

Research on Philadelphia's Tax Burden, Tax Structure and Impact on the City's Economy

Comparative Tax Burden

“State and Local Tax Burdens in the Philadelphia Region: The 2001 Report,” Gary Ritter and Candice Hufford, University of Arkansas, and David Thornburgh, Pennsylvania Economy League—Eastern Division. *Greater Philadelphia Regional Review*, Summer 2001, pp. 26-31.

This article presents the results of an update of a report by Robert Inman and Gary Ritter on the distribution of tax burdens among the City of Philadelphia and the 120 largest municipalities in the four suburban counties of Philadelphia. This article expands this analysis to include suburban New Jersey locations as well. The article concludes that, while the City of Philadelphia continues to be a high tax location, the gap between the city and its suburbs is narrowing, particularly in relation to older suburban communities in Delaware and Camden counties.

Comparison of City and Suburban Living Costs, Philadelphia City Planning Commission, New Century Neighborhoods Technical Report #3. July 2001.

This report compared the living costs for hypothetical households in ten city neighborhoods with the living costs in comparable suburban houses. The general conclusion of the study was that for many middle class families currently living in Philadelphia, moving to a suburban community may not only be financially feasible, but also financially advantageous. One major factor is the cost of public school. Another factor was the wage tax, especially for those families with jobs outside of the city.

Taxing Metropolis: Tax Effort and Tax Capacity in Large U.S. Cities, New York City Independent Budget Office. February 2000.

This study compares levels of taxation in the ten most populous U.S. cities by developing a city-specific measure of total local taxes—the taxes that all local governments (municipal and overlapping [e.g., county]) levy *within the city*. Matching this local tax total with the city's taxable resources—the sum of city household earnings and city business profits—provides a measure of local tax effort in each city. Although focused on New York City, the study reveals that of the ten largest cities, Philadelphia ranks ninth in business income per dollar of household income, first in city government share of total local taxes (with 100 percent), first in portion of local tax revenue from personal income, second in portion of local tax revenue from business income, and second in taxes per \$100 of city taxable resources.

Comparative local tax burdens of the largest city in each state—1996, Washington, D.C. Department of Finance and Revenue. 1996

This study compares levels of local taxation in the most populous city in each of the 50 states, plus the District of Columbia for a family of four with two dependents with gross income of \$25,000. Philadelphia ranks second out of the 51 cities studied.

Comparative Tax Burdens: Largest City in Each State Federal, State, and Local Tax Liabilities Estimated for 1988, Ian J. Allan and John E. Petersen, Government Finance Research Center of the Government Finance Officers Association. [1989?]

This study compares levels of taxation in the most populous city in each of the 50 states, plus the District of Columbia for a two income family with two dependents with gross income of \$35,000. Philadelphia ranks fourth out of the 51 cities studied.

Local Fiscal Issues in the Philadelphia Metropolitan Area, Thomas F. Luce and Anita A. Summers. University of Pennsylvania Press. 1987

This book focuses on the implications for tax structure and local government revenue and expenditures of changes in the region's economy. The book has several chapters that focus on the relative tax burdens within the region, and of the city of Philadelphia compared to other cities. Philadelphia fares poorly, both within the region and in comparison to its peer large cities.

Impacts on Employment and Economic Competitiveness

Tax Policy, Job Growth & Neighborhood Transformation, Central Philadelphia Development Corporation, Philadelphia, PA. January 2003.

This report suggests that tax reduction and neighborhood revitalization are two sides of the same coin, in that jobs build neighborhoods, and increased business competitiveness brings jobs. The report compares and contrasts employment trends in Philadelphia to trends in Boston, New York City, and Washington, D.C. A copy of this report was sent to all members of the Tax Commission and its Advisory Board.

“Testimony Before the Pennsylvania Senate Urban Affairs and Housing Committee Public Hearing on the Philadelphia Wage Tax,” Stephen Herzenberg, Ph.D., Keystone Research Center, Harrisburg, PA. April 17, 2002

Dr. Herzenberg's testimony questions the advisability of a sharp reduction in the wage tax, and draws attention to cautions contained in Econsult's study.

“Statement of Michael Mazerov, Center on Budget and Policy Priorities, Washington, DC, Before a Hearing of the Philadelphia City Council Concerning Proposed Bills to Reduce City Wage Taxes”, Michael Mazerov, Center on Budget and Policy Priorities, Washington, DC. April 8, 2002.

Mr. Mazerov's testimony has three main points: (1) The tax differential between Philadelphia and its suburbs is not a significant factor in Philadelphia's loss of population and jobs; (2) cutting either the wage tax or the gross receipts tax as proposed is unlikely to have a significantly positive impact on the city's economy; and (3) if tax cuts result in reduced city services and infrastructure, that could result in a greater harm to the city's economy than any benefit from the tax cuts.

Philadelphia Tax Rates and Their Relationship to Tax Bases and Tax Revenues, Econsult Corporation, Philadelphia, PA and Pennsylvania Economy League, Eastern Division, Philadelphia, PA. February 2002.

This paper presents the results of a statistical analysis of up to 50 years of relationships between tax changes and economic growth in Philadelphia. It is the most comprehensive research to date into this relationship. The analysis suggests that a wage tax cut would have a more powerful effect on the city's economy than cuts in other taxes because it would a) increase wages and employment and b) increase property values. The analysis suggests that, depending on their level and timing, wage tax cuts could create tens of thousands of jobs and significantly increase property values in Philadelphia over the next 5 years. In turn, new jobs and higher property values would return city tax revenues to current levels within 3 or 4 years

What New York Has Gained From Tax Cuts, Edmund J. McMahon, Senior Fellow, The Manhattan Institute for Policy Research, Center for Civic Innovation, Civic Report No. 20, September 2001

This report presents the results of analysis of the impact of lower taxes on the New York City Economy since 1996. During this period, New York City's job growth rate exceeded the national average—the first time that has happened during an economic expansion since 1950. The analysis was conducted using an econometric model. The main conclusions of the analysis are: (1)

reductions in the City's personal income, sales, business and property taxes have generated more than 80,000 new jobs since 1997, or about one of every four gained by the City during that period; (2) nearly 15,000 more jobs could be added to New York's employment base by eliminating what's left of the personal income tax surcharge first adopted by the City a decade ago; (3) undoing the recently enacted cut in the income tax surcharge would reduce employment growth by over 6,300 jobs. The report concludes: "The lesson for the City is clear: tax cuts create jobs, tax increases kill jobs."

"The Influence of Taxes on Employment and Population Growth: Evidence from the Washington, D.C. Metropolitan Area," *National Tax Journal*, March 2000.

This study provides evidence that high taxes are positively associated with unemployment and population loss.

Local Revenue Hills: A General Equilibrium Specification with Evidence for Four U.S. Cities, Andrew Haughwout, Robert Inman, Steven Craig, Thomas Luce. February 2000.

This paper provides estimates of the impact and long-run elasticities of tax base with respect to tax rates in four large U.S. cities: Houston, Minneapolis, New York City, and Philadelphia. The paper concludes, *inter alia*, that Philadelphia's wage tax rates have "significant negative effects on city employment levels".

"Local Taxes and the Economic Future of Philadelphia: 1998 Report," Robert P. Inman, Ph.D., Professor of Finance and Economics, Wharton School, University of Pennsylvania. *Greater Philadelphia Regional Review*. Winter 1998–1999, pp. 5-8.

This report presents the results of an analysis of the impact of changes in the city's property, business, and wage taxes on Philadelphia's economic future. The report strongly supports the City's policy of "steady, fiscally responsible tax rate reductions".

Research conducted by Dr. Inman in 1987 suggested the wage tax was historically responsible for over 60% of the city's jobs loss, some 100,000 jobs between 1965 and 1985.

"Can Philadelphia Escape Its Fiscal Crisis with Another Tax Increase?" Robert P. Inman, Ph.D., *Business Review of the Federal Reserve Bank of Philadelphia*, October, 1992.

This published article confirmed research conducted by Dr. Inman in 1987 that suggested the wage tax was historically responsible for over 60% of the city's jobs loss, some 100,000 jobs between 1965 and 1985.

Recent simulation models of Philadelphia and other cities prepared by Dr. Inman suggest that cutting Philadelphia's gross receipts tax would have a higher impact on per capita wages than cutting the wage tax.

The Impact of Local Taxation on the Economy of Philadelphia, George Sternlieb, Thomas Clark, Kristina Ford, *et al.*, Center for Urban Policy Research, Rutgers, The State University, New Brunswick, New Jersey. March 1977.

This report looks at the impact of increased wage and property taxes in the City of Philadelphia on employment growth and property values in the city. In general, the study concludes that tax levels in the city have impaired Philadelphia's competitiveness with its suburban areas, and with other cities, for retaining and attracting both residents and businesses.

Vertex, Inc., consistently ranks Philadelphia as having the highest city business taxes of the largest 20 US cities.

Public Perception

Wage Tax Poll, Pennsylvania Economy League–Eastern Division. April 2002.

This press release describes the results of a poll of 403 registered voters in the City of Philadelphia. Key findings included: 1) Nearly 50% of those surveyed said they had considered moving out of the city. 2) When asked what tax has caused the most people to leave, 53% said the wage tax. 3) More respondents preferred wage tax cuts to preserving city services. 4) Seventy percent of respondents said they would be more likely to vote for a candidate who backed wage tax cuts.

Philadelphia: Prospects and Challenges at the End of the Decade, A Report to Pew Charitable Trusts, Basil J. Whiting. May 1999.

This report presents an analysis of the city's competitiveness gained primarily through interviews with city leaders. Although the report contains no original analytical research on taxes and their impact, the interviews did find a consistent refrain that one of the most important factors in a city's economic health is the city's comparative tax structure and cost of living. As the report put it "becoming fiscally competitive is the Mount Everest of Philadelphia's problems". The study further noted that its strongest single conclusion from all its interviews in all cities visited is that "Philadelphia needs to reduce its tax burden."

1999 Survey of Suburban Philadelphia Technology Firms, Texcel Corporation, Plymouth Meeting, PA. 1999

This survey found that 34% of respondents identified the wage tax to be a prime deterrent to the growth of technology firms within the city's borders. Taxes were second only to the 40% who identified the lengthy commute as a key barrier.

Fifth Annual Greater Philadelphia First Poll, 1999.

This annual poll of residents of Greater Philadelphia, conducted by Greater Philadelphia First, found that the wage tax ranked second, behind only the crime rate, as one of the primary reasons people have left the city.

Options for Tax Reduction

Tax Structure Analysis Report, Office of the City Controller, City of Philadelphia, Jonathan A. Sidel, City Controller. November 2001.

This report thoroughly documents the city's tax burden and offers a menu of tax reduction options (from wage tax cuts to a change in the way property is taxed) that could be implemented in the current budget cycle to reduce the tax burden. The report suggests that tax cuts could be funded by a combination of city savings, a small increase in jobs and wages brought on by tax cuts, and some tax increases and restructurings.

"Reducing the Wage Tax: Is There a 'New Math' to Improving Philadelphia's Competitiveness?" Paul R. Levy and David B. Thornburgh, *Greater Philadelphia Regional Review*, Fall 2000, pp. 16-10.

This article reviews the evidence pointing to the need to reduce Philadelphia's wage tax in order to improve Philadelphia's competitiveness. It then proposes a remedy that does not depend on either state or federal intervention. This remedy is a ten year program to (1) shift 10,000 current residents from poverty to work, (2) attract 10,000 new neighborhood residents, (3) create 10,000 new neighborhood jobs, (4) add 10,000 new Center City office jobs, (5) attract 10,000 new Center City residents, and (6) cut the city's operating budget by 5 percent. Together these measures would allow the city to reduce the wage tax to 3.5 percent.

Mayor Street's Tax Advisory Transition Team Report, 2000

This report is one of a series of reports prepared by the transition team for Mayor John Street following his election in November 1999. The report suggested the city needed significant tax reductions in order to grow, and that the primary focus should be on the wage tax. It suggested that tax cuts could be funded by some combination of asset sales, city savings, and state or federal gap financing. The report recommended further research to help clarify impacts and sources that could be used to assemble funds necessary to fund tax cuts.

Report of the Select Committee on Business Taxes, Happy Fernandez and Sheldon Bonovitz, Esq., Co-chairs. February 1993.

This is the report of a committee established as a direct result of a Philadelphia City Council resolution. The committee, appointed by Mayor Edward G. Rendell and Council President John F. Street, consisted of 23 individuals representing the business community, City Council, and the Administration. The committee made 44 recommendations for specific changes in business taxes. The net financial impact of these taxes on city revenues was estimated to be negligible, however, the committee believed that together the changes would make the system fairer and simpler, and provide incentives to create new jobs, and, in general, contribute to growth and stability for Philadelphia businesses.

Report on Asset Sale Options for the City of Philadelphia, Greater Philadelphia First Corporation, Philadelphia, PA. January 17, 1991.

This extensive study looks at the feasibility and value of selling assets owned by the City of Philadelphia. It appears to be the most recent comprehensive analysis of this issue. The report found that the 1990 value of assets was \$727 million, and would result in a loss of \$20.2 million in city revenue. Note that the value and feasibility of sale for some of these assets are likely to have changed since the report was completed.

Report of the Wage Tax Committee, prepared for the Second Annual Southeastern Pennsylvania State Legislators' Conference. George Butler, Chairman; Theodore Hershberg, Research Director. May 28, 1987.

This report presents the results of an in-depth study of Philadelphia's wage tax. It presents a set of options for reducing the wage tax, noting, however, that any solution will require regional cooperation and statewide tax reform.

History and Background

"The Experiment Continues: The Evolution of the Philadelphia Wage Tax," Anuj Gupta, Research Associate, Pennsylvania Economy League—Eastern Division. *Greater Philadelphia Regional Review*, Winter 1999, pp. 6-10.

This article provides a history of the wage tax from its imposition as a temporary measure providing a supplement to the city during the Great Depression to its current position as the single most important source of revenue for the city.

Local Non-Property Taxation with Special Reference to Problems of the Delaware Valley, A Task Force Report to the Pennsylvania Tax Commission. Robert Sorrell, Task Force Chairman, Dr. Robert P. Inman, Research Director. March 1981.

This report, one of many completed under the auspices of the Pennsylvania Tax Commission, focuses on problems of the Delaware Valley, one feature of which is distortions caused by Philadelphia's wage tax.

Analytical Models

Household Tax Model and Business Tax Model, Pennsylvania Economy League/Ernst and Young. 2000–2003.

The Household Model calculates state and local taxes paid and the effective tax rates for a representative household that owns a home in Philadelphia and 6 PA suburbs, Cherry Hill, Wilmington, and cities and suburbs in MD, CT, MA, and NY.

The Business Model calculates effective state and local business tax rates, based on expansion investment by a C-corp. or S-corp. in 8 industries, in Philadelphia and 6 PA suburbs, Cherry Hill, Wilmington, and cities and suburbs in MD, CT, MA, and NY.

Both models allow the user to gauge the impact of various changes in tax rates and structures.

Other

The City of Detroit is currently implementing a ten-year reduction in the city income tax from three percent to two percent.

Report of the Select Committee on Public Education Funding, House of Representatives, Commonwealth of Pennsylvania, Honorable Mario J. Civera, Jr., Chairman. September 10, 2002.

Major statewide school funding reform proposals are likely to have significant impact on Philadelphia. This report presents a number of recommendations with preliminary discussion of their impacts. It is important that these issues be closely tracked by the Tax Commission.