

# Philadelphia Needs to Reduce Poverty and Grow Its Economy—Business and Wage Tax Cuts Are Not the Answer

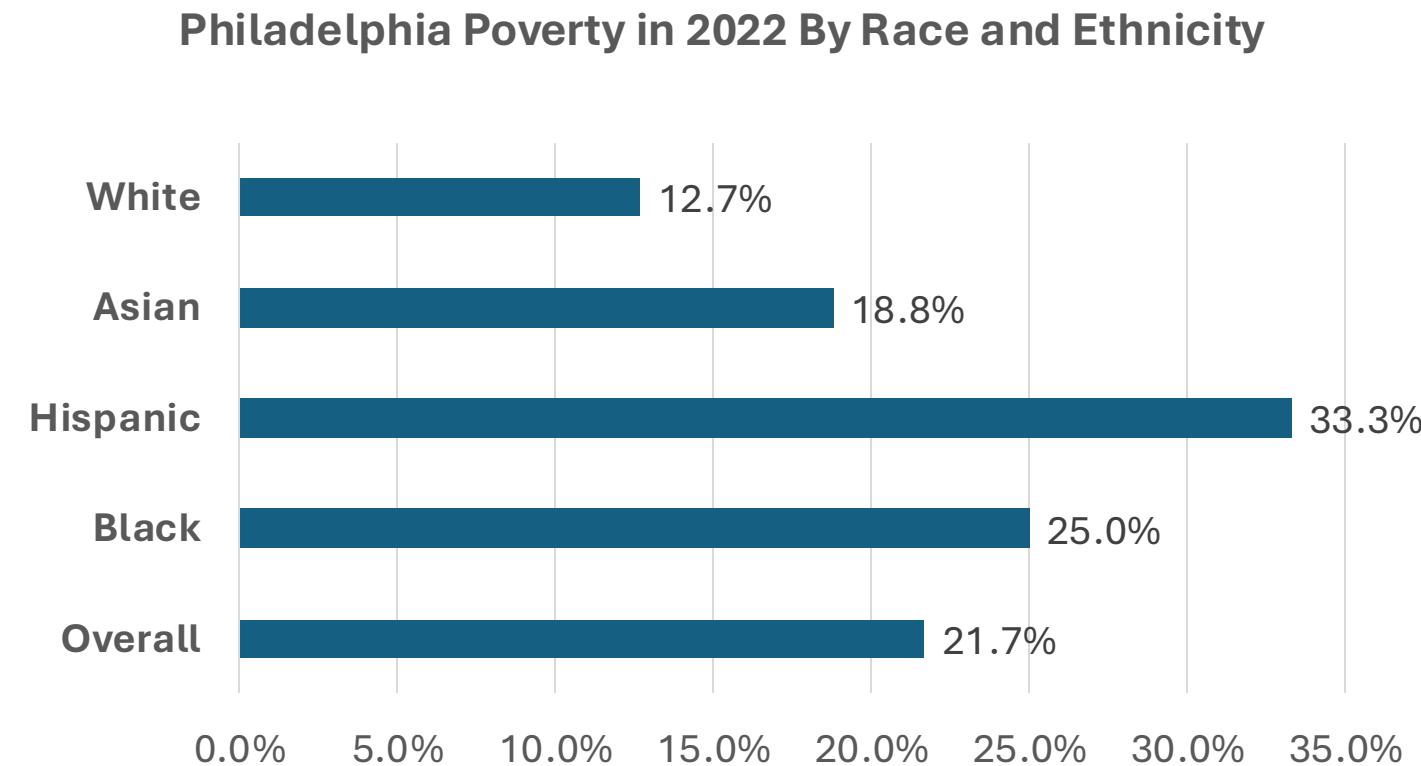
[https://pennpolicy.org/research\\_publication/no-philly-tax-cuts/](https://pennpolicy.org/research_publication/no-philly-tax-cuts/)





**Our biggest economic problem is  
not slow job growth but poverty and inequality.**

**Philadelphia's poverty rate  
is the highest for any large  
city in the US at 21.7%. Its  
poverty rate for Black and  
Hispanic people is even  
higher at 25% and 33.3%  
respectively.**



## **Poverty is a moral stain on Philadelphia And it is also a pragmatic problem for all of us**

- Poverty leads to crime and other social ills that affect all of us.
- Poverty undermines the effectiveness of our schools for everyone.
- Poverty reduces consumption and business activity.
- Poverty limits the availability of housing for new residents while lead to either
  - A more rapid raise in housing prices and rents in some neighborhoods
  - Or the gentrification of low-income neighborhoods that worse poverty
- Poverty take away our most precious resource: the talents ability and initiative of our young people. It reduces the population of educated and skilled workers which is what businesses look for most

**Our city cannot realize it's economic potential when almost a third of our children grow up in poverty**

## Job growth won't reduce poverty.

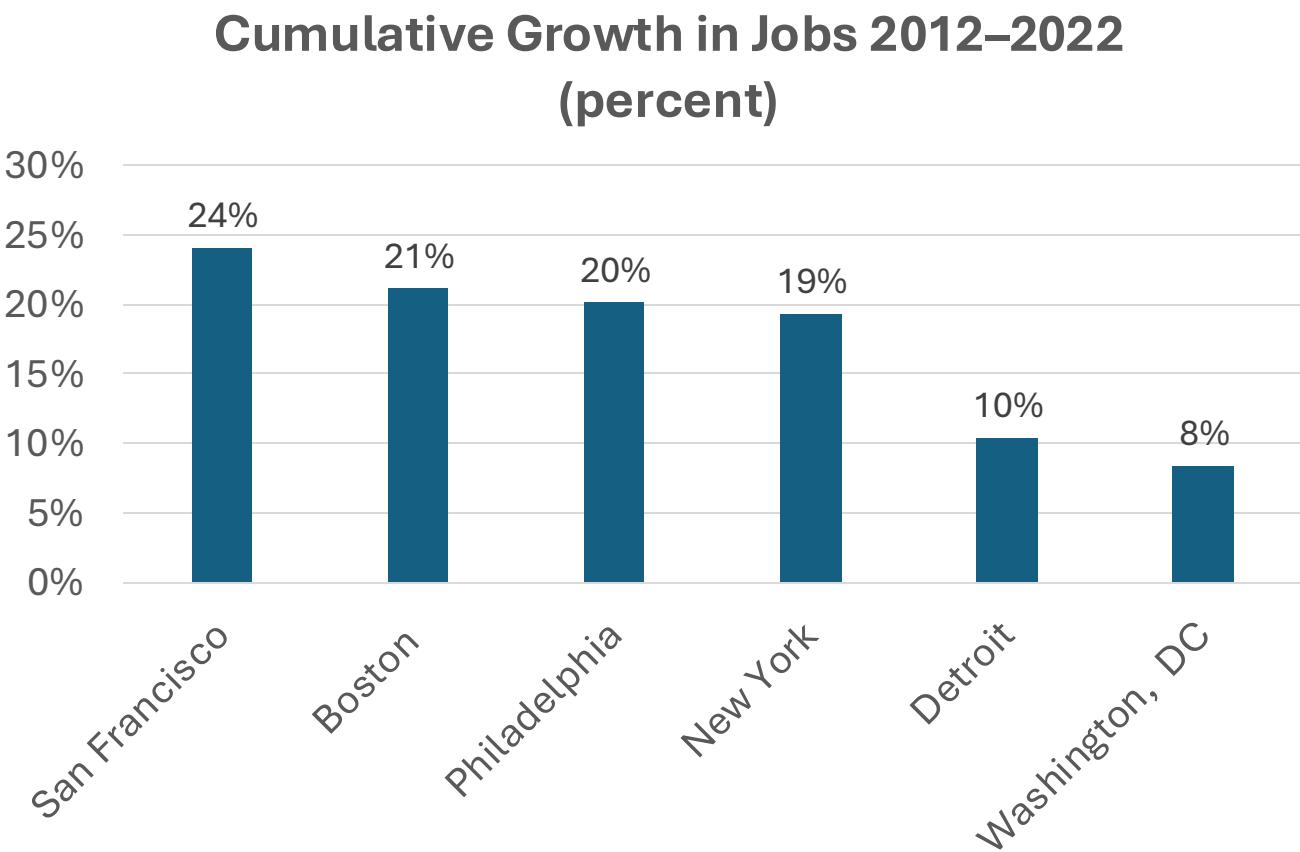
- Poverty won't be fixed by tax cuts, especially when very few jobs created by tax cuts would go to current Philadelphians.
- Entrenched poverty is not mainly the result of few jobs. It's a product of communities cut off from the dynamic sectors of our economy because of a lack of local jobs, poor schools, lack of personal connections to educational and work opportunities, and too few examples of success.

# Job growth won't reduce poverty.

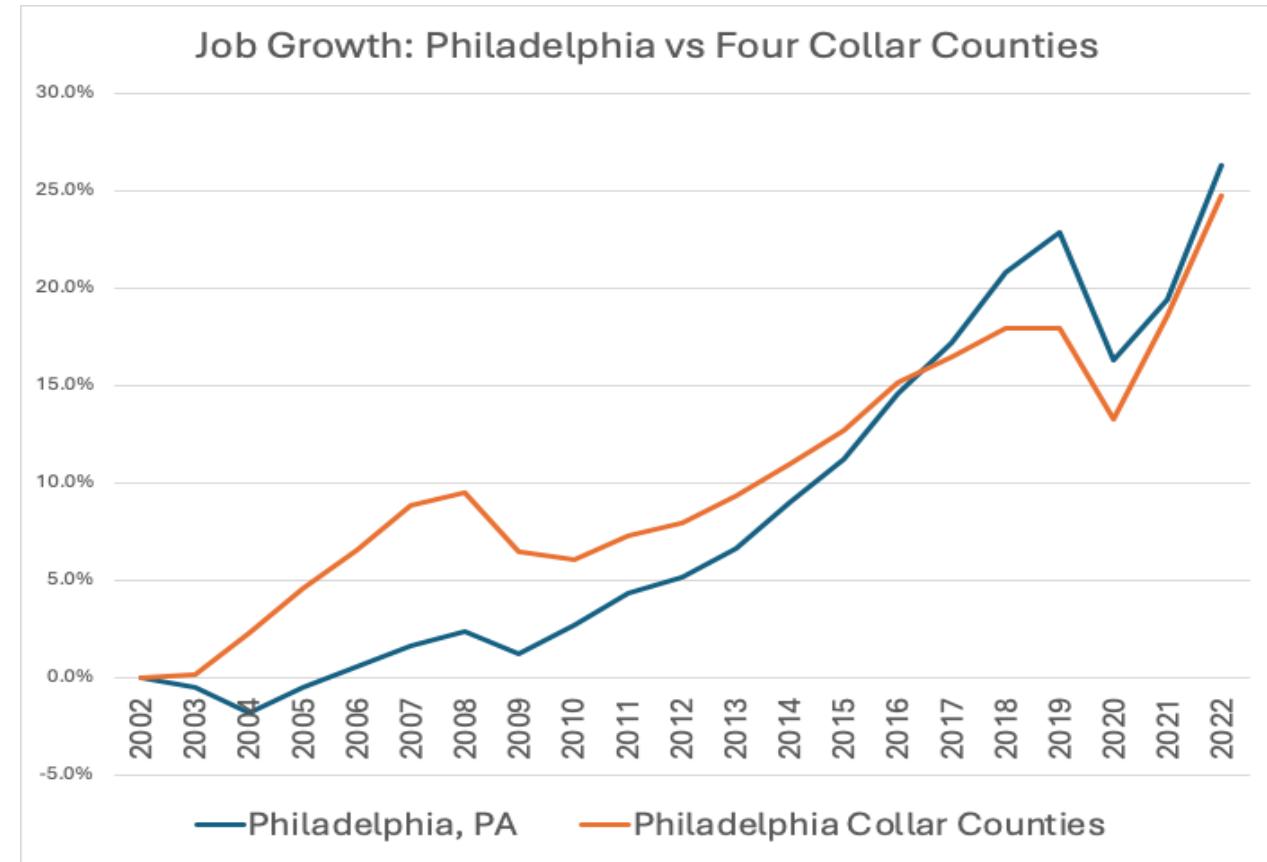
- Entrenched poverty didn't just happen. It is a product of a long history of structural racism that includes
  - racial segregation through informal practices and threats of violence.
  - redlining.
  - underfunded schools.
  - public and private disinvestment.
  - the failure to give Black people their share of city services, jobs, and contracts.
  - failed urban renewal programs that undermined Black communities.
  - white flight stimulated by federal transportation and other policies.
  - barriers to poor and Black people moving to the suburbs.
- Low-income white neighborhoods indirectly suffer from racism and face many of the same problems.

# Philadelphia is not a job-creation disaster.

Since the turn of the century, Philadelphia has been generating jobs fast.

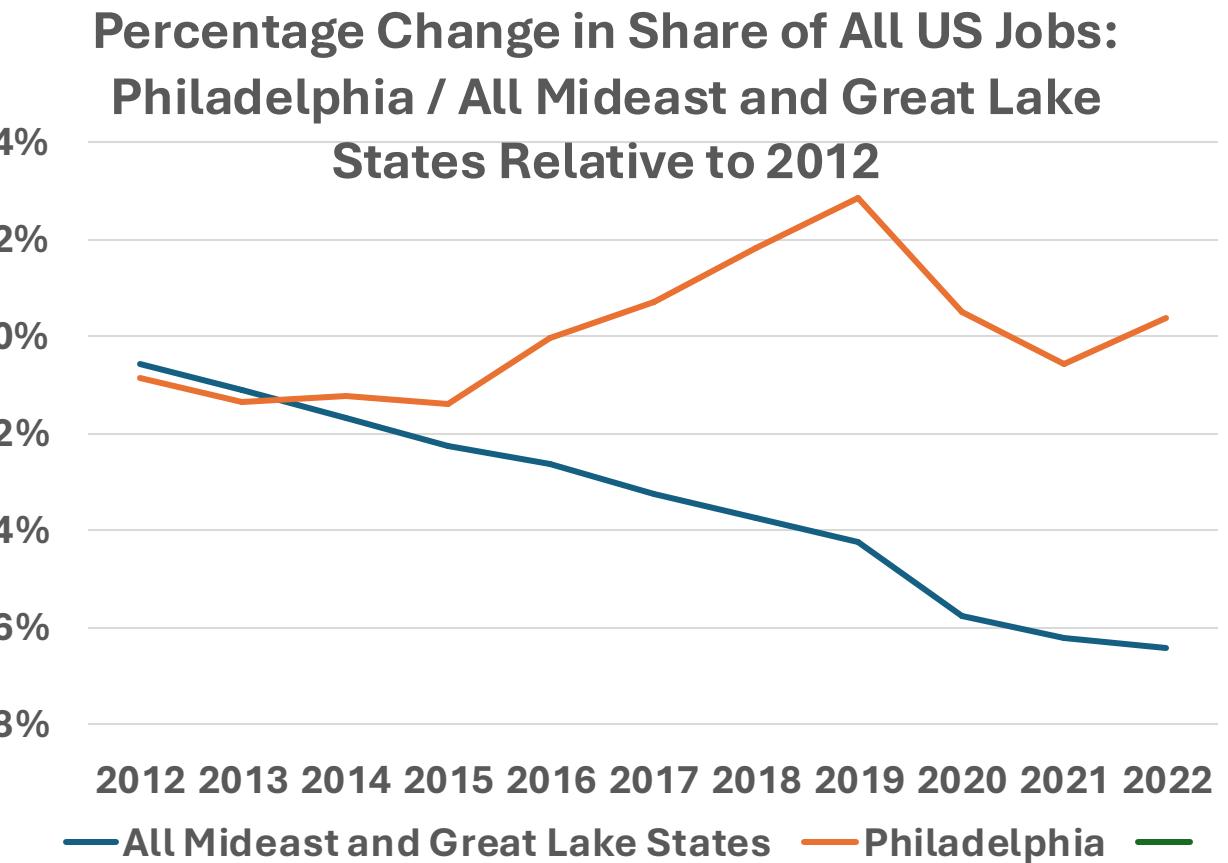


**Jobs have been  
growing faster in  
Philadelphia than in  
the collar counties  
since 2010.**



**Twentieth-century job losses in Philly were the result of a regional shift in jobs from the NE and MW to South and Southwest—not our taxes.**

**That shift continues, but Philadelphia is doing much better than other cities in these regions.**



## The Business Income and Receipt Tax (BIRT) is fundamentally misunderstood

- The BIRT is NOT a tax on businesses based in Philadelphia. It is a tax on receipts and income earned by business activity in Philadelphia.
- Businesses located outside the city pay both parts of the BIRT.
- Businesses located in Philadelphia—with one exception that can be easily fixed—DO NOT pay taxes on receipts and income earned outside Philadelphia.
- Market-based sourcing for firms that sell intangible services outside the city (e.g., law firms) is already city law. We need to get the state to approve it.

# The Business Income and Receipt Tax (BIRT) does not drive businesses and jobs from the city.

**Only 30% of businesses that operate in Philadelphia pay the BIRT. They are mostly large, very profitable businesses. Small businesses pay very little BIRT tax, some nothing at all.**

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

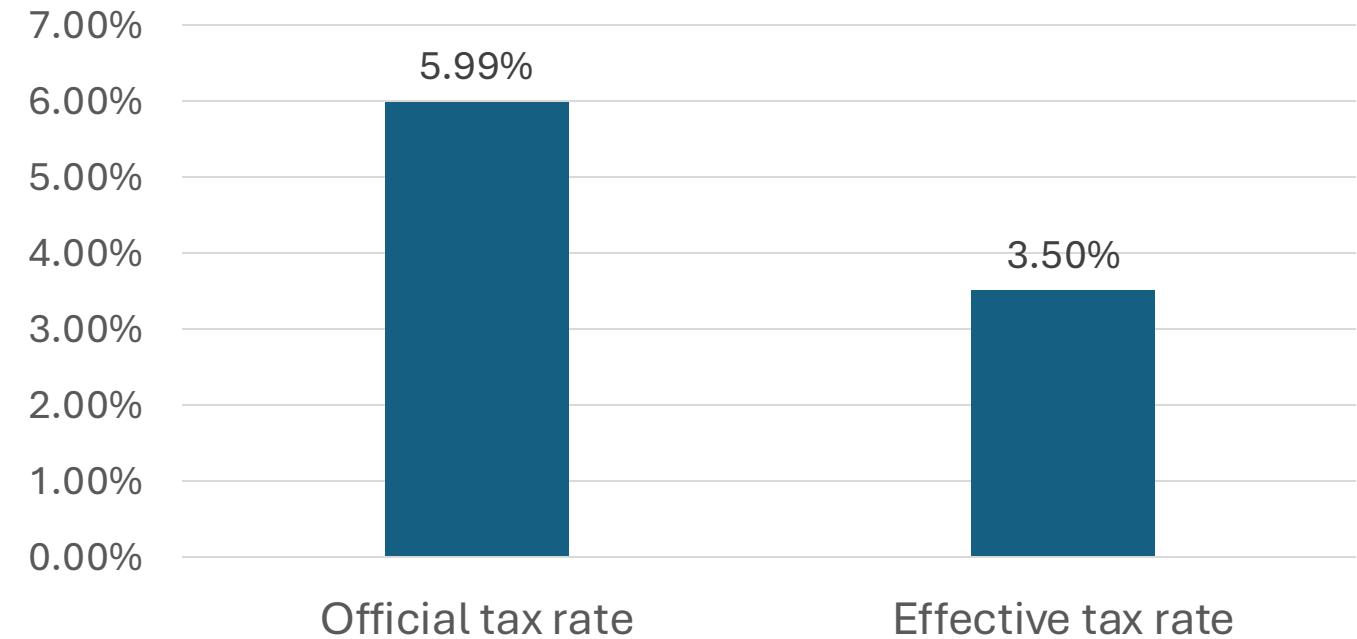
Source: Pew analysis of City of Philadelphia tax return data, 2017, 2018, 2019, and 2021

# The Business Income and Receipt Tax (BIRT) does not drive businesses and jobs from the city.

## THE TRUTH:

Since 2016, when the \$100,000 nexus / gross receipts exemption was put in place, the effective tax rate for the Net Income portion of the BIRT is far lower than the face value: 3.5% vs. 5.99%.

Effective Net Income Rate is Far Below Official Rate

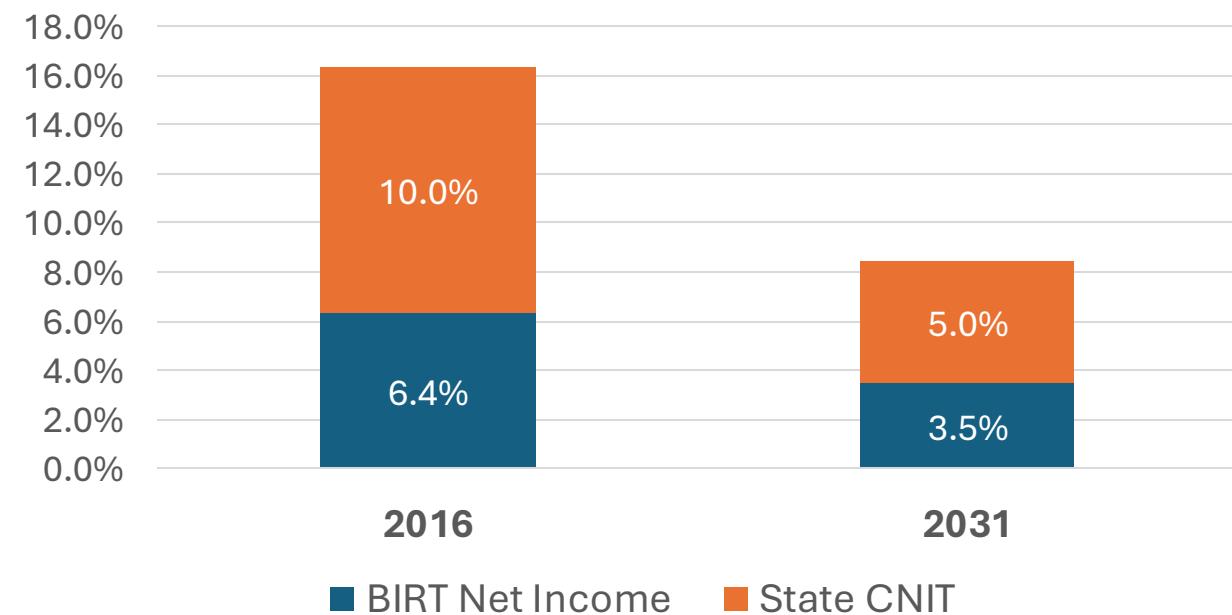


## The Business Income and Receipt Tax (BIRT) does not drive businesses and jobs from the city.

**Corporations in Philadelphia pay far more in state corporate taxes than the BIRT.**

**By 2031, the total rate for the combination of these taxes will be reduced by half compared to 2016.**

Between BIRT Reform and State CNIT Cuts, the Tax Rate on Philly Corporations Will Be Cut by in half by 2031



**The Business Income and Receipt Tax (BIRT) does not drive businesses and jobs from the city.**

**THE TRUTH:**

- Commercial real estate tax rates are among the lowest in the country. Philadelphia ranks 74th among 81 cities.
- Taxes are a minor factor in where businesses decide to locate because they are only a small part of the cost of doing business.
- The BIRT on average is less than 1.8 % of the cost of doing business, and only for large businesses that pay it.

## Eliminating the net income portion of the business tax and will not create a large number of jobs in Philadelphia.

### THE TRUTH:

- The most aggressive version of the TRC would eliminate the net income portion of the BIRT over ten years.
- After ten years that plan would add roughly 13,500 more jobs than the city has today. The cost of the plan in lost tax revenues will be between about \$1.3 Billion over ten years. The yearly cost when plan is fully implemented is roughly \$200-293 million. This is the net cost after revenue additions due to additional economic growth resulting from tax cuts.
- But if Philadelphia jobs keep increasing at roughly the rate it has in the last ten years, the city would add roughly 220,000 more jobs *without any tax cut*.
- Of these additional jobs only 20%, 2700, would go to current Philadelphians.
- These projections are based on Econsult's model adjusted for their 3x overestimate of the impact of business tax cuts on job creation (and revenue generation) compared to the academic consensus.

## Deep cuts to business taxes will lead to large increases in property taxes.

- Read between the lines and this is the goal of the TRC. They want to make Philly a “normal city” with higher property taxes and lower business taxes.
- This is a counter-productive idea:
  - Job growth comes mainly from startups, and startups don’t make profits in the early years, so they don’t pay business taxes. But they do pay property taxes.
  - The fastest growing cities in the country, Boston and San Francisco, have become more like Philadelphia by reducing their reliance on property taxes.
- Higher property taxes and lower business taxes would make our tax system more regressive, putting a greater burden on low-income and Black Philadelphians and a lesser burden on wealthy, white Philadelphians.

**If we can afford to lose \$1.3 billion of revenue—we should invest that money in proven programs to reduce poverty.**

- Workforce training tied to jobs that are unfilled in the private and public sector.
- Integrated community development strategies that focus on relieving distressed communities, including
  - commercial corridor development.
  - providing capital to businesses owned by Black people and women.
  - antiviolence programs.
  - affordable housing programs.
- Tax cuts that are tied to job creation.
- Reduced taxes for working people
  - Raising of the wage tax exemption for low-income Philadelphians and making it easier to take advantage of it
  - Tax relief for renters, whose rents go up as property taxes do