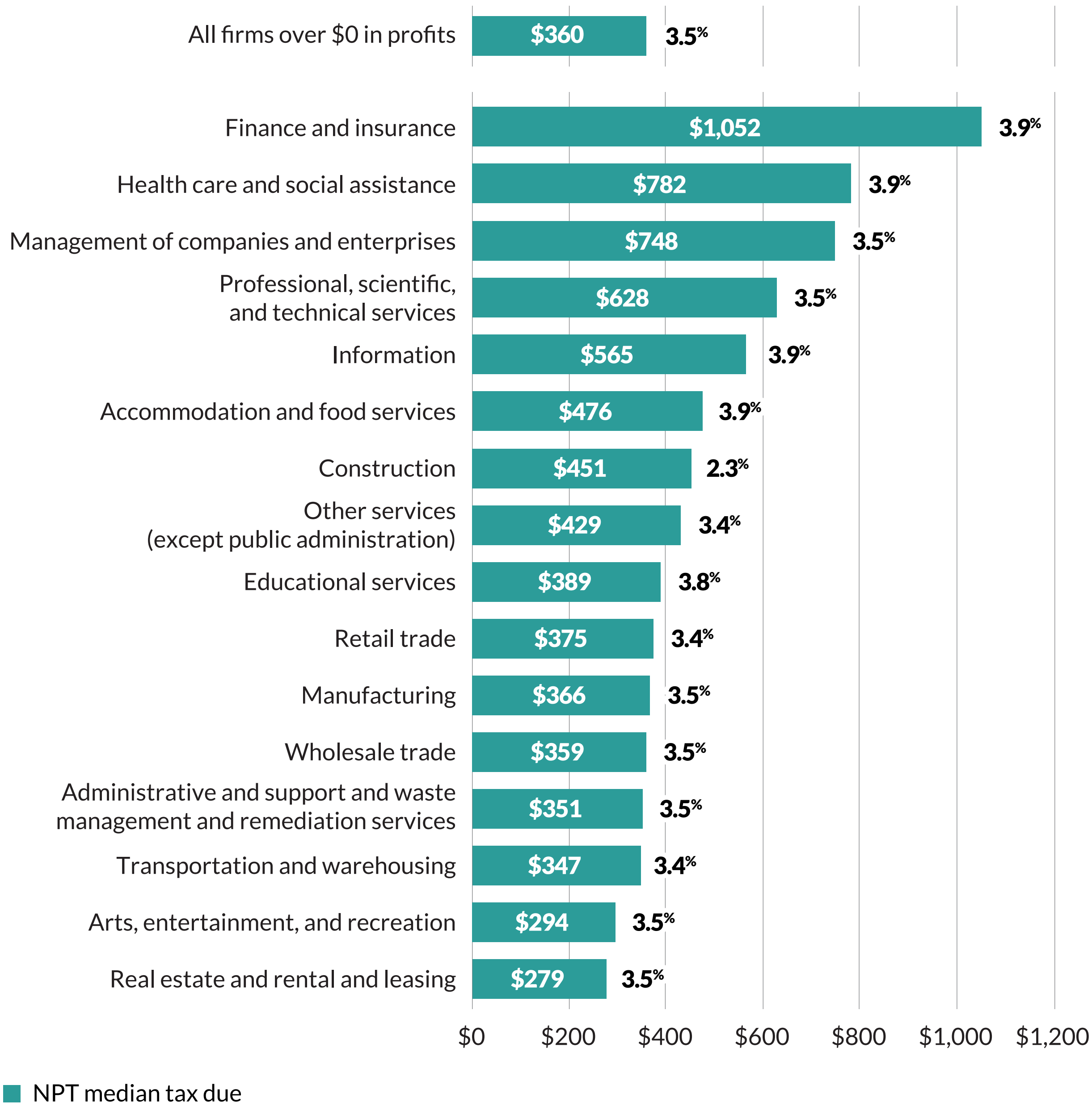
NPT tax burdens

Sole proprietors, partners, and other business owners who receive compensation in the form of company profits, as opposed to wages or salaries, are subject to Philadelphia's net profits tax. Analysis of the 2017-19 and 2021 period found very little variation in effective tax rates across sectors, because all owners have one type of income subject to taxation and few credits (unlike BIRT, with its many combinations of gross and net income, which vary greatly by sector). The most significant NPT variation across sectors was in the dollar amount of tax bills. Both the NPT taxes due and effective rates are shown in Appendix Table 2.

Appendix Table 2

NPT Effective Tax Rates and Tax Burdens on Businesses by Sector

Ranked by median amount of tax dollars owed, from high to low



Note: Percentage next to the bar is median effective tax rate for the group. Not shown are agriculture, mining, utilities, public administration, and unspecified sectors.

Source: Pew analysis of City of Philadelphia business tax return data, 2017, 2018, 2019, and 2021

Methodology

Under a nondisclosure agreement with the Philadelphia Department of Revenue, the researchers received data in late 2022 from BIRT and BIRT-EZ tax returns filed at that point for tax years 2017, 2018, and 2019. In early 2023, additional data available from BIRT and BIRT-EZ returns filed for 2021 was received, along with data from NPT returns filed for tax years 2017, 2018, 2019, and 2021. The date of receipt matters because tax returns typically trickle in over time, mostly due to filing extensions. The department estimated that returns it provided for years 2019 and prior were 100% submitted, and that returns for 2021 were at least 95% submitted and valid for analysis. The department advised the researchers to skip 2020, which it considered too volatile for a few reasons: Many businesses were reporting unusual incomes due to pandemic-driven shutdowns and emergency aid; in addition, the city's shift in tax-filing deadlines in 2020 and changes in taxability of pandemic relief may have caused anomalies in the data.[31]

This resulted in 921,335 individual records for the four years. The decrease in total filers is discussed later in this methodology.

Methodology Table 1

Number of BIRT and NPT Returns for Each Year Included in This Research

	2017	2018	2019	2021	Total
BIRT filers	140,908	133,904	123,362	118,026	**516,200**
NPT filers	106,646	106,287	101,685	90,517	**405,135**
Total	247,554	240,191	225,047	208,543	**921,335**

Under the agreement with the Department of Revenue, the team was required to examine the raw data on department premises and could only remove group-level summaries of data that had at least 10 filers each, to prevent any possibility of identification of individual taxpayers in the report. That prevented researchers from removing and using data on certain segments, such as utilities and nonprofit entities, which have relatively few companies in the BIRT datasets.

Line-by-line data reference

The data-cleaning procedure involved reconciling field labels, which differed between the 2017-19 period and 2021 because the department had migrated data in the middle of that period from an old internal system (TIPS) to a new one (Prism). The team also created a data dictionary to be able to correctly link each data point to the official tax forms and tax instructions, and to report the exact source for each data point. Following are the specific lines from the BIRT, BIRT-EZ, and NPT forms, and from system-generated fields, associated with each data point:

BIRT tax analysis

- Gross receipts attributable to Philadelphia come from BIRT Schedule D Line 6, and BIRT-EZ Line 8. These figures are used in the following data points: grouping of companies that reported at least $100,000 in gross receipts, making them liable for BIRT taxation; median gross receipts; and quintiles of BIRT payers.
- Net income after expenses and exclusions and attributable just to Philadelphia sales come from BIRT Schedule A Line 11, Schedule B Line 9, and BIRT-EZ Line 1. These figures are used in the following data points: denominator in our calculation of effective tax rates and median net income.
- Taxes due after subtracting special credits and exclusions, but before subtracting payments or penalties, come from BIRT Line 1 or BIRT-EZ Line 1 (net income tax due), BIRT Line 2 or BIRT-EZ Line 2 (gross receipts tax due), and BIRT Line 3 or BIRT-EZ Line 3 (total net income and gross receipts tax due). These figures are used in the following data points: numerator in our effective tax rate; median tax due; proportion of net income tax out of total BIRT tax; and total BIRT revenue by sector, age, type, etc.
- Special tax credits come from figures on BIRT Schedule SC, Lines 1 through 13, and BIRT-EZ Line 4. These figures are used for median effective tax rate by credit recipients or nonrecipients.

BIRT payer characteristics

- Years since first BIRT filing comes from the tax system's variable "START DT" in the 2017-19 dataset and "fdtmCommence" in the 2021 dataset. This variable was converted into a numeric age and then flagged as 0-2 years, 3-10 years, or 11+ years as of December 31 of each tax year. Age groupings were chosen because the team wanted to count firms potentially eligible for the city's age-based tax credit. (Eligibility is based on age according to business registration date, which is information the team lacked; years of BIRT filings is an approximation that may slightly understate the age).
- Industry sector comes from the tax system's variable NAICS, which is given as the five-digit North American Industry Classification System code. This was truncated to its first two digits, with each company flagged as belonging in one of 20 possible two-digit sectors or "unspecified." Excluded are companies classified as agriculture, mining, utilities, public administration, or unspecified sectors, either because such companies were too few in number, unidentifiable, or not the private for-profit type the team wanted to study. These sectoral characteristics are used in the following data points: median effective tax rate by sector; median tax due by sector; total taxes due by sector; and special credits received by sector.
- Company or taxpayer type comes from tax system variable "TAXPAYER" in the 2017-19 dataset and "fstrCustomerType" in the 2021 dataset. The categories changed between the periods, so were recategorized to match the 2021 categories, as follows:
    - Corporation, which includes C corporations and LLC corporations.
    - Individual, which is equivalent to sole proprietorship in the city tax data, includes LLC sole proprietorships and S corporations.
    - Partnership, which includes LLC partnerships.
    - Nonprofit, which refers to a tax-exempt organization that has taxable income flowing from for-profit ancillary business activities. There were very few such nonprofits in the datasets, and they were not included in any analysis.
    - Estate or Trust, which is an entity that holds or disburses income for other entities. There were very few in the datasets, and they are not included in any analysis.
    - Disregarded Entity, which is a single-owner Limited Liability Company. There were very few in the datasets, and they are not included in any analysis.

NPT tax analysis

- Business profits passed to individual owners come from NPT form Line 1, Line 3, Line 6, and Line 8. Those lines include the discount allowed for some BIRT taxes paid. These figures are used in the denominator in our NPT tax burden computation.
- NPT tax due comes from NPT form Line 2 and NPT Line 4 (resident) and NPT Line 7 and NPT Line 9 (nonresident) for findings on resident vs. nonresident taxes, and NPT Line 13 (total tax due minus 60% BIRT credit) for the effective tax rate calculations. These figures are used in the following data points: numerator in our NPT effective tax rate calculation; median tax due; and proportion of residents out of all NPT payers.
- NPT payers who deducted a portion of BIRT taxes come from NPT Line 12. The team counted any value above $0 as a BIRT deduction. These figures are used in computing the number and percentage of NPT filers who had deducted part of their BIRT taxes due. Note, this is different than the number who had filed both NPT and BIRT returns; that number was not tallied.

NPT payer characteristics

- Industry sector comes from the tax system's sector variable "fstrFormattedCode," truncated to its first two digits. It is used in the following NPT data points: median effective tax rate by sector; median tax due by sector; total taxes due by sector; and tax credits received by sector.
- Company type comes from the variable "fstrCustomerType" and categories "Individual" or "Partnership" etc. to analyze NPT payers by the type of company they own.

Effective tax rate

The effective tax rate (ETR) is typically used to compare taxation for different payers or periods of a particular tax. The standard ETR formula on business taxes is total taxes due, minus exemptions or credits, divided by net income received. The team applied this formula to the NPT but modified it for BIRT, which has a tax on gross receipts in addition to net income. About a third of BIRT filers in each year of our study owed just the gross receipts tax, because their net income was zero or negative due to losses, tax credits, or other factors. The standard ETR formula can mislabel such a company or companies as having a negative effective rate. (Or, in the case of zero income in the denominator of the formula, the rate becomes impossible to calculate because you can't divide any number by zero.) These anomalies were addressed by combining the standard ETR with an additional percentage just on gross receipts, as seen in Methodology Table 2.

Methodology Table 2

Effective Tax Rate Formula Used in This Research

Standard ETR: **Gross receipts percentage:**

$$\frac{\text{GR tax + NI tax} - \text{exclusions and credits}}{\text{Total net income}} + \frac{\text{GR tax} - \text{exclusions and credits}}{\text{Total gross receipts}} = \textbf{Modified ETR}$$

(Limited to results between 0% and 100%)

In the first step of this formula, the team removed outlier ETRs below 0% and above 100%. At the low end, removing the outliers prevents a false negative ETR, which can result from a negative net income, ignores gross receipts, and can skew overall medians downward. At the high end, removing outliers prevents a meaninglessly high ETR, beyond the point that taxes completely offset profits (100%); high outliers can falsely skew the overall medians upward.

Adding the gross receipts percentage to the standard ETR allows us to capture the thousands of situations where a company's taxable net income was zero or negative, but its taxable gross receipts were positive. These real situations would otherwise appear as outliers to be removed in the previous step. In the gross receipts percentage, the numerator consists only of the gross receipts tax (less credits); there usually are no credits or adjustments that could change the numerator, as with the standard ETR. That results in a de minimis gross-receipts ETR matching or close to the flat rate 0.1415%. It affects the final medians of each business category by just 0.27 percentage points, on average, while enabling the final modified ETR to capture all companies that are subject to the two-sided BIRT.

The researchers ran this modified ETR formula on every company record in every annual dataset provided. Then they segmented all of the payers by the characteristics listed above, such as sector, age, and size. The median ETRs of each group were computed, as well as medians and sums of taxes due, gross receipts, net income, and special tax credits claimed.

Quintiles by gross receipts

To view the tax burdens by the size of businesses, the researchers grouped all businesses into quintiles by gross receipts using the "type 7" method with the R package "dplyr." They performed this operation on each annual dataset on businesses with over $100,000 in gross receipts, then averaged all the results, including the median effective rates and median gross receipts, across the 2017-19 and 2021 period. These quintiles enabled a view of differences in ETRs by company size, and allowed researchers to control for size when viewing variations within other categories.

Changes in underlying data over time

Over the years studied (2017, 2018, 2019, and 2021), the city made a variety of changes in its tax code that may have affected the businesses' tax burdens in the analysis. The most obvious change involved the nominal tax rates on the net income portion of the BIRT and the NPT, shown in Methodology Table 3.

Methodology Table 3

BIRT and NPT Tax Rates for Each Year Included in This Research

	2017	2018	2019	2021
BIRT net income tax rate	6.35%	6.30%	6.25%	6.20%
BIRT gross receipts tax rate	0.1415%	0.1415%	0.1415%	0.1415%
NPT resident rate	3.8907%	3.8809%	3.8712%	3.8398%
NPT nonresident rate	3.4654%	3.4567%	3.5019%	3.4481%

The team used figures exactly as businesses entered them into their tax returns, at the tax rates specified by the city each year. While all the rate changes were downward over time, it is important to note that the BIRT's effective tax rates used in this report are ratios that can be pushed up or down by changing profit margins, regardless of whether the nominal rates are falling. In other words, lower nominal rates may or may not translate into lower tax burdens in Philadelphia's two-sided BIRT.

Starting in 2020, any business with less than $100,000 in gross receipts was permitted to skip filing the BIRT form entirely. These companies numbered an average of 97,000 before the waiver took effect. They were already exempt from BIRT taxation but still registered in the tax system. The waiver creates a blind spot about these businesses that will grow over time, as more stop filing BIRT returns. This analysis found that they were disproportionately small, single-owner companies in the real estate and rental and leasing sector, such as landlords, real estate brokers, and equipment rental companies. The impact on the city's economy of freeing such businesses from BIRT filings is unclear. The city created an alternate form, the No Tax Liability form, to try to track such businesses in the future. But the form is optional, lacks basic details, and has not been widely used so far, according to the Department of Revenue.

Endnotes

1 Total wages and salaries figure comes from annual payroll data found in U.S. Census Bureau, “County Business Patterns,” https://www.census.gov/programs-surveys/cbp/data.html. Total net income or profit figure comes from BIRT and NPT returns provided by the city Department of Revenue; total gross receipts come from those BIRT returns.

2 Pew analysis of City of Philadelphia Office of the Director of Finance, “Quarterly City Managers Reports (QCMR)” (https://www.phila.gov/departments/office-of-the-director-of-finance/financial-reports/#/quarterly-city-managers-report.

3 The Pew Charitable Trusts, “Philadelphia's Small and Midsize Business Landscape” (2020), https://www.pewtrusts.org/en/research-and-analysis/reports/2020/08/philadelphias-small-and-midsize-business-landscape.

4 Chamber of Commerce of Greater Philadelphia, “The Chamber Recognizes Twenty Years of the Philadelphia Tax Reform Commission,” Dec. 1, 2023, https://chamberphl.com/2023/12/the-chamber-recognizes-twenty-years-of-the-philadelphia-tax-reform-commission.

5 City of Philadelphia, “Summary Schedule of Tax Rates Since 1952” (2023), https://www.phila.gov/media/20200825075606/Historic-Tax-Rate-PDF-Template-update-June-2020-V2.pdf.

6 The Pew Charitable Trusts, “How Pennsylvania’s Uniformity Clause Affects Property and Wage Taxes in Philadelphia” (2022), https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2022/03/how-pennsylvanias-uniformity-clause-affects-property-and-wage-taxes-in-philadelphia.

7 The city lets businesses choose from two kinds of BIRT forms. The standard six-page form, including schedules, is typically used by businesses that need to compute the share of their total sales in Philadelphia (apportioned to Philadelphia) versus everywhere nationally or globally under the city’s definition of locations. The simplified three-page BIRT-EZ form is for businesses that can apportion all of their sales to the city. Researchers combined data from both forms into a single BIRT dataset for this analysis.

8 City of Philadelphia, “Business Income & Receipts Tax (BIRT),” Jan. 9, 2024, https://www.phila.gov/services/payments-assistance-taxes/taxes/business-taxes/business-taxes-by-type/business-income-receipts-tax-birt.

9 Philadelphia Forward, “Focus on Business Tax Reform” (2018), http://philadelphiaforward.org/node/44.html.

10 Pew analysis of data from City of Philadelphia Department of Revenue, “Business Income and Receipts Tax Data by Sector,” last modified June 14, 2023, https://www.phila.gov/documents/business-income-and-receipts-tax-by-sector; J. Liss (former senior policy analyst, Philadelphia Department of Revenue), interview with The Pew Charitable Trusts, n.d.

11 The Pew Charitable Trusts, “How Pennsylvania’s Uniformity Clause Affects Property and Wage Taxes in Philadelphia.”

12 The Pew Charitable Trusts, “Philadelphia Business Taxes: Incentives and Exemptions” (2016), https://www.pewtrusts.org/-/media/assets/2016/08/philadelphia_business_taxes.pdf.

13 R. Lopez Kriss (deputy commissioner, Department of Revenue), interview via email with The Pew Charitable Trusts, April 2024.

14 K.O. Sollie and S.J. Blazick, “City of Philadelphia’s BIRT: Is 3-Factor Apportionment Still an Option for Your 2015 Return?” (Reed Smith LLP, 2016), https://www.lexology.com/library/detail.aspx?g=8e8cd6f6-fa7b-4238-ad28-d7d0d585d8eb.

15 This analysis computed each company’s proportion of BIRT tax due attributable to net income tax due, found the median proportion in each sector, then averaged each sector’s median proportion across the years 2017, 2018, 2019, and 2021. See the methodology for details.

16 The definition of business age differs from the usual definition used in economic research, which uses years since formation or legal registration. Those dates were not readily available in the city’s administrative or tax data. Department of Revenue officials said this method is a reasonable approximation.

17 To qualify, the new business cannot have been subject to Philadelphia business taxes at any time during the five tax years before starting business activity within Philadelphia. It also must file a “New Business Waiver Application” as part of its first registration for a BIRT tax ID number and as part of its first Commercial Activity License. See https://business.phila.gov/what-is-jump-start-philly. Philadelphia also offers a BIRT credit to businesses under three years old, the Sustainable Jump Start Tax Credit, which has slightly different qualifying criteria. See https://www.phila.gov/services/payments-assistance-taxes/taxes/tax-credits/business-tax-credits/sustainable-jump-start-tax-credit.

18 The Pew Charitable Trusts, “Philadelphia Business Taxes.”

19 Pew analysis of City of Philadelphia Office of the Director of Finance, “Quarterly City Managers Reports (QCMR).”

20 A. Luque et al., “Nonemployer Statistics by Demographics (NES-D): Using Administrative and Census Records Data in Business Statistics” (U.S. Census Bureau Center for Economic Studies, 2019), https://www2.census.gov/ces/wp/2019/CES-WP-19-01.pdf.

21 The BIRT forms also allow the following selections that researchers did not analyze, because very few businesses had selected them: “nonprofit” is a tax-exempt organization that generates taxable income; “estate or trust” is a kind of pass-through entity; and “disregarded entity,” a single-owner limited liability company that does not pass income to its owner.

22 City of Philadelphia Department of Revenue, “Business Income and Receipts Tax Data by Sector.”

23 Ibid.

24 Under conditions set by the Department of Revenue, Pew was unable to report on the BIRT liabilities of nonprofit entities because there were too few such entities to meet the reporting threshold. One major organization explains its own BIRT liability at University of Pennsylvania Division of Finance, "University Tax Compliance," accessed April 16, 2024, https://www.finance.upenn.edu/payroll-taxes/university-tax-compliance. A list of biggest nonprofit entities in Philadelphia can be found at Department of Labor & Industry, Commonwealth of Pennsylvania, "Top 50 Employers: Philadelphia County—3rd Quarter, 2023" (2023), https://www.workstats.dli.pa.gov/Documents/Top%2050/Philadelphia_County_Top_50.pdf.

25 M. Dunn, "A Scorned Philadelphia Tax Headed for a Name Change," CBS News Philadelphia, 2011, https://www.cbsnews.com/philadelphia/news/a-scorned-philadelphia-tax-headed-for-a-name-change.

26 S. Arvind and J. Bamat, "BIRT: An Evolving Tax for a Changing City," Philadelphia Department of Revenue, Nov. 27, 2018, https://www.phila.gov/2018-11-27-birt-an-evolving-tax-for-a-changing-city. See also, testimony before the Committee on Legislative Oversight, Philadelphia City Council (Feb. 21, 2018), https://seventy.org/press-testimony/testimony-on-philadelphia-tax-policy.

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