

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON FINANCE

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, December 11, 2013
10:15 a.m.

PRESENT:

COUNCILMAN BILL GREEN, CHAIR
COUNCILWOMAN JANNIE BLACKWELL
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN WILLIAM K. GREENLEE
COUNCILMAN BOBBY HENON
COUNCILMAN KENYATTA JOHNSON
COUNCILMAN DENNIS O'BRIEN
COUNCILWOMAN MARIA D. QUINONES-SANCHEZ
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILMAN MARK SQUILLA
COUNCILWOMAN MARIAN B. TASCO

BILL 130530 - An ordinance amending Chapter 19-2600 of The Philadelphia Code, entitled "Business Income and Receipts Tax," by providing certain exclusions; revising certain tax rates; and creating certain fresh food tax credits; and amending Chapter 19-1200 of The Philadelphia Code, entitled "Parking Tax," by providing for scheduled reductions in the rate of the tax and by making certain technical amendments...

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COUNCILMAN GREEN: Good

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morning. The Committee on Finance will

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come to order. We are here to hear Bill

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No. 130530.

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Will the Clerk please read the

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title of the bill.

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THE CLERK: Bill 130530, an

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ordinance amending Chapter 19-2600 of The

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Philadelphia Code, entitled "Business

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Income and Receipts Tax," by providing

12

certain exclusions; revising certain tax

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rates; and creating certain fresh food

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tax credits; and amending Chapter 19-1200

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of The Philadelphia Code, entitled

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"Parking Tax," by providing for scheduled

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reductions in the rate of the tax and by

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making certain technical amendments; all

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under certain terms and conditions.

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COUNCILMAN GREEN: Thank you.

21

I note the presence of a quorum

22

in the persons of members Reynolds Brown,

23

Tasco, Goode, Greenlee, Blackwell, and

24

O'Brien. I also note for the record that

25

Councilman Henon is present.

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2 Councilman, do you have
3 anything you'd like to say before we
4 begin the hearing?

5 COUNCILMAN HENON: Thank you,
6 Mr. Chair. I'm here as not only a
7 co-sponsor, but I'm pleased to discuss
8 the important -- this piece of
9 legislation here and wanted to speak
10 briefly.

11 The manufacturing sector --
12 well, first of all, specifically reducing
13 and eliminating the net income portion of
14 BIRT is critical for our future here as a
15 city, and it's a sweet spot for reforming
16 our business taxes, which will encourage
17 and spur some growth in the City of
18 Philadelphia.

19 The manufacturing sector to me
20 is extremely important, and it has been
21 the center of my efforts and many others
22 of this body. I believe Philadelphia
23 needs a strong middle class, and I also
24 believe manufacturing jobs are needed to
25 sustain that middle class. I'm confident

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2 based on speaking with a lot of companies
3 in the manufacturing industry, like
4 Cardone and others, it is the right
5 decision for them, and hope and believe
6 that the intent of this BIRT legislation
7 will help get them where it is.

8 But the bottom line is that
9 this bill will shift our existing tax
10 burden load from Philadelphia business to
11 businesses that sell here and that are
12 not located here. The beneficiaries will
13 be Philadelphia-based businesses. And I
14 believe that's important to every one of
15 this body and the City of Philadelphia
16 and the Administration as well.

17 There are some exceptions, and
18 we understand the work on helping those
19 businesses, but it is about the
20 fundamental principle of today's economy,
21 that where you are located should not be
22 more expensive than the alternatives but
23 then it makes sense to leave, and we
24 don't want businesses to leave the City.
25 We want businesses to stay here in the

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2 City and plant their roots and grow here
3 in the City.

4 So I just wanted to highlight
5 in this legislation the alignment with
6 the Manufacturing Task Force and more
7 than two dozen manufacturers and policy
8 professionals who have worked so hard on
9 it. There will be a final report
10 recommended and released next week.

11 There are over 23,000
12 manufacturing jobs here in the City of
13 Philadelphia, solid middle-class jobs.
14 And I've also understood that this bill
15 will render the work of the Revenue
16 Department more efficient and our audits
17 more successful. This ties into another
18 key initiative that we all have been
19 focusing on, and it's our tax delinquency
20 through more aggressive action. So
21 anything that makes our Revenue
22 Department do a better job, and I think
23 they're on the right track, as long as
24 appropriate protections are in place for
25 most of our vulnerable.

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2 It's been a pleasure to be a
3 co-introducer of this bill and working
4 with my colleagues, Councilman Green,
5 Sanchez and others, and I want to thank
6 the Chair for giving me a chance to have
7 these brief remarks.

8 Mr. Chair, hello over there. I
9 just want to say that I do believe that
10 BIRT is a positive in the right direction
11 and is, I think, essential to moving
12 towards tax reform and giving local-based
13 business here in the City a better and
14 more competitive, fair advantage.

15 Thank you.

16 COUNCILMAN GREEN: Thank you.

17 I know Councilwoman
18 Quinones-Sanchez is on her way. She had
19 an emergency meeting with a manufacturer
20 in her district today that she's trying
21 to keep in the City actually. So she
22 will be here as soon as she saves those
23 jobs.

24 Mr. Dubow.

25 I'm sorry. I also note for the

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2 record that Councilmember Squilla is
3 present.

4 (Witness approached witness
5 table.)

6 COUNCILMAN GREEN: Mr. Dubow,
7 please state your name and proceed with
8 your testimony. I see you're taking the
9 Joan Decker style and going with no
10 notes. Excellent.

11 MR. DUBOW: You seem to like
12 it.

13 Good morning, Chairman Green
14 and members of the Committee. My name is
15 Rob Dubow. I'm the City's Finance
16 Director and I'm here today to testify on
17 Bill No. 130530.

18 The bill would phase out the
19 net income portion of the business income
20 and receipts tax, provide a credit for
21 fresh food sellers. It would increase
22 the rate of the gross receipts part to
23 make the bill revenue neutral and would
24 reduce parking tax rates.

25 Our understanding is that the

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2 intent of the bill is to stimulate the
3 City's economy and to increase the number
4 of jobs. The Administration shares those
5 goals.

6 We've been working with the
7 sponsors of the bill on two analyses, one
8 by the Revenue Department to look at the
9 tax impact of the bill on businesses, the
10 second to be performed by an outside
11 consultant that would look at the impact
12 on the economy and look at things like
13 what impact it would have on revenues in
14 general, if there's a supply side impact
15 from the bill. Until those analyses are
16 done, we won't have an opinion on the
17 bill. Those analyses will frame our view
18 on the bill.

19 So with that, I'll conclude my
20 testimony and be happy to take any
21 questions.

22 COUNCILMAN GREEN: Thank you.
23 I want to state for the record that we
24 have worked extensively with the
25 Administration and Rob, and we especially

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2 want to thank the Department of Revenue
3 and T. Afessa specifically for all the
4 hard work that he's put into this, not
5 just this year but over the last really
6 five years ago we began looking into this
7 issue and getting information from them
8 and working closely, and thank them for
9 their professionalism.

10 Additionally, I want to say
11 that we believe strongly with the
12 Administration that we have to change the
13 economic trajectory of the City. We have
14 to make a clear statement as the City of
15 Philadelphia that we are open for
16 business, that we will not penalize
17 profitable companies for being here and
18 force them anymore to the other side of
19 City Line Avenue, and we appreciate the
20 Administration's willingness to undertake
21 and pay for a study with an outside
22 economist. And our plan today is to move
23 this legislation from committee, and we
24 have agreed with the Administration that
25 we will hold this bill, the sponsors

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2 have, and not move it until that economic
3 analysis comes back, and at that time,
4 we'll sit down with the Administration
5 and either change the bill or move
6 forward, as we believe will be possible,
7 with this basic framework to create jobs
8 and grow our economy.

9 So I have no questions for you,
10 Mr. Dubow.

11 Councilmember Goode.

12 COUNCILMAN GOODE: Thank you,
13 Mr. Chairman.

14 Good morning, Mr. Dubow.

15 MR. DUBOW: Good morning.

16 COUNCILMAN GOODE: First
17 question is the obvious one. Do you
18 believe that this bill should be voted
19 out of committee without the analysis
20 that you talked about?

21 MR. DUBOW: I think our
22 preference would be the analysis come
23 back first and then we could talk about
24 the impact of the analysis, but --

25 COUNCILMAN GOODE: Do you think

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2 that any bill of this magnitude should be
3 voted out of committee without the
4 analysis you talked about?

5 MR. DUBOW: I think our
6 preference would be for the analysis to
7 come back first. If it comes out of
8 committee, though, we understand it won't
9 move, it will be held.

10 COUNCILMAN GOODE: Do you
11 believe that the analysis is necessary?

12 MR. DUBOW: Yes.

13 COUNCILMAN GOODE: So why would
14 we vote the bill out of the Committee
15 without the analysis?

16 MR. DUBOW: I mean, that's not
17 our recommendation.

18 COUNCILMAN GOODE: Let me move
19 along. We've had this discussion before
20 three years ago. The Administration did
21 do an analysis then; is that correct?

22 MR. DUBOW: That is correct.

23 COUNCILMAN GOODE: What was
24 your analysis then?

25 MR. DUBOW: The analysis then

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2 showed that there were substantial
3 changes in tax burden, that there were
4 some firms that had increases in taxes,
5 some that had losses, and we were
6 concerned about the impact on the firms
7 that had increases. So at that point, we
8 opposed the legislation.

9 COUNCILMAN GOODE: The simple
10 analysis was that the bill then and the
11 bill now creates winners and losers, and
12 you had a stated impact of the winners
13 and losers then. Has that impact changed
14 under this new bill?

15 MR. DUBOW: That's part of what
16 we're trying to analyze. That's what
17 we're looking at.

18 COUNCILMAN GOODE: As far as
19 you know, that impact has not changed.
20 There will be winners and losers; is that
21 correct?

22 MR. DUBOW: There will
23 definitely be people who pay more and
24 people who pay less, and what we want to
25 see is who they are and, in addition,

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2 what the impact on the economy is.

3 COUNCILMAN GOODE: In addition
4 to the issue of outside firms and firms
5 located within the City, within the City
6 itself there are industries and
7 businesses that will be hurt within the
8 City under this bill; is that correct?

9 MR. DUBOW: That was the way
10 that it played out, I guess it was, three
11 years ago, and we want to test that
12 again.

13 COUNCILMAN GOODE: There was
14 also an analysis three years ago by Bob
15 Inman. Do you recall what that analysis
16 said?

17 MR. DUBOW: Are you talking
18 about the analysis on the gross receipts
19 side? His analyses in general have shown
20 that gross receipts tax has -- in terms
21 of ways to create jobs in the City,
22 reducing the gross receipts tax is one of
23 the best ways to do that.

24 COUNCILMAN GOODE: But he also
25 had an analysis related to this specific

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2 bill; did he not?

3 MR. DUBOW: I don't remember.

4 I'm sure --

5 COUNCILMAN GOODE: My

6 recollection -- if anyone else remembers

7 differently can tell me. I believe his

8 analysis said that this bill potentially

9 would cost 75,000 jobs. That shift would

10 cost about 75,000 jobs.

11 MR. DUBOW: I think that was

12 his analysis on the increase in the gross

13 receipts side and he said he couldn't

14 analyze the net income side, because he

15 hadn't seen --

16 COUNCILMAN GOODE: But you now

17 recall that he said that the industry's

18 gross receipts would cost 75,000 jobs?

19 MR. DUBOW: I do.

20 COUNCILMAN GOODE: This is not

21 what the Jobs Commission recommended, is

22 it?

23 MR. DUBOW: I don't believe so.

24 COUNCILMAN GOODE: The Jobs

25 Commission recommended paying for

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2 business tax cuts by setting a higher
3 rate for commercial and industrial
4 property taxes; is that correct?

5 MR. DUBOW: That's right.

6 COUNCILMAN GOODE: And that may
7 require a state constitutional amendment,
8 but at least those business tax cuts
9 would be paid for?

10 MR. DUBOW: It would require a
11 constitutional amendment.

12 COUNCILMAN GOODE: Which policy
13 is better?

14 MR. DUBOW: So I think in
15 general we would favor -- and we have.
16 The Mayor has sent a letter saying he
17 favors a constitutional amendment that
18 would allow us to charge property tax
19 rates at different rates. I think then
20 we actually probably wouldn't have a U&O,
21 and we could do many different things.
22 That hasn't happened. We've pushed for
23 that, and it hasn't happened.

24 COUNCILMAN GOODE: So
25 commercial and industrial property owners

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2 will pay less under AVI; is that correct?

3 MR. DUBOW: That's correct.

4 COUNCILMAN GOODE: So we've
5 already shifted the burden away from
6 commercial and industrial property owners
7 to residential property owners; is that
8 correct?

9 MR. DUBOW: That is correct.

10 COUNCILMAN GOODE: So wouldn't
11 the policy be better to pay for business
12 tax cuts through an increase in
13 commercial and industrial property rates?

14 MR. DUBOW: If we were able to
15 do that, that would be preferable. We're
16 not able to do that under the
17 Constitution.

18 COUNCILMAN GOODE: Not yet, but
19 we should aggressively pursue that.

20 There are already \$160 million
21 worth of business tax cuts in the Five
22 Year Plan; is that correct?

23 MR. DUBOW: That's correct.

24 COUNCILMAN GOODE: How many
25 jobs will that create?

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2 MR. DUBOW: I don't know.

3 COUNCILMAN GOODE: How many
4 jobs would that save?

5 MR. DUBOW: So part of what
6 that has is the gross receipts reduction,
7 which, as you said, Professor Inman said
8 will save jobs. I don't have the number.

9 COUNCILMAN GOODE: I'm simply
10 asking if there are already \$160 million
11 of business tax cuts in the Five Year
12 Plan, do we know how many jobs that will
13 create or save?

14 MR. DUBOW: No. We can find
15 that out, though.

16 COUNCILMAN GOODE: But we
17 didn't do that analysis?

18 MR. DUBOW: No.

19 COUNCILMAN GOODE: How are we
20 paying for the \$160 million in business
21 tax cuts already on the books?

22 MR. DUBOW: So the \$160 million
23 was included in the plan last year, so it
24 was part of kind of the overall plan.
25 There weren't specific areas that we said

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2 we're cutting this to pay for it or we're
3 not doing this. It was just part of the
4 overall plan. It's like when we increase
5 funding for police, it's just part of how
6 we put our plan together.

7 COUNCILMAN GOODE: So once
8 again for the record, commercial and
9 industrial property owners will share
10 less of the burden to AVI; is that
11 correct?

12 MR. DUBOW: Yes. Under AVI,
13 there was a shift.

14 COUNCILMAN GOODE: And we
15 already have \$160 million on the books in
16 terms of business tax cuts in the Five
17 Year Plan?

18 MR. DUBOW: Well, we have --
19 yes. That's right.

20 COUNCILMAN GOODE: And these
21 proposed tax cuts, which Professor Inman
22 said would cost 75,000 jobs by the
23 increase in gross receipts, won't happen
24 until into the future?

25 MR. DUBOW: That's correct. I

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2 should say that under this bill there's
3 not additional cuts. There's a
4 realignment, because the bill calls for
5 an increase in gross receipts. So you'd
6 still have the same 160 million. It
7 would just be a different approach to
8 getting there.

9 COUNCILMAN GOODE: And so if we
10 want to cut additionally beyond the 160
11 million, which we don't know how many
12 jobs it's going to create, how many jobs
13 it's going to save, we don't know
14 necessarily how we're paying for it, and
15 if we're not shifting the burden to
16 commercial and industrial property
17 taxpayers, then we can assume that part
18 of that burden is on residential
19 taxpayers. So the question is, one, why
20 not wait for the analysis and then, two,
21 once again, doesn't it make more sense to
22 look at increasing the commercial and
23 industrial property tax rate to pay for
24 business tax reform?

25 MR. DUBOW: So I think that

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2 that would make sense. It's not an
3 option that's available to us now.

4 COUNCILMAN GOODE: But it's an
5 option that is available in the future,
6 and this bill is very much about the
7 future. It's not about the 160 million
8 that's already on the books. It's about
9 doing something different in the future.

10 MR. DUBOW: It's about doing
11 something different over the next five
12 years.

13 COUNCILMAN GOODE: So we have
14 time to do something different without
15 moving this right away?

16 MR. DUBOW: Well, the
17 constitutional amendment would probably
18 take a couple of years, two years, right.
19 So I think these changes would be in
20 place before then, but...

21 COUNCILMAN GOODE: But we
22 already have \$160 million on the books.

23 MR. DUBOW: We do. This would
24 change how that 160 million is allocated.

25 COUNCILMAN GOODE: Isn't the

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2 primary strategy we should pursue to try
3 to make that change and pay for these
4 business tax cuts for raising the rate on
5 commercial and industrial property?
6 That's the simple question.

7 MR. DUBOW: I think that is a
8 strategy, and we've advocated for that.
9 I guess the question is, do we look at
10 other things while we're continuing to
11 pursue that strategy.

12 COUNCILMAN GOODE: And that is
13 exactly what the Jobs Commission
14 recommended?

15 MR. DUBOW: That is.

16 COUNCILMAN GOODE: And your new
17 analysis is not complete?

18 MR. DUBOW: It is not.

19 COUNCILMAN GOODE: Thank you.

20 COUNCILMAN GREEN: Thank you.

21 Just a couple of quick
22 questions. Is this bill revenue neutral
23 over the next five years?

24 MR. DUBOW: The bill is
25 intended to be revenue neutral, and the

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2 analysis that we're doing is how to make
3 it -- what the gross receipts rate would
4 have to be to make it revenue neutral.

5 COUNCILMAN GREEN: Right. We
6 agree, the Administration and the
7 sponsors, that whatever rate the Revenue
8 Department comes up with to make it
9 revenue neutral, it will be revenue
10 neutral. So it will cost no money in the
11 Five Year Plan.

12 MR. DUBOW: Correct.

13 COUNCILMAN GOODE: Point of
14 information.

15 COUNCILMAN GREEN:
16 Councilmember Goode.

17 COUNCILMAN GOODE: No money
18 above the \$160 million already in the
19 Five Year Plan?

20 MR. DUBOW: Correct.

21 COUNCILMAN GOODE: Thank you.

22 COUNCILMAN GREEN: So from the
23 current Five Year Plan, it will cost no
24 money?

25 MR. DUBOW: It will cost no

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2 money --

3 COUNCILMAN GOODE: From the
4 current Five Year Plan.

5 MR. DUBOW: It will be
6 consistent with the Five Year Plan in
7 terms of cost.

8 COUNCILMAN GREEN: Thank you.

9 So I guess the other question
10 is, who will be -- the money that is
11 being collected in order to replace what
12 we would otherwise receive through the
13 net income tax, who does that money come
14 from? Who is paying the tax to make up
15 the elimination of the net income tax?

16 MR. DUBOW: It would be other
17 businesses.

18 COUNCILMAN GREEN: Businesses,
19 that's right. So businesses are paying
20 to eliminate the net income tax that
21 businesses don't want?

22 MR. DUBOW: That's correct.

23 COUNCILMAN GREEN: And so I
24 guess the final question I have is, if
25 you recall, the Administration's analysis

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2 and our analysis in 2010 agreed that we
3 would be shifting \$60 million of our \$360
4 million tax burden from Philadelphia
5 headquartered and based businesses to
6 businesses that are not headquartered and
7 based in Philadelphia, businesses like
8 Home Depot, Target, Lowe's, who currently
9 have no profits or claim no profits in
10 the City of Philadelphia. Is that likely
11 to still be the case here because of the
12 Delaware loophole?

13 MR. DUBOW: I think our concern
14 at the time was that even though they
15 were headquartered outside the City, they
16 still employed people here. So we were
17 concerned about increases in their costs
18 too, and that's part of what we want to
19 analyze.

20 COUNCILMAN GREEN: Right.

21 Councilmember Reynolds Brown.

22 COUNCILWOMAN BROWN: Thank you,
23 Mr. Chairman.

24 Good morning.

25 MR. DUBOW: Good morning.

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2 COUNCILWOMAN BROWN: Councilman
3 Goode raised a number of questions. My
4 ask would be that as we look towards the
5 report, that those questions be addressed
6 in some section of that report.

7 MR. DUBOW: Yes.

8 COUNCILWOMAN BROWN: The
9 initial question I wanted to pose prior
10 to Councilman Goode is, when do you
11 anticipate the completion of the report
12 and will there be -- and have you
13 identified who will be conducting the
14 study?

15 MR. DUBOW: So there are two
16 parts. One is the Revenue Department
17 analysis, which is what rate you have to
18 have on the gross receipts tax to make it
19 revenue neutral and then what that means
20 in terms of taxes for businesses. That I
21 think is probably a couple of weeks away.
22 I'm looking at T. Yeah, a couple of
23 weeks away.

24 On the analysis by the outside
25 firm, we are in the process of trying to

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2 finalize the request for services. We're
3 having some discussions with the sponsors
4 on that. We hope after that process is
5 over, and hopefully that will be within
6 the next week, we'll ask people to --
7 we'll post the request, ask people to get
8 back to us I guess within a couple of
9 weeks after that, and then see whether
10 they can be done within maybe a month to
11 six weeks after that. So it would
12 probably be sometime late January, I
13 would think, early February.

14 COUNCILWOMAN BROWN: So how
15 does that align with our budget review
16 process?

17 MR. DUBOW: So we would have
18 that analysis done before the budget
19 process.

20 COUNCILWOMAN BROWN: Okay. All
21 right, then. Thank you.

22 Thank you, Mr. Chairman.

23 COUNCILMAN GREEN: Thank you.

24 Any further questions?

25 (No response.)

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2 COUNCILMAN GREEN: Seeing none,
3 thank you, Mr. Dubow.

4 Next we will have Matt
5 Melinson --

6 COUNCILWOMAN TASC0: I have a
7 question.

8 COUNCILMAN GREEN: Oh, I'm
9 sorry.

10 Mr. Dubow.

11 COUNCILWOMAN TASC0: I have a
12 question. With all this said and the
13 need for the analysis prior to doing
14 anything about this issue, why are we
15 being asked to vote the bill out of
16 committee today? Is it necessary that we
17 vote the bill out? Does it hurt if we
18 don't vote the bill out?

19 MR. DUBOW: I think we are --
20 the Administration is indifferent to
21 whether the bill is voted out today.

22 COUNCILWOMAN TASC0: I can't
23 hear you.

24 MR. DUBOW: Sorry. I think the
25 Administration is indifferent.

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2 COUNCILWOMAN TASC0: It's not
3 your issue, right?

4 MR. DUBOW: It's not our issue.
5 Thank you.

6 COUNCILWOMAN TASC0: Whether it
7 comes out or not, right?

8 MR. DUBOW: Yes.

9 COUNCILWOMAN TASC0: So we
10 don't vote it out. What happens?

11 MR. DUBOW: If you don't vote
12 it out, then I assume you would do that
13 because you would want to wait for the
14 results of the study. We would come back
15 after the study is done, say what the
16 results were, and I assume have that be
17 the topic of discussion of a hearing.

18 COUNCILWOMAN TASC0: And if we
19 find out through the study some
20 information that may possibly change the
21 construction of the bill, we would have
22 to come back and amend it, right?

23 MR. DUBOW: That's correct.

24 COUNCILWOMAN TASC0: Okay.

25 Thank you.

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2 COUNCILMAN GREEN: Thank you.

3 Thank you, Mr. Dubow.

4 Mr. Melinson, Mr. Shinner, and
5 Ms. Facer-Mee.

6 (Witnesses approached witness
7 table.)

8 COUNCILMAN GREEN: I understand
9 Mr. Melinson is running a little late, so
10 we will just begin. Please, is it
11 Shinner?

12 MR. SHINNERS: Shinners.

13 COUNCILMAN GREEN: Shinners.
14 Excuse me. Mr. Shinners, please state
15 your name for the record and proceed with
16 your testimony. Thank you for being here
17 today.

18 MR. SHINNERS: Good morning. I
19 am Glen Shinners. I'm a CPA with an
20 accounting practice located in Bucks
21 County. I'm also a member of the PICPA's
22 Philadelphia Chapter Committee on
23 Legislation and Local Taxation.

24 Because our practice is located
25 within the Greater Philadelphia

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2 metropolitan region, I became intrigued
3 when I learned about this Council
4 initiative. We have clients that both do
5 business in the City and some that
6 periodically consider expanding into the
7 City. Unfortunately, when those who have
8 a choice as to where to locate their
9 business and come to us seeking advice,
10 we're required to review all the
11 potential taxes to which they can be
12 exposed, and for Philadelphia, as you
13 know, that includes the BIRT, the NPT,
14 the U&O, the CWT, the SIT, higher real
15 estate transfer taxes. We have to do
16 that. We don't have a choice.

17 But at the same time, I've
18 tried -- I've always tried to frame the
19 client conversations from the point of
20 view that current City leaders are not
21 the ones who have made a conscious choice
22 to create and maintain a high tax
23 environment. Rather, it's a situation
24 where they're forced to play out the hand
25 that's been left to them by prior

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2 generations. This view is based on my
3 own personal experiences growing up in
4 the City and then reinforced through
5 interactions with City Council members
6 and DOR professionals at various PICPA
7 functions over the years.

8 Unfortunately, even when
9 clients comprehend the dilemma and some
10 may even sympathize with your budgetary
11 constraints, everything else being equal,
12 it's usually the cost of doing business
13 or the cost of living that become the
14 ultimate deciding factors as to where
15 clients are willing to locate their
16 business or their residence.

17 My sense is that you understand
18 these dynamics all too well. However, by
19 setting forth these proposals, you are
20 setting the stage for a less burdensome
21 decision-making process for those who are
22 thinking of moving their business into
23 the City and a more difficult decision
24 for those who are considering moving out.
25 Some of the specific points I'd like to

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2 highlight are as follows:

3 So under Section 19-2601 of the
4 proposed ordinance, Definitions, Item 15
5 that deals with contractors, this section
6 is very similar to the way Delaware
7 handles its gross receipts tax, and I've
8 always considered this to be a very
9 insightful and pragmatic approach. This
10 proposal also seems to accomplish a
11 number of goals such as, A, reduction of
12 cascading levels of taxation upon
13 individual construction projects.

14 B, it would incentivize project
15 owners and general contractors, the
16 people at the top of the pyramid, to make
17 sure that they select subcontractors who
18 are already registered with the City of
19 Philadelphia. Hopefully this would help
20 to pay for itself at some point.

21 And it should create a higher
22 perception of fairness amongst
23 contractors that are subject to the BIRT.

24 The second section I'd like to
25 focus upon is Section 19-2604, and that's

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2 where the BIRT net income tax rate
3 reduction is taken down to zero by the
4 year 2019. This proposal, more than any
5 other, would have the most profound
6 impact.

7 And as an aside, in this area
8 my comments are from the perspective of
9 service businesses only. That's our
10 experience.

11 So our firm has done some
12 calculations, and it seems, A, that the
13 profitable service businesses that
14 operate as C or S corporations could
15 experience the most dramatic overall
16 Philadelphia business tax savings,
17 literally in the range of 50 to 90
18 percent.

19 B, profitable service
20 businesses that operate as either
21 partnerships or proprietorships could
22 also experience savings, but not to the
23 same degree. We anticipate these would
24 be in the 10 to 30 percent range. And
25 this is because the elimination of the

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2 BIRT net income tax would be offset, to a
3 certain extent, by an increase in NPT
4 taxes paid by these businesses. Even so,
5 the elimination of the BIRT net income
6 tax on partnerships and proprietorships
7 would put owners in a situation where the
8 overall net business tax paid is much
9 closer to what their employees pay in
10 City wage tax. And that's in terms of
11 the rate that they would pay, not in
12 terms of the dollars of tax that they
13 would pay. And we believe the corollary
14 is that there should be a reduced
15 perception among these business owners
16 that they are being penalized by the City
17 for being in business for themselves.

18 Item C is a side note,
19 basically talks about service businesses
20 that are not profitable or currently
21 paying no BIRT net income tax, and
22 regardless of whether they operate as
23 corps, partnerships or proprietorships,
24 could see a negligible increase in the
25 overall tax because of the increase in

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2 the gross receipts tax rate without
3 having the corresponding benefit in the
4 reduction of a net income tax that
5 they're paying.

6 Hopefully this is all making
7 some sense to you folks.

8 Item D deals with the concept
9 of complexity. Elimination of the net
10 income portion of the BIRT tax should
11 make the BIRT a less complex tax for
12 current and future business owners to
13 evaluate. Many of these folks see
14 complexity as leading to uncertainty,
15 which in their eyes also means higher
16 risk. Consequently, you should know the
17 nature of the complexity of laws and
18 regulations can, in and of itself, create
19 disincentives. To the extent complexity
20 can be removed from the BIRT, that should
21 result in a simpler, more positive
22 evaluation of the various cost/benefit
23 trade-offs when decisions get made as to
24 whether to do business in Philadelphia or
25 not.

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2 So to conclude, my own
3 anecdotal experiences tell me that these
4 proposals make financial sense in that
5 they make the City a more viable location
6 for doing business and should generate
7 some additional overall tax revenues.
8 And I've already heard the Finance
9 Director state that you will be working
10 with City DOR staff and/or other
11 professionals in gathering empirical
12 evidence that will enable the development
13 of credible projections that would better
14 substantiate the budgetary feasibility of
15 the proposal.

16 So in the end, I just want to
17 say I just want to thank you for giving
18 me the opportunity to testify, and I look
19 forward to the passage, the successful
20 passage, of this proposal.

21 COUNCILMAN GREEN: Thank you.

22 Ms. Facer-Mee. Is that --

23 MS. FACER-MEE: Facer-Mee.

24 COUNCILMAN GREEN: Facer-Mee.

25 Thanks.

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2 MS. FACER-MEE: Stuck with that
3 hyphenated name. Never change your
4 passport. It's tough to vote when you
5 have a hyphenated name.

6 Basically I apologize for Matt
7 Melinson. He is on his way in. He will
8 give the perspective from a large
9 multi-national firm. He's from Grant
10 Thornton. Glen and I are from small CPA
11 firms, managing shareholder of my own
12 firm from Lower Bucks County. And
13 basically the reason that I am interested
14 in this is because I am tired, sick and
15 tired. I want to save small business for
16 the local community and the City of
17 Philadelphia. I've had so many
18 interactions with small business owners
19 and international business owners that
20 want to operate in the City of
21 Philadelphia and they are scared to death
22 of the tax structure and the changes, the
23 constant changes, that are being made and
24 the potential for what's going to happen
25 for their business. They can't do the

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2 projections within the City.

3 So I see this -- I'm a Temple
4 grad, family was from Philadelphia. We
5 want to support the City. And so it's
6 great that you have these types of
7 potential changes.

8 I have a diversified client
9 base, regional and international small
10 firms. They're high net worth
11 individuals, a lot of entrepreneurs, new
12 businesses, startups. So basically I'm
13 very active in the Pennsylvania Institute
14 of CPAs. I'm past President as well as
15 on the Legislation and Local Tax
16 Committee. So since we have such a very
17 diverse practice, they are only small
18 businesses, though, and I think -- I
19 appreciate the opportunity to speak to
20 you, because we need to focus on small
21 businesses. To me, small businesses are
22 the growth area in the City of
23 Philadelphia.

24 I do provide a lot of volunteer
25 services for the PICPA and the AICPA and

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2 other organizations. I also have a
3 daughter that works in the City of
4 Philadelphia, and I'd like to keep her
5 here. I lost one to Boston. So I'd like
6 to make sure that I keep the one in
7 Philly. So we need to keep the
8 prosperous businesses going.

9 We have clients in the suburbs
10 as well as international clients, and
11 like I said, they're concerned with U&O,
12 with BIRT. And the really confusing part
13 for them is with the BIRT, they have a
14 net income tax portion, and even though
15 some may pay net profits and they're
16 saying why would we be taxed twice.
17 Within the BIRT, we have a net profits
18 provision and then we also have the net
19 profits tax.

20 So, for example, one of the
21 types of things that I'm noticing is also
22 we're not only dealing with international
23 competition, we're also dealing with
24 competition among the states. We have
25 some clients that have moved their

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2 businesses to Ohio. They've experienced
3 reduced tax rates. I can't say anything.
4 I'm the independent accountant working
5 for the company, and I have to tell them,
6 Your taxes are lower when you went to
7 Ohio.

8 Ohio has a CAT, which is
9 commercial activity tax, and it's a
10 broad-based, low-rate tax. It's based on
11 firms selling goods in Ohio. So firms in
12 Ohio selling within Ohio are taxed the
13 same as non-Ohio firms selling in Ohio.
14 So we're not only having to protect our
15 City from the out of state, it's also
16 global as well. And with these types of
17 taxes, if you're looking at the gross
18 receipts tax, you're taxing a larger
19 base, and what we need to do is make sure
20 that the people that are doing services
21 and the people that are selling within
22 the City are taxed and the City captures
23 those revenues.

24 So our international clients
25 are attracted to the region for any

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2 number of reasons. We have the great
3 universities, healthcare facilities,
4 shipping, those types of things, but it's
5 difficult for us to project the potential
6 City withholding taxes. Real estate
7 taxes are a real fear for them. They
8 don't want to buy properties here. U&O,
9 school income, BIRT, NPT, and the small
10 NOL carryforward only three years. So
11 licensing complexities are frustrating
12 our construction clients, transfer taxes.
13 So I'm sure all of these types of things
14 you're aware of. Alternatively, though,
15 they're moving their operations to
16 overseas. So we're seeing clients that,
17 with the increased real estate taxes, are
18 selling their businesses and their
19 business properties.

20 Our clients also appreciate the
21 fact that there are tax credits on the
22 books, but our small clients from their
23 perspective many times, the credit -- the
24 cost to generate the credit, the time and
25 effort to administer it, to calculate it

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2 outweighs the savings and the credit for
3 a small business. Now, that's not
4 necessarily a case for the larger
5 businesses. For the small businesses,
6 that really these credits are targeted
7 toward, a lot of them don't take
8 advantage of it, especially with the jobs
9 credit that these businesses are
10 marginally profitable and they don't have
11 the funds set aside to pay us.

12 So taxpayers are also confused
13 about the existence of these types of
14 complex items. Removing the net income
15 portion of the BRT will reduce the
16 complexity and confusion. So that's why
17 I like that portion of the bill. It will
18 increase the transparency in that the
19 taxpayer knows what threshold BIRT will
20 be imposed on. So if the taxpayer
21 understands laws, they're more likely to
22 trust the taxing authorities and comply
23 with them correctly in an efficient
24 manner. So simplification is really key
25 and needed in Philadelphia, and that will

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2 attract new business and also small
3 businesses, because they have the
4 unsophisticated management.

5 So I have not measured the
6 impact of proposed legislation on the
7 Philadelphia region. I'm glad that the
8 City is planning to do that. I only
9 analyzed the impact on our personal
10 client base. Naturally, those results
11 are kept confidential within our clients,
12 but they're mixed. We have clients that
13 will be increasing total Philadelphia
14 taxes as well as clients that have
15 decreases in total Philadelphia taxes.
16 So that's why I have to be cautious with
17 my testimony not to tick off any clients
18 on either side, but to protect their
19 confidentiality.

20 However, I suggest to the City
21 that when I'm talking with clients and
22 when the City -- when I'm analyzing these
23 bills for the clients, I use the Guiding
24 Principles of the Good Tax Policy that
25 were set by the AICPA. I hope and I

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2 trust that you've received a copy of
3 this.

4 Did they receive this?

5 THE CLERK: I will go
6 downstairs to get it now.

7 MS. FACER-MEE: Okay. I'd
8 appreciate that. That's kind of the crux
9 of my testimony, because I want it useful
10 for you.

11 I'm not here just to tell
12 you -- I don't think that's fair, as the
13 CPA, the P in CPA stands for "public,"
14 and I have an obligation to the public,
15 and I think that's to guide you with the
16 principles of what we think good tax
17 policy is. And a lot of us have spent a
18 lot of time -- I'm a CPA ambassador for
19 the AICPA as well -- on these types of
20 tax policies. When you're looking at
21 each part of these proposals within this
22 bill, look for them for equity and
23 fairness, for certainty, convenience of
24 payment, economy of collection,
25 simplicity, neutrality, economic growth

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2 and efficiency, transparency and
3 visibility, minimum tax gap, appropriate
4 government revenues. If you look at all
5 those pieces of the puzzle and evaluate
6 those proposals, you also need to balance
7 these things, because not all the
8 principles can be achieved at the same
9 degree for all of the proposed changes.
10 It's just that if you focus -- and I know
11 that you're all going to cringe at this
12 one, but I also encourage every taxing
13 authority when I'm talking with them as
14 well as every governmental agency not
15 only focus on the revenue side, but to
16 also make sure -- taxpayers want to make
17 sure that there's cost reduction and
18 managing all their resources efficiently
19 and effectively, and they're going to be
20 behind you if they know that every
21 department is tearing apart their budgets
22 and they're looking at that. Because
23 you're asking the taxpayers to pay more
24 taxes, you want to make sure on the other
25 side that you're ensuring that everything

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2 is running efficiently and, in that
3 respect, to devote as much computer and
4 resources to the Philadelphia Department
5 of Revenue. Those guys do a great job,
6 and I do have to say that they do need
7 your support.

8 I also caution taxing
9 authorities to implement -- to be
10 cautious in trying to implement social or
11 economic policies or attract certain
12 businesses or jobs to the City. We've
13 already suffered the loss of significant
14 tax revenues from providing tax
15 incentives to various large companies to
16 locate in the City. We've eroded our tax
17 base right there. Generally, in
18 evaluating the principle of equity and
19 good tax policy in that circumstance,
20 consideration was given to the entire
21 range of taxes and you made that
22 decision, but the problem with that is
23 you erode the base. So I don't like
24 excluding any industry, regulated or not,
25 or any company from tax, because a

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2 broader tax base is not only more fair to
3 all taxpayers and all industry, it allows
4 for lower tax rates since there's more
5 taxpayers subject to the tax.

6 My opposition to any bill is
7 the rate increase to gross receipts tax.
8 The gross receipts tax is less likely to
9 be manipulated by taxpayers, so it
10 appears to be more fair, but once you get
11 your foot in the door, we're concerned
12 about the raised rates. If gross
13 receipts can capture the tax that's
14 currently evaded by out-of-state and
15 in-state companies that have sales in the
16 City, there may be no need to increase
17 the rates. So that's why these analyses
18 have to be done. We did not do the
19 metrics behind this.

20 The method will reduce fees
21 that our clients pay us, because it's
22 less complex on the gross receipts than
23 the net income portion. Our net income
24 starts with federal taxable income, and
25 frankly, my C corps, when we're doing

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2 federal taxes, we don't want to be taxed
3 twice. So we are making sure that they
4 don't have any net profit. We try to
5 bonus that all out to the owners.

6 Oh, good, Matt is here.

7 There's many factors that
8 affect the income tax base and many
9 planning opportunities to reduce those
10 types of things for the sophisticated
11 taxpayers, which Matt will talk about.

12 Changes to the contractor
13 definition seem fair to me, because I
14 look at the cascading levels and I know
15 about our construction clients and the
16 subcontractors, and it seems like there's
17 duplicate taxation along the way in the
18 construction contracts. And also they
19 would be utilizing contractors that are
20 going to be currently commercially
21 actively with licenses within the City.
22 So the same with the detailing
23 pass-through costs to the tax paid to the
24 City, I think that increases transparency
25 and visibility, and that part of the bill

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2 I'm happy about, but I've not had time to
3 evaluate the impact of the entire bill
4 and the potential significance with this.
5 But I do appreciate the fact that you let
6 us bring this, and I hope you will use
7 this very valuable tool to investigate
8 each one of the proposed changes.

9 COUNCILMAN GREEN: Thank you.
10 They're bringing that up, and it will be
11 distributed.

12 Mr. Melinson, why don't you
13 proceed with your testimony and then
14 we'll have questions from members.

15 MR. MELINSON: Thank you. I
16 jumped out of a meeting, jumped into a
17 cab, and it looks like I made it in the
18 nick of time here. So thanks for having
19 me, and always nice to have the
20 opportunity to speak with Glen and Karen,
21 and I appreciate you as Council taking
22 the time to focus on tax matters.
23 Certainly nothing new in that regard, but
24 I think that this is a good -- it's good
25 when we shed some light on some of these

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2 taxes and we put some focus on. We all
3 know we need to improve the tax structure
4 in the City of Philadelphia. I think
5 that's a fairly almost unanimous
6 consensus.

7 This is my testimony regarding
8 certain tax reform measures, specifically
9 Bill No. 130530. My name is Matt
10 Melinson, CPA. I'm the partner in charge
11 of the United States Northeast Region for
12 State and Local Tax Practice at Grant
13 Thornton, LLP, the past President of the
14 PICPA's Greater Philadelphia Chapter, and
15 a longtime member of various committees,
16 including Local Tax Committee with
17 Pennsylvania Institute of CPAs. I was
18 also a member appointed by Mayor Nutter
19 on his 2009 Tax Task Force on Tax Policy
20 and Economic Competitiveness. I've also
21 served for the past three Philadelphia
22 Revenue Commissioners' Advisory
23 Committees for about the past 12 years or
24 so on their Advisory Commission. On a
25 personal note, I also grew up in the

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2 City, attended grade school, high school,
3 college within Philadelphia, purchased my
4 first home. I've always worked in
5 Philadelphia. So basically I love the
6 City and take a lot of pride in it, and I
7 want to see Philadelphia thrive. So I
8 appreciate what people are putting some
9 focus on things that may be able to
10 improve the City of Philadelphia.

11 As a partner of Grant Thornton,
12 to set some perspective here, with
13 clients in various circumstances, I can
14 generally -- it's a little difficult to
15 take a strong endorsement or opposition
16 to any specific bill. So a lot of times
17 we take the role of like a technical
18 consultant and whereby I'm going to
19 discuss some of the pros and cons and
20 I'll try to blend in some opinions also.

21 That said, we'll commence with
22 the testimony here.

23 Specifically, I'm going to
24 focus within the context of Bill 130530
25 on the definition -- the primary piece of

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2 the puzzle here, which is the elimination
3 of the net income portion of the BIRT
4 with the corresponding increase of the
5 gross receipts tax, and there's some
6 other industry-specific subcomponents.
7 I'll steer clear of those, unless you
8 have questions at the end.

9 Maintaining a broad-based,
10 low-rate tax like the gross receipts tax
11 and eliminating the net income tax could
12 be an important step to providing
13 fairness, equity, and a more
14 taxpayer-friendly environment. These
15 principles are supported by the 2009 Task
16 Force on Tax Policy and Economic
17 Competitiveness, which I previously
18 cited.

19 Along the lines, I know you're
20 familiar with what Karen was going to say
21 today. Similar approach on a couple
22 things here. The four canons of taxation
23 often historically cited here for a good
24 taxing system -- there's a late economist
25 named Adam Smith, and he talks about

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2 equity, certainty, convenience, and
3 economy being the four canons of
4 taxation.

5 A stand-alone gross receipts
6 tax is equitable because it levels the
7 playing field. A net income base is
8 complex and ripe for planning by larger
9 and more sophisticated taxpayers, while
10 smaller taxpayers are not likely to
11 implement any planning around the net
12 income base. The gross receipts tax with
13 a broad base is not easily as accessible
14 to manipulation. Therefore, it treats
15 taxpayers in a similar manner as a
16 result.

17 We deal with -- for
18 perspective, we deal with taxpayers all
19 over the country. We deal with a lot of
20 different types of gross receipts taxes
21 and income taxes. The incomes are the
22 ones that are a little bit more easily
23 manipulated from a state tax perspective.

24 Furthermore -- I don't know
25 this one has been focused upon too much

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2 in the discussion so far, so I want to
3 highlight this a little bit. Many
4 taxpayers don't pay the net income
5 portion of the business income and
6 receipts tax due to something called
7 federal public -- it's a federal law from
8 1959 called Public Law 86-272. I don't
9 want to bore you with technical stuff,
10 but basically what it means is if all
11 you're doing in the City is soliciting
12 business for the sales of tangible
13 personal property, you're not subject to
14 an income tax. You're only subject to a
15 gross receipts tax.

16 So that's an important
17 distinction I think for Council to
18 consider at least and understand, as the
19 net result of this in part -- I don't
20 know that it was necessarily the
21 intention, but part of the net result of
22 this is a potential tax shift away from
23 businesses who reside in the City of
24 Philadelphia towards non-resident
25 business that happen to be selling into

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2 the City of Philadelphia, because those
3 non-resident businesses have what's
4 called nexus, meaning the City is allowed
5 to tax these businesses based on mere
6 presence, even if they just have a
7 salesman coming through and they're
8 shipping goods in. You're allowed to
9 impose that gross receipts tax, whereas a
10 higher standard for income tax. You have
11 to have, to keep it simple, a more kind
12 of a physical presence or a higher
13 presence in the City of Philadelphia.
14 That kind of hovers around the concept of
15 equity.

16 The second canon of certainty
17 is served because it reduces the
18 fluctuations and volatility of a net
19 income tax base. Income may -- we've
20 certainly seen this in my client base and
21 throughout the economy in the last five
22 or six years. You may have income may
23 sharply rise or fall due to many factors,
24 including changes in the business sales
25 or fluctuations in the nationwide or

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2 local economy. So, in other words, an
3 income tax, to keep it simple, is less
4 predictable than a gross receipts tax. A
5 gross receipts tax is pretty highly
6 predictable, even in economic times of
7 uncertainty. You might get a 2, 3, 5
8 percent shift, whereas income tax you can
9 have a significantly higher or lower
10 shift, as I'm sure some people from
11 Philadelphia Department of Revenue may
12 comment on.

13 Let me move on in the interest
14 of time from some of that.

15 Also, gross receipts tax is
16 entirely independent of federal taxable
17 income, which is noteworthy. You haven't
18 seen a lot of changes, but note that you
19 are dependent upon federal law and
20 Congress. Congress can change the
21 federal net income tax at any time. As
22 you know, federal income tax is a
23 starting point for the BIRT Method 2. So
24 if Congress changes something, the City
25 of Philadelphia could be impacted when

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2 you have a net income tax. You get
3 indirectly impacted there. We get
4 indirectly impacted.

5 Third canon, convenience is
6 served because it's easier to calculate
7 for taxpayers and it's easier to audit
8 potentially by the Department of Revenue.
9 I'll certainly defer to my brethren from
10 the City on that, but I'm fairly
11 confident to make that assertion.

12 Right now we have a
13 three-factor apportionment formula you
14 may be familiar with - property, payroll,
15 and sales. We're moving away from that
16 towards a single-sales factor. That may
17 help that simplicity a little bit, the
18 convenience canon, if you would.

19 But the bottom line is when you
20 have a receipts tax, there's really only
21 one item you need to focus on. So if you
22 kind of theorize it, in an optimal theory
23 here, the Department of Revenue auditors
24 would have a little more time to focus on
25 it and rather than getting bogged down

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2 with a lot of different nuances of an
3 income tax and potentially could bring in
4 some more revenue based on refocused
5 efforts.

6 The fourth canon of economy is
7 also served. Because the gross receipts
8 tax is generally simpler to calculate,
9 taxpayers should bear lower costs in
10 dealing with their accountants,
11 attorneys, and in-house staff and,
12 therefore, less time preparing forms and
13 schedules and things like that. Again,
14 it's easier to audit from a Department of
15 Revenue standpoint and, therefore, you
16 can get a little bit of a best and
17 highest use shift there in terms of
18 potentially generating some focus perhaps
19 on delinquent taxpayers and the like.

20 Notwithstanding the above
21 positive traits of the bill, Council
22 should at least be mindful that there
23 would likely be both opposition and
24 support from various components of the
25 business community here. There are

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2 usually winners and losers with any tax
3 reform. As I referred to it earlier, tax
4 shift. You guys know the deal. When you
5 shift tax, there's some winners and
6 losers out there, and you're going to
7 probably hear from both. The people who
8 tend to be losers would tend to be loss
9 companies and companies with relatively
10 slim margins. So they're going to come
11 forth potentially and suggest that a
12 gross receipts tax with a higher rate is
13 a little more onerous to them relative to
14 the current tax. So, therefore, when you
15 focus on the ability to pay concept,
16 that's a potential risk associated with
17 the bill.

18 Another item I wanted to flag
19 from a technical standpoint, this might
20 be -- I'm not sure if it's been raised by
21 anybody else, but really my colleague
22 came up with this observation, just
23 something to consider, more of a
24 technical -- if you decide to go this
25 route, you may want to consider some

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2 things. We see these laws get phased out
3 around the country. So that's kind of
4 what is being proposed in the bill here.
5 So you have basically a rate reduction.
6 Now, the end result of that in 2018, or
7 whatever the final year was, would be a
8 zero rate. Now, there might be good and
9 bad to that, I imagine, from Council
10 perspective. The bad to that is the
11 certainty component I talked about
12 earlier. It is kind of hovering, so it's
13 like -- it's sort of like the tax isn't
14 dead. It's on life support there, with
15 just a zero percent rate. So anybody
16 ever wanted to reinvigorate that tax, you
17 could pop the rate back up, I guess, like
18 I said. Depending upon your perspective,
19 maybe that's a positive, maybe that's a
20 negative. I think from a business
21 community perspective, you would probably
22 hear that as a modest negative in terms
23 of -- and there might be some ways I
24 thought of you might be able to deal with
25 that in terms of -- you might be able to

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2 strike -- one issue that Council could
3 just handle itself, you could just strike
4 all the language in the net income
5 portion of the business receipts tax --
6 excuse me; the net income portion of the
7 BIRT. You can just strike all the
8 language rather than just the rate
9 language. So you're leaving nothing
10 there, making it a little bit harder to
11 reenact.

12 The other piece would require
13 state legislation, basically taking the
14 remaining component, the gross receipts
15 tax, and enacting a mirror act under the
16 Sterling Act. This is under the First
17 Class City Business Reform Act as it
18 currently exists. So, again, if you
19 wanted to kind of absolutely put a nail
20 in the coffin, so to speak, these are
21 some of the things you may wish to
22 consider.

23 So thank you very much for the
24 opportunity to provide testimony, and I'm
25 sure myself and my friends here might be

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2 willing to answer any questions that you
3 may have.

4 COUNCILMAN GREEN: Thank you.
5 Thank you for your testimony.

6 I want to recognize
7 Councilmember Johnson, who is present,
8 and Councilmember Quinones-Sanchez, who
9 has joined us this morning.

10 Just a couple of quick
11 questions. Can, I guess, any of you
12 describe tax analyses that you've done
13 for companies considering locating in the
14 City of Philadelphia or are located in
15 the City of Philadelphia and considering
16 a move to the suburbs, et cetera, both
17 what the 6.45 percent advertised net
18 income rate does to a company in terms of
19 sticker shock considering locating here,
20 but then also discuss how easy it is for
21 sophisticated tax professionals like
22 yourselves to advise your clients how to,
23 even if they are here, legally avoid the
24 6.45 percent net income tax, leaving only
25 unsophisticated Philadelphia

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2 headquartered businesses to pay it. Any
3 of you.

4 MR. SHINNERS: From my
5 perspective, smaller clients, it's a
6 pretty simple analysis. So if their
7 choice is to move within the borders of
8 the City of Philadelphia or the immediate
9 suburbs, they can -- there's a number of
10 municipalities that have gross receipts
11 taxes, but they're a lower rate than what
12 Philly's is going to propose to be. But
13 none of them, to my knowledge -- might be
14 only a few that have a net income
15 portion.

16 So basically it's a situation
17 where it's 6.45 percent is what they
18 save. It just comes right off the top.
19 And that can be a big difference,
20 especially, as you said, for lower margin
21 type businesses. It's more money that
22 can go either to reinvest in the business
23 or that's going to go to the owner or
24 that they can afford to pay employees.

25 MR. MELINSON: We have a

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2 subcomponent of the practice that I
3 oversee. It's called Credits and
4 Incentives. Basically a part of what
5 they do is taking a look at things -- I
6 mean, they're dealing with governmental
7 agencies in terms of grant monies and
8 things like that when a company is
9 considering locations. But part of it,
10 Councilman, is kind of what's referring
11 to -- we call it a tax burden analysis.
12 In other words, you're looking at the tax
13 burden if we were to move to South Jersey
14 relative to King of Prussia, relative to
15 Philadelphia. And certainly the 6.45
16 percent, it is really, really high.

17 For perspective, on a
18 nationwide basis -- and I'll give you a
19 quote from one of my mentors, who is
20 since deceased, but with Pennsylvania
21 having a 10 percent rate and then
22 coupling that with Philadelphia's 6 and a
23 half percent rate, you're 16.5. Then you
24 tack on federal, you're more than 50
25 percent when you aggregate all that in

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2 income taxes alone if you decide to
3 locate primarily within Philadelphia.
4 That is very strongly out of proportion
5 with the taxes in the rest of the
6 country.

7 Philadelphia's local income tax
8 rate, as far I'm aware -- and I deal with
9 them all over the country -- is the
10 highest. I'm not familiar with other
11 ones that come in higher. There might be
12 one or two, but -- so certainly it comes
13 out a negative from a perspective when
14 you go to do these analyses.

15 There's a guy named Joe Nugent,
16 who is kind of famous in the state and
17 local tax law around here. He used to
18 say to clients, It's malpractice to
19 locate your business within the City of
20 Philadelphia if you can control it based
21 on that 16 and a half percent rate when
22 combined with the state. So I think that
23 might be a little bit -- he says that a
24 little bit for effect, but you get the
25 general picture here.

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2 In terms of the second part of
3 your question, Councilman, about
4 planning, I mean, there's something
5 called -- I'm not sure if this is exactly
6 where you're leading, but intangible
7 holding companies in the State of
8 Delaware primarily, Nevada and non-taxing
9 jurisdictions that could be set up. To
10 be honest, it's not as in vogue as it was
11 in the 1990's, for example, because a lot
12 of the states have taken efforts to
13 eliminate some of the benefits
14 associated. I guess I don't want to get
15 too technical here, but basically it
16 involves shifting kind of --

17 COUNCILMAN GREEN: But
18 Pennsylvania hasn't. We don't have a
19 unitary tax system.

20 MR. MELINSON: We don't have a
21 unitary tax system for the first time
22 effective 1/1/14. Pennsylvania now does
23 have what's called an add-back of the
24 intangible expenses. That was just
25 passed into law just a few months ago.

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2 So Pennsylvania will have a deterrent, if
3 you would, in the system on that.

4 But to your point, I mean,
5 there is some ability to -- and there's a
6 lot of different ways, but the primary
7 one -- I'm kind of talking about the
8 historical one, where you would set up
9 what's called an intangible holding
10 company in a non-taxing or a tax-friendly
11 jurisdiction like Delaware where there's
12 a specific exemption for this type of
13 activity. You might isolate your
14 intangible assets in there. You might
15 lease it back -- the right to use it back
16 to the company which is headquartered
17 perhaps in Philadelphia, creating an
18 expense in the Philadelphia company and,
19 if you would, income in the Delaware
20 company that doesn't become subject to
21 state taxes.

22 COUNCILMAN GREEN: Right. And
23 so big-box retailers, for example, who
24 generally are non-union, pay low wages,
25 and avoid all our net income tax, can you

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2 give an example of how they avoid paying
3 taxes to the City of Philadelphia in the
4 net income portion?

5 For example, my understanding
6 is they have leasing companies that own
7 their properties and they basically pay
8 rent to the Delaware or Nevada company
9 that is equivalent to the profit they
10 would otherwise make in Pennsylvania and
11 in Philadelphia and essentially legally
12 avoid the tax that way. And even if that
13 could be audited, it would be very hard
14 for us to catch, because it's not gross
15 receipts.

16 MR. MELINSON: Well, I think
17 there might be a couple concepts there
18 that perhaps I can try to blend together.
19 The one is the one I just covered, kind
20 of what I'm going to call, as you put it,
21 sophisticated kind of tax planning. Like
22 I said, I would say there's not as much
23 of that as there was -- there's
24 definitely not as much as there was 15
25 years ago or so or 20 years when I

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2 started in the profession.

3 But apropos to the first part
4 of your inquiry there, Councilman, was
5 you have a lot of businesses around the
6 country -- and you see these pop up in
7 the paper once in a while and things like
8 that -- that are selling into the City of
9 Philadelphia. Now, they are commonly --
10 every single situation is fact-intensive,
11 so I can't go too stereotypical here, but
12 generally speaking, a lot of times
13 they're only going to be subject to the
14 gross receipts portion of the tax but not
15 the net income portion of the tax. I
16 mean, and the reason why is that federal
17 law I talked about. It's a 1959 federal
18 law that says if all you're doing is
19 soliciting for the sales of tangible
20 personal property in any state or city in
21 the U.S., they're not allowed to impose a
22 tax on you. It's kind of a special
23 exemption.

24 So you have a lot of, as you
25 put it, kind of large distribution

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2 companies around the country, large
3 big-box type companies that are selling
4 into the City, but they're not paying
5 income tax that would somewhat
6 mitigate -- in essence, what would occur
7 here is, it would shift more of the tax
8 burden towards those type of companies
9 relative to the ones that are located
10 here with property and payroll and who do
11 tend to pay the income tax.

12 COUNCILMAN GREEN: Okay. Thank
13 you.

14 Ms. Facer-Mee --

15 MS. FACER-MEE: Just call me
16 Mee.

17 COUNCILMAN GREEN: You talked
18 about a client who moved to Ohio where
19 they have now a commercial activity tax.

20 MS. FACER-MEE: I'm not talking
21 about a specific client. I never talk
22 about a specific client. It's in
23 generalities. We have had clients move
24 to the State of Ohio.

25 COUNCILMAN GREEN: Okay.

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2 You've had clients move to Ohio to take
3 advantage --

4 MS. FACER-MEE: As well as
5 other jurisdictions, right.

6 COUNCILMAN GREEN: But
7 specifically Ohio eliminated their
8 corporate income tax and created a
9 commercial activity tax?

10 MS. FACER-MEE: Correct.

11 COUNCILMAN GREEN: Which is
12 essentially a gross receipts tax?

13 MS. FACER-MEE: Right. And
14 when we compared the total taxes that
15 that company was paying, we had to tell
16 them, This is -- this move did save you
17 taxes. We can't lie about those things,
18 although we want -- I mean, we would like
19 to service them, because now we have to
20 go to Ohio to service them. So we
21 would --

22 COUNCILMAN GREEN: I
23 understand, but from the tax perspective,
24 going to a gross receipts rate is
25 attractive to many businesses that are

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2 profitable.

3 MS. FACER-MEE: That's correct.

4 COUNCILMAN GREEN: And it has
5 been, I'll just share with my colleagues,
6 extremely successful in Ohio. They have
7 had more job creation, manufacturing,
8 plant development, et cetera, in that
9 state. They've won several Governor's
10 Cup awards for attracting and retaining
11 businesses since they eliminated their
12 corporate income tax in favor of a gross
13 receipts tax, the commercial activity
14 tax, which collects the same amount of
15 money as we're proposing to do for the
16 first five years of this switch.

17 Councilmember Goode.

18 COUNCILMAN GOODE: Thank you,
19 Mr. Chairman.

20 Let me first congratulate the
21 second panel. You all have "tax expert"
22 next to your names and so I will deal
23 with you as a tax expert panel and pose
24 two questions to you.

25 The first being, is there

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2 anyone on the panel that's in favor of an
3 increase in the gross receipts portion of
4 the BIRT?

5 Speak up if you're in favor of
6 an increase in the gross receipts
7 portion.

8 MR. SHINNERS: I would say if
9 you were to just ask that question flat
10 out by itself as a stand-alone question,
11 I'd say myself, no, but as part of this
12 proposal -- I don't have access to it,
13 but common sense tells me that you're
14 going to be foregoing a large amount of
15 your revenues if you cut the net income
16 tax. So you got to make it up somewhere.
17 So if it's part of that greater plan, I
18 would say --

19 COUNCILMAN GOODE: There are
20 other ways to make it up, and actually
21 I'll pose a question first to
22 Ms. Facer-Mee or Ms. Mee, whatever you'd
23 like to be called --

24 MS. FACER-MEE: You like to put
25 me on the hot seat because I have clients

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2 that this is going to hurt.

3 COUNCILMAN GOODE: So your
4 original testimony said you're both in
5 favor and opposed to the bill.

6 MS. FACER-MEE: Yes. Depending
7 on what client I look at, like I said, we
8 have winners and we have losers. My fear
9 is that -- I do think if you look at the
10 fairness side, the gross receipts side
11 seems to be fairer, easier. It hits a
12 lot of these ten guidelines. The concern
13 I have is the economic study and the
14 amount of the gross receipts tax, because
15 if you put that up so high, that's going
16 to negate a lot of what we're trying to
17 do. You also have increased real estate
18 taxes. You look at the total tax burden
19 in the City of Philadelphia and that's
20 where I can't compete when I'm trying to
21 encourage people to invest in the City
22 and to move into the City and do business
23 in the City.

24 COUNCILMAN GOODE: You have
25 given that testimony already. In your

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2 written testimony, it says specifically,
3 My opposition to the bill is the rate
4 increase to gross receipts tax.

5 MS. FACER-MEE: That's correct.

6 COUNCILMAN GOODE: So you
7 oppose that portion of the bill?

8 MS. FACER-MEE: I oppose the
9 amount of the rate, because I don't think
10 enough consideration has been given to
11 how that was calculated. I did not see
12 metrics behind it.

13 COUNCILMAN GOODE: So you
14 oppose that portion of the bill?

15 MS. FACER-MEE: I oppose the
16 amount of the tax rate, not the concept.

17 COUNCILMAN GOODE: Okay.

18 MR. MELINSON: I mean, again, I
19 don't remember precise collection
20 figures, but I want to ball park it at
21 \$300 million a year or something like
22 that. Am I in the right universe there?
23 So, I mean, obviously we're pragmatic.
24 We understand that these things -- we
25 need to run a fiscally responsible City

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2 also. So if one part goes down,
3 something else has to go up or something
4 else has to give elsewhere in government.
5 So we certainly get it, similar to my
6 colleagues here. I mean, as --

7 COUNCILMAN GOODE: But it does
8 not have to be the gross receipts
9 portion.

10 MR. MELINSON: Totally
11 understood and actually agreed. I mean,
12 from a business community standpoint and
13 from probably what people like us that
14 tend to kind of have somewhat dual roles,
15 we try to help the government and in
16 regard we generally represent businesses,
17 would love to see the net income tax
18 eliminated and the receipts tax remain
19 flat.

20 COUNCILMAN GOODE: I have two
21 questions. The first question was simply
22 do you support an increase in the gross
23 receipts portion of the BIRT.

24 MR. MELINSON: I would say to
25 the extent that it's necessary to run a

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2 fiscally responsible city, I would.

3 COUNCILMAN GOODE: I'll just
4 ask the second question and skip the fact
5 that that gap could be made up in other
6 ways if we chose to reduce the net income
7 portion. So the question was, do you
8 believe that an increase in the gross
9 receipts portion will hurt, and I asked
10 it more specifically since a lot of the
11 arguments you made were about outside
12 firms than inside firms. The second
13 question, as tax experts, do you believe
14 that an increase in the gross receipts
15 portion will hurt local businesses and
16 industries?

17 MR. MELINSON: That component
18 in isolation, when viewed in isolation,
19 sure, of course. I mean, it's a higher
20 tax rate. Of course it would. But kind
21 of to level the playing field with the
22 surrounding municipalities in suburban
23 Pennsylvania, Councilman, what you would
24 need to do specifically is eliminate the
25 net income portion of the business tax

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2 and keep the rate around where it is.

3 It's actually come down quite a bit from

4 the mid '90s. It used to be 3.25 mills.

5 Now it's down more than 50 percent, well

6 more. So it's at a reasonable rate as it

7 stands right now. So the ideal scenario

8 from -- I actually think from a tax

9 almost policy perspective,

10 notwithstanding eliminating the tax as a

11 whole, would be to keep it around the

12 same.

13 COUNCILMAN GOODE: So an

14 increase in the gross receipts portion

15 will hurt certain businesses and

16 industries?

17 MR. MELINSON: Of course, as

18 testified.

19 MR. SHINNERS: Yeah. For full

20 disclosure, it would be a harder question

21 for me to answer if I had significant

22 client base in, say, the retail,

23 wholesale or manufacturing in the City.

24 We don't. Most of our clients in the

25 City are service businesses. They come

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2 out as clear winners. So it's really
3 easy for me to answer that question.

4 COUNCILMAN GOODE:

5 Ms. Facer-Mee.

6 MS. FACER-MEE: Whereas I have
7 some retail clients and I know that
8 they'll be hurt by the gross receipts
9 tax, that's why I was concerned about the
10 rate. But I also want to make sure that
11 it's clear to Council that from a
12 practical side with us dealing with our
13 client base, I mean, our clients want to
14 pay their fair share of their taxes and
15 they want it calculated simply and they
16 want to comply or they're not the kind of
17 clients we service. But the key here is
18 they want it to be fair. So we need to
19 go after the big boxes and the big
20 clients. My small clients feel that
21 they're overburdened. So we need to do
22 other procedures to close the gaps with
23 the Internet and with all these other
24 sales that are escaping taxation in the
25 City of Philadelphia. It's not fair to

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2 overburden --

3 COUNCILMAN GOODE: I get that.

4 That was not my question. My question

5 was, will an increase in the gross

6 receipts portion hurt locally based

7 businesses?

8 MS. FACER-MEE: I think it

9 will, but it will also -- some of the

10 reduction in the net -- in this proposal

11 in the net income will also help some of

12 those clients too.

13 COUNCILMAN GOODE: I'll ask the

14 question a bit differently since you

15 tried to run around at the end. Will the

16 increase in the gross receipts portion

17 hurt certain industries?

18 MR. MELINSON: I actually don't

19 know if you could zero it in, Councilman,

20 on industries. Specific businesses?

21 Absolutely, I mean, again, as testified

22 by probably all three of us, but there's

23 going to be winners and losers. So

24 certainly you could take a look at select

25 businesses, the ones that run on a

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2 relatively thin margin, the ones that may
3 be losing money, those type of
4 businesses. Are they going to be hurt
5 relative to the tax position right now?
6 Of course.

7 COUNCILMAN GOODE: We know from
8 discussion three years ago, we know from
9 discussion already today, there will be
10 winners and losers. We know that some
11 businesses will lose. Some of those
12 businesses are local businesses, not just
13 outside firms. The question beyond that
14 is also, does it impact certain
15 industries?

16 MR. MELINSON: Personally I --
17 feel free to react. I'd want to think
18 more about that, but my gut reaction
19 is -- would it hurt certain industries?
20 Let's think about it. Again, what kind
21 of -- maybe large like wholesaler types
22 or large retailers maybe that run on a
23 thin margin, those type of industries
24 that are kind of hot professional
25 employer organizations, PEOs. I'm

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2 shooting from the hip here a little bit,
3 Councilman, so bear with me. But those
4 types of businesses that are very high,
5 high relative revenues relative to the
6 profit level --

7 COUNCILMAN GOODE: What about
8 the hotel industry?

9 MR. MELINSON: Hotel industry
10 from what I've seen, again, admittedly
11 shooting from the hip here, I'm not
12 thinking that as an industry that it
13 hurts there. Yes in that it helps if
14 you're running as a profit level, but I
15 haven't studied it, haven't analyzed it.
16 You know, the hotels I see are generally
17 reasonably profitable. If so, you're
18 going to get hurt more by the net income
19 portion of the BPT relative to the gross
20 receipts tax.

21 COUNCILMAN GOODE: That's not
22 what the analysis from three years ago
23 shows.

24 Thank you.

25 MR. MELINSON: You're welcome.

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2 COUNCILMAN GREEN: Thank you
3 very much.

4 Just one quick -- a couple of
5 quick follow-up questions. Is there any
6 way to collect taxes from those companies
7 that sell into this market but don't have
8 a nexus here other than the gross
9 receipts tax? The companies you
10 described that are otherwise protected by
11 the 1959 federal law, is there any way
12 other than a gross receipts tax for
13 Philadelphia to get our fair share of
14 taxes from those companies?

15 MR. MELINSON: I'll take a
16 shot, and others feel free to comment.
17 Technically the answer would be yes, but
18 I don't want to give anybody any ideas on
19 that.

20 COUNCILMAN GREEN: Under
21 existing state law.

22 MR. MELINSON: Right. We don't
23 want to create a new capital stock tax or
24 network tax or anything like that. So
25 given the construct and without the

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2 creation of new taxes that are not income
3 taxes, no. I mean, you have the gross
4 receipts portion, the income tax portion.
5 So, Councilman, it would have to be on
6 the gross receipts side.

7 COUNCILMAN GREEN: That's
8 right. And are your clients or people
9 that you represent more or less likely to
10 locate in the City of Philadelphia and
11 create jobs here with the gross receipts
12 tax or with a net income tax if you
13 choose between the two?

14 MR. SHINNERS: For me,
15 absolutely gross receipts tax. What
16 you're proposing, it would be a
17 no-brainer.

18 COUNCILMAN GREEN: So with
19 respect to a level playing field,
20 regardless of whether or not companies --
21 what margins are or anything else, the
22 gross receipts tax for people who sell
23 goods -- so that's wholesalers,
24 retailers, distributors, manufacturers,
25 who, by the way, all have alternative

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2 rates other than the gross receipt rates,
3 which is essentially a net receipts rate
4 after cost of goods and labor, et cetera,
5 which you guys didn't address, but I'll
6 just state on the record. All of those
7 businesses when they sell into this
8 market, regardless of whether they are
9 headquartered here, would you agree that
10 they will pay the same tax to the City of
11 Philadelphia based only on their sales
12 with a gross receipts rate only in place?

13 MR. MELINSON: So you're
14 talking about non-resident businesses?

15 COUNCILMAN GREEN: Or resident
16 businesses. Gross receipts rate only.
17 The only thing they're going to pay -- a
18 manufacturer, for example, in
19 Philadelphia, Cardone Industries, who has
20 sent in a letter in favor of this
21 proposal, when they sell in Russia or
22 Wayne or Philadelphia a hundred dollars
23 worth of goods, they're only going to pay
24 tax on the goods they sell in
25 Philadelphia; is that right?

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2 MR. MELINSON: Correct.

3 COUNCILMAN GREEN: So what does
4 that do for all businesses who are
5 considering locating in Philadelphia who
6 sell goods, like manufacturers,
7 wholesalers, retailers, distributors? It
8 completely removes the disincentive to
9 locate here, because whether you're
10 located in the City of Philadelphia or
11 not, you will pay the same exact tax to
12 the City of Philadelphia based only on
13 your sales in the City of Philadelphia.
14 Is that an accurate description of what
15 would happen to all of those low-margin
16 industries you discussed?

17 MR. MELINSON: You know, again,
18 my visceral reaction to that is that it
19 does -- it clearly levels the playing
20 field. You have the certainty. I'm just
21 trying to think is there some exceptions
22 to that.

23 No. I mean, again, let me take
24 maybe a round-about route on this one.
25 You're taking that \$300 million I

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2 referred to, and it's a matter of how you
3 redistribute it to some degree here.

4 That's what we're talking about. So more
5 is going to go towards non-resident
6 businesses than the ones in business. We
7 talked specifically about the
8 apportionment concept. So there's not
9 going to be, if you would, a penalty for
10 having property or payroll here. There's
11 not going to be a punitive increased tax
12 by the fact that you have a property
13 here.

14 COUNCILMAN GREEN: It's only
15 based on your sales.

16 MR. MELINSON: Correct.

17 COUNCILMAN GREEN: So without
18 respect to whether businesses are here or
19 not, with respect to any one business
20 that sells goods, is there any advantage
21 to being located outside the City of
22 Philadelphia -- forget wage taxes. Hold
23 everything else constant. Is there any
24 advantage to being located outside of the
25 City of Philadelphia any longer if we

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2 make this change?

3 MR. SHINNERS: Not that I can
4 think of.

5 MS. FACER-MEE: Well, we do
6 have areas in the suburbs that have no
7 gross receipts tax.

8 COUNCILMAN GREEN: Sure. But
9 that's not the question. If that
10 business is located in the suburbs where
11 there's no gross receipts tax, its sales
12 in Philadelphia, it will pay the same
13 tax.

14 MS. FACER-MEE: Correct.

15 COUNCILMAN GREEN: So I'll ask
16 the question again. Is there any
17 advantage to be located out of
18 Philadelphia from a business tax
19 perspective if we make this change?

20 MR. MELINSON: Not as it
21 pertains to the computation of gross
22 receipts.

23 MS. FACER-MEE: You still have
24 the high real estate taxes and the --

25 COUNCILMAN GREEN: Right.

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2 Right. But in terms of business taxes,
3 we are leveling the playing field for
4 every business in the world that sells
5 goods with respect to the City of
6 Philadelphia. Is that a fair statement?

7 MR. MELINSON: As it pertains
8 to the computation of gross receipts,
9 yes.

10 COUNCILMAN GREEN: Thank you
11 very much.

12 Councilmember Goode.

13 COUNCILMAN GOODE: As it
14 relates to businesses that sell goods.
15 What about other types of businesses?
16 Might they find a shift in tax structure
17 less attractive?

18 MR. MELINSON: You're talking
19 about service type businesses,
20 Councilman, and things of that nature?

21 COUNCILMAN GOODE: I'm talking
22 about any type of businesses, including
23 certain service type businesses. The way
24 it was characterized just now is
25 businesses that serve goods and how the

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2 gross receipts portion is calculated.

3 I'm saying are there other businesses
4 that would find a shift less attractive
5 in terms of locating in Philadelphia?

6 MR. MELINSON: Again, off the
7 top of my head, I would say no, nothing
8 jumps to mind. There are some things
9 that we've been talking about in a
10 different context that we're moving
11 towards this concept, you're familiar
12 with it, called market base sourcing of
13 the sale. So how are we going to
14 compute? The gross receipts comes into
15 play here. Right now it's based on,
16 Councilman, where the service is
17 rendered, and we're moving towards where
18 the customer is. So I don't really think
19 it would change the analysis from what we
20 just talked about.

21 MR. SHINNERS: Were you talking
22 about industries or were you talking
23 about any type of --

24 COUNCILMAN GOODE: I'm talking
25 about industries, but I will actually

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2 change the question to a more direct
3 question. And whether we want to view it
4 in terms of inside firms or outside
5 firms, I want an analysis of both.

6 In terms of this proposal, do
7 you know what percentage are winners and
8 what percentage are losers?

9 MR. SHINNERS: When we were
10 meeting with one of the --

11 COUNCILMAN GREEN: It's okay to
12 just say no if you don't know the answer.

13 COUNCILMAN GOODE: I'd rather
14 hear it from --

15 MR. SHINNERS: In order to get
16 that answer, we'd need to get data, a lot
17 of data, from Revenue.

18 MS. FACER-MEE: No.

19 COUNCILMAN GOODE: We don't
20 know yet what the percentage of winners
21 and losers are?

22 MR. SHINNERS: Right. Well,
23 like I said earlier, in terms of its -- a
24 key component for service business is
25 that profits percentage.

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2 COUNCILMAN GOODE: We don't
3 know yet what the percentage of winners
4 and losers are?

5 MR. SHINNERS: That's right.

6 MR. MELINSON: I don't
7 personally know.

8 MR. SHINNERS: That's right.

9 COUNCILMAN GREEN: Thank you.
10 But we know that for all
11 businesses that sell goods, we'll have a
12 completely level playing field with
13 respect to business taxes they'll pay in
14 the City of Philadelphia if we make this
15 change, regardless of where they are in
16 the world, completely removing the
17 disincentive to locate here, or said
18 another way, there's no advantage to not
19 being here with respect to service
20 industries, which have far higher
21 margins, based on your testimony,
22 Mr. Shinners. It is clear that this
23 shift will be fundamentally good, and
24 based on all of your testimony, it is
25 clear that a lot of the burden of these

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2 businesses that are located here will be
3 picked up by businesses who are not
4 located in the City of Philadelphia.
5 What that exact distribution is, we don't
6 know and, frankly, wouldn't know until we
7 implement this tax. But I thank you all
8 for your testimony.

9 COUNCILWOMAN SANCHEZ:
10 Councilman.

11 COUNCILMAN GREEN: Oh, I'm
12 sorry. Councilmember Quinones-Sanchez.

13 COUNCILWOMAN SANCHEZ: I was
14 trying to get recognized from you.

15 I want to apologize for being
16 late, and I will have to step out again.

17 I wanted to just kind of for
18 the record put forth what my issue has
19 been as we've studied this for the last
20 three years. I want to recognize and
21 thank the Administration for their
22 willingness to work with us around the
23 data.

24 From the very beginning, this
25 process has been driven by data - data

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2 around who pays, data about who doesn't
3 pay, data around winners, and the data
4 around the losers. There is no way that
5 we can provide a more balanced way of
6 taxing without getting around the state
7 uniformity.

8 In lieu of that, we are faced
9 with the tools that we have at hand. In
10 this particular case, through the
11 research that was conducted two years ago
12 by Steve Mullin -- and I know he'll come
13 forward and talk a little bit about
14 that -- we are able to pinpoint who are
15 some of the big winners and who are some
16 of the big losers. Who are some of the
17 big winners, for me small businesses in
18 the 7th Councilmanic District, like the
19 one I was at this morning that was
20 opening up in the American Street
21 corridor, a manufacturer who creates a
22 unique product that is a global product.
23 They are a winner. This new company
24 that's moving into the 7th District will
25 create 15 new jobs. Small businesses,

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2 small businesses who have a penalty, who
3 try to hide their 6 and a half percent
4 and then are faced with challenges as
5 they look to expand within neighborhoods
6 in the 7th Councilmanic District.

7 Who are the losers? Folks who,
8 as been mentioned before, have creative
9 accounting schemes, folks who will never
10 leave our market but will always access
11 our market. I can name some of those,
12 the Budweisers, the Coors Lights. No
13 nexus in Philadelphia. They're not
14 leaving our market, and we're not going
15 to stop drinking some of those products.

16 What is most intriguing to me
17 about this is that we understand that
18 this must be studied and it must be
19 analyzed throughout the whole process,
20 and that's why it's important that the
21 Mayor's commitment and the
22 Administration's commitment to study this
23 not only as we create models but to study
24 it every single year, because in this
25 Council, we have the obligation and the

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2 responsibility to make sure that we are
3 not providing cuts at a time when our
4 services and other things are our
5 priority. I would never support
6 something that would take money away from
7 the much-needed services as my district
8 is in the 7th Councilmanic District.

9 So what are we doing here
10 today? We're saying we're going to study
11 this. We're going to provide models, and
12 we're going to study it as the
13 implementation goes forward at every step
14 of the way. And this Council every
15 single year, when we have to make budget
16 decisions around taxes, can vote up or
17 can vote down any of the measures if the
18 projections are not -- do not play out
19 that we believe will play out as it
20 relates to the small businesses.

21 So I'm going to ask the members
22 of the Finance Committee to continue to
23 work with us on this, to vote this out of
24 committee. We are committed to working
25 with the Administration and the Finance

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2 Director and the experts to make sure
3 that everyone is aware of these changes
4 as they move forward and that we are
5 being responsible, fiscally responsible,
6 to our budget process, but also
7 unapologetic about saying
8 Philadelphia-based businesses are first.
9 We're the economic engine of the region,
10 and the region will adapt to us.

11 Thank you.

12 MS. FACER-MEE: Can I comment
13 one thing to make sure that our testimony
14 is correct? To identify the losers, I
15 saw that in my client base the losers are
16 the marginal profit or loss clients,
17 because they were not paying the net
18 income portion of the BIRT, but will
19 experience a tax increase due to the
20 higher gross receipts tax.

21 COUNCILMAN GREEN: I think you
22 made that clear. Thank you.

23 Councilmember Goode.

24 COUNCILMAN GOODE: Just one
25 final question. One of you testified

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2 that you sat at the Mayor's Task Force on
3 Tax Economic Competitiveness. I forget
4 which one it was. Were there any
5 recommendations regarding this policy
6 from that task force?

7 MR. MELINSON: I'm going to --
8 the general concepts espoused in there,
9 this would be consistent with. The
10 concepts were simplification. We have 19
11 taxes here. I don't think we
12 specifically got into -- to be honest,
13 I'd have to look back at the report. It
14 was four years ago. So forgive me for
15 not having it right at my fingertips on
16 that.

17 I don't think we specifically
18 looked at the concept of the elimination.
19 I actually think what we recommended was
20 to the extent fiscally responsible,
21 eliminate the whole thing over a period
22 of time, which would be better to at
23 least eliminate one side.

24 COUNCILMAN GOODE: So you sat
25 around and you discussed tax policy and

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2 economic competitiveness and you did not
3 come up with this. Is that fair to say?

4 MR. MELINSON: Four and a half
5 years ago, I don't know that this was a
6 specific recommendation. I think the
7 elimination of the BPT as a whole was a
8 higher priority.

9 COUNCILMAN GOODE: But you sat
10 around and you discussed tax policy and
11 economic competitiveness and this was not
12 the solution you came to?

13 MR. MELINSON: I don't believe
14 it was one of the formal recommendations
15 made. I'd honestly have to look back at
16 that report to confirm that. It might
17 have been discussed in there. I don't
18 specifically remember that being one of
19 the primary recommendations, though,
20 Councilman.

21 COUNCILMAN GOODE: Thank you.

22 MR. MELINSON: You're welcome.

23 COUNCILMAN GREEN: Thank you.

24 I testified before your
25 Commission on this very topic, as did

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2 Councilwoman Quinones-Sanchez, and at the
3 time, the Administration was opposed to
4 that bill rather than being willing to
5 study it, and it's the Mayor's task
6 force.

7 So thank you very much for your
8 testimony.

9 The next panel is Rick Rasansky
10 and Aaron Maass.

11 (Witness approached witness
12 table.)

13 COUNCILMAN GREEN: It looks
14 like you're on your own, Mr. Rasansky.
15 I'd ask Steve Jurash and John Seiner to
16 join you if they're here.

17 (Witnesses approached witness
18 table.)

19 COUNCILMAN GREEN:
20 Mr. Rasansky, please state your name for
21 the record and proceed with your
22 testimony.

23 MR. RASANSKY: Not only am I
24 using notes, but I'm also using glasses,
25 unlike Mr. Dubow before.

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2 Chairman Green and members of
3 the Committee on Finance, my name is
4 Richard Rasansky. I'm the Founder and
5 CEO of Yorn, proudly located here in
6 Center City Philadelphia.

7 As a Philadelphia business
8 owner, taxpayer, and committed citizen, I
9 am here to testify in support of Bill No.
10 130530. Through my direct and relevant
11 experience, I know firsthand the positive
12 effects this bill can have on growing
13 businesses and employment in
14 Philadelphia.

15 If I may, let me tell you a
16 little bit about myself and then about my
17 company, as I think the context is very
18 important.

19 As a native of Dallas, Texas, I
20 came to Philadelphia to study at the
21 Wharton School of the University of
22 Pennsylvania, graduating, well, a long
23 time ago, in '83. Although the vast
24 majority of my classmates either returned
25 to their respective hometown roots, took

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2 finance jobs in New York, tech jobs in
3 Silicon Valley or sought opportunities in
4 other major business centers around the
5 world, I made Philadelphia my home and
6 the basis of my career, in large part
7 because of my incredible experience at
8 Penn and for what I believe then was an
9 unappreciated, incredibly undervalued
10 city here in Philadelphia. I was
11 emotionally invested in the City and was
12 not about to leave, even though the job
13 market here was limited for me and my
14 peers. I wanted to make a difference,
15 and I thought that with my determination,
16 drive, enthusiasm, and passion I could do
17 that by contributing to make Philadelphia
18 a place where graduates would want to
19 stay, work, and play.

20 So I began my career in the
21 commercial real estate business here,
22 branching out into investments in
23 hospitality and ultimately my current
24 passion, technology. Yorn is the seventh
25 company I have founded, five of which

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2 were here in Philadelphia. I have
3 created over 350 jobs here in
4 Philadelphia and I am the co-founder of
5 Mobile Monday Mid-Atlantic, one of the
6 fastest growing regional mobile industry
7 community organizations with over 2,500
8 members. I actively mentor many young
9 entrepreneurs to the City through my
10 involvement in Philadelphia Start-Up
11 Leaders and many advisory and speaking
12 roles at Penn, Drexel, and Temple. Like
13 I said, I'm committed to the City.

14 My company, Yorn, is an
15 Internet software company that provides a
16 mobile optimized, realtime feedback
17 platform as a service, predominantly to
18 the healthcare industry. Yorn was
19 founded almost three years ago in
20 Montgomery County and relocated to Center
21 City earlier this year, creating 11 net
22 new jobs in the City of Philadelphia.

23 Our relocation was based in
24 large part when earlier this year City
25 Council enacted legislation, Bill No.

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2 121037-A, which placed software companies
3 on an even playing field with their
4 suburban counterparts, no longer
5 penalizing them for making a profit when
6 choosing to locate in Philadelphia.

7 As a direct result, software
8 and technology companies such as Yorn
9 have taken root here in Philadelphia,
10 expanded their footprint, enjoyed more
11 workers, and turned Philadelphia into a
12 vibrant technology hub.

13 We all know the activity from
14 this hub is growing and nurturing the
15 reputation of Philadelphia as a great
16 place to work, invest, live, and play.
17 Key contributors to this phenomenal
18 growth and the ecosystem at large, to
19 name a few, include Philly Tech Week,
20 Technically Philadelphia, First Round
21 Capital, StartUpPHL (the Philadelphia's
22 own seed fund), the Philly Tech MeetUp,
23 and DreamIt Ventures. There's also all
24 the shared workspaces that we can't
25 forget like Indy Hall that started it

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2 all, VentureFOrth, Benjamin's Desk,
3 SeedPhilly, and the list goes on and on.
4 I can't help to feel proud about this
5 growth and accomplishment here in
6 Philadelphia. You should too.

7 Philadelphia's technology
8 renaissance could have never happened
9 without this legislation, and it was one
10 of the key reasons our company, Yorn,
11 continues to operate and grow within
12 Philadelphia and not across City Avenue
13 or even across the country.

14 I personally know of several
15 technology and software firms that have
16 stayed in Philadelphia and several other
17 firms that are considering moving here as
18 a direct result of last spring's change
19 in tax policy and the good vibes that it
20 brings to entrepreneurs and, most
21 importantly, investors alike who will be
22 investing money here in Philadelphia.
23 This is game changing, and this is hugely
24 important.

25 We can all agree that

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2 Philadelphia is in need of a major tax
3 policy overhaul. How we go about taxing
4 businesses that choose to open their
5 doors in Philadelphia when the locations
6 outside offer a more favorable tax
7 climate must absolutely be addressed. I
8 applaud the sponsors of this bill -
9 Councilman Henon, Councilwoman Sanchez,
10 and Councilman Green - for proposing
11 legislation that does exactly this.

12 The bill under consideration
13 today does for all Philadelphia-based
14 businesses what Bill No. 121037-A did for
15 Yorn and other Philadelphia-based
16 software and technology firms. It levels
17 the playing field. It encourages
18 Philadelphia-based businesses to stay and
19 grow in Philadelphia.

20 I don't believe that this bill
21 picks winners or losers. It simply gives
22 Philadelphia-based businesses an
23 opportunity to compete on a level playing
24 field, no longer penalizing them for
25 generating profits in the City.

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2 Economic growth and
3 sustainability should be our goal. We
4 need more businesses in Philadelphia, not
5 less, to reach that goal. More
6 businesses mean more jobs. Jobs drive
7 growth. And growth is our goal. So why
8 penalize businesses with an
9 anti-competitive tax burden? Level the
10 playing field and they will come. With
11 more diverse companies moving to
12 Philadelphia, job growth alone will
13 create and sustain a larger long-term tax
14 base than the status quo of
15 Philadelphia's draconian, oppressive, and
16 anti-business tax policy.

17 In conclusion, I strongly urge
18 this committee to pass Bill No. 130530 so
19 all Philadelphia-based businesses can
20 have an equal opportunity to compete,
21 grow, create jobs, and want to generate
22 profits in Philadelphia. This
23 opportunity raises the tide, floating all
24 boats on a sea that nourishes a
25 broad-based economic ecosystem.

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2 I sincerely thank Councilman
3 Green and the Finance Committee for their
4 time this morning and the opportunity to
5 submit my testimony before them today.

6 COUNCILMAN GREEN: Thank you.

7 Mr. Jurash.

8 I note -- do you have anything
9 you want to say before this testimony or
10 are you --

11 COUNCILMAN HENON: No.

12 COUNCILMAN GREEN: Please
13 proceed. Thanks.

14 MR. JURASH: First of all, I
15 want to thank this committee for its work
16 in trying to improve the tax structure in
17 the City, and you do good work at that.

18 Good morning, Mr. Green,
19 members of the Committee on Finance. My
20 name is Steven Jurash. I'm President and
21 CEO of the Manufacturing Alliance of
22 Philadelphia, a trade association of the
23 more than 1,100 manufacturing companies
24 in the City. I'm here today to testify
25 in support of Bill 130530.

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2 It's never made a lot of sense
3 to Philadelphia manufacturers to be
4 penalized for investing their future here
5 in the City. Our companies invest in
6 property, machinery, and facilities.
7 They invest in the citizens of this city
8 with salaries more than twice what either
9 hospitality or retail sectors pay. The
10 average manufacturing wage in
11 Philadelphia is now \$61,000 a year. Yet
12 out-of-City businesses are exempt from
13 taxes on sales within the City that our
14 companies are required to pay. It has
15 never made a lot of sense to
16 Philadelphia's manufacturers to be
17 penalized for investing their future here
18 in the City.

19 We support this bill because it
20 eliminates the net income portion of the
21 BIRT, which is certainly a step in the
22 right direction in that it now levels the
23 playing field for our domestic companies.
24 It is exceedingly rare for cities and
25 other local jurisdictions to tax business

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2 income, and it's unheard of, except in
3 Philadelphia, to tax both receipts and
4 income at the local level.

5 If we value the manufacturing
6 sector of this city, we must remember
7 that every small fee or tax makes it that
8 much more difficult for these companies
9 to survive. Global competition is so
10 intense, that manufacturers can't raise
11 their prices in response to the rising
12 costs. Manufacturers cannot raise the
13 prices in response to increased costs as
14 many other businesses can.

15 The cost of doing business in
16 the United States, in the Commonwealth,
17 and in the City due to externally imposed
18 costs - taxes, legal, regulatory, energy,
19 healthcare - keep rising. A recent study
20 shows that these costs add about 22
21 percent to the cost of doing business
22 here, almost equal to the total cost of
23 production in China, one of our most
24 significant competitors.

25 We urge the passage of this

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2 bill because it will help reduce costs
3 for many of our companies.

4 Thank you.

5 COUNCILMAN GREEN: Thank you,
6 Mr. Jurash.

7 Please state your name for the
8 record and proceed with your testimony.

9 MR. SEINER: My name is John
10 Seiner, CFO with Northeast Building
11 Products. We're a 40-year manufacturer
12 in Philadelphia.

13 Recently we had a very
14 attractive bid to move to New Jersey, but
15 due to the recent tax cuts and City shift
16 to help manufacturing and because of the
17 outstanding workforce in Philadelphia, we
18 have decided to purchase a 170,000 square
19 foot facility in Philadelphia, which is
20 due to settle this month.

21 We employ over 300 employees
22 with diverse backgrounds, and this year
23 alone we hired over 50 new employees in
24 2013 and expect another 50 in 2014.
25 Employees want to work in Philly. We

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2 want to work in Philly. The employees
3 are so concerned about their future.
4 Case in point is, we are starting a
5 voluntary 401(k) in 2014, and 80 percent
6 of our employees have signed up, knowing
7 that this will take more out of their
8 pay.

9 We support the bill eliminating
10 the net income. It will allow us to
11 spend more of our profits, as we always
12 do. We reinvest it in our equipment and
13 in our employees. This will allow us to
14 accurately budget, which is very
15 important to a manufacturing company
16 because of our tight margins.
17 Tax-friendly bills allow us to be
18 competitive and help hire more employees.

19 Thank you.

20 COUNCILMAN GREEN: Thank you.

21 Mr. Maass, please come forward.

22 John, if you wouldn't mind.

23 (Witness approached witness
24 table.)

25 COUNCILMAN GREEN: Please state

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2 your name for the record and proceed with
3 your testimony.

4 MR. MAASS: Thank you. Good
5 morning, Chairman Green and distinguished
6 members of the Committee. My name is
7 Aaron Maass. I'm a resident of
8 Philadelphia and also the CEO of a
9 boutique digital analytics company. I
10 believe this is my third time in City
11 Hall ever. The first time was for jury
12 duty. The second time was to file my
13 business license to do business in
14 Philadelphia, and this is my third time,
15 despite having been here eight years and
16 having an office only two blocks away.

17 Eight years ago, I moved from
18 Boston to Philadelphia for a job at
19 DuPont, which I left after three years to
20 work for Comcast. Along the way I
21 developed a unique set of technical
22 skills and Internet marketing expertise,
23 for which there happens to be a big
24 market. It occurred to me that with a
25 little luck, I might be able to turn that

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2 expertise into a business.

3 So in January 2009, with one
4 customer and no employees, I took the
5 plunge and started MaassMedia. I am
6 happy to say that we have doubled our
7 revenue almost every year since. We're
8 up to 12 clients and have eight full- and
9 part-time employees, all based here in
10 Philadelphia. Next year we hope to
11 double our revenue once again and we'll
12 need to hire five more full-time
13 employees if we do. To accommodate this
14 growth, we recently had to lease a bigger
15 office, into which, coincidentally, my
16 team is moving into right now. I had to
17 leave here a couple of times to answer
18 calls from IKEA, who is delivering some
19 furniture.

20 Speaking of offices, as you may
21 know, one of the first decisions you have
22 to make when starting a business is what
23 your company's address will be. Choosing
24 an address is important for more than
25 just determining where to receive your

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2 mail. You need it to establish your
3 company as a separate legal entity. You
4 need it to open a bank account, and you
5 need it to calculate and pay your taxes.

6 When it was time for me to
7 choose where to locate my business, I had
8 more than a few options. I considered
9 moving to New York, to Boston, and even
10 San Francisco, all places well known, as
11 you probably know, for their tech scene
12 and successful startups. I also thought
13 about putting it in Conshohocken or King
14 of Prussia, primarily because, according
15 to the suggestions of many of my
16 entrepreneur friends and professional
17 colleagues who also happen to run their
18 own companies, it is less expensive to do
19 business there.

20 In the end, I picked
21 Philadelphia. But it was not an easy
22 decision to make, in large part because
23 Philadelphia's relatively high tax rates
24 on business. Last year, as both a
25 resident and a business owner, I paid

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2 five different City taxes - school income
3 tax, real estate tax, business income and
4 receipts tax, gross receipts tax, and net
5 profits tax. Ten percent of my income
6 went to the City of Philadelphia alone, a
7 good portion of which, actually 74
8 percent, were taxes imposed on my
9 business.

10 When 10 percent of your total
11 income goes just to the City in which you
12 work and live, the majority of which
13 happens to be because I picked
14 Philadelphia to start my business, you
15 start to wonder why I didn't listen to my
16 colleagues' advice to save some money by
17 locating somewhere else, money that I
18 could use to buy more IKEA desks for new
19 employees or even fund a training program
20 for several summer interns.

21 I keep my company in
22 Philadelphia because I like it here and
23 because it is convenient, but as my
24 company continues to grow, I must give
25 serious thought to how to grow and still

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2 stay in business. As it is, I have not
3 increased my salary in the five years
4 since I started. I put all my company's
5 profits back into hiring more people.

6 Reducing the City's taxes on my
7 business to levels competitive with other
8 places would go a long way toward making
9 Philadelphia feel like a much friendlier
10 place to start a company and also the
11 decision to stay here a much easier one
12 to make.

13 Thank you very much for your
14 time and for the opportunity to testify.

15 COUNCILMAN GREEN: Thank you.

16 I also note for the record that
17 we have testimony or a written letter
18 from McCormick Taylor, an engineering
19 firm with over, I think, 100 employees in
20 the City, who was founded in 1946. It
21 has 12 offices in seven states and could
22 easily change their headquarters to one
23 of those other offices and avoid the City
24 taxes. This bill, if passed, will
25 prevent them from making that decision,

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2 allowing them to leave their headquarters
3 in Philadelphia and, therefore, make them
4 more competitive when competing for work.
5 Obviously if their tax burden is higher
6 as they compete for engineering work
7 around the country, they make less profit
8 when they charge the same amount as their
9 competitors, and this would be a great
10 help for them. So I'm going to submit
11 that letter from Patrick Guise, the
12 Co-Chief Executive Officer of McCormick
13 Taylor for the record.

14 I thank you all for your
15 testimony. For the manufacturers there,
16 if you listened to the colloquy with the
17 accountants regarding what it does for
18 your industry in terms of location
19 decision-making, would you agree with
20 what they said? In other words, you're
21 only going to pay taxes based on your
22 sales in the City of Philadelphia and pay
23 no taxes based on your sales outside the
24 City of Philadelphia, and that completely
25 removes any incentive to leave the City

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2 from a City tax perspective. Is that
3 correct?

4 MR. JURASH: I would agree,
5 yes.

6 COUNCILMAN GREEN: Okay.

7 MR. SEINER: I would agree
8 also.

9 COUNCILMAN GREEN: Thank you.

10 If there are no questions from
11 members of the Committee, we very much
12 appreciate you taking the time to come
13 in. We thank you for having your
14 businesses here in the City of
15 Philadelphia, and we're working hard to
16 keep you here and to get you to grow
17 here. So thank you.

18 The next panel is Joe Grace,
19 Varsovia Fernandez, Steven Bradley, Mary
20 Faustino, and Al Taubenberger. It is my
21 understanding as you're coming up that
22 your testimonies are similar and all
23 aligned with your funder, the Greater
24 Chamber of Commerce. And so if there's
25 one testimony that could cover all of it,

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2 that would be great. Thank you.

3 (Witnesses approached witness
4 table.)

5 COUNCILMAN GREEN: Please state
6 your name and proceed with your testimony
7 in whatever order you desire. Thanks.

8 MR. GRACE: Councilman, sorry.
9 Mr. Chairman, we're just trying to find
10 an extra chair, because we're going to
11 read this together.

12 COUNCILMAN GREEN: Just pull a
13 chair up behind you there.

14 Please proceed.

15 MR. GRACE: Thank you,
16 Mr. Chairman.

17 Good morning, Chairman Green
18 and members of the Finance Committee.
19 I'm Joe Grace, the Director of Public
20 Policy for the Greater Philadelphia
21 Chamber of Commerce. Thanks for the
22 opportunity to testify today on Bill
23 130530, which eliminates the net income
24 portion of the business income and
25 receipts tax over the next five years

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2 while quadrupling the gross receipts
3 portion of the tax over the same
4 timeframe.

5 I'm joined at the table today
6 by representatives of the four other
7 local Chambers of Commerce - the African
8 American Chamber of Commerce, the Greater
9 Philadelphia Hispanic Chamber of
10 Commerce, the Asian American Chamber of
11 Commerce of Greater Philadelphia, and the
12 Greater Northeast Philadelphia Chamber of
13 Commerce.

14 For the record, I believe our
15 colleagues want to identify themselves.

16 MS. FERNANDEZ: Varsovia
17 Fernandez, President and CEO of the
18 Greater Philadelphia Hispanic Chamber of
19 Commerce.

20 Our five Chambers represent
21 more than 7,000 -- I'm sorry.

22 MR. TAUBENBERGER: Chairman
23 Green and members of Council, Al
24 Taubenberger, President of the Greater
25 Northeast Philadelphia Chamber of

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2 Commerce and former Vice Chair of the
3 Philadelphia Tax Reform Commission.

4 MS. FAUSTINO: Mary Faustino,
5 Program Director, Asian American Chamber
6 of Commerce of Greater Philadelphia.

7 MR. BRADLEY: Good morning. My
8 name is Steven Scott Bradley. I'm
9 Chairman of the African American Chamber
10 of Commerce of Pennsylvania, Delaware,
11 and New Jersey.

12 MS. FERNANDEZ: Our five
13 Chambers represent more than 7,000
14 businesses of all sizes in Philadelphia
15 and the surrounding area. In our shared
16 missions to help our members grow their
17 businesses and create jobs in our city
18 and region, today we speak with one
19 united voice on the important topic of
20 business taxes in Philadelphia.

21 MR. TAUBENBERGER: First, we
22 commend Councilman Green, Councilwoman
23 Quinones-Sanchez, Councilman Henon, and
24 all members of Council for their work
25 over the past several years on the

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2 important issues surrounding business
3 taxes and tax policy in Philadelphia.
4 When Council introduced legislation
5 adopting a single-sales factor
6 apportionment, we supported this reform
7 to help simplify business privilege tax
8 payments and collections and increase the
9 City's ability to attract and retain
10 business investment in jobs and
11 facilities. When Council exempted all
12 businesses from the gross receipts and
13 from net income taxes on their first
14 100,000 of receipts, our Chambers
15 supported this reform as well.

16 MS. FAUSTINO: Both of these
17 pieces of legislation, approved by
18 Council and signed by Mayor Nutter,
19 encouraged and assisted businesses in
20 Philadelphia to remain here, to grow, and
21 to create jobs.

22 MR. BRADLEY: Second, we
23 reiterate our position today to encourage
24 Council to enact comprehensive tax reform
25 for Philadelphia. Over the past four

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2 budget cycles, comprehensive tax
3 reform -- excuse me. Over the past four
4 budget cycles, fiscal pressures as caused
5 by the recession led the Administration
6 to put a hold on its program of gradual,
7 incremental reductions in the City's wage
8 tax and business taxes. In addition,
9 pressures caused by increased demand for
10 City services, rising pension
11 obligations, and a growing deficit at the
12 Philadelphia School District led Council
13 and the Mayor to increase City taxes by
14 \$275 million, a serious disincentive to
15 job creation and economic competitiveness
16 for every business in our city.

17 MS. FERNANDEZ: We restate our
18 support for the Philadelphia Tax Reform
19 Commission's recommendation of 2003 to
20 gradually eliminate both sides of the
21 BPT, now known as BIRT. It is worth
22 quoting the Commission's recommendations:
23 Elimination of the business privilege tax
24 promotes tax system competitiveness by
25 attracting new business investment,

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2 retaining those businesses that are
3 considered leaving, fostering business
4 expansion, and creating more jobs.
5 Simply put, other local jurisdictions do
6 not tax businesses the way Philadelphia
7 does.

8 MS. FAUSTINO: We support
9 modernizing City government, because only
10 when we work together to adjust the
11 capacity of City Hall to fit our city
12 needs for the 21st century will we create
13 the flexibility to reduce the wage and
14 business taxes that are stifling
15 Philadelphia's economic competitiveness
16 every day.

17 MR. TAUBENBERGER: We have also
18 lent our strong support to City Council's
19 drive to embrace new ways to raise
20 revenues to deliver services without
21 raising taxes, such as the Council
22 President's push to allow advertising on
23 City-owned property, and Council's plan
24 to sell vacant school buildings to
25 generate millions of dollars for public

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2 education. These are both very good
3 ideas.

4 MR. GRACE: Regarding the bill
5 before us today, when Council first
6 considered these proposals that are in
7 Bill 130530 three years ago, Council and
8 the public had data showing which sectors
9 of the business community benefited,
10 which sectors could be disadvantaged and
11 by how much. Based upon that data, the
12 Greater Philadelphia Chamber of Commerce
13 testified that it could not support that
14 legislation, as it was concerned about
15 the effect of the bill creating winners
16 and losers among different businesses and
17 different sectors of industry.

18 MR. BRADLEY: At the same time,
19 similar data has not been presented.
20 Without new data from the City or an
21 independent expert on the impact of the
22 bill on different business sectors, we
23 cannot offer a reasoned judgment on how
24 we view this legislation. We understand
25 from conversations with the bill's

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2 sponsors and from the Nutter
3 Administration that a study of the
4 economic impact of the bill on different
5 kinds of companies that do business in
6 Philadelphia will be conducted over the
7 next several months.

8 MR. GRACE: We do welcome and
9 support that study, and we ask that the
10 Mayor and Council would include these
11 Chambers of Commerce represented here
12 today as willing partners in that study.
13 We all have member businesses that would
14 like the opportunity to participate in
15 the study and have their voices and their
16 interests heard.

17 MS. FERNANDEZ: We ask that
18 Council consider refraining from taking
19 any official action on this important
20 legislation until the results of this
21 study are known and made available to all
22 stakeholders so that we can take an
23 informed, educated stance on this bill.

24 MR. TAUBENBERGER: It was not
25 that long ago when this Council

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2 rightfully balked at moving forward with
3 a new method of assessing property in
4 Philadelphia, the AVI, until it had all
5 the relevant data, assessment data, it
6 need to make the right decisions about
7 that important reform. We respectfully
8 urge similar caution here until we all
9 understand the data and the legislation's
10 impact on the business community.

11 MS. FAUSTINO: We stand ready
12 with 7,000 concerned and interested
13 stakeholders and eager to be engaged in
14 the important work of determining whether
15 this legislation is the right path to
16 improve the climate to create a business,
17 to grow a business, and to create jobs in
18 Philadelphia.

19 MR. GRACE: Thank you for the
20 opportunity to testify. We'd be happy to
21 take any questions that you may have.

22 COUNCILMAN GREEN: Thank you
23 very much for your testimony. I
24 appreciate you doing one set of testimony
25 and saving us the time. We truly do

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2 appreciate that.

3 MR. GRACE: You're welcome.

4 COUNCILMAN GREEN: So just a
5 couple of quick things. First of all, we
6 did a detailed analysis from 2008 to 2010
7 and '11. We discussed this before. In
8 my view and the view of the sponsors,
9 that analysis has not substantively
10 changed. We have all the data we need to
11 make this decision. The Administration
12 wants to do a new study, and we are going
13 to cooperate with them in that effort.

14 So to be clear, we have the
15 data. Yes, there are winners and losers.
16 The losers are the people who are not
17 located in the -- the losers are the
18 people who are located in the City of
19 Philadelphia and the winners today, as
20 you heard the accountants testify, are
21 people who can legally avoid paying any
22 business taxes to the City of
23 Philadelphia because of the 1959 federal
24 law that has them only paying gross
25 receipts and no net income. We will

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2 shift the tax burden, at least \$60
3 million, to businesses not headquartered
4 here, many of whom are your members.
5 Businesses not headquartered here are
6 members of the Philadelphia Chamber of
7 Commerce.

8 So you start with a very large
9 conflict of interest even in your
10 membership base. I'm not sure how you
11 could possibly, given that there will be
12 so many winners and losers that are among
13 your membership base, how you can
14 possibly take a position.

15 I will say the City's largest
16 manufacturer and Chamber member, Cardone
17 Industries, sent a letter asking us to
18 pass this tax because it will essentially
19 allow job growth in Philadelphia instead
20 of them having to locate plants elsewhere
21 for their profitable lines. They take
22 all their marginal lines and leave them
23 in the City and they take their most
24 profitable lines and -- this letter
25 doesn't cover that; covered in

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2 conversations -- and they put them in
3 other jurisdictions, because they don't
4 have to pay net income on those very
5 profitable lines of business that they
6 have.

7 So I don't really have any
8 questions for you. It seems to me that
9 there are losers today and they're
10 Philadelphia businesses, and we're trying
11 to rectify that and that's our job,
12 because we don't represent people from
13 the suburbs as the Chamber does.

14 Councilmember Goode.

15 COUNCILMAN GOODE: Thank you,
16 Mr. Chairman.

17 Good afternoon.

18 MR. GRACE: Good afternoon.

19 MR. TAUBENBERGER: Good
20 afternoon.

21 COUNCILMAN GOODE: All the
22 Chambers of Commerce were represented on
23 the Philadelphia Jobs Commission. I'm
24 sure there were similar representation on
25 the Mayor's Task Force for Tax Policy and

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2 Economic Competitiveness, and before that
3 there was representation on the Tax
4 Reform Commission of 2003, which you
5 co-chaired.

6 The recommendation from the
7 business community has generally been
8 eliminate as much as what was the BPT,
9 which is now BIRT, as possible. It's a
10 simple recommendation. We have not
11 accomplished that. We have not
12 accomplished that essentially because we
13 cannot afford that.

14 So my simple question to you
15 is, if we have \$160 million already built
16 into the Five Year Plan for business tax
17 reform, how would you invest that amount
18 of business tax reform?

19 MR. GRACE: I'm sorry, the very
20 last part, Councilman?

21 COUNCILMAN GOODE: How would
22 you invest in that amount of tax reform?
23 How would you use \$160 million?

24 MR. GRACE: How would you
25 invest if the \$160 million was not in the

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2 Five Year Plan?

3 COUNCILMAN GOODE: No. There
4 is \$160 million already within the Five
5 Year Plan.

6 MR. GRACE: I understand that.

7 COUNCILMAN GOODE: Would you
8 change that to reflect this bill? Would
9 you keep the 160 million in cuts as they
10 are on the books as they are or do you
11 have another proposal?

12 MR. GRACE: Well, the 160
13 million, correct me if I'm wrong, sir,
14 the 160 million that's built into the
15 Five Year Plan now is for incremental
16 reductions in business taxes and I
17 believe some in the wage tax. I'm not --

18 COUNCILMAN GOODE: The wage tax
19 is separate.

20 MR. GRACE: So you're referring
21 just to incremental reductions in --

22 COUNCILMAN GOODE: And it's not
23 just incremental reductions.

24 MR. GRACE: -- the BPT over the
25 next five years?

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2 COUNCILMAN GOODE: It refers to
3 other changes to the BPT and other
4 exemptions to the BPT.

5 MR. GRACE: The other changes
6 and exemptions.

7 We certainly would like to see
8 those measures that are in the Five Year
9 Plan now to remain there.

10 COUNCILMAN GOODE: I guess the
11 question is, would you change them? In
12 other words, one of the arguments from
13 one of the sponsors of the bill, maybe
14 other sponsors of the bill, is that to
15 the Five Year Plan, this is revenue
16 neutral. Although I think that the bill
17 calls probably for more tax cuts beyond
18 the Five Year Plan, if that's correct.
19 So the cost may go up beyond that. But
20 in terms of the revenue neutral cost to
21 the Five Year Plan, would you invest it
22 in the same way as it is on the books now
23 or would you change it to what's within
24 this bill?

25 MR. GRACE: So, in other words,

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2 to simplify for my own mind, an
3 either/or?

4 COUNCILMAN GOODE: Or --

5 MR. GRACE: What's in the Five
6 Year Plan now or what's --

7 COUNCILMAN GOODE: Or your own
8 alternative in terms of how to invest in
9 business tax reform if you have \$160
10 million worth of tax reform to buy.

11 MR. GRACE: Well, I think --
12 I'm not sure if this will satisfy you or
13 the Chairman, but one of the reasons we'd
14 like to see a new study done and to be
15 participants in the study -- it's not
16 just -- we don't want to offer that
17 collectively as a cliché today. We'd
18 like to be participants in the study,
19 each of these Chambers -- (continued) is
20 to be able to make an informed judgment
21 to be able to answer questions of where
22 we stand about this bill and to perhaps
23 answer your follow-up question as well.

24 COUNCILMAN GOODE: I guess my
25 question more specifically is, the Tax

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2 Reform Commission analyzed it. The
3 Mayor's Task Force on Tax Policy and
4 Economic Competitiveness analyzed it.
5 The Jobs Commission analyzed it. We're
6 talking about other analysis. Short of
7 eliminating business taxes all together,
8 which is not going to happen, how would
9 you invest first?

10 And that's the problem we had
11 at the Jobs Commission table.

12 MR. GRACE: I don't want to be
13 the only person answering. I understand
14 your question.

15 MR. TAUBENBERGER: When you
16 change the direction of the ship, I mean,
17 I think study is important. The
18 instruments have to be looked at closer.

19 COUNCILMAN GOODE: So the
20 Chambers don't know how they want to
21 invest in job creation and business tax
22 reform short of total business tax
23 elimination?

24 MS. FERNANDEZ: I'll make a
25 comment on that. We would love to see --

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2 the Hispanic Chamber would love to see
3 more investment in the infrastructure so
4 that all compliance and collections are
5 at par with legislation.

6 COUNCILMAN GOODE: I'm talking
7 specifically about business tax reform
8 policy. Short of business tax
9 elimination, what should we invest in
10 first?

11 MR. GRACE: Well --

12 MR. TAUBENBERGER: I would just
13 have to say, once again, you're changing
14 the direction of the ship of the state,
15 the ship of the City, and I think you
16 need the best possible study, the
17 instruments. You got to take another
18 look at it.

19 COUNCILMAN GOODE: Fair enough.

20 MR. TAUBENBERGER: Thank you,
21 sir.

22 COUNCILMAN GREEN: Thank you
23 very much.

24 I do notice Councilman Goode
25 pointed out that the 2003 Tax Commission

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2 report, which you've sort of readopted
3 here, calls for the elimination of all
4 business taxes, which created I think
5 something like a \$400 million hole in the
6 City budget over eight years to
7 accomplish, which then growth was assumed
8 after that. So your testimony is, you
9 would like us to create a \$400 million
10 hole in the City budget over the next
11 eight years, and how would you propose we
12 pay for that?

13 MR. GRACE: That's not our
14 testimony here.

15 COUNCILMAN GREEN: I believe
16 that was your testimony. It was that
17 you --

18 MR. GRACE: We said -- I'm
19 sorry.

20 COUNCILMAN GREEN: If someone
21 could hand me their testimony, I'd
22 appreciate it.

23 MR. GRACE: We said
24 specifically that we talked about, as it
25 applies to this bill, that we supported

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2 the recommendation of the Tax Reform
3 Commission concerning gradual elimination
4 of both sides of the BPT. We didn't talk
5 about all the other --

6 COUNCILMAN GREEN: The 2003
7 report --

8 MR. GRACE: -- recommendations
9 in the report.

10 COUNCILMAN GREEN: The 2003
11 report called for the elimination of both
12 sides of the BPT, now the BIRT. That's
13 what your testimony calls for.

14 MR. GRACE: Yes.

15 COUNCILMAN GREEN: Called for
16 it over a certain time period.

17 MR. GRACE: Yes. I think it
18 was over ten years.

19 COUNCILMAN GREEN: And that
20 created something like a \$400 million
21 hole in the City budget. So that's what
22 you would like us to do?

23 MR. GRACE: We certainly
24 support that recommendation of the Tax
25 Reform Commission.

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2 COUNCILMAN GREEN: I just want
3 to be clear for the record what that
4 means. Okay.

5 Thank you for your testimony.
6 Councilmember O'Brien.

7 COUNCILMAN O'BRIEN: Thank you,
8 Mr. Chairman.

9 This is one of those issues
10 that's complicated and makes your head
11 hurt, and I'm glad for it and I think
12 it's a bold proposal.

13 Having said that, I met with
14 the Chairman, and I am very impressed
15 with his level of due diligence. He has
16 not represented that there aren't other
17 questions that have to be answered. I
18 believe that he and his staff have
19 answered any number of questions that I
20 could have raised to date, but the one
21 request I made was -- and it was answered
22 that it was already accommodated, and
23 that was to do this study.

24 In talking with the Chairman,
25 we want to get -- he wants to get this

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2 study done as expeditiously as possible.

3 That would mean that the Administration
4 and the economists that are going to be
5 employed to task this will be about that
6 business as quickly as possible and as
7 thoroughly as possible.

8 I know that you have concerns.

9 I also realize that there is some concern
10 about moving a bill without having that
11 study done. In my past experience where
12 I came from, I recognize that on certain
13 issues, it's beneficial to move the bill
14 forward so that everyone knows that
15 you're serious about it. There used to
16 be a saying in Harrisburg that if you
17 don't have a bill analysis, then no one
18 is taking it serious. I believe that
19 this study is our bill analysis, and it
20 puts everyone on notice that they should
21 come forward if they have a concern on
22 this issue moving forward.

23 I believe that it would be next
24 to impossible to include all of those
25 interests in the study itself, but what I

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2 would ask the Chairman -- and I would ask
3 if you would agree to this -- if we were
4 to proceed, report this bill out today,
5 do the study as the Chairman has
6 outlined, and then after the study is
7 completed, allow you and other interested
8 parties to provide substantive comment, I
9 believe that would provide an orderly
10 process for this bill to move forward.
11 And I would just ask the Chairman if he
12 would accommodate that when the study is
13 complete and if you would be willing to
14 accept that as a condition that once the
15 study is done -- I think it would be
16 premature to try to incorporate all these
17 moving parts in the study itself, but
18 once we have that document, then everyone
19 can comment and work off of that.

20 Mr. Chairman.

21 COUNCILMAN GREEN: Certainly.

22 The Administration is paying for the
23 study, and I'm confident that they will,
24 after the study is complete, seek comment
25 from various constituencies and

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2 stakeholders. We're hiring an economist
3 to see what the impact on job growth will
4 be, to see what the impact on City
5 revenues will be, to see what the impact
6 on increases in aggregate value of real
7 estate will be. Essentially it is not
8 something that can be done by a group.
9 It has to be done by an economist. But
10 once that economist is finished,
11 certainly I'm confident the
12 Administration would be happy to share
13 the work.

14 MR. GRACE: May I --
15 Councilman, Mr. Chairman, will it include
16 an analysis of the impact of the
17 legislation on the different sectors, the
18 different portions of the Philadelphia
19 business community?

20 COUNCILMAN GREEN: Well, it's
21 almost impossible to do that, because
22 every business -- some businesses in the
23 same industry have very different tax
24 situations. Some take advantage of the
25 Delaware loophole, like most of your

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2 members, some don't. And so, you know,
3 for people who take advantage of the
4 Delaware loophole and avoid our taxes,
5 once again, like many of your members,
6 they will be hurt, and for people who pay
7 their fair share of taxes to the City of
8 Philadelphia, people who are small
9 businesses, who are headquartered in
10 neighborhoods, and businesses that don't
11 take advantage of the Delaware loophole,
12 they will be benefited. Businesses that
13 are not headquartered here will be hurt.

14 In other words, I know the
15 answer to the question. The study will
16 determine whether or not the
17 Administration is satisfied and reaches
18 the same conclusion that the bill
19 sponsors have, and that is sort of beyond
20 my authority. The Administration will
21 get the study and will decide they want
22 to move forward, will decide they want to
23 amend or decide they want to oppose. You
24 know what I mean? I don't have to
25 describe the process.

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2 MR. GRACE: I understand.

3 COUNCILMAN GREEN: Okay. Thank
4 you.

5 Councilmember Goode.

6 COUNCILMAN GOODE: Thank you,
7 Mr. Chairman.

8 If nothing changes from the
9 analysis that was done in 2010, the
10 Chambers of Commerce will oppose this
11 bill because it hurts Philadelphia
12 businesses. Is that accurate?

13 MR. GRACE: Councilman, I don't
14 want to say that today. I think we
15 really need to see and carefully examine
16 the study before we reach that
17 conclusion.

18 COUNCILMAN GOODE: I said if
19 nothing else changes from the analysis
20 from 2010.

21 MR. GRACE: I understand, sir,
22 and I know that in 2010, because you're
23 always a student of legislation and your
24 next question may be in 2010 did this
25 Chamber -- there's five Chambers up here

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2 right now, but did this Chamber oppose a
3 previous version of this legislation. I
4 think the answer is that it said they
5 couldn't support --

6 COUNCILMAN GREEN: Point of
7 information.

8 MR. GRACE: They said they
9 couldn't support the bill.

10 COUNCILMAN GREEN: Point of
11 information. The Chamber did not oppose
12 this legislation. It said it could not
13 support it because there was not enough
14 information.

15 MR. GRACE: That's exactly what
16 I'm trying --

17 COUNCILMAN GREEN: At the time,
18 even with all the information that
19 existed in 2010.

20 MR. GRACE: I think it said it
21 could not support it at that time.

22 COUNCILMAN GREEN: It said
23 there was not enough information.

24 MR. GRACE: Right. That's
25 exactly what I'm trying to say.

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2 COUNCILMAN GREEN: And today
3 your testimony is there's not enough
4 information.

5 MR. GRACE: No. We're
6 asking --

7 COUNCILMAN GREEN: Sort of.

8 MR. GRACE: We're asking to be
9 participants in a study that would allow
10 us to reach an informed conclusion and
11 render as up-to-date a judgment as we
12 could on a very important tax policy
13 proposal.

14 MR. TAUBENBERGER: I think the
15 more information that people have, the
16 better informed a decision you can make.
17 And if I could raise one case, if I
18 could, if it's all right with the Chair.

19 COUNCILMAN GREEN:
20 Mr. Taubenberg, I don't have any
21 further questions. If Councilmember
22 Goode has a question, that's fine.

23 COUNCILMAN GOODE: I just want
24 to read from the testimony. "Without new
25 data from the City or an independent

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2 expert on the impact of this bill on
3 different business sectors, we cannot
4 offer a reasoned judgment on how we view
5 the legislation." That means you cannot
6 support it; is that correct?

7 MR. GRACE: You mean the
8 legislation today?

9 COUNCILMAN GOODE: Yes. This
10 is your testimony.

11 MR. GRACE: It means that we
12 have no official position on the bill
13 because we're looking for up-to-date data
14 so that we can render our best decision
15 on the legislation and how it impacts --

16 COUNCILMAN GOODE: In other
17 words, you don't know whether it's a good
18 thing?

19 MR. GRACE: Absolutely. We're
20 saying we can't offer an informed opinion
21 today, Councilman.

22 COUNCILMAN GOODE: So you can't
23 support it today?

24 MR. GRACE: We cannot support
25 it today.

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2 COUNCILMAN GOODE: And if
3 nothing changes, you can't support it?

4 MR. GRACE: Councilman, I
5 wouldn't go to the final point.

6 COUNCILMAN GOODE: Thank you,
7 Mr. Chair.

8 COUNCILMAN GREEN: Thank you.

9 I appreciate the difficult
10 position you're in with your testimony.
11 You know, I certainly understand your
12 position. I certainly don't agree that
13 the best course for the City is to
14 eliminate all business taxes at this
15 point and create a \$400 million hole over
16 the next ten years, which is essentially
17 the only affirmative statement or request
18 that you've made to this Council.

19 So thank you for your
20 testimony.

21 MR. GRACE: Thank you.

22 COUNCILMAN GREEN: Is Steve
23 Mullin here?

24 (No response.)

25 COUNCILMAN GREEN: Okay. Brian

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2 Emmons, and why don't you come up with
3 Kevin Mazzucola and Steve Masters.

4 (Witnesses approached witness
5 table.)

6 COUNCILMAN GREEN: Please, in
7 whatever order you'd like, state your
8 name for the record and proceed with your
9 testimony. Thank you for being here
10 today.

11 MR. EMMONS: Good afternoon.
12 My name is Brian Emmons. I'm the Vice
13 President for Toll Brothers and I am here
14 today as the Vice President of the
15 Building Industry Association, which
16 represents the region's residential home
17 builders, residential contractors, and
18 suppliers. We would like to thank
19 Councilman Green for the opportunity to
20 testify before the Committee and for his
21 cooperation with Councilwoman Sanchez and
22 Councilman Henon in introducing Bill
23 130530, which phases out the net income
24 portion of the business income and
25 receipts tax.

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2 Philadelphia presents home
3 builders with a number of challenges,
4 such as high construction costs, onerous
5 regulations, difficult land acquisition,
6 and a heavy tax burden. City Council has
7 taken significant steps to mitigate these
8 obstacles to construction, yet more
9 remains to be done, including reform to
10 the business tax structure.

11 Bill No. 130530 would gradually
12 zero out the net income portion of the
13 BIRT tax instead of relying exclusively
14 on gross receipts. The sponsors have
15 persuasively made the case that as the
16 region's only collector of a net profits
17 tax, Philadelphia effectively chases away
18 profitable businesses into the
19 surrounding communities. This
20 legislation would eliminate this
21 disincentive to attracting and retaining
22 new and existing enterprises.

23 Many of our members act as
24 their general contractor, hiring
25 subcontractors to do most of the work, as

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2 well as the developer selling the
3 completed project. In those two
4 scenarios, we are subject to an onerous
5 tax multiplier effect, but Bill No.
6 130530 is written to avoid repeatedly
7 taxing subcontracted work. With that and
8 similar safeguards in place, the bill
9 neatly anticipates potential problems on
10 the way to providing the City with a more
11 predictable revenue stream and
12 business-friendly tax environment.

13 Bill No. 130530 is consistent
14 with other recent tax reforms that will
15 act as a catalyst for economic
16 development in Philadelphia. Passage of
17 this bill will help encourage our members
18 to build more housing in Philadelphia,
19 which will drive more residents to the
20 neighborhoods with the businesses and tax
21 revenues that will follow with them.

22 The members of the Building
23 Industry Association look forward to
24 continuing to work with City Council to
25 facilitate growth in the City of

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2 Philadelphia. With that in mind, we ask
3 that the Finance Committee approve the
4 bill and support its passage through
5 Council.

6 Thank you for your
7 consideration.

8 COUNCILMAN GREEN: Thank you.

9 MR. MAZZUCOLA: Thank you,
10 Councilman Green. My name is Kevin
11 Mazzucola and I'm the Executive Director
12 of the Auto Dealers Association of
13 Greater Philadelphia. I want to thank
14 Chairman Green and Councilman Henon and
15 Councilwoman Sanchez for allowing us to
16 testify on the bill, which would shift
17 Philadelphia business taxes away from
18 obviously net income, as we've heard
19 today, and gross receipts.

20 Our organization is about 179
21 new car and truck franchise dealers.
22 Seventeen of them are in Philadelphia.
23 It used to be a lot more, but there's 17
24 left, and they employ about 1,400 people,
25 most of whom live in Philadelphia. We

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2 generate about \$2.7 million in wage tax
3 and business taxes of about 2 million
4 and, of course, sales tax generated on
5 the sale of the vehicle, and we sell
6 about a billion dollars a year, just
7 those 17 franchise dealers in
8 Philadelphia.

9 Important strides were made in
10 recent years to reduce that tax burden,
11 and many of you have been part of that
12 with the Tax Reform Commission. The
13 Council's ongoing dedication to reduce
14 the wage tax has always been appreciated.
15 And unlike many around the City, most car
16 dealers have had property tax assessments
17 from AVI which is about \$250,000 in
18 increases for those 17 members prior to
19 any appeals, and also the use and
20 occupancy tax, sales tax, property tax
21 increases, and the stormwater fee --
22 there may be a fee, but we're paying it
23 in the bucket -- it's about \$800,000 for
24 those 17 dealers over those four years
25 that those increases are putting in

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2 place.

3 Business privilege tax remains
4 a substantial obstacle to a company's
5 success and profitability in
6 Philadelphia. We've been thankful for
7 the City Council and Mayor Nutter for
8 gradually reducing the gross receipts
9 tax. Since 1995 we've been very
10 consistent in our support of that, and
11 also with this bill. But a tax rate of 6
12 and a half percent on net income is
13 extremely difficult and detrimental in
14 maintaining business in Philadelphia.
15 It's very competitive in the automobile
16 business, where they can go wherever they
17 want. It's a major, major sale or
18 purchase for a consumer. So they will
19 shop accordingly.

20 While the bill doesn't decrease
21 the privilege tax entirely in the future,
22 it does, we believe, present a wise
23 economic strategy for easing that burden.

24 I think I'll stop there. We've
25 done enough today. I appreciate -- our

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2 support is going to be for the bill, and
3 appreciate the effort of Councilman Green
4 and his peers in pushing it forward.

5 COUNCILMAN GREEN: Okay. You
6 both heard the, I guess, comments by the
7 accountants with respect to various
8 industries. One of you is here for the
9 Building Industry and for Toll Brothers
10 in particular. I guess I'll ask you
11 specifically. Will this promote
12 development in the City of Philadelphia,
13 in your opinion?

14 MR. EMMONS: Absolutely.
15 Absolutely.

16 COUNCILMAN GREEN: And why will
17 it do that?

18 MR. EMMONS: It reduces the
19 developer's tax burden. You know, right
20 now taxes are being hit on every asset
21 from the developer to the subcontractor.

22 COUNCILMAN GREEN: And is your
23 deciding as Toll Brothers -- I guess you
24 can speak more for them than as the BIA
25 as a whole -- where to make investments,

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2 buy real estate, create jobs by building
3 things, et cetera, how much the taxes
4 play into whether or not a project
5 pencils or not between, say, here,
6 Montgomery County, other places you guys
7 invest? I mean, is it an important
8 factor in your decision-making?

9 MR. EMMONS: Absolutely.

10 COUNCILMAN GREEN: Thank you.

11 Mr. Mazzucola, I don't really
12 have any questions for you. Your
13 testimony is clear. It's surprising to
14 many that the Auto Dealers support this,
15 because people imagine you're a high
16 gross receipts, low-margin business, and
17 we'll keep this a secret. Thank you.

18 MR. MAZZUCOLA: I appreciate
19 it. Thank you, Councilman.

20 COUNCILMAN GREEN: Mr. Masters.
21 Thank you very much.

22 (Witnesses approached witness
23 table.)

24 COUNCILMAN GREEN: I'm sorry.
25 Are you both testifying?

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2 MS. GAUTHIER: I am.

3 MR. MASTERS: Jamie is going to
4 be testifying.

5 COUNCILMAN GREEN: Oh, Jamie.
6 I'm sorry. Please state your name for
7 the record and proceed with your
8 testimony.

9 MS. GAUTHIER: Jamie Gauthier,
10 Executive Director of the Sustainable
11 Business Network. Thank you for the
12 opportunity to testify today.

13 SBN is a non-profit membership
14 organization for locally owned businesses
15 that are environmentally and socially
16 responsible. Our mission is to help our
17 business members thrive while also
18 working towards a greener and fairer
19 economy in the Philadelphia region. We
20 have about 400 business members that are
21 mostly small businesses, 50 employees or
22 less, that represent a wide variety of
23 industries and business sectors,
24 including retailers, manufacturers,
25 renewable energy providers, green

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2 builders, local banks, food businesses,
3 small business service providers, and
4 others.

5 We don't currently have enough
6 information about Bill 130530 to present
7 a firm stance on the bill today, but we
8 do come prepared to address the areas of
9 the bill that we like, the areas of the
10 bill that we need more information about,
11 and the areas of the bill that concern
12 us.

13 It should be noted that SBN's
14 viewpoint on this bill is informed by a
15 study that we completed in 2010 called
16 Taking Care of Business, which studied
17 the climate of Philadelphia as it relates
18 to small business startup and expansion.

19 There are multiple areas of
20 this bill that we support. We like that
21 it builds off important and successful
22 compromises in the past that benefit
23 small businesses, particularly the
24 100,000 exclusion.

25 We like that it has the

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2 potential to re-establish Philadelphia as
3 an attractive place for businesses to
4 flourish, grow, remain, and hire as
5 opposed to being the most expensive place
6 in the region to locate a business.

7 We like that it removes the
8 disincentive to locate in Philadelphia,
9 thereby creating a more sustainable and
10 thriving urban environment.

11 We like that the bill can
12 create tax levelness and fairness.
13 Smaller businesses that are located in
14 the City and even the smaller businesses
15 in the region are at a disadvantage to
16 larger companies who can practice
17 sophisticated tax avoidance techniques,
18 and we like that this bill will take that
19 away.

20 We also like that, all things
21 being equal, that this bill can make it
22 easier and faster to do the BIRT returns,
23 saving our members time and money.

24 We also really like the fresh
25 food tax credit and think that it has the

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2 potential to positively impact food
3 deserts. And so there are several things
4 about this bill that we support.

5 In order to provide -- to give
6 you a firmer stance of support with
7 relation to this bill, we need to have
8 more information on how it would impact
9 our business members. We understand that
10 the Administration and Council are
11 planning to conduct such a study, and we
12 look forward to working with you on the
13 research protocols and to reviewing the
14 results upon completion.

15 There are also areas of this
16 bill that concern us. Highest on this
17 list is the eventual phasing out of both
18 the gross receipts and the net income
19 tax, essentially excusing businesses,
20 even large ones, from paying any local
21 corporate income taxes. SBN, as an
22 organization advocating for sustainable
23 local economy and sustainable
24 communities, cannot endorse a bill that
25 would essentially allow all businesses,

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2 even large players, to avoid their fair
3 share of paying for our city's
4 infrastructure, community, and quality of
5 life, the essential public assets each
6 business relies upon to maintain and grow
7 their operations.

8 We also have a concern about
9 the reduction in the parking tax and its
10 potential impact on congestion and,
11 therefore, the environmental
12 sustainability of our city.

13 So with all of that being said,
14 it's our recommendation that the bill is
15 held until these items are addressed and
16 until we're able to more fully study the
17 impact of this bill on our membership
18 base.

19 We appreciate the opportunity
20 to testify before you today on this very
21 important issue. Thank you.

22 COUNCILMAN GREEN: Thank you
23 very much for your testimony. I enjoyed
24 being invited to your event --

25 MS. GAUTHIER: Thank you for

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2 coming.

3 COUNCILMAN: -- I guess a month
4 or month and a half ago and the
5 opportunity to speak to your members. It
6 was a great event, and I think you're a
7 great organization.

8 MS. GAUTHIER: Thank you.

9 COUNCILMAN GREEN: Although I
10 don't fully subscribe to your testimony
11 today, I appreciate it and thank you for
12 your involvement in the City, and
13 certainly I share the goals of your
14 organization. So thank you.

15 MS. GAUTHIER: Thank you. We
16 look forward to talking more.

17 COUNCILMAN GREEN: Thank you.

18 Seeing no questions from
19 members of the Committee, thank you very
20 much for your testimony.

21 Mr. Hoffman, I understand you'd
22 like to testify.

23 (Witness approached witness
24 table.)

25 COUNCILMAN GREEN: Mr. Hoffman,

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2 please state your name for the record and
3 proceed with your testimony. We very
4 much thank you for taking time away from
5 your business today and coming to testify
6 here.

7 MR. HOFFMAN: My name is
8 Seymore Hoffman. I'm here for a property
9 that we have in Germantown section,
10 Greene and Chelten, northwest corner.
11 Our family owns the property. It's a
12 commercial property. And every item of
13 taxes that we can are leases we pass
14 through to our tenants. In the last two
15 to three years, we did not charge the
16 increases in CPI or the use and occupancy
17 tax or our liability insurance, which is
18 part of the lease. Now we got Germantown
19 Special Services, additional 12 percent
20 of our real estate taxes, and my -- our
21 property, by the way, is 40 percent
22 vacant because of all the taxes and all
23 the competition and what-have-you. So
24 the more taxes makes it less attractive
25 for us to be able to rent our spaces,

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2 which again will produce more taxes, the
3 use and occupancy, so forth and so on.

4 This is a disadvantage to small
5 businesses that may want to rent a
6 property anywhere in the City of
7 Philadelphia. The more taxes, the less
8 opportunity to invest, what-have-you.

9 Again, how many jobs? We don't
10 know how many jobs. Councilman Green, I
11 believe -- not Green. Goode kept saying
12 how many jobs, how many jobs. We have no
13 way of knowing what jobs. All we know is
14 that the less money going into the
15 economy will not produce jobs, whether
16 it's minimum wage or what-have-you.

17 Rather than go through the
18 whole litany of this thing, Philadelphia
19 is known as the City of Brotherly Love.
20 Maybe we should amend that and do
21 Brotherly Love, Sisterly Love, and
22 Business Love.

23 The City, I know, needs money.
24 We need money. And it's a vicious cycle.
25 Taxes are necessary, but some of these

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2 taxes, it's like you're sitting over the
3 weekend trying to figure out where else
4 can we get money. There's other places
5 to get money, and if you want, I'd be
6 more than glad to sit down with somebody
7 and explain different things that I
8 learned from my father over the last
9 bunch of years.

10 By the way, I was born and
11 raised in Germantown. Although I don't
12 live in Germantown or Philadelphia, we
13 have the property. If we were able to
14 move the property, we would gladly do so.
15 The tax structure in Philadelphia is
16 archaic.

17 That's it.

18 COUNCILMAN GREEN: You have our
19 complete -- or at least my complete
20 agreement. So thank you for your
21 testimony. I assume you're in favor of
22 this tax shift?

23 MR. HOFFMAN: Yes, I am.
24 Otherwise I wouldn't be here.

25 COUNCILMAN GREEN: Great.

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2 Thank you.

3 Any questions?

4 (No response.)

5 COUNCILMAN GREEN: Thank you
6 very much for taking your time today. We
7 appreciate it.

8 MR. HOFFMAN: Thank you.

9 COUNCILMAN GREEN: Next we will
10 call Stanley Shapiro, Andre Butler,
11 Sherrie Cohen, Sharon Ward, and Greg
12 Holston.

13 (Witnesses approached witness
14 table.)

15 MR. SHAPIRO: I guess we'll go
16 left to right.

17 COUNCILMAN GREEN: You can
18 proceed in whatever order you'd like.
19 State your name for the record and
20 proceed with your testimony.

21 MS. COHEN: Yes. I'm Sherrie
22 Cohen. Greetings, Committee Chairman
23 Green and other Councilpeople who are
24 here.

25 I am here today to urge this

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2 committee to hold this bill and reject

3 Bill 130530 because it is unconscionable.

4 This bill calls for the complete

5 reduction to the elimination of the main

6 business tax of the City. You are

7 talking about the elimination of \$400

8 million from the City budget, 10 percent

9 of our City budget, and you have not

10 announced where the replacement revenues

11 are going to come from, how else you're

12 going to fund our schools and our City

13 services.

14 COUNCILMAN GREEN: Just point

15 of information. No revenue from business

16 taxes goes to schools. That's a separate

17 tax. But please proceed with your

18 testimony.

19 MS. COHEN: All right. Well,

20 10 percent of the City budget you're

21 talking about eliminating and we don't

22 know where the revenue is going to come

23 from and we don't know if you know where

24 the revenue is going to come from to

25 replace that.

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2 And why are you proposing that
3 businesses not have to pay their fair
4 share in our city?

5 COUNCILMAN GREEN: You're
6 welcome to testify, but...

7 MS. COHEN: And you are
8 proposing to give this windfall to
9 businesses almost no matter what the
10 cost, presumably because the
11 beneficiaries are corporations. Yet when
12 we had legislation that was the law, that
13 the amount of money from the City budget
14 would have been much less, Council voted
15 to repeal that legislation because, oh,
16 there wasn't enough money.

17 COUNCILMAN GREEN: If you could
18 restrict your testimony to this
19 legislation that is the subject matter of
20 this hearing, I'd appreciate that.

21 MS. COHEN: Well, the contrast
22 could not be more clear, how Council
23 repealed my father's, Councilman David
24 Cohen's, wage tax rebate for low-income
25 working families and apparently there was

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2 a thought that we don't have enough money
3 to help low-income working families, but
4 suddenly we have enough money, \$400
5 million, to give a windfall to
6 corporations.

7 So I think this Council can do
8 better. And the most pressing issue in
9 our city is poverty and that we have more
10 poverty in our city and more deep poverty
11 than any other of the top ten cities,
12 most populated cities in the country.
13 Right now our poverty rate is 26.9
14 percent. That's 440,000 people, 135,000
15 children. And in deep poverty, we have
16 200,000 people, 12.9 percent of our city
17 in deep poverty.

18 So, yes, we are saying that the
19 priorities here are wrong and that it
20 makes sense to compare what the Council
21 wants to repeal and what the Council
22 wants to proceed with. And we think it
23 is poignant the historic moment that we
24 are all in at this time. Just yesterday,
25 December 10th was International Human

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2 Rights Day, which is the anniversary of
3 the passage of the United Nations'
4 Declaration of Human Rights that was
5 passed in 1948, and there is an article
6 there I wanted to read that says that
7 everyone has the right to a standard of
8 living adequate for their health and
9 well-being of themselves and their
10 families, including food, clothing,
11 housing, and medical care and necessary
12 social services, and the right to
13 security in the event of unemployment,
14 sickness, disability, widowhood, old age
15 or other lack of livelihood in
16 circumstances beyond their control.

17 We believe Council must act to
18 fulfill the promise of this Declaration
19 of Human Rights.

20 Also, our world at this moment,
21 the entire global community, is mourning
22 the passage of Nelson Mandela, one of the
23 greatest leaders of all time. One of my
24 favorite quotes of his, he states, Like
25 slavery and apartheid, poverty is not

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2 natural. It is people who have made
3 poverty and tolerated poverty, and it is
4 people who will overcome it. And
5 overcoming poverty is not a gesture of
6 charity. It is an act of justice. It is
7 a protection of a fundamental human
8 right, the right to dignity and a decent
9 life. While poverty persists, there is
10 no true freedom.

11 So we would like Council to
12 help end poverty, to fulfill the promise
13 of the universal Declaration of Human
14 Rights, to reintroduce Councilman David
15 Cohen's wage tax rebate for working poor
16 families, and to reject this
17 unconscionable bill that will devastate
18 our very frayed safety net as it is that
19 is included in this bill. So we urge you
20 to reject the bill before the Committee.

21 COUNCILMAN GREEN: Thank you.

22 MR. SHAPIRO: Thank you,
23 Mr. Chair. I'm Stanley Shapiro. I'm
24 here representing Philadelphia MoveOn
25 Council and Philadelphia Neighborhood

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2 Networks and 207 people who have signed
3 this petition against the bill. They're
4 not all here. If they were here, they
5 would pretty much fill the Chamber. I
6 collected these signatures online within
7 five days. I'm sure you're going to have
8 many more by the time this bill comes up
9 again.

10 I just have to second the
11 comments of Ms. Cohen. This bill is
12 completely unconscionable. It's
13 unconscionable, frankly, the way this
14 hearing proceeded, with no discussion of
15 the fact -- virtually no discussion of
16 the fact from the Chair or from the City.
17 Most of the major witnesses at the front
18 end of this hearing spoke without any
19 consciousness apparently of the fact that
20 this tax is scheduled to go completely
21 away over four years. The Chair himself
22 commented that it would be strange for
23 the Chamber to push a position that the
24 tax should go away over the next ten
25 years because there's no replacement, and

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2 yet this bill suggests that this Council
3 knows that the condition of the City in
4 10 to 30 years from now or 10 to 40 years
5 from now is going to be such that it can
6 take year by year by year guaranteed
7 annual, no doubt about it, written into
8 the book tax cuts of \$15 million
9 cumulatively without any provisions for
10 replacement of the revenue. It's
11 actually a completely bizarre bill from
12 that standpoint.

13 I'm going to read comments of
14 some of the signers of this petition.
15 Tim Carney says, Progressive taxation
16 only. Bring back the Cohen wage tax cut
17 for the poorest paid workers.

18 Theodor Erwin says, Such action
19 is shameful. How can Councilmembers
20 sleep at night even thinking about
21 orchestrating such a bill?

22 Sandra Fulton says, I'll
23 probably be dead by 2020, but I have
24 grandchildren.

25 Diane Mason says, Repealing the

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2 business tax would be insane. The only
3 sense one can make of it is that the
4 Council is in the pay of business in the
5 form of campaign contributions or future
6 job opportunities.

7 Beth Edelman says, Come on,
8 City Council. Get with the program. The
9 wealthy and the business community must
10 pay its fair share.

11 There's nothing in the bill
12 which guarantees annual increases in
13 payments for park services, for health
14 services, for police services, for fire
15 services. Those will also be good
16 things, I would think, that perhaps
17 Council thinking about the welfare of the
18 City and trying to make it more livable
19 for people in the City might put a
20 guarantee that those services increase
21 every year with the extra money that
22 apparently is going to be available for
23 tax cutting, but the only thing that's
24 guaranteed is tax cutting.

25 John Spear says, How dare you

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2 to even think about cutting the business
3 tax? Let's be honest, there is a real
4 class war going on. The banks have
5 stolen our property, calling it
6 foreclosure, which I call theft, and big
7 business has stolen our wages, giving
8 CEOs and top-level personnel unjust high
9 wages, again, which I call theft from the
10 working class, and so on.

11 Patrice Leichter says, As a
12 small business owner who pays the City
13 taxes, I believe that is necessary.
14 Property taxes have to stop going up. If
15 you want to have a tax on sugar products,
16 that would be fine, but I doubt it would
17 bring anywhere close to \$400 million a
18 year.

19 Magali Larson says, This is
20 truly the wrong way to go for our very
21 poor city. No jobs will, quote, trickle
22 down, unquote, to the unemployed from
23 these cuts.

24 Janet Boise says, Repeal the
25 tax on small businesses. Not everyone

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2 who run businesses are not yet making a
3 profit. Make other businesses pay.

4 Steven Gullick says, Corporate
5 citizens should pay taxes at least as
6 much as we, the real citizens, do, and so
7 on.

8 So I have nothing to add really
9 to the eloquence of these signers of the
10 petition, and I will be happy to hand up
11 this petition to the Chair.

12 COUNCILMAN GREEN: Thank you.

13 Is anybody else here to
14 testify?

15 Please state your name for the
16 record and proceed.

17 MR. BUTLER: Thank you. Good
18 afternoon, City Council, Chair,
19 Mr. Green, Mr. Greenlee, good afternoon.
20 My name is Andre Butler and I'm a Board
21 member of the Philadelphia Unemployment
22 Project. I also am here representing
23 TURN, Tenants Unit Representative
24 Network. But I would like to be speaking
25 predominantly as a common person, even

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2 though the people that we represent and
3 that I represent are other common folk,
4 but just to put a common citizen, plain
5 citizen face on this particular issue.

6 I've opposed the business
7 privilege tax, or whatever name it's
8 called now, for years. I will always
9 oppose it, in the fact that businesses --
10 I really urge Council not to believe the
11 hype. Everything is that businesses run
12 on not wanting to be somewhere because of
13 the tax structure.

14 A gentleman spoke earlier this
15 morning and he said that he -- with all
16 due respect, I enjoy the fact that people
17 have a business and can work their way up
18 to own a business, but he said that he
19 has to pay 10 percent of his income on
20 taxes. There are thousands of us in this
21 city who would love to make enough money
22 to be able to pay 10 percent of our
23 income as taxes. Right now our income is
24 going basically for bills and just to be
25 able to make it every day.

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2 I've been unemployed officially
3 for the last five years. I work on call
4 in the culinary industry, but it's on
5 call. It's nothing guaranteed. I
6 haven't worked but one day in the past
7 six weeks. That's because of the
8 economy.

9 Businesses have the money to
10 hire. They just don't want to hire, and
11 that's been proven by studies in this,
12 quote/unquote, post-recession era, which
13 the recession is still going on. The
14 economy say it's not, but it's still
15 actually going on for people like me and
16 at our level who need to find work,
17 sustained work.

18 It's -- a gentleman said this
19 years ago, businesses don't leave because
20 of tax revenue. They leave because of
21 schools, recreation centers, the housing
22 industry, the City services. That's why
23 they leave. It's not because of taxes.
24 They'll live with the tax structure if
25 they can find where they are safe, where

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2 their citizens are -- their employees are
3 protected. They'll actually stay there.
4 And businesses are seeing our City
5 services erode, our schools erode, even
6 before Corbett became the Governor. Our
7 services eroded because of our tax
8 structure, which slowly been going down
9 over the past few years. So the revenue
10 is not coming in, so we're not paying for
11 our City services like we actually used
12 to, and that's what's causing the
13 business climate to be like it is.

14 For example, I get a lot -- the
15 few jobs I get are sometimes in
16 Wilmington, Delaware. We talk about the
17 Delaware loophole. I do jobs in
18 Wilmington once in a while. City is
19 fine. All the businesses and banks are
20 down there for the tax loophole, but the
21 city has a high crime rate. It has a low
22 level of industry. People don't want to
23 live there, and they don't want to be in
24 downtown Wilmington after 5 o'clock. The
25 crime rate there is high. But the tax

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2 loophole is there. Businesses go there,
3 but the quality of life in Wilmington is
4 not that great. Ask anybody who lives in
5 Wilmington. The quality of life there,
6 it's terrible.

7 So we don't want this to become
8 another Wilmington, Delaware where we
9 have businesses here, but nobody wants to
10 live here. And that will be the
11 paradox -- that would be the bad
12 situation that we're actually into here.

13 Let me conclude by putting a
14 couple of things in place here. I don't
15 believe -- I oppose the bill because it's
16 not fair. You want to eliminate business
17 taxes, but make the City services be paid
18 on our backs. When there was a chance to
19 have a bill in this Council to eliminate
20 the tax or lower the tax on poor people,
21 that was rejected. I don't think that's
22 being fair.

23 Secondly, the last thing I
24 would like to say is, human face on a
25 particular issue. Several years ago my

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2 father went to one of the non-profits in
3 this city, because we were in a situation
4 where we were about to lose our house.
5 And there was a grant that the City had.
6 It was a \$10,000 grant that certain
7 non-profits had to pay for when you were
8 behind in your mortgage. At that time,
9 the non-profits who were allowed to have
10 that grant didn't have them because the
11 City had reduced the grant, because the
12 City didn't have the money to pay for
13 that particular grant. So we had to go
14 through other means to save our house.
15 But that was a very traumatic position
16 for my father to take -- to see, because
17 he couldn't get the money from the City
18 to help save his house. So on last
19 Friday, had to go to the funeral home to
20 identify his body. I don't believe he
21 ever got over that. I know he didn't get
22 over that, because there was a house for
23 which he had worked for and had paid a
24 mortgage on for almost 40-some years that
25 he couldn't save the way he wanted to

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2 save it, because he needed -- he had to
3 get a loan to be able to keep it, not a
4 grant you could just have the money and
5 just paid for it and gotten it back. He
6 had to get a loan to be able to keep that
7 house.

8 And as a human face to this
9 issue, when cities don't have the money
10 to pay to keep (unintelligible) that's
11 living, there's a human cost to this
12 particular issue, and I would ask Council
13 to keep that issue in mind.

14 You talk about studies.
15 Somebody do a study on the effect of a
16 city on the infrastructure, on the
17 people. Do a study on that. Nobody is
18 talking about it. Everybody talking
19 about the business quality. There's
20 people that live here. There's people
21 that's houses.

22 So, please, my testimony is
23 that you keep that in mind when you're
24 making these bills, making these
25 different studies.

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2 COUNCILMAN GREEN: Thank you
3 very much.

4 Yes, sir. Please state your
5 name for the record and proceed with your
6 testimony.

7 REVEREND HOLSTON: My name is
8 Reverend Gregory Holston. I'm the Pastor
9 of New Vision United Methodist Church, a
10 member of POWER, and the Co-Chair of our
11 Jobs Strategy Team. POWER is an
12 organization of about 45 houses of faith
13 located all across the City of
14 Philadelphia of all income levels, of all
15 races and backgrounds that are committed
16 to creating a city of opportunity that
17 works for all, a city where we have good
18 jobs, good schools, and a diverse city of
19 immigration reform that can make a
20 difference to make our city a better
21 place.

22 My church is around an area in
23 North Philadelphia where there's a 50
24 percent poverty rate. Twenty-five
25 percent of the individuals are in deep

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2 poverty. That is for an individual
3 \$5,500 a year that they're making. Most
4 of the area that I'm in has a 30 percent
5 unemployment rate for African Americans.

6 We are definitely always
7 concerned about jobs, jobs, jobs. So
8 every bill and anything that we look at,
9 we want to see how is it going to create
10 jobs.

11 I heard some of the
12 conversation on that, but I saw no
13 specifics around actual job creation in
14 this particular bill. I would like to
15 hear a study that would kind of give us
16 some idea of what jobs were created.

17 You also talked about winners
18 and losers, that some companies would end
19 up leaving the City because of this bill
20 and some would come. And I heard -- I
21 think I heard Councilman Goode say maybe
22 75,000 jobs could potentially be lost
23 because of people leaving. We certainly
24 would be very concerned if this bill
25 ended up being a job loser or destroyer

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2 instead of a job creator.

3 I also was concerned with, as
4 I've heard the conversation -- because
5 one of the questions I had, was it
6 revenue neutral or not. And I heard many
7 people say it is revenue neutral. But
8 then I got -- as I read the bill, I can
9 only see that I guess that would be up to
10 2019, because after 2019, both of these
11 taxes are reduced to eventually there is
12 neither one of these taxes on the book.
13 So essentially the bill then becomes a
14 business tax cut. And in this time of
15 very low revenues and this time in which
16 we don't have enough money, even though
17 you correctly said that you don't have to
18 fund the school budget, but it was every
19 year you're asked to do it anyway or do
20 some part of it, that of all of the
21 things going on in the City regarding our
22 infrastructure, regarding our streets,
23 regarding our buildings, just regarding
24 the quality of life in the City of
25 Philadelphia, I find it very difficult to

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2 support a tax cut, even if the tax cut
3 begins in 2020 and then stretches from
4 that point on.

5 I would love to hear more
6 conversation around that. Maybe there
7 can be a re-crafting of the bill so that
8 it can really be revenue neutral. Maybe
9 that's part of the study that the Mayor
10 will be putting together.

11 So I would say as POWER --
12 we're coming kind of new to this
13 situation -- that we would love to see
14 this matter studied more. We'd love to
15 see this matter stay within this
16 committee and allow for all of the
17 parties to be involved, including
18 ourselves, in the study of this bill so
19 that we can make sure that a lot of the
20 qualities that are good are accented and
21 some of the qualities that maybe are not
22 as good can be diminished or removed from
23 the bill.

24 I know everybody has an
25 interest and a concern for creating jobs,

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2 but I also know that every business that
3 receives a tax cut doesn't create a new
4 job with it. Many times they just put
5 those profits in their pocket or they
6 move on in their business. To assume
7 that somehow by giving a tax credit we
8 are definitely going to create more jobs
9 for the City of Philadelphia seems to be,
10 without the statistical analysis and
11 study, seems to be not exactly as clear
12 as it needs to be.

13 Finally, I want to say -- well,
14 two things. One, this needs to be looked
15 at in the process of our overall budget,
16 not taken out as a separate bill. We
17 need to look at all our tax situation and
18 we need to look at all the things that we
19 need to do as priorities and put that all
20 together in one package so that we're
21 clear about what we're doing and where
22 we're putting our resources at.

23 Also, finally, I would say that
24 over the last 30 years in this country,
25 almost a solution to everything has been

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2 a tax cut, a business tax cut, the whole
3 idea of supply side economics, the whole
4 idea of trickle-down economics. And it
5 doesn't really -- it has proven that it
6 doesn't really trickle down on the
7 poorest of poor people and doesn't really
8 help the poorest of poor and doesn't make
9 a difference in the lives of poor people.
10 Since 1973, real wages of all employees
11 in the United States have gone down, and
12 a lot of it has been because of the
13 business tax policies, that somehow if we
14 give money to those who are in business
15 or we give money to the very rich,
16 somehow it's going to help the very poor.

17 I think we need to look at all
18 of those policies and look at direct
19 policies to put dollars in the hands of
20 the poorest people, because in the
21 businesses that are around my church,
22 they need people who have jobs who can
23 come in and actually pay for stuff in
24 their stores. They need that as much as
25 they need a business tax cut.

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2 So I think the overall quality
3 of our city -- and POWER is looking to
4 create a city of opportunity that works
5 for all, that we need to take a good,
6 long study at this. It's not something
7 to be dismissed or thrown away. It's not
8 something to be approved right away, but
9 I think by working together with
10 community groups, working together with
11 POWER, and working together with all of
12 the entities that were represented here
13 today, that we may be able to come up
14 with something that can really be
15 positive for the City and really create a
16 city of opportunity that works for all.

17 Thank you very much for your
18 time.

19 COUNCILMAN GREEN: Thank you
20 very much.

21 I'll have -- I guess since
22 Ms. Ward wasn't here, we'll have her go
23 with Mr. Mullin, if that's okay.

24 So just a few quick notes. I
25 appreciate all of your testimony, and I

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2 agree with the sentiment of it
3 completely. I want to end poverty. I
4 want to create jobs for Philadelphia
5 residents. I want to do all of the
6 things you described, and that's why I'm
7 promoting this bill, because my view is
8 it does exactly the opposite of what your
9 fears are. I will give you some stark
10 examples.

11 The suburbs had almost no
12 office sector jobs 30 or 40 years ago.
13 Today they have 435,000 office sector
14 jobs. The City has 120,000 office sector
15 jobs. Why is that? It's a direct result
16 of the fact that we have business taxes
17 and the suburbs don't.

18 Now, there are lots of other
19 examples like that.

20 The economic rent that is paid
21 by tenants in Class A space here in
22 Center City is \$12 per square foot net
23 income tax. In the suburbs, rents are 27
24 bucks a foot. In the City, rent is 27
25 bucks a foot, plus 12 bucks. So the

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2 effective rent is \$39 a foot.

3 The fact of the matter is, the
4 City has to compete on a level playing
5 field, and so we have to create the
6 opportunity for businesses to locate here
7 to create the jobs that you're concerned
8 about.

9 This is revenue neutral over
10 five years. It then slowly continues the
11 business tax gross receipts reduction
12 that were began under Ed Rendell and
13 continued under John Street that were
14 stopped by Mayor Nutter in the course of
15 the recession. That's all it does,
16 continue the policy that's been in effect
17 in the City of Philadelphia for the last,
18 you know, since the early 1990's.

19 So with all of that said, I
20 appreciate your testimony. I don't have
21 any questions.

22 REVEREND HOLSTON: If I could
23 respond to just one of your comments, and
24 I understand what you're saying. I don't
25 think the City will ever be able to

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2 compete with the suburbs as far as tax
3 base is concerned. Because of the
4 services that are necessary to run the
5 City, because of really the poverty
6 that's in the City, we'll never be able
7 to get as low. So if you chase that,
8 you'll keep going lower, they'll go
9 lower, you'll go lower, they'll go lower,
10 and they will always win.

11 We're going to win as a city
12 when we ask some of the people who sat
13 around this table said, why did you come
14 here, why did you put your business here?
15 It was convenient. I enjoyed being in
16 the City. I enjoyed the energy of the
17 City. That was some people right at this
18 table, what they said. They said --

19 COUNCILMAN GREEN: And,
20 Reverend, what they said was they would
21 leave if we didn't change the tax. That
22 gentleman that you're talking about said
23 now that he is profitable, he will leave.

24 MR. SHAPIRO: He said he might.

25 REVEREND HOLSTON: He said he

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2 might, and also he said he came because
3 of the City. Our attraction --

4 COUNCILMAN GREEN: And they
5 leave once they become profitable.
6 That's what the record -- that's why we
7 lose four to five thousand net jobs every
8 single year, and we've lost 40,000 net
9 jobs every single decade since 1960. We
10 had a 750,000 job base. We now have a
11 below 500,000 job base, and it's going to
12 keep going.

13 REVEREND HOLSTON: But if you
14 put that just on the tax --

15 COUNCILMAN GREEN: I'm not.

16 REVEREND HOLSTON: I think you
17 are.

18 COUNCILMAN GREEN: We got to
19 fix our schools. We got to do a bunch of
20 other things.

21 REVEREND HOLSTON: But I said
22 that's the balance we're talking about
23 here. And so if you cut too much of the
24 revenues or -- as somebody said here, a
25 business has never seen a tax break they

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2 don't like. I mean, they're going to
3 take as many as they can get. I mean, if
4 you have quality schools, quality
5 streets, quality infrastructure, an
6 exciting environment --

7 COUNCILMAN GREEN: That's what
8 a city should do, and that is exactly,
9 sir, what a city should do, have quality
10 streets, quality schools, quality
11 infrastructure, quick police response
12 times. The quality of life that doesn't
13 exist in many neighborhoods here has to
14 be improved.

15 MR. SHAPIRO: Not paid for with
16 taxes.

17 COUNCILMAN GREEN: And we have
18 to pay for it with taxes, just not this
19 tax.

20 MR. SHAPIRO: But you are not
21 replacing the taxes that you're repealing
22 by continuing a policy which was not
23 going to zero, which you're not taking to
24 zero. You have no plan to replace those
25 taxes, and yet you ask for a high quality

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2 of life. I mean, it's a wonderful wish
3 list, which perhaps exists in Oz, but
4 there's no evidence that there's any
5 reason it can exist in Philadelphia.

6 COUNCILMAN GREEN: I will be
7 guided by First Timothy 6:20 and pass it
8 on to Councilman Goode.

9 COUNCILMAN GOODE: Thank you.

10 A simple question. Do you
11 think it's a better policy to pay for
12 business tax reform with an increase in
13 commercial and industrial property tax
14 rates?

15 MR. SHAPIRO: I heard that
16 discussion earlier. I'm opposed to this
17 bill because there's no trade-off in this
18 bill. There's no benefit in this bill
19 that can possibly compensate for taking
20 the business tax down to zero with no
21 replacement of revenue. So I'm opposed
22 to the bill, but on the theoretical
23 question, I haven't given it a lot of
24 thought. It seems to be a very
25 worthwhile idea. It's certainly

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2 unconscionable that Center City real
3 estate or U&O payments have declined at
4 the same time that a huge number of
5 ordinary Philadelphia citizens have seen
6 their real estate taxes skyrocket over
7 the last several years. So the owners of
8 that real estate should pay their fair
9 share.

10 I think it's an excellent idea,
11 but the major thing that brought me here
12 and has brought our organizations here is
13 to express as firmly as we can that it is
14 absolute unconscionable and unwise and
15 irrational to put into law the
16 inevitability of each and every year
17 reducing business taxes, no matter what,
18 as long as -- until and unless City
19 Council overrides its own -- later City
20 Council overrides the action of a
21 predecessor City Council, which had no
22 idea what the conditions are going to be
23 in those future years. That's why I'm
24 here today.

25 COUNCILMAN GREEN: Just for the

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2 record, there has been an amendment
3 circulated that was requested by my
4 colleague Councilmember Quinones-Sanchez
5 that does -- that will not permit a
6 decrease in the gross receipts tax in any
7 year where there is not a surplus of at
8 least \$20 million.

9 MR. SHAPIRO: Well, perhaps
10 those \$20 million would need to be used
11 for parks or recreation or further school
12 resources. By the way, the business tax
13 does pay for schools, because the City
14 sends a check from its General Fund every
15 year as part of its annual operating
16 budget to the School District. So those
17 funds come from all of the taxes that go
18 to the City, including the business tax.
19 So to the extent that you hamper the
20 collection of that tax, you're certainly
21 going to diminish the possibility of
22 increasing those payments or even
23 maintaining those payments.

24 Twenty million dollars of
25 increased revenue is a fine thing, but it

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2 may be in the year 2025 that there is a
3 tremendously pressing need other than
4 that, and there should not be anything
5 that's cooked into the books that says
6 under this particular circumstance, the
7 first thing that happens is if we have
8 more money, the tax goes down. That's
9 unacceptable to me.

10 COUNCILMAN GREEN: Well,
11 obviously the surplus is contingent upon
12 the Administration submitting a budget
13 that has a surplus in excess of 20
14 million. And so obviously they'll
15 believe the resources are there after all
16 the other City priorities are taken care
17 of or not. That will be up to the
18 Administration that submits the budget to
19 City Council.

20 MR. SHAPIRO: Well, I haven't
21 seen the tail language of the amendment,
22 and I think that Council also will
23 perhaps have a different idea than the
24 Administration whether or not all the
25 needs have been taken care of by the

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2 spending that's in the budget.

3 COUNCILMAN GREEN: That's
4 right. And if Council spends that 20
5 million, then there's not a surplus.

6 MR. BUTLER: May I make a quick
7 last comment, Chair, speaking about the
8 City services. From an ideological
9 standpoint, if we're eliminating the
10 business taxes, I believe it's not fair,
11 because they're benefiting by the City
12 services, by the police, by the fire, by
13 the first responders. Even if they don't
14 live in the City, their business is in
15 the City. And if we're eliminating their
16 tax burden, then they're not paying their
17 fair share for the services that they
18 actually receive for their businesses.
19 It's falling on our backs, on the
20 workers' backs, on the workers of the
21 poor that pay for City services for
22 everybody else, and from an ideological
23 standpoint, I don't believe that that's
24 fair.

25 COUNCILMAN GREEN: Thank you

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2 for your testimony. Everybody does pay
3 real estate tax. Thank you very much.

4 Do you have additional
5 testimony you want to make, Sharon?

6 MR. SHAPIRO: Is there a copy
7 of the amendment that's available?

8 COUNCILMAN GREEN: It's over on
9 the table, I believe.

10 Mr. Mullin, Ms. Ward.

11 (Witness approached witness
12 table.)

13 COUNCILMAN GREEN: Ms. Ward, if
14 you would state your name for the record
15 and proceed with your testimony and then
16 Mr. Mullin will join you when he can.

17 REVEREND HOLSTON: Thank you.
18 Thank you for the opportunity.

19 COUNCILMAN GREEN: Thank you
20 very much for coming.

21 MS. WARD: Thank you very much.
22 I, as always, appreciate you staying and
23 listening to everyone who has prepared to
24 testify and appreciate the time that
25 Councilmembers spent in inviting and

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2 listening to public testimony.

3 My name is Sharon Ward. I'm
4 the Director of the Pennsylvania Budget
5 and Policy Center. We are a non-profit,
6 non-partisan organization that looks at
7 budget and tax policy in the state, and
8 we review these proposals for the impact
9 on revenue adequacy and tax fairness.

10 So, first of all, I want to say
11 that I appreciate Council's ongoing
12 effort to identify ways to improve the
13 business climate in Philadelphia. What I
14 would suggest is that the debate that is
15 going on today, I would have the same
16 observation as during the debate -- the
17 similar debate that happened ten years
18 ago, that a discussion about business tax
19 climate in Philadelphia has to be broader
20 than just a focus on business taxes.
21 Business taxes are in fact a very small
22 share of business expenses. They are
23 not -- the economic literature is really
24 very clear that they are not a primary
25 driver of business location decisions.

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2 So to the extent that there's
3 this conversation, I would urge that it
4 include workforce, education,
5 transportation, and other pieces of
6 infrastructure, including public safety,
7 that are all vital to the economic
8 climate here in the City of Philadelphia.

9 And, again, because business
10 tax reduction has the potential to reduce
11 revenue that will support all of these
12 expenditures and quality of life as well,
13 that, again, it has to be part of the
14 mix.

15 I don't want to point out and
16 I'm happy to share with you, because I
17 know that both of you read, a very small
18 manuscript that goes through really
19 extensively the economic literature about
20 the impact of business taxes on location
21 decisions and on growth, and really the
22 literature concludes several things. One
23 is that business tax changes do not pay
24 for themselves, and I think it's clear
25 that you've anticipated that there will

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2 be some reduction in revenue, and that
3 general business tax cuts will return
4 about 25 to 30 cents for every dollar in
5 revenue loss.

6 And the second is that business
7 tax reductions, when they are coupled
8 with declines in services, actually
9 reduce growth. So we'll have to start
10 from that standpoint.

11 Obviously I'm sure you've heard
12 today that the legislation proposes, at
13 least in the initial years, a tax shift
14 between businesses, those that are more
15 affected by gross receipts or profits
16 taxes and then, in the long run, a tax
17 shift from businesses to residential
18 taxpayers. And we certainly would
19 support any effort that is undertaken to
20 do a more thorough analysis of what the
21 impact will be to look at the
22 distribution. I would also urge that
23 that analysis look at the incidence on
24 taxpayers and how much more low-income
25 taxpayers would be paying as a result of

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2 this proposal.

3 But I want to draw your
4 attention to why I think this is so
5 important, why you should do the
6 analysis, and why I think you ought to
7 view it critically. And I want to point
8 to you the comparable debate that's
9 happened in the Commonwealth this year.

10 In February, the Governor
11 proposed a business tax reform that
12 included a 30 percent reduction in the
13 state's corporate net income tax, among
14 other things. Again, the business
15 community in Harrisburg has said people
16 don't come to the Commonwealth of
17 Pennsylvania because of our high
18 corporate net income tax. An economic
19 analysis was done, not by us, by the
20 Governor, the Governor's Office, and it
21 determined that that tax cut that would
22 cost more than \$800 million in the first
23 13 years would create 18,000 jobs. That
24 is three-tenths of one percent of total
25 employment in the state. It would reduce

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2 the state's unemployment rate at the time
3 from 8.1 percent to 8 percent.

4 So the point that I'm making is
5 that it's certainly much smaller than the
6 20,000 jobs that were lost when the
7 Governor cut the budget. So it was a
8 very high price to pay for a very small
9 number of jobs. And, again, there is a
10 lot of anecdotal evidence around this. I
11 would simply urge that an analysis be
12 done that looks at the effect on income
13 and the real numbers of employment,
14 because it may determine that it's a
15 worthwhile endeavor and it may simply
16 determine that it's not worth the cost.

17 So why does that happen?
18 Because these are blunt instruments. Tax
19 rate reductions are very blunt
20 instruments. You are going to eliminate
21 net profits for profitable corporations
22 that are not based in the City of
23 Philadelphia, and they will invest those
24 dollars elsewhere. That's the reality --
25 the reality is that tax rate reductions

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2 can be -- increase income, and income can
3 be spent outside the City. It can be
4 distributed in terms of shareholders or
5 investments in other places. And because
6 of that, there's a lot of leakage. So,
7 again, there are quantitative ways to
8 look at what the benefit might be and
9 determine if it is worth the expenditure.

10 I also want to point out --
11 and, again, I can appreciate you trying
12 to grapple with what you hear from the
13 business community and the latest
14 thinking on the economy, but I do want to
15 point out that this is a reversal of the
16 policy that the City has followed for the
17 past -- for almost 20 years. And, in
18 fact, I wanted to point to the conclusion
19 of the Econsult report that was done as
20 part of the tax reduction in 2003, which
21 said we need to reduce gross receipts tax
22 and wage taxes, and that's what is going
23 to grow our economy.

24 So it does -- it leads to, I
25 have to say, a lack of confidence in the

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2 public that the thought that is driving
3 these policy proposals is unreliable, and
4 that is the problem that we have here.
5 Have we spent a hundred million dollars
6 on gross receipts tax reduction over the
7 past decade, almost 20 years, for naught?
8 And, again, I'm not -- it's not -- it's
9 an intellectual exercise. It is what's
10 the best policy.

11 I have no doubt that you are
12 trying to follow a policy that you think
13 is going to be best for the City of
14 Philadelphia, but such a reversal -- the
15 gross receipts tax was the hated tax.
16 Everyone has to pay it. It's not
17 exportable. You don't pay it on profits.
18 You pay it whether you earn money or
19 don't. Again, those were the criticisms
20 of the tax.

21 Now, you can certainly argue
22 that those are no longer valid arguments,
23 but in fact, this is the policy that has
24 been pursued at a significant cost to the
25 City for close to 20 years.

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2 So I want to -- I guess I'm
3 perfectly happy and I can accept the fact
4 that thinking has changed, but if the
5 thinking is going to change, then I think
6 that what needs to be factored in is a
7 total review of the landscape, because
8 many things have changed over the last 20
9 years. I can tell you with great
10 certainty that Philadelphia is one of the
11 few municipalities that has spent the
12 last 20 years reducing taxes. In fact,
13 every municipality across the
14 Commonwealth of Pennsylvania virtually
15 has raised its property taxes, has
16 enacted or raised earned income taxes. I
17 don't have the numbers with me, but I'd
18 be happy to share them with you. There
19 are multiple municipalities that have
20 whole levels of other taxes that we don't
21 have, mercantile taxes, other business
22 privilege taxes, gross receipts taxes, et
23 cetera. So the differential in the rates
24 between Philadelphia and some of its
25 competitors has declined.

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2 And, second, let me simply also
3 add that the second factor that needs to
4 be taken into consideration is simply the
5 change in migration patterns that we're
6 seeing. Philadelphia is like New York.
7 We've seen a tremendous increase in the
8 number of college-educated young people
9 move to the city. Not a single concern
10 about the tax rates. I can tell you
11 having two of them myself and having
12 conversations with them, they are not
13 going to be like their parents. They are
14 not moving to the suburbs. They don't
15 drive. They don't own cars. In fact,
16 Detroit is very worried that they're
17 never going to buy cars. They're a
18 different breed.

19 So I would argue that what's
20 necessary is to look at other factors,
21 and for that group of people, the thing
22 that is most likely going to be the most
23 important to their location's decision is
24 the quality of the public schools. And
25 you know our public schools are in

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2 crisis.

3 I would also urge you to
4 consider that cutting business taxes, and
5 I recognize that it's five years down the
6 road, but cutting business taxes when we
7 are still in absolute crisis with respect
8 to the public schools, the optics are
9 just -- they're just not good.

10 Again, I would urge you to move
11 from the anecdotal to the quantitative.
12 I will relate to you a comparable debate
13 in New Jersey several years ago. They
14 adopted a millionaire's tax. They raised
15 their income taxes on people earning over
16 a million dollars, and there was a great
17 deal of handwringing over the migration
18 of people, of millionaires from the
19 state. Rutgers did an analysis. They
20 lost 63 millionaires. So, again, the
21 question is -- it's simply a balance --
22 is the cost worth the policy.

23 I certainly am not here to
24 suggest that you might not want to make
25 some modifications, but simply recognize

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2 that the cost and the incidence of those
3 tax shifts have dramatic ramifications
4 for others in the City, and I'll stop
5 there.

6 COUNCILMAN GREEN: Well, I
7 thank you for your testimony. I will
8 take the privilege of the Chair and just
9 respond to a few things before I ask
10 Mr. Mullin to testify. But, first of
11 all, you missed the testimony this
12 morning where the auto dealers, the
13 builders, and real estate community, the
14 manufacturing sector, the service sector,
15 the future knowledge industry jobs, which
16 is the growth of jobs, all came in and
17 testified in favor of this and testified
18 in favor of it because they believe it
19 will grow -- allow them to expand in the
20 City, not have to leave the City, et
21 cetera.

22 Also, the reduction in gross
23 receipts tax over the last 20 years is
24 not -- this is not a reversal of that
25 policy. Those taxes aren't coming back.

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2 We don't have that hundred million
3 dollars of taxes that we've given away
4 over the last 20 years. And, in fact,
5 this will continue the policy of reducing
6 business taxes over time, exactly what
7 the policy has been for the last 20
8 years. In fact, that policy stops during
9 the Nutter Administration.

10 Further, we have increased
11 taxes by more than we have reduced
12 business taxes, at least while I've been
13 in Council, significantly increasing, I
14 think, taxes over \$275 million over the
15 last five years.

16 So just a few facts that tend
17 to be important.

18 Mr. Mullin.

19 MR. MULLIN: Yes.

20 COUNCILMAN GREEN: Please state
21 your name for the record and proceed with
22 your testimony, and feel free to address
23 any comments regarding Econsult in the
24 previous testimony.

25 MR. MULLIN: I heard Econsult

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2 mentioned, yes.

3 Hi, Councilman Green and
4 Councilman Goode. My name is Steve
5 Mullin. I'm the President of the
6 Econsult Solutions, Inc., and I'm here to
7 testify in favor of the proposed tax
8 reform legislation. My reasons I'll step
9 through very briefly and be happy to
10 answer questions, any questions you may
11 have.

12 The main thing I will note is
13 as far as I'm concerned, setting the
14 stage is competitiveness, competitiveness
15 of the location. For years I think we've
16 known that our tax structure, the
17 structure of our taxes, how we collect
18 the dollar amounts that we do collect,
19 has been fairly inefficient and business
20 unfriendly. I think that the losers in
21 that are the people who live in the City
22 of Philadelphia and the people who rely
23 on the services of the City of
24 Philadelphia.

25 Essentially I think it's two

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2 things. One standard -- two reasons for
3 this. One, the standard story of
4 businesses setting up what I consider to
5 be a straw dog of businesses versus
6 residents and people, and a very strong
7 sense of wanting to or trying to do
8 income redistribution. The result I
9 think here is, I've spent in the past ten
10 years, I've been on panels, the real
11 estate and economic development and
12 business community here, lamenting the
13 fact that we have -- there's a quip out
14 there that we have Baltimore rents and
15 New York City costs as one of the reasons
16 why we have virtually no growth in our
17 commercial office sector, while other
18 central business districts throughout the
19 country do and also commercial -- the no
20 growth -- we've essentially had occupancy
21 rates flat for the past 30-some-odd years
22 in Philadelphia. Our one saving grace is
23 that we have been able to reuse a lot of
24 our older commercial buildings into
25 hotels and residential because they fit

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2 out pretty well, and that I think has
3 been a really big plus for Philadelphia.
4 But overall it's been 25 to 30 million
5 square feet of Class A office space built
6 in the metropolitan area since Commerce
7 Square was finished 20-some-odd years
8 ago, all of it outside the City. That to
9 me, there's no single number, data,
10 story, analysis that doesn't point out
11 that that's -- that that is primarily tax
12 driven. This is commercial office space.

13 There are a couple of things
14 that I'd like to note too. I've studied
15 public finance in my academic career. I
16 teach it, and I've been involved with it
17 in public finance and tax policy, been
18 involved with it for 25, 30, 35 years
19 now, and I think there are two
20 fundamental tenets that is good to always
21 keep in mind.

22 Number one, there's no question
23 in the world of public finance theory or
24 practice that says that if you try to
25 redistribute income at the local level,

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2 you will not -- it will not work. You
3 can't do that within a certain boundary.
4 Firms move out of that when they hit a
5 tipping point in their decision-making.

6 Second most fundamental tenet
7 is the most efficient tax, meaning a tax
8 that has the lowest distortions, which
9 means tax to the least amount of change
10 in behavior, one of which is moving your
11 operations. Most efficient tax is a tax
12 with the broadest possible base and the
13 lowest possible rate on this.

14 I think I've heard some
15 testimony and I'm familiar with lots of
16 discussion, I think we oftentimes will
17 hear incredible confusion between three
18 fundamental pieces of the tax story. One
19 is a tax rate, one is a tax base, and the
20 other is tax revenues. I actually
21 remember seeing and I used for one of my
22 classes -- one of my classes I used an
23 Inquirer article where the first four
24 paragraphs of the story used all three of
25 those incorrectly, and my view, frankly,

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2 is that the business community will pay,
3 if this is enacted in some way, shape or
4 form like this, the business community
5 will pay far more in taxes over time. It
6 will be because the base is significantly
7 greater and lower tax rates and we'll
8 actually have more revenue. So the term
9 "cutting taxes" versus "cutting tax
10 rates" are things that I think we have to
11 be very careful about.

12 There is a story -- I've heard
13 people mention supply side and stuff.
14 The supply side story that we get I think
15 on the political ideology is more a
16 national one, dealing with the personal
17 income tax and the corporate income tax
18 at the national level. There's very,
19 very little debate in the public finance
20 world about local inefficiencies of
21 higher tax rates.

22 I also will note too I've seen
23 and I've heard now in my years in
24 government, in Philadelphia and St.
25 Louis, both two cities that were,

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2 relative to their suburban areas, were
3 declining and relative to other cities
4 and metropolitan areas were declining,
5 that taxes don't matter, that the
6 academic world says taxes don't matter.
7 Those typically are macro cross-section
8 analyses that basically say do you have a
9 high tax in Philadelphia and you want to
10 be in California? Guess what. That tax
11 doesn't mean anything. When you get down
12 to regional levels and smaller areas,
13 taxes do matter, and it's very well
14 established. Taxes do matter. I think
15 you can take a look at the classic story
16 that Paul Levy often shows, and that's a
17 picture looking up and down City Avenue
18 on that right in our own backyard here.

19 A couple of things I'd note
20 here about the proposal to swap the
21 roughly \$300 million in the corporate
22 income tax for gross receipts and others,
23 where will the revenues come from? I
24 think one thing to note here, there's
25 been a lot of confusion out and I've read

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2 in the papers where they've incorrectly
3 stated this too. Our net income tax is a
4 corporate income tax. Our net profits
5 tax is a version of our wage tax.

6 So one of the main things -- I
7 roughly say about \$300 million of net
8 income tax now, that approximately 100
9 million of that will be immediately
10 returned to the City's coffers, having
11 the current net profits tax go from 18 --
12 about \$15 to \$18 million a year to over a
13 hundred million dollars a year.

14 By the way, when I say "I
15 think," these are not based on any type
16 of analysis. That's based on some looks
17 at some of the data from the Revenue
18 Department back in 2007 and 8, which is
19 the last day that we've seen, but I think
20 that those are probably in the right
21 order of magnitude.

22 Second is the gross receipts,
23 where right now it raises about a hundred
24 million dollars, and raising another
25 hundred to 200 million dollars of that

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2 would mean a doubling or a tripling of
3 the gross receipts tax there.

4 And the third would be supply
5 side. Property taxes two years ago,
6 three years ago, eight years ago, 12
7 years ago when all these were studied, we
8 had a system here where a property tax
9 didn't work in Philadelphia. It didn't
10 make any difference what you said about
11 market value. We study market value all
12 the time. If it doesn't translate into
13 assessed value and into taxes, it doesn't
14 mean anything. Now we have a working
15 property tax assessment and property tax
16 system, so we will see, I think, a very
17 strong increase there. I think we will
18 see a great increase in the wage tax
19 base.

20 And as a quick aside, I have
21 no -- my support for this doesn't mean
22 that I don't also argue for continuing
23 reductions of the wage tax, although as
24 Sharon mentioned here before, compared to
25 20 years ago, the differential in the

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2 personal income wage tax differential
3 between the City and the suburbs has
4 shrunk. And so I think that is something
5 that is well worth noting and it's very
6 important, I agree, very important to
7 note there.

8 Commercial office demand growth
9 will increase, and that's how we will get
10 the -- that's how we will make up
11 additions. I happen to believe that it
12 will be much, much stronger than people
13 anticipate here, and I think it will take
14 our more abound commercial office and
15 office market that is standard for
16 central businesses and give that a very
17 strong new lease on life.

18 I do consider that the
19 corporate income tax, the net income tax,
20 is the bad tax here in Philadelphia. It
21 is the biggest and main one. It's
22 unprofitable on growing companies. I
23 believe that our net income tax has been
24 at least a good chunk of the reason why
25 Conshohocken and suburban office

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2 locations throughout the entire
3 metropolitan area have been as strong as
4 they have been over the past 20 to 30
5 years, even though they're having some
6 overbuilding stories very, very recently.
7 Most of those new office buildings -- I
8 recall when I was Commerce Director
9 getting invited to many ribbon cuttings,
10 where I knew the businesses that were
11 moving into the new offices and the new
12 spaces in Montgomery County and Chester
13 County, because the six months before we
14 had been in saying, What do we have to do
15 to get you to stay in the City. So I
16 knew a bit of them. I'm not saying
17 that's a hundred percent, but that's
18 certainly a big chunk.

19 It is the -- as Councilman
20 Green mentioned a few minutes ago, it is
21 a sizable chunk of the extra cost
22 associated with commercial office rental
23 in the City of Philadelphia, and that
24 money is basically not available for the
25 supply, so you don't get any supply on

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2 that. It hurts exporting companies that
3 otherwise would be ideal -- when I say
4 "exporting," I mean with a little E.
5 That means anybody who sells services or
6 products outside of the City of
7 Philadelphia who don't have to be inside
8 the City of Philadelphia, and they get an
9 immediate increase in their bottom line
10 there that in other cities you would find
11 these businesses in the central business
12 districts supporting the overall city's
13 general fund and general operations.

14 And in a more competitive
15 world -- and I think that's possibly the
16 one forecast that I believe is legit
17 forevermore, is that every minute of
18 every day of every week of every month of
19 every year from now on, the world will be
20 more competitive in the business world
21 here. That non-competitiveness
22 associated with the taxes here in
23 Philadelphia will be bad. I also happen
24 to believe that because of that, it will
25 have a significant employment effect,

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2 both direct and indirect there.

3 The gross receipts tax is not a
4 bad tax, primarily because it is very
5 low. I'm not saying that you don't
6 lose -- that there isn't negative
7 elasticity associated with that too, but
8 the rate is very, very low, and I think a
9 lot of people don't necessarily
10 fundamentally understand that. If you're
11 at 10 million in sales in the City, you
12 pay \$14,000 in the gross receipts tax.
13 That could go up to potentially 40,000 if
14 things were doubled to triple there, and
15 those numbers are still on \$10 million of
16 sales, very low.

17 Another thing that would be
18 interesting to see -- my recollection
19 from a few years ago and from many years
20 ago, that after you take the top 10 or 20
21 payers of the gross receipts tax, the
22 amount, the average amount, for the other
23 tens of thousands of companies paying
24 gross receipts tax falls dramatically,
25 and the numbers that people are talking

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2 about are really pretty small on that
3 front.

4 I've heard a lot of talk about
5 gross receipts being -- and this is one
6 of the things I think drove things in the
7 past couple decades here, that the gross
8 receipts was not related to income.

9 Well, neither is the property tax, retail
10 sales taxes or all the other charges and
11 regulations that the City or any, for
12 that matter, local governments do. And
13 in the olden days, since we didn't have a
14 working property tax system that most
15 other cities have one way, shape or form,
16 we didn't sort of understand that paying
17 taxes related to income as opposed to
18 paying taxes based on your operations.

19 We do have, and have had in the
20 past, alternative tax calculations and
21 rates for retail, wholesale, and
22 manufacturing, basically the low margin
23 type of industries here. Those should be
24 looked at too in terms of what the rates
25 are ultimately here.

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2 And as I note here, we heard
3 some talk about why would people want to
4 be in and do business in Philadelphia and
5 everything. The type of businesses that
6 are here to provide services or provide
7 goods to residents of Philadelphia are
8 going to be here because that's --
9 there's one where the tax question is not
10 as important. If people think they're
11 going to be able to sell to Philadelphia
12 companies or Philadelphia people, that's
13 what drives them in the additional
14 marginal tax, which would apply to
15 everybody in this marketplace, would not
16 be a disadvantage on that.

17 So I think I'll stop there, if
18 I may.

19 COUNCILMAN GREEN: Thank you.

20 Thank you both for your
21 testimony. You both were not here when
22 the accountants who represent all sorts
23 of people were here, and basically they
24 agreed with the following statement, that
25 a company that sells goods into this

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2 market, so not a service company, if we
3 pass this tax, will have no advantage to
4 be located outside of the City. They
5 will have no disadvantage by locating
6 inside the City of Philadelphia from a
7 business tax perspective if we pass this
8 bill, because they will pay the same tax
9 whether they are located in Russia or
10 Philadelphia, because they'll pay the
11 gross receipts tax based on their sales
12 only within the City and county limits.

13 So we are completely leveling
14 the playing field for every business and
15 industry without -- at least initially in
16 the first five years this is revenue
17 neutral -- without impacting the City's
18 revenues.

19 And the other major point made
20 by the accountants that maybe you could
21 both address is that when you're talking
22 net income tax, you're subject to
23 Congress changing the law with respect to
24 what net income is in terms of what the
25 City and state can collect, and you also

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2 because of a 1959 law have to have much
3 more of a nexus to be able to collect it
4 for businesses that aren't headquartered
5 here. So businesses headquartered here
6 can't -- or have property or plant or
7 equipment here can't avoid the net income
8 tax very easily. Companies that sell
9 into this market that don't can easily
10 avoid it because of a 1959 federal law.
11 Are you familiar with that law?

12 MS. WARD: (Ms. Ward shakes
13 head in the affirmative.)

14 COUNCILMAN GREEN: And going to
15 gross receipts will allow a shift of a
16 significant burden of tax that is paid
17 currently -- and I think, Mr. Mullin, you
18 can speak to the data you studied in 2010
19 that bore this out -- shift a significant
20 portion of the business tax burden that
21 is currently paid to the City from
22 Philadelphia headquartered and based
23 businesses to non-Philadelphia
24 headquartered and based businesses, like
25 they've seen in Ohio with the adoption of

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2 the commercial activity tax there,
3 because the tax can't legally be avoided
4 when it's a gross receipts tax in our
5 market.

6 MS. WARD: So I'm sure Steve
7 can discuss that, but I want to say a
8 couple of things about that. The reality
9 is this, that across the country, states
10 have been adopting changes that
11 essentially shift the tax burden to
12 people outside their political
13 jurisdiction. We've just moved to
14 single-sales factor here in Pennsylvania
15 and in the City of Philadelphia. So big
16 manufacturers who use the roads, the
17 schools, the waters essentially pay no
18 income taxes.

19 COUNCILMAN GREEN: That's not
20 true. If they have property, plant, and
21 equipment here --

22 MS. WARD: I'm talking about in
23 Pennsylvania. And, again, we're moving
24 toward single-sales factor and we are
25 shifting the responsibility to sales, and

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2 in doing so, that means that we are
3 taxing out-of-city, out-of-state
4 companies. Everyone in every other state
5 is doing the same thing. So the net --
6 what's the net impact? Has it had any
7 difference -- is it making any real
8 difference on business location? I don't
9 believe that it is.

10 Let me talk --

11 COUNCILMAN GREEN: It's making
12 a real difference for the \$60 million in
13 taxes that Philadelphia businesses won't
14 pay that will be reverberating around our
15 local economy that they used to pay.

16 MS. WARD: Potentially. At the
17 same time, those companies may be
18 investing those dollars in their -- in
19 expansion outside the City of
20 Philadelphia.

21 COUNCILMAN GREEN: Of course,
22 but why is it --

23 MS. WARD: They may be
24 investing those dollars --

25 COUNCILMAN GREEN: But nothing

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2 you said explains why it's a bad policy
3 to level the playing field for
4 Philadelphia businesses.

5 MS. WARD: Well, I would say
6 that there are two reasons.

7 COUNCILMAN GREEN: So on a
8 revenue neutral basis, it's your view
9 that it's a bad policy to level the
10 playing field for Philadelphia businesses
11 that sell goods?

12 MS. WARD: Let me say that
13 there are advantages, I would agree, to a
14 gross receipts tax. There are advantages
15 to a wide base and a low rate. I would
16 agree with that assessment.

17 I would second say that I don't
18 believe that -- I think that it's very
19 nice that we will be giving a tax break
20 to Philadelphia businesses. I don't
21 believe that that translates -- leveling
22 the playing field? I don't believe that
23 business decisions are made to the extent
24 that all of these models assume based on
25 tax rates. Let me give you an example.

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2 COUNCILMAN GREEN: Before you
3 do that, before you do that, are you
4 familiar with Paul Peterson?

5 MS. WARD: Yes.

6 COUNCILMAN GREEN: An economist
7 from -- I think he was at the University
8 of Chicago. He may have moved on. I
9 don't know where. But he wrote a book
10 called City Limits. Are you familiar
11 with the Tebow theory?

12 MS. WARD: No, I'm not.

13 COUNCILMAN GREEN: In today's
14 modern mobile economy, employers migrate
15 freely from one community to another and,
16 as a consequence, they will calculate the
17 impact of local government decisions such
18 as taxes in choosing their community of
19 residence. That's from City Limits by
20 Paul Peterson, a very respected economist
21 on this area.

22 Basically the point of City
23 Limits is simple. In a region, as
24 Mr. Mullin testified, the people who want
25 to locate in that region can choose one

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2 side of a city line or another, and can
3 easily do so while taking advantage of
4 all of the options and opportunities
5 available to them in that region, the
6 arts, the airport, everything, and that
7 is what is reflected on City Line Avenue.
8 Do you disagree with that theory?

9 MS. WARD: I don't disagree
10 with the theory.

11 COUNCILMAN GREEN: Do you
12 disagree that as Mr. Mullin testified,
13 the research in this area when you're not
14 looking at macro issues, moving from
15 states to states, when you're looking at
16 moving within a region, the research is
17 clear that you want to have as consistent
18 a tax rate across the region as possible,
19 and anybody with an inconsistent taxing
20 jurisdiction will be not selected or
21 adversely selected by businesses making
22 location decisions?

23 MS. WARD: I can tell you this,
24 that in regional areas in which there's a
25 central city and there are suburbs that

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2 have no business taxes and no wage taxes,
3 over the past 30 years those businesses
4 have made decisions to move outside of
5 the city. Those decisions were driven by
6 factors other than taxes.

7 I also want to say that in
8 Pennsylvania we have had a particular
9 problem --

10 COUNCILMAN GREEN: But that
11 doesn't answer the question.

12 MS. WARD: It does.

13 COUNCILMAN GREEN: Because
14 obviously some businesses left because of
15 quality of life here too.

16 MS. WARD: It does. My
17 suggestion to you is simply that the
18 business decisions are not going to be
19 driven in entirety to the degree that
20 these models are predicting by tax rates.

21 COUNCILMAN GREEN: It's the
22 fallacy of the single factor, and I'm not
23 suggesting there is a single factor.

24 MS. WARD: It is.

25 COUNCILMAN GREEN: I am

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2 suggesting it is an important factor.

3 MS. WARD: I think that remains
4 to be seen. I think, again, we'll have
5 to look at the total impact. Are we
6 talking about 63 millionaires or are we
7 talking about 6,300 millionaires? Again,
8 it's simply a factor of an analysis that
9 looks at is it worth it. Moving beyond
10 the anecdote to the --

11 COUNCILMAN GREEN: But that's
12 an analogy that doesn't apply to business
13 location decisions.

14 MS. WARD: Well, other
15 economists have said -- have used the
16 same analysis to describe migration
17 patterns of individuals.

18 So, again, I'm not suggesting
19 that the City should not move forward
20 with some ways of bringing more in line
21 their business taxes with municipalities.
22 I don't think you should overreach. I
23 don't think that you should assume that
24 all those dollars or even the majority of
25 those dollars are going to be spent in

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2 the City of Philadelphia. I do not
3 believe that you should discount the
4 other benefits that occur and the premium
5 here in the City of Philadelphia --

6 COUNCILMAN GREEN: Let me ask
7 you -- it's a simple question. You heard
8 Mr. Mullin's testimony. I've told you
9 about the research and City Limits and
10 the Tebow theory and other things. You
11 understand broad-based, low-rate taxes
12 are the least dissortative tax you can
13 apply to an economy. It will result in
14 far less tax avoidance behavior. One of
15 those behaviors is moving. We've had
16 numerous people testify over the years
17 that we've talked to that do move because
18 of our taxes. In fact, as Commerce
19 Director, our current and our past,
20 that's generally what they do, chase
21 businesses that say we're moving out
22 because of your tax structure.

23 So the question is this: If
24 this were revenue neutral, a shift from
25 net income to gross receipts, would you

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2 object to it?

3 MS. WARD: No, I don't think I
4 would.

5 COUNCILMAN GREEN: Thank you.

6 That is all the questions I
7 have for now.

8 Councilmember Goode.

9 COUNCILMAN GOODE: Thank you,
10 Mr. Chair.

11 Mr. Mullin, you're the former
12 Finance Director for the City under Mayor
13 Ed Rendell, former Commerce Director for
14 the City. I know because my office was
15 next to yours in one building and down
16 the hall in another. You've been with
17 Econsult or Econsult Solutions for
18 several years, which did work with the
19 Tax Reform Commission report, I believe
20 probably did work with the report from
21 the Mayor's Tax Force on Tax Policy and
22 Economic Competitiveness. I know
23 firsthand you did work on the Jobs
24 Commission report.

25 None of those administrations

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2 and/or administrative commissions made
3 this recommendation. I'm not going to
4 ask you whether that makes a difference
5 or not. The question is now two very
6 simple questions. One, how much can we
7 afford to invest in business tax reform
8 within the City's Five Year Plan, one;
9 and, two, where is it best invested?

10 MR. MULLIN: One, I think that
11 we can afford in terms of actual
12 reductions close to zero, frankly, going
13 out in the future. I know there are
14 reductions in the rates contemplated in
15 the Five Year Plan there, but I think
16 that there isn't a lot of room for saying
17 let's reduce the budget by a significant
18 amount. By the way, on that I
19 consider -- I heard a number 20 million,
20 30 million, 40 million, those sort of one
21 percent of the budget. I consider that
22 to be, you know, straddling the line of
23 still balance in one sense there, but not
24 a real lot of money for that. And the
25 way -- and what's the best -- where do I

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2 think we get the best return for a dollar
3 or a rate reduction --

4 COUNCILMAN GOODE: I'm not sure
5 you answered the first question.

6 MR. MULLIN: What's that?

7 COUNCILMAN GOODE: I'm not sure
8 you answered the first question. The
9 first question was how much can we afford
10 to invest in business tax reform. There
11 is \$160 million on the books now within
12 the Five Year Plan. Can we afford that?
13 Can we afford a lesser amount? Can we
14 afford a greater amount? How much can we
15 afford in terms of business tax reform?
16 That's the first question.

17 MR. MULLIN: I would say that I
18 would essentially buy the
19 Administration's story that that's about
20 what you could do. I'd always be a
21 little bit more aggressive and say we
22 could buy more, because I do believe that
23 there's growth in the tax base. So over
24 five years, I would say \$50 million a
25 year instead of the roughly 30 if you're

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2 saying 160 over five years there. So
3 something in that order of magnitude.

4 COUNCILMAN GOODE: How would
5 you invest that quarter of a billion
6 dollars?

7 MR. MULLIN: I would invest
8 that in first reducing the net of --
9 reducing the net income rate, tax rate.

10 COUNCILMAN GOODE: And would
11 you raise the gross receipts at all?

12 MR. MULLIN: I'd raise the
13 gross receipts to either allow for that
14 50 million that I was talking about or --

15 COUNCILMAN GOODE: But you can
16 invest that same amount of money in just
17 cutting the net income portion without
18 raising the gross receipts?

19 MR. MULLIN: Correct.

20 COUNCILMAN GOODE: I'm asking
21 how would you do it.

22 MR. MULLIN: How would --

23 COUNCILMAN GOODE: How would
24 you invest that quarter of a billion
25 dollars?

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2 MR. MULLIN: I'd invest it by
3 not raising the gross receipts tax as
4 much.

5 COUNCILMAN GOODE: So you would
6 not --

7 MR. MULLIN: No. I would still
8 have the gross receipts tax increased to
9 make up the reduction, but it doesn't
10 have to be completely -- it wouldn't have
11 to be the full amount now.

12 Now, that said, if I'm --

13 COUNCILMAN GOODE: So you would
14 not raise the gross receipts portion as
15 much as is within this bill?

16 MR. MULLIN: Yeah. If I were
17 in charge, that's what I would say.

18 COUNCILMAN GOODE: I gave you
19 the big buildup, former Finance Director,
20 former Commerce Director. You've
21 contributed to probably every report on
22 this subject over the last I don't know
23 how many years. I'm asking how much can
24 we invest and what you would invest in.
25 So I'm asking you specifically how would

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2 you invest it.

3 MR. MULLIN: Yeah. I think my
4 answer to that is that I would invest it
5 in the reduction of the net income tax
6 rate and increase -- which, by the way --
7 I'd have the net income tax rate reduced
8 more than the 50 million and have the
9 gross receipts tax rate increased to get
10 to the -- to have it be a net of 50
11 million, if I were looking aggressively.
12 I think this has -- the gross receipts
13 tax rate would go the full amount to get
14 rid of any of that gap.

15 COUNCILMAN GOODE: And if we
16 have the option of increasing the
17 commercial and industrial property tax
18 rate, would you use that vehicle?

19 MR. MULLIN: Yes.

20 COUNCILMAN GOODE: Thank you.

21 MR. MULLIN: I agree with that.

22 COUNCILMAN GOODE: Thank you.

23 COUNCILMAN GREEN: I agree with
24 that too and, frankly, if -- I'm told by
25 Senate republicans that there won't be,

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2 but if there is a constitutional
3 amendment that would permit us to
4 differentially tax in the future, I
5 certainly would swap whatever gross
6 receipts tax we have for that tax. I far
7 prefer that too, Councilmember. It's
8 just not an option that's available to us
9 today, and we have to retain our
10 businesses today, put our businesses
11 today who are here invested in our city
12 on a level playing field with their
13 competition, and we'll have sent a strong
14 message to the business community that
15 we're open for business on a revenue
16 neutral basis for at least the first five
17 years.

18 MS. WARD: Could I suggest if
19 you had additional dollars that you might
20 consider spending them on not the tax
21 side of the ledger. Our community
22 college system is woefully underfunded.

23 COUNCILMAN GREEN: Ms. Ward, we
24 completely agree with you. That was not
25 the premise of Councilman Goode's

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2 question.

3 MS. WARD: That is true. Had
4 he asked it to me, I believe he would
5 have allowed me additional latitude to
6 answer the question as I saw fit. And
7 having to also unfortunately spend a
8 great deal of my time in Harrisburg, I
9 can tell you at the moment that a
10 constitutional amendment around
11 uniformity is a distant object, although
12 it would be very beneficial to have
13 support of the Philadelphia business
14 community on that. There are several
15 things that could be done, though.

16 COUNCILMAN GREEN: But just to
17 make clear, it's highly unlikely that
18 we're going to get that constitutional
19 amendment.

20 MS. WARD: Yes. That's what I
21 meant. Not happening.

22 I mean, there are other
23 options. You could dramatically increase
24 the homestead exemption and increase the
25 property tax rate. I mean, that really

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2 is the only way under the uniformity
3 clause that you would be able to change
4 the difference, essentially accomplish
5 the same goal.

6 COUNCILMAN GREEN: Actually,
7 Ms. Ward, that does not accomplish your
8 goal, because that shifts -- although it
9 shifts a significant tax burden to
10 businesses and commercial and industrial
11 properties, most of the tax burden that
12 results from increasing -- most of the
13 burden goes to residential property
14 owners, not to businesses. So when you
15 increase the rate, it's paid by
16 residential, not commercial and
17 industrial. So even though you're giving
18 an exemption, it only benefits those
19 whose properties, say, are below 120, 150
20 thousand and everybody else is paying
21 more. So you could make a decision that
22 you want a whole bunch of people who pay
23 no property taxes to the City of
24 Philadelphia and then everybody else
25 supports them getting City services, but

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2 that's what the policy you just proposed
3 would do, because we did look at the
4 balance of all of that in the AVI
5 discussion last year.

6 MS. WARD: Well, I do have to
7 say that -- and you acknowledge that -- I
8 would be much happier with a revenue
9 neutral approach. I'm concerned that
10 individuals in Philadelphia will pay
11 income taxes and companies will not. I
12 think that that is relatively unfair and
13 it's --

14 COUNCILMAN GREEN: Companies
15 will pay taxes, and there are only -- do
16 you know what the five cities are in the
17 country that have a net income tax?

18 MS. WARD: There are a small
19 number of them.

20 COUNCILMAN GREEN: Yes, five,
21 because it's a model that doesn't work.
22 New York and Washington, DC are
23 exceptions to every rule, and they have
24 them. The other cities are Philadelphia;
25 Columbus, Ohio; and Detroit. And we are

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2 starting to emulate Detroit in terms of
3 our poverty rate.

4 MS. WARD: I have to tell you,
5 Columbus --

6 COUNCILMAN GREEN: Now, I
7 wouldn't tie it just to this factor,
8 because I agree, but the many factors,
9 poor quality of life in many
10 neighborhoods, our schools, and our
11 business tax structure, is what drives
12 that. If we had the businesses that are
13 on the other side of City Line Avenue
14 that are knowledge-based industries, that
15 are the trading firms that used to be in
16 our stock exchange, et cetera, we'd have
17 hundreds of millions of dollars in more
18 tax today. And I know why all those
19 companies left, because I talked to their
20 founders. They left because of the net
21 income portion of the business privilege
22 tax.

23 MS. WARD: Well, two points.
24 One is, Pennsylvania's economic
25 development subsidy policies have been a

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2 real detriment to Philadelphia and other
3 inner cities. There has been -- they've
4 driven sprawl pretty dramatically.

5 I also want to point out that
6 the State of Ohio is performing much more
7 poorly than Pennsylvania or most other
8 states in the nation. The exception in
9 Ohio is Columbus, Ohio. That town and
10 that county are enjoying extraordinary
11 growth quite different from the rest of
12 the states.

13 So I simply want to say that a
14 debate that looks just at business taxes
15 overemphasizes the value in location and
16 investment decisions.

17 COUNCILMAN GREEN: I don't --

18 MS. WARD: And we disagree, and
19 I can appreciate that.

20 COUNCILMAN GREEN: Yes. But
21 I'm not suggesting that we should look at
22 a single factor, and on that I want to be
23 clear. I'm saying it's the only factor
24 that I can influence as a Councilmember.

25 MS. WARD: We can put a heck of

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2 a lot more money into our community
3 colleges and our schools.

4 COUNCILMAN GREEN:

5 Councilmember Goode.

6 COUNCILMAN GOODE: Just real
7 briefly. I don't know how we determine
8 the livelihood of a constitutional
9 amendment in the future, just like if you
10 go back three years ago, if someone told
11 you that this legislation was going to
12 pass three years later, most people would
13 say you're wrong. So I think that the
14 issue is whether we pursue the best
15 policy, not whether we think it is
16 politically practical or not.

17 COUNCILMAN GREEN: Mr. Mullin,
18 and then we're going to take a
19 five-minute recess for the stenographer
20 and hopefully call people back to the
21 Committee. Mr. Mullin.

22 MR. MULLIN: By the way, I
23 agree wholeheartedly on the notion of the
24 commercial -- heavier reliance -- heavier
25 assessment ratio for commercial and

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2 industrial properties here, and I think
3 that's standard around. I am not in the
4 group that believes that the U&O is
5 not -- the U&O tax that we already have
6 is not a very, very good approximation of
7 that. In other words, I believe that U&O
8 is an approximation that, for all intents
9 and purposes, would work very, very
10 similarly. I know that that's like
11 dropping the fizzy in the water in some
12 circles, but...

13 COUNCILMAN GREEN: So I want to
14 thank both of you for your testimony.
15 You are very well respected in your
16 fields both here and in Harrisburg.
17 Thank you.

18 I want to note for the record
19 that you have both testified that if this
20 were revenue neutral, you would favor
21 this change. And so we'll see what
22 happens once we get this out of
23 committee. But thank you very much.

24 MR. MULLIN: Thank you.

25 COUNCILMAN GREEN: We will take

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2 a five-minute recess.

3 (Short recess.)

4 COUNCILMAN GREEN: The
5 Committee on Finance hearing will come
6 back into order. Is there anybody else
7 here to testify on Bill 130530?

8 (No response.)

9 COUNCILMAN GREEN: Seeing none,
10 we will now end the hearing and recess
11 for two minutes and go into the meeting.

12 (Pause.)

13 COUNCILMAN GREEN: The meeting
14 on Bill 130530 will come to order. I
15 will ask the Vice Chair, Marian Tasco, to
16 please move the amendment to Bill 130530.

17 COUNCILWOMAN TASCO: I move the
18 amendment to Bill No. 130530 as
19 presented.

20 (Duly seconded.)

21 COUNCILMAN GREEN: The
22 amendments which have been circulated
23 have been moved and seconded.

24 All in favor?

25 (Aye.)

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2 COUNCILMAN GREEN: All opposed?

3 (No response.)

4 COUNCILMAN GREEN: The ayes

5 have it.

6 Councilmember Tasco, if you
7 would please move the bill, as amended.

8 COUNCILWOMAN TASCO: Mr. Chair,
9 I move that Bill No. 130530, as amended,
10 be reported out of committee with a
11 favorable recommendation.

12 COUNCILMAN GREEN: Thank you.
13 (Duly seconded.)

14 COUNCILMAN GREEN: The bill has
15 been moved and seconded, as amended, to
16 be reported from this committee with a
17 favorable recommendation.

18 All in favor?

19 (Aye.)

20 COUNCILMAN GREEN: All opposed?

21 COUNCILMAN GOODE: No.

22 COUNCILWOMAN BLACKWELL: No.

23 COUNCILMAN GREEN: Let the
24 record reflect that Councilmembers
25 Squilla, Greenlee, Tasco, Johnson, and

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2 Brown voted yes -- Green and Brown voted
3 yes, and Councilmembers Blackwell and
4 Goode voted no.

5 That concludes the business of
6 the Finance Committee. Thank you,
7 everyone, for your attendance and
8 patience.

9 (Committee on Finance concluded
10 at 2:15 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the
proceedings, evidence and objections are
contained fully and accurately in the
stenographic notes taken by me upon the
foregoing matter, and that this is a true and
correct transcript of same.

MICHELE L. MURPHY
RPR-Notary Public

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