

Pennsylvania Intergovernmental Cooperation Authority

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Monthly City of Philadelphia Tax Revenue Update

August 2010

City General Fund tax collections in August were \$179.6 million, bringing the total collections for the first two months of the fiscal year to \$326.3 million, an increase of \$44.5 million or 15.8 percent over the same period in FY10. It should be noted that collections for one or two months can be a misleading indicator due to monthly variability in collections; full collections data for the first quarter of FY11 (July through September 2010) will provide a more reliable indicator of City tax revenue trends.

Sales tax revenue for the first two months of FY11 increased \$23.0 million over the prior year, suggesting continued stabilization in the tax base. In the first two months of FY11, the City portion of the wage, earnings, and net profits taxes increased \$5.4 million over the FY10 level, suggesting continued stabilization of the wage tax base. However, some portion of the growth from FY10 to FY11 reflects the impact of the City's tax amnesty program, for which final collection figures are not yet available. Real estate transfer tax revenues increased \$11.7 million in the first two months of FY11 compared to the prior year. However, August transfer tax revenue growth reflected revenue from a single large transaction.

- Collections of the City portion of the wage, earnings, and net profits taxes were \$109.7 million in August, bringing the total for the first two months of FY11 to \$201.0 million, an increase of 2.8 percent compared to the prior year. Collections in August were 9.8 percent over the prior year, a substantially stronger performance than in July, when collections were 4.6 percent below the prior year. However, some caution should be used in assessing this result because July and August collections include collections from the City's tax amnesty program, which likely resulted in a one-time acceleration in collections of delinquent tax revenue. The City has not yet published the final totals for collections from the tax amnesty program; when these figures are available it will be possible to better assess trends in the wage tax base in the first quarter of FY10. The FY11-FY15 Five-Year Financial Plan projection for FY11 assumes a continuation of a recent trend toward stabilization in the wage tax base – which includes earnings of Philadelphia residents and non-residents who work in the city. The Plan projects FY11 wage tax revenues of \$1,143.5 million, and assumes that the tax base will grow 1.9 percent in FY11.

- August sales tax collections were \$23.4 million, bringing the total for the first two months of FY11 to \$44.9 million, a 104.8 percent increase over prior year. August collections were 96.6 percent higher than August 2009, suggesting a 1.7 percent decline in the tax base over the year (taking into account the increase in the tax rate from 1 to 2 percent effective in October 2009). Combined collections for July and August suggest a 2.4 percent increase in the tax base compared to the same period in the prior year. Overall, these trends are consistent with gradual recovery in the pace of retail sales in the city: the sales tax base declined an average of 3.6 percent in the fourth quarter of FY10, and declines were even larger in the first three quarters of FY10. The Five-Year Plan projects sales tax revenue of \$241.8 million in FY11, an increase of \$36.5 million over the FY10 estimate. This estimated increase reflects growth in the tax base of approximately 2 percent combined with the impact of a full year of collections at the higher tax rate of 2 percent which became effective in October 2009.
- Real estate transfer tax (RETT) collections were \$12.5 million in August, bringing the total for the first two months of FY11 to \$32.4 million, a 56.9 percent increase over the level of collections in the first two months of FY10. The August collections were 27.9 percent higher than August of 2009, the tenth consecutive month of increased collections compared to the same month in the previous year. However, \$7 million of the \$12.5 million in RETT collected in August was due to one transaction. Excluding this amount would suggest a slower pace of RETT collections, which could reflect the impact of the expiration of the federal first-time homebuyer credit. To be eligible for this credit, sales had to be completed by June 30. Given the lag between the time when transactions close and receipt of RETT by the city, the impact of the expiration of this credit is likely reflected in the weakness of the August collections, excluding the one large transaction noted above. The Five-Year Plan estimate for FY11 RETT revenue is \$121.2 million, a 5.6 percent increase over the FY10 estimate. This estimate assumes that a slow down in residential real estate activity after the expiration of the federal tax credit will be temporary.
- Parking tax collections in August were \$6.3 million, bring the total for the first two months of the fiscal year to \$12.1 million, a 2.3 percent decline compared to the previous fiscal year. The FY11 estimate for this tax in the Five-Year Plan is \$72.5 million.
- August amusement tax collections were \$3.7 million, bringing the total for the first two months of FY11 to \$4.9 million, a 13.4 percent increase over the previous year. The FY11 estimate for this tax in the Five-Year Plan is \$21.1 million.

General Fund Tax Collections through August 2010 (\$ in Millions)

Tax	Monthly Collections Through August			Fiscal Year Total Revenues (Budget Basis)	
	FY11 (Preliminary)	FY10	Percent Change	FY10 Current Estimate	FY11 Current Estimate
Wage, Earnings, and Net Profits ¹	\$201.0	\$195.6	2.8%	\$1,136.2	\$1,143.5
Real Estate ²	12.7	12.8	-1.1%	398.9	491.4
Business Privilege	15.4	13.2	17.1%	358.2	350.7
Sales ³	44.9	21.9	104.8%	205.3	241.8
Real Estate Transfer	32.4	20.6	56.9%	114.7	121.2
Parking	12.1	12.4	-2.3%	70.7	72.5
Amusement	4.9	4.3	13.4%	20.9	21.1
Other	2.9	1.0	196.7%	3.1	4.1
Tax Amnesty Program	--	--	--	27.0	0.0
Total Taxes	326.3	281.9	15.8%	2,335.1	2,446.3

Source: Monthly collections from *Comparative Statement of Net Revenue Collections*, City Department of Revenue, available at http://www.phila.gov/revenue/City_Monthly_Revenue.html, and preliminary revenue reports for June and August 2010. Fiscal Year total estimated revenues from the FY11-FY15 *Five-Year Financial Plan* approved by PICA on August 10, 2010.

Notes:

¹ Excludes the portion of these taxes dedicated to PICA.

² The rate of the City portion of the real estate tax will increase from 3.305 percent in 2010 to 4.123 percent in 2011. The combined City and School District real estate tax rate will increase from 8.264 percent to 9.082 percent.

³ The City Sales Tax rate increased from 1 percent to 2 percent effective October 8, 2009.