

Legislation Text

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Calling on Mayor James F. Kenney and his administration to work collaboratively with City Council, as well as business, labor, and diverse community stakeholders, to establish a Commission on Tax Equity and Growth, which would examine and assess the City's tax structure and advance a tax plan that centers racial equity and inclusive growth.

WHEREAS, Residents of the City of Philadelphia rely on their municipal government to provide robust public services and amenities, support a strong system of public education, and ensure public safety and health. Philadelphia's intertwined poverty, opioid, and gun violence crises demonstrate how Philadelphia cannot be economically strong if many of its neighborhoods are left behind, and underscore that the City must invest to address profound racial disparities in poverty, eviction, incarceration, gun violence, and health; and

WHEREAS, Strengthening Philadelphia's economy also requires accelerating improvements to local GDP, labor force participation and employment rates, and job creation to make up for historic losses. The Kenney administration's report *Growing with Equity: Philadelphia's Vision for Inclusive Growth* further emphasizes the importance of increasing the number of quality jobs that pay family-sustaining wages; and

WHEREAS, As the City's budget is a reflection of its priorities and must center both racial equity and inclusive growth, its tax structure must as well; and

WHEREAS, It has been more than a decade since the last formal Tax Commission has convened. During City Council's Fiscal Year 2022 budget hearings, the Administration's finance officials explained that estimations and projections from the 2009 Task Force on Tax Policy and Economic Competitiveness were used to support and inform currently-proposed tax cuts, despite dating from more than a decade ago; and

WHEREAS, Major past reform efforts focused on reductions in the business and wage taxes as the primary mechanism to boost the city's economic health. In 2002, Philadelphia City Council proposed, and the City's electorate approved, the Philadelphia Tax Reform Commission and Advisory Committee. Among other recommendations, the Tax Reform Commission concluded that the city should further reduce the City's wage tax and similarly reduce, and eventually eliminate, the Business Privilege Tax (now the Business Income and Receipts Tax); and

WHEREAS, In March 2009, the City instituted the Mayor's Task Force on Tax Policy and Economic Competitiveness to build on the work of the Tax Reform Commission and further assess the impact of the City's tax structure on business growth and economic competitiveness. Like its predecessor, this Task Force called for deeper reductions to the resident wage tax, the non-resident wage tax, and the net income portion of the business tax, as well as eliminating the gross receipts portion of the business tax; and

WHEREAS, Subsequently, major business tax reform passed by City Council in 2011 took a different approach that succeeded in targeting relief to small and local businesses, as well as those starting up. By increasing—rather than decreasing—the relative share of the gross receipts portion of the business tax and exempting a portion of both income and revenue from taxation altogether, approximately 75 percent of Philadelphia businesses were

freed from any tax liability and a greater proportion of tax revenue was levied from large businesses and businesses with no physical presence in the City; and

WHEREAS, Philadelphia's tax structure still relies significantly on wage and business taxes relative to property taxes, which are constrained by the high rate of exempt properties and of low-income homeownership as well as the persistent underfunding of Philadelphia's public schools by the state. Because of the lack of regional taxation, Philadelphia's wage tax sets resident and non-resident rates and allows for a regional contribution to fund the City's shared amenities; and

WHEREAS, Additionally, a number of mechanisms have been adopted to partly compensate for the limitations of Philadelphia's notoriously complex business tax as well as the state constitution's Uniformity Clause, which has been interpreted as prohibiting progressive taxation. These efforts include a proliferation of business tax credits, incentives, and exemptions; and

WHEREAS, In the absence of more comprehensive reform, the City has recently taken steps to adjust some specific taxes and examine tax incentive strategies. For example, in December 2019, City Council unanimously passed reductions to the City's tax abatement program and engaged in a large-scale review of existing incentive programs; however, it has limited ongoing mechanisms to measure the impact of tax interventions or reductions; and

WHEREAS, Since past initiatives to reexamine the City's tax structure, Philadelphia has significantly changed. The City's population rose each year from 2007 to 2019, with a residential real estate boom following suit. Experts including Pew Charitable Trusts and the Economy League of Greater Philadelphia have noted an increasing lack of middle-wage jobs, and observe that the City's median household income has not risen proportionally with the growing home values and increase in job creation, with stagnant rates of poverty and deep poverty especially in Black and Brown neighborhoods; and

WHEREAS, As Philadelphia emerges from the COVID-19 pandemic, and businesses and workplaces have begun to reopen, there remains significant and lasting economic and public health impacts, especially for communities of color. Black and Latinx residents were two and three times more likely, respectively, to lose jobs and income as a result of the pandemic, and to know someone who died from COVID-19. Less than half of lost jobs have yet been restored; and

WHEREAS, According to a March 2021 Pew Charitable Trusts study, Philadelphia lost the second highest amount of tax revenue during the first year of the pandemic among thirteen major cities surveyed-\$749 million, or nearly 15 percent of general fund spending in Fiscal Year 2020-with revenue shortfalls projected to continue in coming years. Major questions remain regarding the potential effect of a sustained shift to greater remote work, and the pandemic's long term impact on the City's tax base is still unknown; and

WHEREAS, Recent studies have questioned the assumptions behind using tax cuts and tax incentives as a primary means to spur local economic growth, and emphasize the importance of workforce preferences and recruitment dynamics including the strength of public infrastructure and services including schools; at the same time, tax and regulatory complexity reportedly continue to negatively impact Philadelphia's business creation, attraction, growth, and retention; and

WHEREAS, Given this backdrop, the substantial changes to Philadelphia's economic landscape over the last decade, and the present inflection point following the COVID-19 pandemic, there is a pressing need for City leaders to examine anew various approaches to business, wage, real estate, and other forms of taxation in order

to increase equity and support growth of the city’s tax base without compromising the necessary programs that address poverty and public safety, provide high quality services, and allow our City to flourish; and

WHEREAS, Changes to Philadelphia’s tax rates and structure carry the potential to create “winners” and “losers” and therefore should be evaluated pursuant to a deliberate, transparent, and data-informed process; and

WHEREAS, A Commission on Tax Equity and Growth should be composed of diverse representatives from the business, labor, and advocacy communities, as well as civic and community leaders, and experts in community and economic development as well as public finance, and shall be formed following a public nomination process; now, therefore, be it

RESOLVED, THAT THE COUNCIL OF THE CITY OF PHILADELPHIA, Calls on Mayor James F. Kenney and his administration to work collaboratively with City Council, as well as business, labor, and diverse community stakeholders, to establish a Commission on Tax Equity and Growth, which would examine and assess the City’s tax structure and advance a tax plan that centers racial equity and inclusive growth.