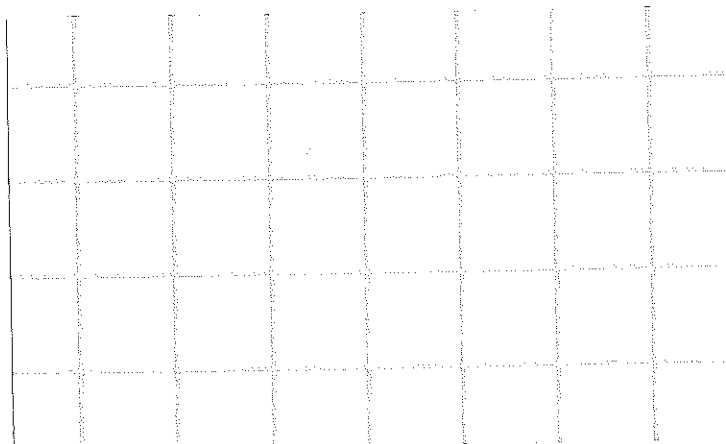


MEMORANDUM:  
ALTERNATIVE WAYS TO REDUCE  
PHILADELPHIA'S WAGE TAX

Pennsylvania  
Economy League, Inc.

Eastern Division

Pennsylvania Economy League, Eastern Division  
1211 Chestnut Street, Suite 600  
Philadelphia, PA 19107  
Telephone (215) 864-9562



MEMORANDUM:  
ALTERNATIVE WAYS TO REDUCE  
PHILADELPHIA'S WAGE TAX

PENNSYLVANIA ECONOMY LEAGUE, INC.  
EASTERN DIVISION  
SUITE 600, 1211 CHESTNUT STREET  
PHILADELPHIA, PA 19107

Memorandum Re: Alternative Ways to Reduce  
Philadelphia's Wage Tax

Executive Summary

A number of proposals have been made over the years to lower the rate of Philadelphia's wage tax. This memorandum provides some background data needed to evaluate alternatives.

Currently, the rates are 4.96% for residents and 4.3125% for non-residents. Precise data are not available on the breakdown of wage tax receipts between residents and non residents. This memorandum is based on the following estimates of the components of the base:

	<u>Billions</u>
Resident wages and earnings	\$10.3
Non-resident wages	6.6
Net profits, unincorporated business	1.0
Total	17.9

Reducing the rate of the non-resident tax would cost Philadelphia revenues of \$6.6 million for each one-tenth of one percent reduction. For example, a reduction to 3.5% would cost an estimated \$54 million.

All proposals reviewed here assume that the result would be "revenue neutral" for Philadelphia, by providing alternative revenue sources (under some scenarios, in combination with cost reductions through elimination of city and county payments to SEPTA) to make up for the reduction in the wage tax. Alternative revenue sources include the imposition of an addition to the state sales tax by all counties acting simultaneously or independently, a new regional sales tax on services, and authorization for some or all counties to levy a tax on income on the state income tax base. In the case of Philadelphia, the income tax would replace the city wage tax and the school non-business income tax for residents.

Rates Required

To illustrate possible revised tax structures, three alternative reductions in the wage tax were tested. Table A shows the rates required to achieve the alternatives, under various scenarios. For example, one alternative tested is to reduce the wage tax on non-residents to 3.5% and on residents to 4.56%. The Table shows, without a SEPTA credit, that if alternative revenues were provided by a regional sales tax, a rate of 1.30% (on top of the state 6% tax) would be needed. If a regional tax on services were chosen, a rate of 3.09% would be required. In either case, there would be sufficient revenues generated to make up Philadelphia's lost wage tax revenues, and to provide substantial county revenues, to be used for reduction of county real estate taxes.

Table A: Summary of Tax Rates under Alternative Tax Structures

Sales Tax or Services Tax	Alt 1	Alt 2	Alt 3
Wage tax rates			
Wage tax on non-residents	3.50%	3.50%	3.72%
Wage tax on residents	4.56%	4.15%	4.96%
Phila revenue reduction (\$ millions)	\$99	\$146	\$39
Rates of New Taxes			
Without SEPTA credit			
Sales tax rate needed	1.30%	1.91%	0.51%
or			
Services tax rate needed	3.09%	4.54%	1.22%
With SEPTA credit			
Sales tax rate needed	1.01%	1.62%	0.33%
or			
Services tax rate needed	2.48%	3.94%	0.87%
Income Tax Replacement for Philadelphia			
Wage and School Unearned Income Taxes			
Without SEPTA credit			
Wage tax on nonresidents	3.50%		3.72%
Income tax on residents	4.80%		4.68%
With SEPTA credit			
Wage tax on nonresidents	3.50%		3.72%
Income tax on non-residents	0.13%		0.13%
Total, nonresidents	3.63%		3.85%
Income tax on residents	4.56%		4.44%

Note: The alternatives with SEPTA credit assume a uniform regional tax to generate \$58.6 million, the 1986 five-county contribution to SEPTA. Therefore, the rate of tax with SEPTA credit is sufficient to fund both the five-county payment to SEPTA and the remaining amount (if any) to make up Philadelphia's loss from the wage tax reduction, after deducting Philadelphia's current payment to SEPTA.

If a reduction of the non-resident wage tax to 3.5% were to be financed by replacing Philadelphia's wage tax (and the school non-business income tax) by an income tax on the state base, the rate of the new tax (without a SEPTA credit) would have to be 4.80%, which would be a reduction from the current 4.96% rate of the wage tax and the school tax.

Table A also shows that these alternatives could be achieved with lower rates if a region-wide tax were used to fund the current county contributions to SEPTA (the SEPTA credit shown in the table).

The memorandum (Tables IV-1 and IV-2) also provides estimates of increases in current Philadelphia taxes that would be required to lower the wage tax rates, if a regional approach were not adopted. For example, reducing the wage tax to 3.5% for non-residents and 4.56% for residents would require a 42% hike in the city's real estate tax.

All of the figures in the memorandum are estimates to provide a basis for discussion, and the figures can be refined as additional information becomes available.

## Memorandum Re: Alternative Ways to Reduce Philadelphia's Wage Tax

The purpose of this memorandum is to discuss the fiscal impact of alternative tax measures to compensate for possible reductions in Philadelphia's wage tax. The memorandum has four sections: the first presents data on Philadelphia wage tax revenues divided between residents and non residents; the second section presents the alternative reductions in the wage tax to be analyzed; the third section discusses regional tax measures to make up the loss in revenues; and the fourth section reviews tax measures which the city could take by itself.

### I. Philadelphia's Wage Tax

Philadelphia's wage, earnings, and net profits tax (hereafter referred to as the wage tax) is Philadelphia's principal source of tax revenue. For FY87, revenues are estimated at \$836 million, accounting for 65% of the Philadelphia's tax revenues.

From its inception in the late 1930's until FY84, the rate of Philadelphia's wage, earnings and net profits tax was the same for residents and non-residents. Starting in FY84, the wage and earnings tax rate for residents is 4.96%, while that for non-residents is 4.3125% (unchanged since FY77). The net profits rate is 4.96% for all unincorporated business in Philadelphia, whether the proprietors are residents or non-residents. The differential rate between residents and non-residents was challenged in the courts, but was upheld on appeal to the Pennsylvania Supreme Court.

Tax revenues for the period FY81 to FY86, and those projected for FY87 are shown in Table I-1.

#### Resident and Non-Resident Collections

Precise data are not available on the division of wage and earnings tax revenues from residents and non-residents. A recent City estimate is that non-resident collections represented 35.8% of the total wage and earnings tax collections.

Applying the 35.8% figure to estimated FY87 current wage and earnings tax collections of \$797.4 million, one arrives at an estimated non-resident collection amount of \$285.5 million. Since the tax rate is 4.3125%, taxable non-resident compensation amounts to \$6.6 billion (and the current collections per 1/10 of 1% are \$6.6 million).

The current collections from residents are estimated at \$511.6 million (64.2% of \$797.4 million). With a rate of 4.96%, the taxable compensation is \$10.3 billion (and the collections per 1/10 of 1% are \$10.3 million). Additionally, the base for the net profits tax, which applies to net profits earned in Philadelphia by both residents and non-residents at 4.96%, is approximately \$1 billion (or collections of \$1 million for each 1/10th of 1%).

It may be noted that at this point, the figures on resident and non-resident wage tax payments are "ball-park" estimates needed for constructing the scenarios used in the later sections of this paper. The tax base estimates shown above differ from data supplied by the state as to resident compensation taxable under the state income tax. On the basis of the state data, it would appear that the resident tax base is lower, and the non-resident is higher, than the figures shown above.<sup>1</sup>

#### Where Do Persons Subject to the Philadelphia Wage-Tax Live?

The wage tax applies to all persons working in Philadelphia, plus Philadelphians working outside of Philadelphia. The most recent data on the residence of persons living and working in Philadelphia are from the 1980 census. In summary, in 1980, persons subject to the Philadelphia wage tax were distributed as follows:

	<u>Number</u>	<u>Percent</u>
Philadelphia residents		
Working in Philadelphia	519,442	61.2
Working outside Philadelphia	88,929	10.5
Subtotal	608,371	71.7
Commuters to Philadelphia	240,714	28.3
Total	849,085	100.0

Thus, Philadelphia residents comprised 71.7% of those subject to the tax.

In 1980, the 240,714 commuters equaled 32.5% of total number of persons (760,156) working in Philadelphia. The commuters were distributed as follows:

Other four counties of Southeastern Pa	162,055
Four counties of South Jersey	69,473
Elsewhere	9,186
Total	240,714

The 1979 earnings of the those subject to the tax are shown in Table I-2. Earnings of Philadelphians accounted for about 60% of total earnings of those subject to the tax.

1. From the state data, we estimate that the FY87 taxable resident compensation is \$9,800 million, and non-resident is \$7,200 million.

## II. Possible Reductions in Rate of the Wage Tax

The purpose of this paper is to present the fiscal consequences of various structural changes in the present taxation pattern. All of the changes are predicated on reducing the rate of the Philadelphia wage tax, either only on non-residents, or on both residents and non-residents. Alternative tax structures are then examined so that the changes would be revenue neutral for Philadelphia.

There are innumerable possible alternatives as to the rates of the tax on residents and non-residents. Previous reports have examined several combinations.

### Rate Reductions Examined

For illustrative purposes, the scenarios in this paper will examine only three alternative rate reductions:

1. A first alternative examined is to reduce the non-resident rate to 3.5%, which is the rate specified in the Lewis-Loeper bill (H.B.361, 1986) and to reduce the resident rate to 4.56%. This would cost Philadelphia \$99 million in tax revenues in FY87.
2. A second alternative is reduce both resident and non-resident rates by .8125, bringing the non-resident rate to 3.5% and the resident rate to 4.15%. This would cost Philadelphia \$146 million in tax revenues in FY87.
3. A third alternative examined is retaining the rate of the tax on residents at 4.96%, but reducing the rate on non-residents to 3.72%, which is three-quarters of the resident rate. The reason that this differential rate was chosen for examination is that it is in accord with the spirit of the 1977 state law which places limits on increases in the non-resident rate. If the rate of the non-resident wage tax were reduced to 3.72%, Philadelphia would lose \$39 million tax revenues in FY87.

### Basis of Estimates

The details for estimating the tax revenue loss under each of the alternatives are shown in Table II-1. As noted in Section I, the calculations assume the following tax base in FY87:

	<u>Billions</u>
Resident wages and earnings	\$10.3
Non-resident wages and earnings	6.6
Net profits	1.0
Total	17.9

As noted earlier, these figures are estimates, and may be revised if more definitive data become available. (Draft tables were also prepared using alternative estimates; they do not differ substantially from the figures shown and therefore are not included in this report.)

### III. Estimates of Regional Tax Rates Required to Make up for Reductions in the Philadelphia Wage Tax

This section examines regional tax structures under two basic scenarios. The first assumes a regional tax at a rate required for Philadelphia to make up for lost wage tax revenues. The second assumes the regional tax would be in two parts: (a) a rate to fund current local government payments to SEPTA; and (b) a rate need to fund Philadelphia's net reduced wage tax revenues (net after deducting Philadelphia's current payment to SEPTA).

The two regional taxes considered are an add-on (piggy-back) on the state 6% sales and a new tax on services, excluding medical services, social services, and hotels. Also considered is a regional income tax, on the state base, to fund the present local government contribution for SEPTA. The rates required are summarized in Table A (Executive Summary). Table III-1 presents the estimated base for estimating tax yields in FY87, while Table III-2 local tax collections in Southeastern Pennsylvania. Details on the various sales tax and services tax scenarios are developed in Tables III-3 to III-6, while the details for the income tax scenarios are in Tables IV-2 and IV-3. Two items are notable in these scenarios. First, a lower rate is required if SEPTA funding from a regional tax is included in the scenario. The reason is Philadelphia's relatively high current SEPTA contribution, which exceeds the amount generated in Philadelphia by the regional tax rate (which is sufficient to fund region-wide the SEPTA contribution). The second item is that substantial revenues would be generated in the counties. These could be applied to reducing the county real estate tax rates.

#### Additional Wage Tax Revenues by Enforcement

Not discussed so far, or included in the computation of funds needed for a regional sales or services tax, is the possibility that Philadelphia could obtain substantial amounts of additional wage tax revenues from Philadelphia residents who work outside the city, and do not file earnings tax returns. In all probability, this income is reported on state income tax returns. If Philadelphia were able to obtain data, on a cooperative basis, from the state income tax administration, or alternatively, if Philadelphia contracted with the state to collect Philadelphia's tax, this revenue source could be tapped. This subject is discussed in the paper by the Center for Greater Philadelphia, entitled "The Philadelphia Wage Tax: A Note on Estimating the Delinquency." If additional delinquent amounts are applied to the loss in the wage tax from rate reduction, then the required rates from other sources would be less.

A similar situation applies to the school district 4.96% tax on certain categories of nonbusiness income. In FY84, the district collected \$12.6 million, from a reported base of \$254 million. The base is much less than the income reported to the state by Philadelphia residents, which amounted to a total of \$1,574 million—\$1,141 million of interest and dividends and \$433 million of other taxable income such as rents, royalties, capital gains (calendar 1984). In part the difference between the income reported to the school district and that reported to the state is attributable to the fact that bank interest and capital gains are taxable by the state but not by the district. However, a large part of the difference probably stems from under-reporting, or failure to file, with the school district. Unfortunately, data are not available to indicate how much falls in each category.

#### **IV. Estimate of Philadelphia Tax Rates Required if Philadelphia Were to Reduce Wage Tax Rates, and Make up the Revenue Loss by Using Existing or New Taxes**

This final section reviews tax changes that Philadelphia alone could undertake to make up for loss of wage tax revenues. As noted earlier, reducing the wage tax rates under alternatives discussed would result in tax revenue losses (Table II-1) of \$39 million to \$146 million per annum for Philadelphia. Philadelphia could make up the loss by increasing the rates of existing taxes or by imposing new taxes, which would require state authorization.

##### **A. Currently authorized taxes**

Philadelphia's general fund tax revenues were shown in Table I-1. In addition to the wage, earnings and net profits taxes, there are six other major taxes: real estate, business privilege, personal property, real property transfer, parking, and amusement taxes.

Real Estate Tax. Philadelphia's real estate tax is the next largest tax source, after the wage, earnings, and net profits taxes. FY87 current revenues are estimated at \$234 million. (Table I-1.) The current rate is 35.05 mills.

The increases required under each of the alternatives are shown in Table IV-1. For example, the increase required to produce revenues of \$99 million under Alternative 1 is 42%, or about 14.9 mills.

The Business Privilege Tax is the next largest tax source. FY87 revenues are estimated at \$128 million. The rates are 4.35% of net profits plus 3.9 mills of gross receipts, with alternatives for various industries. The percentage increases required range from 31% to raise \$39 million to 114% to raise \$146 million.

Another perspective is to view all of the taxes as a group, not only the Real Estate and Business Privilege, but also the Parking, Real Estate Transfer, Personal Property, and Amusement Taxes. The latter four taxes

are projected to yield \$75 million in FY87. As a group, the projected yield of the six taxes is \$437 million. If each of the taxes were increased by the same percentage, the following increases would be required:

- a. Alternative 1 (raise \$99 million): 22.7% increase
- b. Alternative 2 (raise \$146 million): 33.4% increase
- c. Alternative 3 (raise \$39 million): 9.0% increase

#### B. New Taxes

A number of taxes have been discussed that would require state authorization. In Section III, the yield of two of these has been estimated on a regional basis as well as for Philadelphia. Here we note the rates required if Philadelphia alone imposed these additional taxes.

Sales Taxes. Two sales taxes are considered, a piggy-back tax on top of the existing 6% state sales tax, and a new tax on services only (exempting health and social services). The rates required under each tax are shown below.

	<u>Alternative</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
Amount raised (\$millions)	99.0	146.0	39.0
1. Piggy back sales tax rate(%)	1.3	1.9	.5
2. Sales tax on services rate (%)	3.1	4.5	1.2

In preparing the estimates of the two variants on the sales tax, we have prepared the calculations on the unlikely assumption that such taxes only in Philadelphia would not adversely influence the size of the tax base by driving sales out of Philadelphia. This is an important point at issue; many persons believe that a city-only sales tax would have a negative impact. Studies on the topic provide no definitive answers, except that there is likely to be some loss, varying with rate differential and the size of the area with the higher tax. The dimensions of loss are difficult if not impossible to determine. One published study indicated a loss in the range of 2% to 10% for local sales taxes. If the loss were at the higher end, the rates calculated above would have to be increased by 10% to obtain the same amount of revenues.

Income Tax. Another alternative is to replace Philadelphia's wage tax with an income tax, which would use the same base, and piggy-back on, the state income tax. Philadelphia's wage tax only applies to compensation. However, the Philadelphia School District has a tax on certain categories of non-business income (excluding such items as bank

interest) at the same rate (4.96%) as the wage tax. As to estimating the yield of the portion of the tax on income other than compensation, the state provides data as to the base for the Pennsylvania income tax. The most recent figures are for calendar 1984, when Philadelphia residents reported \$1.6 billion in dividends, interest, and other taxable income. We estimate that the base would be about \$1.782 billion in FY87.

The income tax rates required to make up for the reduction in the rate of the non-resident wage tax are shown in Table IV-2. The new tax must also be sufficient to make up for the current collections of the School District Non-Business Income Tax which would be replaced by the new tax. (The school tax now yields \$14 million).

Here are the rates required under alternative reductions in the non-resident wage tax:

1. Non-resident wage tax at 3.72% would require a 4.68% income tax on residents.
2. Non-resident wage tax at 3.5% would require a 4.8% income tax on residents.

Under both alternatives, the income tax rate would be lower than the current 4.96% rates of the city wage tax and the school non-business income tax. The reason that the rate could be lower is that much more Philadelphia unearned income is now taxed under the state income tax (as reported to the state) than is taxed by the school district, as noted above.

These calculations assume no increase in the collectible compensation tax base by piggy-backing on the state tax. However, it is possible that a considerable amount of wages of Philadelphia residents, earned outside Philadelphia, would be discovered and taxed by Philadelphia. If that is the case, the rate could be reduced. A hypothetical amount (assuming an additional \$1000 million, or about 6% of the estimated earnings base of the tax) and its impact is shown in the note to Table IV-2.

Table IV-3 presents the figures assuming a regional tax to provide a SEPTA credit.

## References

1. Pennsylvania. Governor's Tax Commission, 1979. Robert Sorrell, Chairman. Robert P. Inman, Research Director. **Local Non-Property Taxation with Special Reference to Problems of the Delaware Valley. A Task Force Report to the Pennsylvania Tax Commission**, March 1981.
2. Pennsylvania Tax Commission, Richard M. Cyert, Chairman, **Final Report of the Pennsylvania Tax Commission**, March 1981.
3. Delaware Valley Regional Planning Commission and Pennsylvania Economy League, **Information and Analysis of the Current Tax Program in Southeastern Pennsylvania and Alternative Scenarios of Selected Tax Changes**, October 1984
4. Pennsylvania Economy League, **Regional Fiscal Health: An Assessment and Options**. Briefing Paper for May 29-30, 1986 conference, February 1986.
5. Pennsylvania Economy League, **Working paper for estimating yield of sales tax on services**, February 1986
6. Delaware Valley Regional Planning Commission, **Data on Place of Work and Income of Residents of Nine Counties in Philadelphia Region, Based on 1980 Census**, August 28, 1986.
7. Pennsylvania Department of Revenue, **1984 Pennsylvania Taxable Income by County, Size, Income Type and Poverty Income**, April 1986.

TABLE I-1

CITY OF PHILADELPHIA  
GENERAL FUND  
TAX REVENUES  
(Amounts in Millions of Dollars)

	Actual					Orig. Budget	Current Estimate(e)	Adopted Budget
	1981	1982	1983	1984	1985	1986	1986	1987
Real Property Taxes								
Current	\$187.6	\$189.8	\$215.2	\$218.0	\$205.9	\$213.8	\$218.2	\$234.4
Prior	8.1	10.3	11.0	11.5	13.6	14.2	14.4	15.9
Total	\$195.7	\$200.1	\$226.2	\$229.5	\$219.5	\$228.0	\$232.6	\$250.3
Personal Property Taxes								
Current	6.2	6.2	6.9	8.5	8.6	9.0	9.0	10.5
Prior	0.3	0.3	.3	0.3	0.2	0.3	.3	.4
Total	\$6.5	\$6.5	\$7.2	\$8.8	\$8.8	\$9.3	\$9.3	\$10.9
Wage & Earnings Taxes:								
Wage Tax	469.6	496.4	512.7	600.9	636.2	678.4	676.0	718.3
Current	2.1	2.2	2.7	3.3	3.7	4.5	4.5	5.5
Delinquent	471.7	498.6	515.4	604.2(a)	639.9	682.9	680.5	723.8
Sub-Total Wage Tax								
Earnings Tax	47.6	52.3	54.8	63.7	69.3	73.2	74.3	79.1
Current	2.4	5.7	5.0	3.3	3.3	3.5	3.5	6.3
Delinquent	50.0	58.0	59.8	67.0	72.6	76.7	77.8	85.4
Sub-Total Earnings Tax								
Total Wage & Earnings	\$521.7	\$556.6	\$575.2	\$671.2	\$712.5	\$759.6	\$758.3	\$809.2
Business Taxes:								
Mercantile License Tax/ Business Privilege (d)								
Current	54.9	55.4	70.4	79.5	95.6(d)	126.0(d)	126.0(d)	127.7(d)
Prior	5.5	4.1	5.2	7.3	11.5	1.0	1.0	5.0
Sub-Total Mercantile Li- cense Tax/Business Privi- lege	60.4	59.5	75.6	86.8(b)	107.1	127.0	127.0	132.7
Net Profits Tax								
Current	34.3	29.7	27.1	34.9	29.0	24.0	24.0	24.0
Delinquent	1.9	2.3	4.2	4.0	4.1	3.0	3.0	3.0
Sub-Total Net Profits Tax	36.2	32.0	31.3	38.9	33.1	27.0	27.0	27.0
Total Business Taxes	\$96.6	\$91.5	\$106.9	\$125.7	\$140.2	\$154.0	\$154.0	\$159.7
Other Taxes								
Amusement Tax	2.9	2.6	2.5	3.6	3.6	3.3	3.6	4.5
Real Property Transfer Tax	10.1	13.5	19.3	28.3	33.2	43.0	40.0	42.7
Parking Taxes	4.8	5.9	7.3	8.5	9.3	18.0	16.5	16.6
Other Taxes	0.1	0.2	.6(c)	0.5	2.8	0.5	.5	.5
Total	\$17.9	\$22.2	\$29.7	\$40.9	\$48.9	\$64.8	\$60.6	\$64.3
Total	\$838.4	\$876.9	\$945.2	\$1,076.1	\$1,129.9	\$1,215.7	\$1,214.8	\$1,294.4

## NOTES:

- (a) The Wage, Earnings and Net Profits Taxes were increased from 3.3125% to 4.3125% in Fiscal Year 1977. In Fiscal Year 1984, the Wage and Earnings Tax rate was increased to 4.96% for City residents, but remained 4.3125% for non-residents.
- (b) The Mercantile License Tax was increased from 3 mills to 4 mills in Fiscal Year 1977 and was increased to 5 mills effective Fiscal Year 1983. For Fiscal Year 1984, the tax was 4 mills for delivery of goods and performance of services within the City and an effective 2 mills for delivery of goods and performance of services outside the City.
- (c) Does not include any revenue from new Condominium Conversion Privilege Tax.
- (d) In Fiscal Year 1985, the Business Privilege Tax replaced the Mercantile License Tax.
- (e) Estimated as of May, 1986.

Figures may not add due to rounding.

Table I-2

Estimate of 1979 Earnings of Persons Subject to the Philadelphia Wage and Net Profits Tax

Residence	Work in	Number of Workers	Mean Earnings \$	Estimated Total earnings (millions) \$
Phila	Phila	519,442	11,995	6,231
Phila	Bucks	15,531	13,731	213
Phila	Chester	3,117	13,629	42
Phila	Delaware	12,009	12,062	145
Phila	Montgomery	37,869	12,372	469
Phila	Burlington	2,329	14,794	34
Phila	Camden	7,326	14,488	106
Phila	Gloucester	852	12,424	11
Phila	Mercer	932	14,633	14
Phila	Outside region	8,964	14,794	133
Subtotal, Philadelphians working outside city . . . . .		88,929	\$13,118	\$1,167
Subtotal, all Phila. residents		608,371	\$12,159	\$7,397
Bucks	Phila	30,896	18,651	576
Chester	Phila	10,733	26,871	288
Delaware	Phila	64,828	17,499	1,134
Montgomery	Phila	55,598	24,515	1,363
Burlington	Phila	18,186	19,670	358
Camden	Phila	38,224	18,245	697
Gloucester	Phila	12,136	18,005	219
Mercer	Phila	927	20,875	19
Outside region	Phila	9,186	20,936	192
Subtotal, commuters to Phila.		240,714	\$20,137	\$4,847
Total		849,085	\$14,421	\$12,245

Source: DVRPC from 1980 census. Number of workers is 4/1/80; earnings are 1979. Mean earnings of commuters from outside region estimated based on average of all other commuters.

Note: Total times FY79-FY80 tax rate of .043125 equals potential collections of \$529 million. Actual collections were \$473 million in FY79 and \$509 million in FY80. Average estimated for calendar 1979 is \$491 million, or \$38 million less than potential.

Table II-1

Estimates of Philadelphia Tax Revenue Losses Under  
Alternative Wage Tax Reductions (\$ millions)

	Wage Tax		Net Profits	Total
	Resident	Non-Resident		
Tax Base (\$)	10321	6620	1022	\$17,962.8
Present rate	4.96%	4.3125%	2.35%*	
Alternative 1				
Rate reduction	0.4%	0.8125%	0.4%	
New rate	4.56%	3.5%	1.95%	
Amt reduced (\$)	41.3	53.8	4.1	\$99.2
Alternative 2				
Rate reduction	0.8125%	0.8125%	0.8125%	
New rate	4.1475%	3.5%	1.5375%	
Amt reduced (\$)	83.9	53.8	8.3	\$145.9
Alternative 3				
Rate reduction	none	0.5925%	none	
New rate		3.72%		
Amt reduced (\$)		39.2		\$39.2

Source of Tax Base: Computed by PEL, based on estimated collections and city information on percent of collections from residents (see text, Section I).

Alternative 1: non-resident at 3.5% ;resident at 4.56%.

Alternative 2: non-resident at 3.5%; resident at 4.1475.

Alternative 3: non-resident at 3.72%; resident remain at 4.96%

Note: current rates and estimated collections is as follows:

Current rate	4.96%	4.3125%	2.35%	
Collections	511.9	285.5	24.0	821.4

\* This is the effective rate, after deducting 60% of the 4.35% net profits tax under the Business Privilege Tax. An un-incorporated business pays a total net profits tax of 6.70% (2.35% under the net profits tax, and 4.35% under the Business Privilege Tax).

TABLE III-1: Base for Estimating Tax Yields -- Southeastern Pennsylvania (\$ millions)

Tax	COUNTY					
	PHILADELPHIA	BUCKS	CHESTER	DELAWARE	MONTGOMERY	TOTALS
State income tax base	1984 Compensation (\$)	8,204	4,361	2,856	4,461	26,511
	Other (\$)	1,998	916	793	1,286	7,561
	Total (\$)	10,202	5,277	3,649	5,747	34,072
	1987 estimation					
	Compensation (\$)	9,497	5,648	3,699	5,465	32,893
	Other (\$)	2,733	1,357	1,144	1,856	10,697
	Total (\$)	12,230	7,005	4,843	7,320	43,590
	(% of region)	28.06%	16.07%	11.11%	16.79%	27.97%
State sales tax base	1985 (\$)	6,480	2,120	1,310	1,920	15,170
	1987 estimation (\$)	7,638	2,498	1,545	2,263	17,879
	(% of region)	42.72%	13.97%	8.64%	12.66%	22.02%
Base for tax on services	1982 (\$)	3,213	545	531	622	6,701
	1987 estimation (\$)	3,847	756	676	722	8,076
	(% of region)	47.63%	9.36%	8.37%	8.94%	25.69%

Sources: Pennsylvania Department of Revenue, 1984 Pennsylvania Taxable Income by County, Size, Income Type, and Poverty Income. State sales tax estimated by PEL, as shown in Information and Analysis of the Current Tax Program in Southeastern Pennsylvania and Alternative Scenarios of Selected Tax Changes, 1984. Base for tax on services estimated by PEL with the use of data from, the 1982 Census of Service Industries, Pennsylvania (U.S. Department of Commerce, Bureau of the Census) and 1985 Pennsylvania Abstract, A Statistical Fact Book, (Pennsylvania Department of Commerce, Bureau of Statistics, Research & Planning)

Note: Total taxable income includes: compensation, net profits, dividends and interest, other taxable income. Sales tax includes: general merchandise, public utilities, motor vehicles, liquor, out of state, minor and use tax. Tax on services includes all services except: hotels, health services, and social services.

TABLE III-2: Local Tax Collections -- Southeastern Pennsylvania, 1983 (\$ millions)

Tax	COUNTY					TOTALS
	PHILADELPHIA	BUCKS	CHESTER	DELAWARE	MONTGOMERY	
Real estate taxes						
Municipal (\$)	226.2	19.8	12.6	41.1	52.0	351.7
School (\$)	181.4	160.9	91.2	146.1	211.9	791.5
County (\$)	--	33.0	19.5	39.8	31.4	123.7
1986 budgeted county collections (\$)*	232.6	48.7	23.2	50.0	46.2	400.7
Total (\$)	407.6	213.7	123.3	227.0	295.3	1266.9
County personal property tax (\$)	7.2	1.4	1.8	1.9	7.0	19.3
Non-property taxes						
Municipal	711.8	10.3	13.6	15.2	26.6	777.5
School	95.8 **	17.4	14.0	5.6	17.7	150.5
Total (\$)	807.6	27.7	27.6	20.8	44.3	928.0
Grand total, local taxes (\$)	1222.4	242.8	152.7	249.7	346.6	2214.2
% Property tax	33.34%	88.01%	80.75%	90.91%	85.20%	
% Non-property	66.07%	11.41%	18.07%	8.33%	12.78%	

Sources: Philadelphia City: Annual Financial Report for Fiscal Year Ending June 30, 1983. County governments: Department of Community Affairs, DCA 8LGS-14 forms. School districts: Pennsylvania Department of Education, Selected Revenue Data ... for Pennsylvania Public Schools, 1982-83 (issued June 1984), Table 4. Municipalities: DCA 8LGS-30 forms.

\* Fiscal year ending June 30 for Philadelphia city and all school districts; calendar year for other governments. 1986 update is for Philadelphia municipal and the four county real estate tax collection.

\*\* Philadelphia school non-property collections are mainly revenues gained from the occupancy privilege tax.

TABLE III-3: Structural Tax Alternatives -- Regional Sales Tax

## Replacement of Lost Wage Tax by Regional Sales Tax

Revenue Estimate	(\$ millions)	COUNTY					
		PHILADELPHIA	BUCKS	CHESTER	DELAWARE	MONTGOMERY	TOTAL
State sales tax base	1987 estimation	7,638	2,498	1,545	2,263	3,937	17,879
Alternative 1 *	1. Revenue loss	(99.2)	0.0	0.0	0.0	0.0	(99.2)
	Tax Rate	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
	2. Local Revenue Generated	99.2	32.4	20.1	29.4	51.1	232.2
	3. Net Local Gain	0.0	32.4	20.1	29.4	51.1	133.0
Alternative 2 *	-1. Revenue loss	(145.9)	0.0	0.0	0.0	0.0	(145.9)
	Tax Rate	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%
	2. Local Revenue Generated	145.9	47.7	29.5	43.2	75.2	341.5
	3. Net Local Gain	0.0	47.7	29.5	43.2	75.2	195.6
Alternative 3 *	1. Revenue loss	(39.2)	0.0	0.0	0.0	0.0	(39.2)
	Tax Rate	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
	2. Local Revenue Generated	39.2	12.8	7.9	11.6	20.2	91.8
	3. Net Local Gain	0.0	12.8	7.9	11.6	20.2	52.6

Sources: All calculations by PEL from figures found in Table III-1.

\* The wage tax rates assumed for residents and non-residents are as follows:

	Wage Tax	
	Resident	Non-resident
Alternative 1:	4.56%	3.50%
Alternative 2:	4.15%	3.50%
Alternative 3:	4.96%	3.72%

TABLE III-4: Structural Tax Alternatives -- Regional Sales Tax, Including SEPTA

## B. Replacement of Lost Wage Tax by Regional Sales Tax

Revenue Estimate	(\$ millions)	COUNTY					TOTAL
		PHILADELPHIA	BUCKS	CHESTER	DELAWARE	MONTGOMERY	
State sales tax base	1987 estimation	7,638	2,498	1,545	2,263	3,937	17,879
Alternative 1 *	1. Revenue loss	(99.2)	0.0	0.0	0.0	0.0	(99.2)
	SEPTA Tax Rate	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%
	Local Tax Rate	0.68%	0.68%	0.68%	0.68%	0.68%	0.68%
	2. Local Revenue Generated	51.8	16.9	10.5	15.4	26.7	121.3
	3. Local Septa Credit	47.4	1.6	1.2	5.3	3.0	58.6
	4. Net Local Gain	0.0	18.5	11.7	20.7	29.7	80.7
Alternative 2 *	1. Revenue loss	(145.9)	0.0	0.0	0.0	0.0	(145.9)
	SEPTA Tax Rate	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%
	Local Tax Rate	1.29%	1.29%	1.29%	1.29%	1.29%	1.29%
	2. Local Revenue Generated	98.5	32.2	19.9	29.2	50.8	230.6
	3. Local Septa Credit	47.4	1.6	1.2	5.3	3.0	58.6
	4. Net Local Gain	0.0	33.8	21.1	34.5	53.8	143.3
Alternative 3 *	1. Revenue loss	(39.2)	0.0	0.0	0.0	0.0	(39.2)
	SEPTA Tax Rate	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%
	Local Tax Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	2. Local Revenue Generated	0.0	0.0	0.0	0.0	0.0	0.0
	3. Local Septa Credit	47.4	1.6	1.2	5.3	3.0	58.6
	Net Local Gain	8.2	1.6	1.2	5.3	3.0	19.4

Sources: All calculations by PEL from figures found in Table III-1.

\* The wage tax rates assumed for residents and non-residents are as follows:

	Wage Tax	
	Resident -	Non-resident
Alternative 1:	4.56%	3.50%
Alternative 2:	4.15%	3.50%
Alternative 3:	4.98%	3.72%

Rate of tax -- sufficient to fund (a) current 5 county payment to SEPTA (b) remaining amount, if any, needed to make up Philadelphia's revenue loss from wage tax reduction, after deducting the SEPTA payment no longer required.

TABLE III-5: Structural Tax Alternatives -- Regional Services Tax

Replacement of Lost Wage Tax by Regional Services Tax

Revenue Estimate (\$ millions)		COUNTY					
		PHILADELPHIA	BUCKS	CHESTER	DELAWARE	MONTGOMERY	TOTAL
State services tax base	1987 estimation	3,213	545	531	622	1,790	6,701
Alternative 1 *	1. Revenue loss	(99.2)	0.0	0.0	0.0	0.0	(99.2)
	Tax Rate	3.09%	3.09%	3.09%	3.09%	3.09%	3.09%
	2. Local Revenue Generated	99.2	16.8	16.4	19.2	55.3	206.9
	3. Net Local Gain	0.0	16.8	16.4	19.2	55.3	107.7
Alternative 2 *	1. Revenue loss	(145.9)	0.0	0.0	0.0	0.0	(145.9)
	Tax Rate	4.54%	4.54%	4.54%	4.54%	4.54%	4.54%
	2. Local Revenue Generated	145.9	24.7	24.1	28.2	81.3	304.3
	3. Net Local Gain	0.0	24.7	24.1	28.2	81.3	158.4
Alternative 3 *	1. Revenue loss	(39.2)	0.0	0.0	0.0	0.0	(39.2)
	Tax Rate	1.22%	1.22%	1.22%	1.22%	1.22%	1.22%
	2. Local Revenue Generated	39.2	6.6	6.5	7.6	21.8	81.8
	3. Net Local Gain	0.0	6.6	6.5	7.6	21.8	42.6

Sources: All calculations by PEL from figures found in Table III-1.

\* The wage tax rates assumed for residents and non-residents are as follows:

	Wage Tax	
	Resident	Non-resident
Alternative 1:	4.56%	3.50%
Alternative 2:	4.15%	3.50%
Alternative 3:	4.96%	3.72%

TABLE III-6: Structural Tax Alternatives -- Regional Services Tax, Including SEPTA

## C. Replacement of Lost Wage Tax by Regional Services Tax

Revenue Estimate	(\$ millions)	COUNTY					TOTAL
		PHILADELPHIA	BUCKS	CHESTER	DELAWARE	MONTGOMERY	
State services tax base	1987 estimation	3,213	545	531	622	1,790	6,701
Alternative 1 *	1. Revenue loss	(99.2)	0.0	0.0	0.0	0.0	(99.2)
	SEPTA Tax Rate	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%
	Local Tax Rate	1.61%	1.61%	1.61%	1.61%	1.61%	1.61%
	2. Local Revenue Generated	51.8	8.8	8.6	10.0	28.9	108.0
	3. Local Septa Credit	47.4	1.6	1.2	5.3	3.0	58.6
	4. Net Local Gain	0.0	10.4	9.8	15.3	31.9	67.4
Alternative 2 *	1. Revenue loss	(145.9)	0.0	0.0	0.0	0.0	(145.9)
	SEPTA Tax Rate	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%
	Local Tax Rate	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%
	2. Local Revenue Generated	98.5	16.7	16.3	19.1	54.9	205.4
	3. Local Septa Credit	47.4	1.6	1.2	5.3	3.0	58.6
	4. Net Local Gain	0.0	18.3	17.5	24.4	57.9	118.1
Alternative 3 *	1. Revenue loss	(39.2)	0.0	0.0	0.0	0.0	(39.2)
	SEPTA Tax Rate	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%
	Local Tax Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	2. Local Revenue Generated	0.0	0.0	0.0	0.0	0.0	0.0
	3. Local Septa Credit	47.4	1.6	1.2	5.3	3.0	58.6
	4. Net Local Gain	8.2	1.6	1.2	5.3	3.0	19.4

Sources: All calculations by PEL from figures found in Table III-1.

\* The wage tax rates assumed for residents and non-residents are as follows:

	Wage Tax	
	Resident	Non-resident
Alternative 1:	4.56%	3.50%
Alternative 2:	4.15%	3.50%
Alternative 3:	4.96%	3.72%

Rate of tax -- sufficient to fund (a) current 5-county payment to SEPTA (b) remaining amount, if any, needed to make up Philadelphia's revenue loss from wage tax reduction, after deducting the SEPTA payment no longer required.

Table IV-1 Increases in Existing Philadelphia Taxes Required  
to Make Up for Reduction in Wage Tax (\$ millions)

	Alt 1	Alt 2	Alt 3
Non-resident wage tax rate	3.5%	3.5%	3.72%
Resident wage tax rate	4.56%	4.15%	4.96%
Revenue loss	\$99.2	\$145.9	\$39.2
Real estate			
Current revenue \$234			
Current rate 3.505%			
Percent increase in rate needed	42.4%	62.4%	16.8%
Rate increase required	1.486%	2.185%	0.587%
New rate required	4.991%	5.690%	4.092%
Business privilege			
Current revenue \$128			
Percent increase in rate needed	77.5%	114.0%	30.6%
All taxes other than wage earnings & net profits			
Current revenue \$437			
Percent increase in rate needed	22.7%	33.4%	9.0%

Source: Current revenues from Table I-1. Computations by PEL.

Table IV-2: Computation of Rate Required for Philadelphia Piggy-Back Income Tax, Permitting Reduction of Non-Resident Wage Tax

	Alt. 1	Alt. 2
1. Non-resident wage tax rate	3.50%	3.72%
Revenues to be raised (\$ millions)		
2. Reduction in non-resident rate	\$54	\$39
3. Current wage tax on residents	512	512
4. Current net profits tax	24	24
5. Current school unearned income tax	14	14
6. Total	\$604	\$589
Base for income tax (\$ millions)		
7. Compensation	\$10,321	\$10,321
8. Unearned income--current school tax	282	282
9. Unearned income--additional taxable	1,500	1,500
10. Effective net profits	484	484
11. Total	\$12,587	\$12,587
12. Rate required	4.80%	4.68%
13. Rate required, additional wages taxed of residents working outside Philadelphia *	4.45%	4.33%

Sources: Revenues to be raised from city taxes and base for compensation and net profits from Table II-1. Line 5 from FY87 school budget. Line 9 from state report (Reference 7) projected by PEL from 1984 to 1987.

\* The above computation uses as the base for taxable compensation the estimated base of the current wage tax. It is possible that a considerable amount of compensation earned by Philadelphia residents working outside the city escapes taxation. If the new income tax were administered by the state, additional income may be taxable.

The amount that is now evaded cannot be determined from available data. Assuming that \$1,000 million in compensation earned outside Philadelphia is now evaded, and would be collected, the base of the tax would be increased.

In this example, the additional collections would permit reduction of the resident income tax to the rates shown on line 13.

Table IV-3 Computation of Rate Required for Philadelphia Piggy-Back Income Tax,  
(SEPTA Credit) Permitting Reduction of Non-Resident Wage Tax

	Alt. 1	Alt 2
1. Non-resident wage tax rate	3.50%	3.72%
Revenues to be raised (\$ millions)		
2. Reduction in non-resident rate	\$54	\$39
3. Current wage tax on residents	512	512
4. Current net profits tax	24	24
5. Current school unearned income tax	14	14
6. SEPTA credit	-47	-47
7. Total	\$557	\$542
Base for income tax (\$ millions)		
8. Compensation	\$10,321	\$10,321
9. Unearned income	1,782	1,782
10. Effective net profits	484	484
11. Total	\$12,587	\$12,587
12. Rate required, excluding SEPTA	4.43%	4.31%
13. Regional SEPTA tax	0.13%	0.13%
14. Total Philadelphia rate	4.56%	4.44%

Sources: Revenues to be raised from city taxes and base for compensation and net profits from Table II-1. Line 5 from FY87 school budget. Line 9 from state report (Reference 7) projected by PEL from 1984 to 1987.

Note: The above computation uses as the base for taxable compensation the estimated base of the current wage tax. It is possible that a considerable amount of compensation earned by Philadelphia residents working outside the city escapes taxation. If the new income tax were administered by the state, additional income may be taxable.

The amount that is now evaded cannot be determined from available data. Assuming that \$1000 million in compensation earned in Pennsylvania is now evaded, and would be collected, the base of the tax would be increased.

In this example, the additional collections would permit reduction of the resident income tax under alternative 1 to 4.10%.