

PICA Issue Brief:

Tax Reform & Fiscal Stability

PICA came into being in the early 1990s because the City of Philadelphia didn't have enough revenue coming in to meet mandatory obligations and the service needs of residents, stemming from wider issues with the City's budgeting practices. Philadelphia's tax structure contributed to the financial crisis that led to the creation of PICA. The Council-created bipartisan Committee on Fiscal Stability and Intergovernmental Cooperation rejected bankruptcy as the means to resolve the crisis and made other recommendations. Creating PICA was a big one – but the [1991 Report](#) also suggested changes to the tax structure as mechanisms to improve Philadelphia's financial condition. The Committee identified challenges like a regressive tax structure relative to suburban neighbors with higher rates generally, having taxes on income (like the Wage Tax and School Income Tax) that didn't exist outside Philadelphia, and property assessments that didn't match actual values. Tax policy and administration recommendations included:

- Investing in a computer-assisted mass appraisal system to support fairer, more accurate assessments.
- Upgrading IT systems for improved productivity in revenue collection operations.
- Adopting state legislation requiring employers to withhold the Wage Tax from Philadelphia residents.
- Enacting a tax on liquor to benefit Philadelphia Schools (and allow the City to retain a higher share of Real Estate Tax collections).

What Should a Tax Structure Accomplish?

These recommendations have been implemented and, since then, other task forces, committees, and stakeholders have advanced recommendations, many of which have been implemented, to continue the evolution of Philadelphia's tax structure. While there is no universally perfect tax structure appropriate for every place and time, tax policy and administration should strive to be effective, efficient, and equitable¹.

Effective – The tax structure generates enough revenue to fund the desired/required level of services. This is the most basic aspect of a tax structure – getting the money you need to get the job done. Calibration of the right tax bases and rates is needed, especially for local jurisdictions, to ensure that taxes aren't so low that it's impossible to get enough money in nor so high that people and businesses are incentivized to leave and thus shrink the tax base.

Efficient – An efficient tax structure minimizes the burden on both taxpayers and the tax collectors to get each dollar in the door. Higher burdens on taxpayers can increase avoidance and resistance of payment. Burdens can arise from both the amount of the tax and the level of effort required to comply. Simplifying the process to file and pay taxes can improve efficiency. This can include being consistent with how taxes

¹ Being legally permissible is a baseline requirement – unfortunately one that prevents many proposals from working in Philadelphia because the Commonwealth of Pennsylvania Constitution's Uniformity Clause has been interpreted to limit progressive taxation.

are administered elsewhere so that taxpayers can easily comply (aka “don’t be weird”). Efficient operations for tax collectors mean spending less per dollar on collection efforts, freeing up more of the revenues for the services that the community wants. This involves balancing spending enough on collection and enforcement to get the money into a city’s coffers but not so much that you have a diminishing return on investment for those efforts.

Equitable – A tax structure should not create or perpetuate inequities, both because of the moral obligations and the likelihood that an inequitable tax structure undermines the effectiveness of the tax structure. An inequitable tax structure will face resistance. Individual taxpayers may opt out of paying either through non-compliance or leaving the taxing jurisdiction, reducing collections and/or the size of the tax base. Administering an inequitable structure may also lead to reduced collections. For example, a system that is blind to taxpayers’ ability to pay may result in universally lax enforcement and reduced collections. A challenging aspect of implementing an equitable tax structure is that equity can mean different things to different stakeholders.



Changes have been made to the City’s tax policy and administration to improve its effectiveness, efficiency, and equity as part of the efforts to restore and maintain fiscal stability, including:

Adjustments to Increase Effectiveness

- ✓ Reduced the Wage Tax rate to narrow the gap between Philadelphia and competitor jurisdictions for jobs.
- ✓ Reduced the Business Income and Receipts Tax rate to narrow the gap between Philadelphia and competitor jurisdictions for business activity.
- ✓ Increased the Parking Tax rate to increase funds available to support services.

Adjustments to Increase Efficiency

- ✓ Implemented a Computer-Assisted Mass Appraisal System
- ✓ Upgraded IT systems for tax administration.
- ✓ Entered into data sharing agreements with the Commonwealth of Pennsylvania and the IRS for improved auditing capabilities.

Efforts to Increase Equity

- ✓ Created programs to protect low-income homeowners, like the Longtime Owner Occupant Program (LOOP) and Owner-Occupied Payment Agreements (OOPA).
- ✓ Conducted a full real estate property assessment (starting with the 2014 Actual Value Initiative).

The Future of Tax Reform in Philadelphia

In February 2024, City Council passed a resolution reconvening the Philadelphia Tax Reform Commission, and Mayor Parker's Proposed FY25-29 Financial Plan explains that the Administration is awaiting recommendations from that Commission and action in Harrisburg before proposing any tax changes for the City. Most of the City's General Fund revenues come from local taxes paid by residents, businesses, and visitors. There is broad agreement that ongoing reliance on volatile tax streams where taxpayers can vote with their feet by leaving Philadelphia to avoid relatively high burdens is a risk to Philadelphia's fiscal stability. As the Tax Reform Commission and the elected leaders that will be enacting any tax policy changes proceed with their work, it is imperative that any adjustments support and enable ongoing fiscal stability for Philadelphia by advancing an even more effective, efficient, and equitable tax structure.

