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City tax reforms in the wind

Two Council members moving to gradually ax net income tax

Philadelphia Business Journal - by [Athena D. Merritt](#) Staff Writer

Philadelphia's business privilege tax is killing jobs by taxing both the net income and gross receipts of businesses, opponents have long said.

But as two City Council members see it, it's the net income portion that is doing the most damage, not the gross receipts as many have believed. Bill Green and María Quiñones Sánchez are working on legislation that will gradually eliminate the net income tax and raise the gross receipts tax over a five-year period starting next year.

The city's BPT currently consists of a 6.45 percent net income tax and a 0.1415 percent gross receipts tax.

Green and Sánchez said their legislation would make the city more competitive and would be revenue neutral. Under their plan, businesses would be excluded from gross receipts taxation on the first \$100,000 of receipts, which by full implementation could result in 40,000 businesses having zero BPT liability.

"When you look at the tax liability for most businesses in the city under \$100,000, 91 percent pay more in net income than they do in gross receipts so their tax liability for business is actually on the net income side not the gross receipts," Sánchez said.

Green and Sánchez said their reforms would do more to grow jobs and businesses in Philadelphia than changes proposed by the Nutter administration, which wants to eliminate the gross receipt tax over eight years and drop the net income tax rate to 6 percent. **Econsult Corp.**, which has met with city finance officials and analyzed data from the Revenue Department to determine the impact of Green and Sánchez's proposed reforms, agreed.

"We think this would actually be a better business tax reform for Philadelphia; it would make Philadelphia more competitive," Econsult Senior Vice President and Principal Stephen P. Mullin said.

The shift from a high income tax rate to a very low, broad-based rate would do more to stimulate business investment, employment and profitability, as well as remove disincentives for businesses locating in Philadelphia, Mullin said.

"Very few cities anywhere in the country even level it," Mullin said of the net income tax that Philadelphia-based businesses pay.

Nutter suspended planned business tax reductions in 2008 because of the city's fiscal problems but is proposing in this year's budget plan to restart them in fiscal year 2014, but at a slower rate, Doug Oliver, the mayor's spokesman, said.

"Our position has always been clear that the gross receipts portion of the business privilege tax is the most onerous portion of the business privilege tax; it's harming high-volume, low-margin businesses, and it has been classified as a job killer," said Oliver, who declined to specifically comment on Green and Sánchez' proposed reforms until legislation has been introduced.

"All of the other existing research shows the gross receipts portion is the job killer. We would have to see some really strong evidence that their approach would work before considering it," Oliver said.

If continued as planned, Sánchez said the administration's policies would essentially be giving a 54 percent tax break to big businesses only.

"If there's an agreement that small businesses are the ones that are going to create the jobs over the next decade then we have to set up a business structure to help them," Sánchez said of the proposed reforms, for which she and Green will spend the summer getting input from stakeholders before drafting legislation.

Green said the planned reforms would include the modification of alternative rates available to manufacturers, wholesalers and retailers to continue to provide an escape clause for the typically low-margin businesses. The industries have the option of paying either a gross receipts tax or an alternative receipts tax, which is based on their net after their cost of goods. A fresh food tax credit would also be available to businesses whose sales include at least 10 percent fresh produce.

"Initially, we wanted to do a big bang, so just in one year change it all, and I could still be talked into that over the summer if the business community can get behind that," Green said. "I tend to believe the system is broken, and I rather just take a sledge hammer to it than gradually sort of whittle it down, but this seems to have the most support at the moment."



Councilman Bill Green

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