



May 13, 2016

City of Philadelphia Tax Revenue Update April 2016

General Fund tax collections through April increased by \$117 million (4.8 percent) compared to the prior year

However, growth rates for three major taxes – wage, business income and receipts, and sales – remain somewhat below currently projected growth for FY16

According to the City's preliminary revenue report, FY16 General Fund tax collections through April totaled \$2.541 billion, an increase of 4.8 percent from the same period in FY15. The current estimate for FY16 General Fund tax revenue is \$2.933 billion, an increase of 5.6 percent from FY15. (See Table 1.)

Year-to-date growth rates for the wage and earnings tax, business income and receipts tax (BIRT), and sales tax are somewhat below projections. The wage and earnings tax, including the PICA portion of the tax, increased 3.6 percent through April, compared to projected growth of 4.0 percent for the full fiscal year. BIRT revenue declined 2.4 percent through April, compared to a projected FY16 decline of 0.7 percent. Sales tax revenue through the first ten months of FY16 increased 3.7 percent, compared to a currently projected growth rate of 14.3 percent.

April was a comparatively weak month for the wage tax, with collections declining \$26.0 million (15.0 percent) from April 2015. However, monthly wage tax collections can vary significantly due to timing. Actual FY16 results will depend on collections through June as well as end of year accounting adjustments.

The strongest months for BIRT collections are generally March, April, and May. A clearer picture of FY16 BIRT revenue performance will emerge after May.

In the case of the sales tax, under the City's accounting policies, revenues received in July and August are accrued to the prior fiscal year. As a result, actual FY16 sales tax revenue will reflect actual revenues through August. Revenue should increase significantly beginning in

July, the point when the School District's share of the local sales tax reaches the \$120 million threshold. (Under state legislation, the School District's share of the local sales tax is capped at \$120 million.) Actual FY16 City sales tax revenues will depend on the extent to which overall collections exceed the School District's allocation.

Through April, growth for other major taxes – real estate, real estate transfer, parking, and net profits – exceeds the currently projected FY16 growth rate. Growth in the real estate transfer tax through the first ten months (20.1 percent) is particularly strong. Net profits tax (NPT) growth is also strong. The increase in NPT collections may reflect in part the impact of recent reforms to BIRT which are expected to reduce BIRT collections, but should also result in higher NPT revenue.¹

The City's current FY16 tax revenue estimates are contained in the proposed *Mayor's Operating Budget in Brief for Fiscal Year 2017*. (See Table 2.) According to these estimates, FY16 General Fund tax revenue is projected at \$2.933 billion, an increase of \$20.2 million from the adopted FY16 budget. Combined City and PICA tax revenue is projected at \$3.364 billion, an increase of \$32.9 million from budget.

¹ Legislation enacted in 2011 made a number of changes to BIRT, including adoption of single factor apportionment and tax relief for small businesses. Single sales factor apportionment for the net income portion of BIRT was implemented beginning in tax year 2015. Small business tax relief includes an exemption of the first \$50,000 in receipts from taxable receipts in tax year 2014, with the limit increasing to \$75,000 in tax year 2015 and \$100,000 in tax year 2016 and thereafter. For the net income portion of BIRT, taxpayers may exclude from taxable net income a *pro rata* portion of net income attributable to excluded gross receipts. These changes should result in reduced BIRT and higher NPT revenue. The increase in NPT collections will result from the fact that unincorporated businesses – which are subject to BIRT and NPT – are eligible to credit 60 percent of the net income portion of BIRT against the NPT. For these firms, the reforms should result in generally lower BIRT liabilities, but the lower BIRT liability will be partially offset by increased NPT liability.

Table 1: City of Philadelphia General Fund Tax Revenues: FY16 versus FY15 (\$ in Millions)							
Tax	Monthly Total through April			Fiscal Year Total (Budget Basis)			Change To Date Above/ (Below) Estimated Fiscal Year Change
	FY15	FY16 ¹	Percent Change	FY15 Actual	FY16 Current Estimate	Percent Change	
Total	\$2,765.9	\$2,908.4	5.1%	\$3,185.5	\$3,364.2	5.6%	(0.5%)
City	2,423.9	2,540.9	4.8%	2,777.0	2,932.5	5.6%	(0.8%)
PICA	342.0	367.5	7.5%	408.5	431.7	5.7%	1.8%
Wage and Earnings²	1,453.8	1,506.8	3.6%	1,716.6	1,786.1	4.0%	(0.4%)
Wage	1,438.0	1,491.4	3.7%				
Earnings	15.8	15.4	(2.4%)				
Net Profits²	28.0	32.8	16.8%	38.8	37.8	(2.7%)	19.6%
Real Estate	513.5	558.6	8.8%	536.4	581.4	8.4%	0.4%
Business Income and Receipts	393.0	383.3	(2.4%)	438.2	435.2	(0.7%)	(1.8%)
Sales	129.7	134.5	3.7%	149.5	170.8	14.3%	(10.6%)
Real Estate Transfer	163.5	196.4	20.1%	203.4	237.5	16.8%	3.3%
Parking	64.3	75.6	17.5%	79.7	91.9	15.3%	2.2%
Amusement	17.1	17.3	1.2%	19.0	19.6	3.2%	(2.1%)
Other	3.0	3.1	4.9%	3.8	3.8	0.9%	4.0%

Source: Monthly collections from *Comparative Statement of Net Revenue Collections*, City of Philadelphia, Department of Revenue and preliminary revenue report for April. FY15 actual and FY16 current estimate from *Mayor's Operating Budget in Brief for Fiscal Year 2017 as Proposed to the Council - March 2016*.

Notes:

¹ Amounts are preliminary. Collections to date are not necessarily indicative of likely trends for the entire fiscal year.

² Includes portion dedicated to PICA.

Table 2: City of Philadelphia General Fund Tax Revenues FY16 Adopted Budget versus Current Estimate (\$ in Millions)				
Tax	Adopted Budget	Current Estimate	Current Estimate Above/(Below) Adopted Budget	
			Amount	Percent
Total	\$3,331.3	\$3,364.2	\$32.9	1.0%
City	2,912.3	2,932.5	20.2	0.7%
PICA	419.0	431.7	12.7	3.0%
Wage and Earnings ¹	1,776.4	1,786.1	9.7	0.5%
Net Profits ¹	31.7	37.8	6.1	19.1%
Real Estate	581.1	581.4	0.3	0.1%
Business Income and Receipts	453.9	435.2	(18.7)	(4.1%)
Sales	149.4	170.8	21.5	14.4%
Real Estate Transfer	221.9	237.5	15.7	7.1%
Parking	88.6	91.9	3.3	3.7%
Amusement	19.2	19.6	0.4	2.3%
Other	9.2	3.8	(5.4)	(58.4%)

Source: Adopted budget amounts from *Mayor's Operating Budget in Brief for Fiscal Year 2016 as Approved by the Council - June 2015*. Current estimate from *Mayor's Operating Budget in Brief for Fiscal Year 2017 as Proposed to the Council - March 2016*.

Note:

¹ Includes portion dedicated to PICA.