

## **Section 4:**

**Focus Group Research on Philadelphia's Business  
Community**

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**To:** The Philadelphia Tax Reform Commission

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## **PROJECT DESCRIPTION**

Three focus groups were conducted on September 18, September 24, and October 1, 2003. The objective of the focus groups was to study and analyze the impact of the current tax structure on small businesses in the City of Philadelphia. A total of 12 participants attended the groups and participated in the study. Each participant was either an owner of a business in the City of Philadelphia or a high-ranking employee in a business in the City who was familiar with the tax structure or actively involved in the management and locational decisions of the business. The business executives represented the African American Chamber of Commerce, the Greater Northeast Chamber of Commerce, the Hispanic Chamber of Commerce, the North Philadelphia Business Chamber, and the American Street-Erie Business Association. Each focus group was organized by its respective business organization.

For most of the participants, remaining in the city was a priority, largely because of their clients and their customer base. With few exceptions, both the owners and their employees also lived within the city limits. No participants have any express plans to move out of the city's boundaries, although several have contemplated moving out due to myriad of business taxes they pay. Almost all participants complained about Philadelphia's "high" tax structure in comparison to its surrounding suburbs. At least one participant seriously considered the implications of the tax structure and almost did not make the move to the city before finally moving his business there.

The overriding concern of the small business participants was a strong need to reduce their tax burdens and the concomitant pressure it creates on

their businesses. As expected, both the gross receipts portion of the Business Privilege Tax and the wage tax were topics of great debate among participants.

For all of the participants, the Business Privilege Tax was viewed as “inherently unfair” and needed to be eliminated. Sentiment differed slightly with respect to the Wage Tax, ranging from complete elimination to reductions comparable to the suburbs. Understanding the consequences of drastic reductions in Philadelphia’s tax structure, the small business owners conveyed the desire to shift the tax burden towards larger corporate entities and towards those businesses whose taxes are currently in arrears with the city. They believe the city can come up with a formula that is more equitable for small businesses.

All participants expressed a desire for the city to become more competitive without compromising their abilities to grow, expand, and profit in their respective businesses. The issues and concerns raised, however, did not differ substantially along geographical or racial lines. Thus, the information in this report will be presented as a loose composite of the small business experience in Philadelphia.

## GENERAL CONCERNS

As a small business owner, it is very challenging to do business in the city of Philadelphia. The tax structure is widely seen as “*confusing, complicated, oppressive, isolating, and an impediment to growth.*” The primary concerns for these small business owners are the impact of the gross receipts portion of the Business Privilege Tax and the Wage Tax. All participants expressed an intense desire to eliminate the gross receipts portion of the Business Privilege Tax. Several also wanted the Wage Tax eliminated, although most feel it should be brought down to a level comparable to the surrounding suburbs.

When asked to describe what it was like doing business in Philadelphia, the sentiment was overwhelmingly negative.

- ❖ **The tax structure is oppressive and onerous.** Doing business in Philadelphia is difficult, “rough and hazardous.” Small business owners feel squeezed—by a tax structure that benefits the city, big business and large corporations. They believe that changes in the tax structure are arbitrarily determined and applied; that large corporations receive great tax incentives to come to and to stay in Philadelphia; and that the City will raise taxes wherever and whenever it can to close its deficit. In the end, small businesses shoulder a significant burden because they are responsible for all of the taxes and receive no such benefits. Participants

used language like “they nickel and dime you,” “you have to have a lot of guts to come in here,” “I never see any of my profits...you have to have thick skin [to locate a business in Philadelphia].

- ❖ **The tax structure is complicated and confusing.** While many of the participants have accountants who deal with their taxes, they still complained that the City lacks a coherent, consistent source of information regarding tax questions. Said one participant, “Ask five people and you’ll get five different answers.” Beyond payment schedules, confusing forms, and inadequate customer service, several owners expressed confusion as to where certain tax monies go. The perception is that there are many types of taxes which overlap and they feel as though they are responsible for them all.
- ❖ **There is little or no recourse for tax concerns.** The tax code and the Tax Review Board process functions in favor of the City. Participants feel resigned, “isolated,” and hopeless.” Small business owners often cannot afford the time or expense to address their tax concerns with the review board.

### **BUSINESS PRIVILEGE TAX (Gross Receipts Portion)**

The Business Privilege Tax is widely seen as unfair in concept, in computation, and in collection. Frequently, it was referred to as “atrocious” and “punitive.” For newly created small businesses and “mom and pop” businesses, paying a double tax at the beginning of the second year of operation is an exceptional hardship. Continuing to pay a tax on gross revenue prior to earning a profit is likewise an extraordinary burden for small businesses who want to expand.

- ❖ **The Business Privilege Tax is unfair in concept.** It is believed that it is particularly unfair since this tax requires businesses to pay a tax on their gross receipts regardless of whether they have made a profit. It hurts small businesses because it is paid upfront prior to them realizing any profit.
- ❖ **The Business Privilege Tax is unfair in computation.** It is believed that this tax is unfair in computation because it requires them to pay a tax based on gross receipts of the previous year when in fact they may not make the same amount the next year. There was also the suggestion that paying this tax in advance amounts to an “interest-free” loan to the City of Philadelphia.

- ❖ **The Business Privilege Tax is unfair in collection.** It is believed that this tax is unfair in collection for two reasons. First, paying up front puts small businesses at a disadvantage because it cuts into the funds available to run and keep a business running and to ensure that the business is run smoothly. The small business owners complained about having to juggle payments from suppliers, vendors, or such. And when they haven't been paid by a client on time, they might not have money for the supplier. Secondly, the City doesn't do a good job of collecting the business privilege tax which means they City suffers because of the amount of uncollected back taxes.

Lastly, the business owners believe that there is no immediate plan that will provide them with some relief. Several small business owners weren't aware that theoretically and in practice, you can get adjustments or get money back if your business dissolves.

## WAGE TAX

The Wage Tax is also widely seen as oppressive. The majority of participants suggested that this tax be reduced over time to be comparable to the wage tax in the surrounding suburbs. In particular, the Wage Tax affected those small businesses which had to recruit employees from outside of the city and those businesses which require a particular expertise or specialization in their labor force. The Wage Tax is seen as penalizing both the employee and the employer. It is clear that the Wage Tax does affect small businesses in terms of location decision, and whether they live or work in the City. One participant said of his move to a suburb of Philadelphia, "I moved out there and, in effect, gave myself a 3.5 percent raise." Moving outside of Philadelphia and eliminating his Wage Tax also afforded him the opportunity to become a homeowner. In addition, several participants were close to the borders of the city and frequently thought, "I could move across the street in a minute."

- ❖ **The Wage Tax limits competition.** The Wage Tax is a strong deterrent in recruiting. Most workers, they believe, would prefer to work in the city to the outlying "campuses," particularly with the recent emphasis on developing cultural amenities and the vibrant restaurant and downtown social scene.
- ❖ **The Wage Tax creates a "brain drain."** It particularly affects small businesses that need specialized labor (health care workers, engineers, etc.). It limits their ability to recruit from surrounding suburbs and New Jersey. They also have a hard time recruiting young talented graduates

(recent college students) to “campuses” because they want to be a part of the City’s social life.

- ✦ **The Wage Tax adds to the burden of small businesses.** To compete, small businesses in the City must offer other perquisites like parking and different benefits packages to entice workers into the City. These perks, in addition to the limited capital available due to the business privilege tax, continue to drain the capital available for other small business expenses.

## **CITY SALES TAX**

The City Sales Tax (1 percent) added on to the State sales tax (6 percent) did not engender a great deal of concern from the perspective of small business owners in these focus groups. Most participants owned or worked in service-oriented businesses. On the other hand, several acknowledged that as consumers, particularly for big ticket items (like automobiles), they were more likely to purchase in a surrounding suburb to save the extra percentage point. Overall, they acknowledged that the extra tax hurt the city by adding to the perception that the city was too expensive.

## **REAL ESTATE TAX/REAL ESTATE TRANSFER TAX**

The Real Estate Tax was generally seen as a “fair” tax. All participants acknowledged that property values were significantly lower than in the surrounding suburbs. The City’s Wage Tax, however, renders any gains in cost of living to be obsolete. That is, the burden of the “low” property taxes combined with the “high” wage taxes in the city is greater than that posed by the high property taxes and low wage taxes of the suburbs.

In addition, several participants expressed concern about the City’s reassessment practices. Oftentimes, the reassessment schedule is seen as arbitrary, not uniform, and another way to “exact money from the residents.” Significant increases of 10 percent hit property owners very hard.

The real estate transfer tax (at 4 percent) is twice as much in the city than in most surrounding suburbs. Again, while the real estate taxes in general are seen as more fair and more reasonable than in the suburbs, when the Real Estate Transfer Tax is added, or when the Wage Tax is added, it becomes more difficult to compete with the suburbs.

## USE AND OCCUPANCY TAX

Like the real estate tax, the Use and Occupancy Tax generated a bit of confusion but not much concern or controversy. As many small business owners lease their stores, there was some debate as to who was really paying the Use and Occupancy Tax—the owner of the property or the owner of the business—if, in fact, these were two separate entities. If the latter, most felt reasonably sure that it was being passed on to them by their landlord through real estate taxes, etc. one participant termed it as another “price of doing business in the city.”

## WHAT WOULD HELP YOU AS A SMALL BUSINESS IN PHILADELPHIA?

While it is certain that this community of business owners and residents will never be eager or anxious to pay taxes, there was a strong desire for a more equitable, small business-friendly environment in which to work. Towards this end, the focus groups came up with several doable suggestions that would make great improvements in doing business in the City.

- ❖ Eliminate or phase out the gross receipts portion of the Business Privilege Tax. At minimum, create an “amnesty” plan for new businesses so they won’t be overburdened in the first few years of businesses.
- ❖ Reduce the wage tax to levels more comparable to the outlying suburbs, thereby reducing the tradeoffs made by suburban residents to work in the city.
- ❖ In addition, the City should offer a reduction in the wage tax for those businesses that contract with the City by a certain date thereby ensuring knowledge of what the tax base will be after a reduction in the wage tax.
- ❖ Establish a system of tax incentives for small businesses comparable to those that large corporations receive when they are being recruited to come downtown.
- ❖ Create a small business liaison to improve personal interface and eliminate confusion with respect to the tax structure.
- ❖ Develop and implement a better system to collect back taxes. Participants supported garnishing wages, putting liens on property, etc.

- ❖ Streamline the government 'bureaucracy' and privatize City services. Privatize the collection of back taxes, allowing private companies to work for a percentage of the taxes collected.
- ❖ Explore other revenue-generating industries such as gaming.
- ❖ Explore a more progressive tax structure.

Last, there were other concerns, which seem outside the scope of the Commission but which do affect the ability of small businesses to function properly in the City which should be noted. There was widespread concern about workers' compensation and auto insurance.

Clearly, small businesses are finding it very difficult to operate successfully in the Philadelphia's current tax environment. Many of the suggestions put forth by the participants in these focus groups can go along ways towards providing some ideas to overhaul the tax structure. If the city continues to stay with the current system, it will continue to have major implications on small business and ultimately, hamper their growth and success.