

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/)

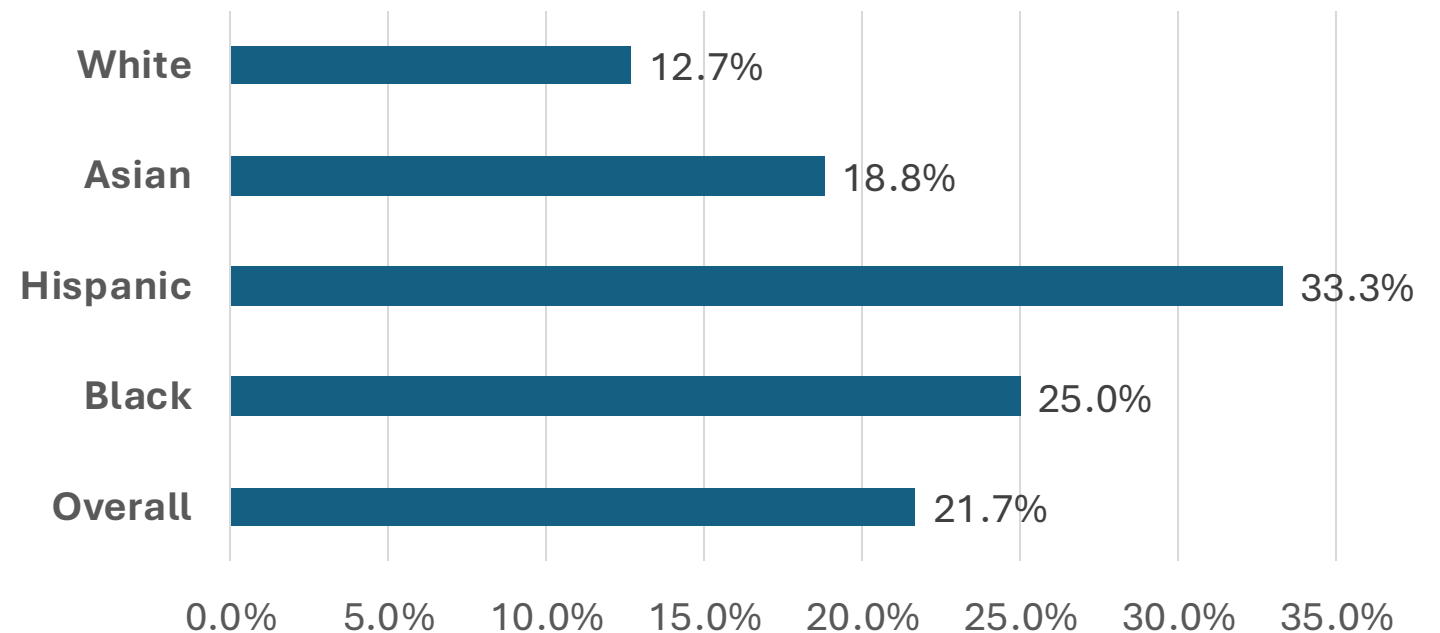




**Our biggest economic problem is
not slow job growth but poverty and inequality.**

**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.**

Philadelphia Poverty in 2022 By Race and Ethnicity



**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 childrent 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.**

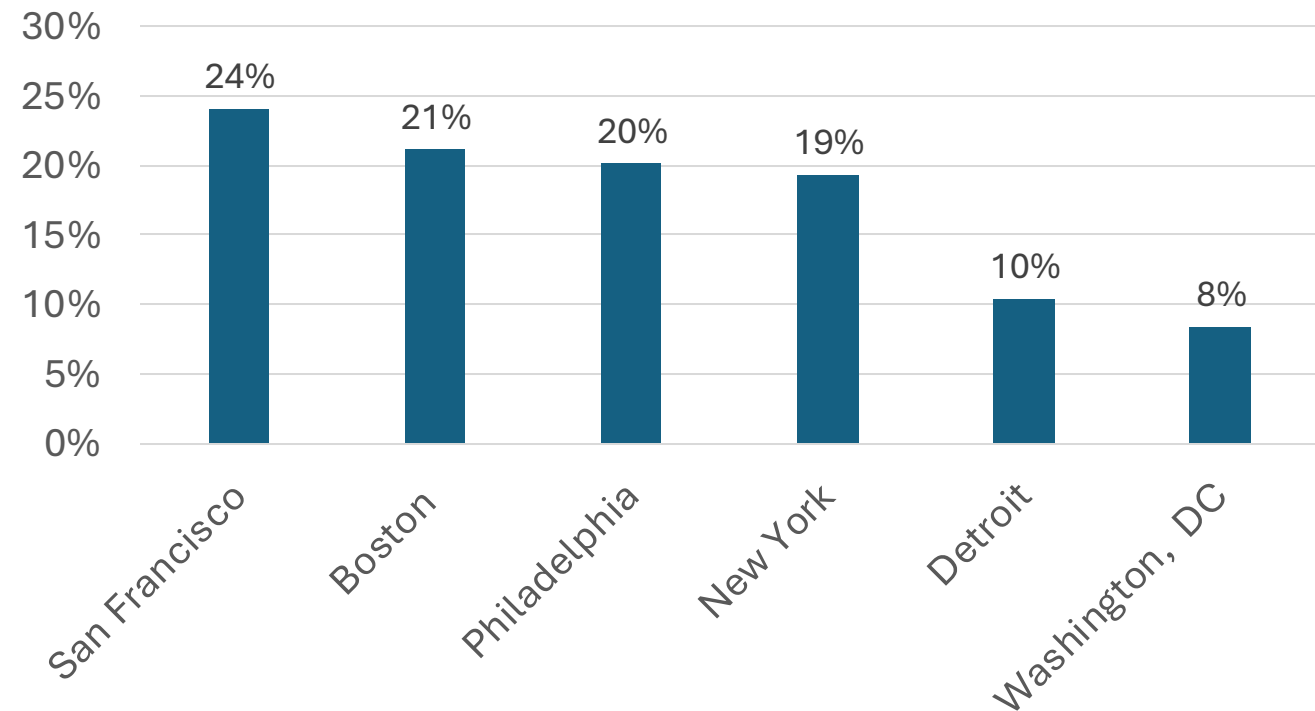
Job growth won't reduce poverty.

- **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.**

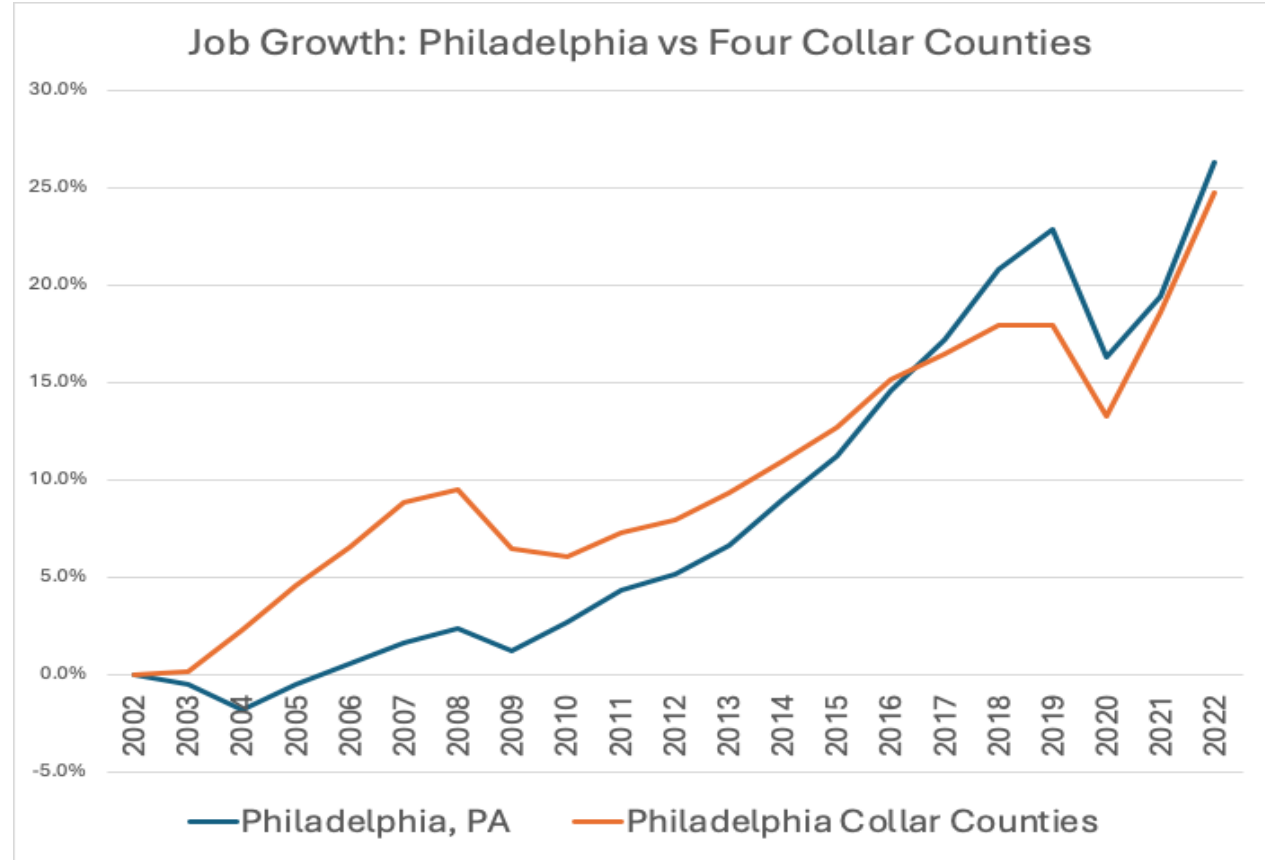
Philadelphia is not a job-creation disaster.

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

Cumulative Growth in Jobs 2012–2022
(percent)



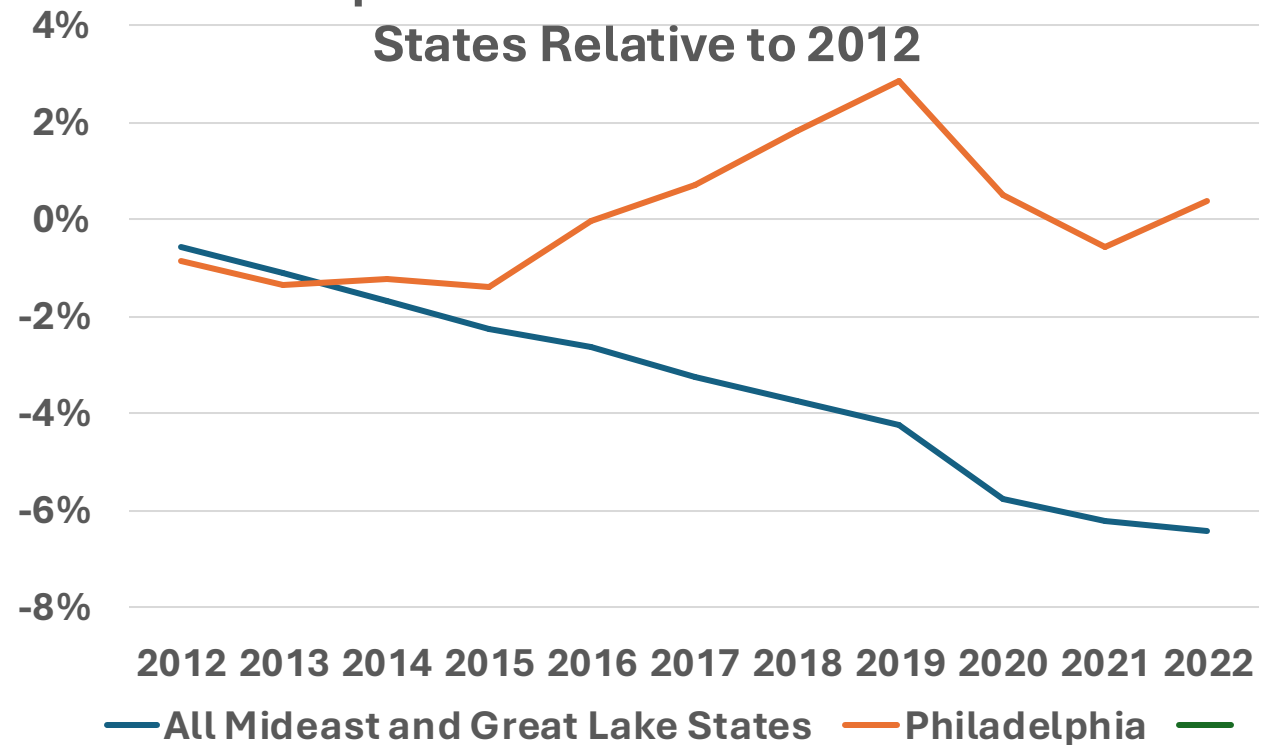
Jobs have been growing **faster in Philadelphia** than in the collar counties since 2010.



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.

**Percentage Change in Share of All US Jobs:
Philadelphia / All Mideast and Great Lake
States Relative to 2012**



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
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%

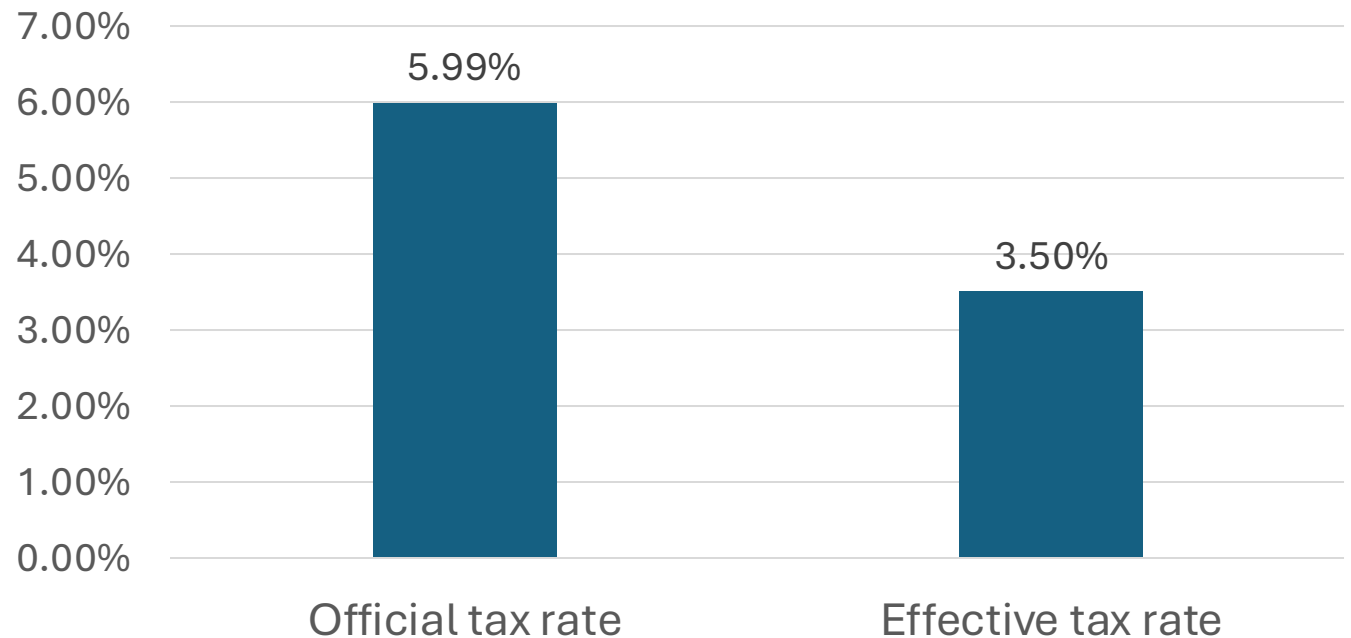
Source: Pew analysis of City of Philadelphia tax return data, 2017, 2018, 2019, and 2021

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

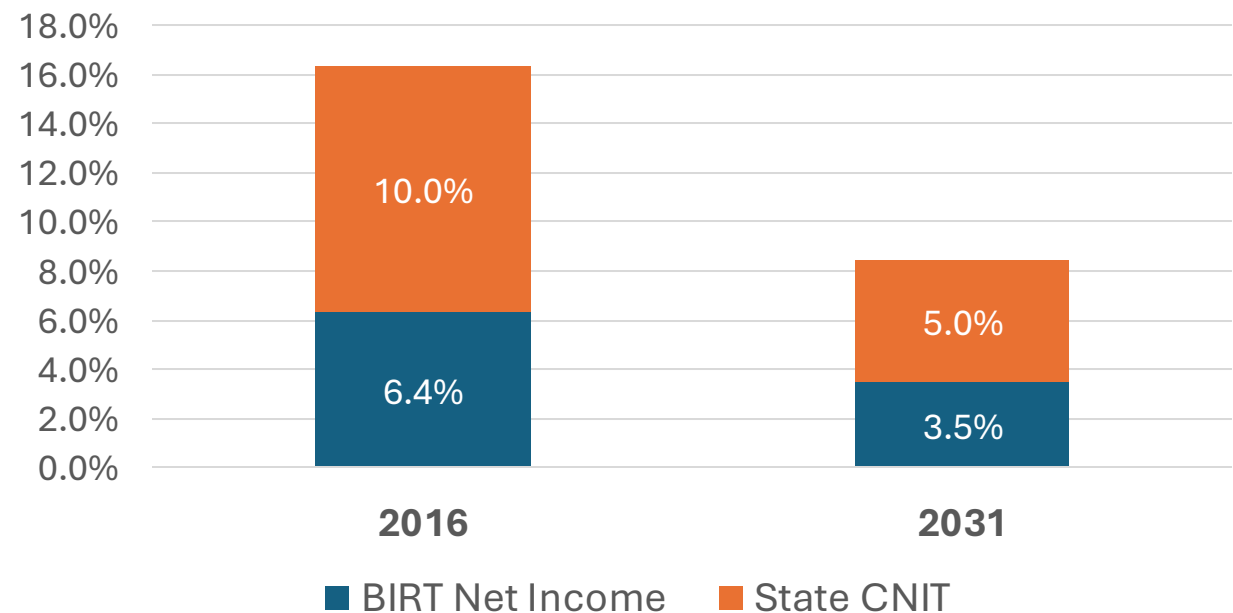


The Business Income and Receipt Tax (BIRT) does not drive businesses and jobs from the city.

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