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 morning. The Committee on Finance will come to order. We are here to hear Bill No. 130530.

Will the Clerk please read the title of the bill.

THE CLERK: 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; all under certain terms and conditions.

COUNCILMAN GREEN: Thank you.

I note the presence of a quorum in the persons of members Reynolds Brown, Tasco, Goode, Greenlee, Blackwell, and O'Brien. I also note for the record that Councilman Henon is present.

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

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

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

The manufacturing sector to me is extremely important, and it has been the center of my efforts and many others of this body. I believe Philadelphia needs a strong middle class, and I also believe manufacturing jobs are needed to sustain that middle class. I'm confident based on speaking with a lot of companies in the manufacturing industry, like Cardone and others, it is the right decision for them, and hope and believe that the intent of this BIRT legislation will help get them where it is.

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

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

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

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

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

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

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

Thank you.

COUNCILMAN GREEN: Thank you.

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

Mr. Dubow.

I'm sorry. I also note for the

record that Councilmember Squilla is present.

(Witness approached witness table.)

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

MR. DUBOW: You seem to like it.

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

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

Our understanding is that the

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

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

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

COUNCILMAN GREEN: Thank you. I want to state for the record that we have worked extensively with the Administration and Rob, and we especially want to thank the Department of Revenue and T. Afessa specifically for all the hard work that he's put into this, not just this year but over the last really five years ago we began looking into this issue and getting information from them and working closely, and thank them for their professionalism.

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

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

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

Councilmember Goode.

COUNCILMAN GOODE: Thank you, Mr. Chairman.

Good morning, Mr. Dubow.

MR. DUBOW: Good morning.

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

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

COUNCILMAN GOODE: Do you think

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

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

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

MR. DUBOW: Yes.

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

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

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

MR. DUBOW: That is correct.

COUNCILMAN GOODE: What was your analysis then?

MR. DUBOW: The analysis then

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

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

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

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

MR. DUBOW: There will definitely be people who pay more and people who pay less, and what we want to see is who they are and, in addition, what the impact on the economy is.

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

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

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

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

COUNCILMAN GOODE: But he also had an analysis related to this specific bill; did he not?

MR. DUBOW: I don't remember. I'm sure --

COUNCILMAN GOODE: My recollection -- if anyone else remembers differently can tell me. I believe his analysis said that this bill potentially would cost 75,000 jobs. That shift would cost about 75,000 jobs.

MR. DUBOW: I think that was his analysis on the increase in the gross receipts side and he said he couldn't analyze the net income side, because he hadn't seen --

COUNCILMAN GOODE: But you now recall that he said that the industry's gross receipts would cost 75,000 jobs?

MR. DUBOW: I do.

COUNCILMAN GOODE: This is not what the Jobs Commission recommended, is it?

MR. DUBOW: I don't believe so.

COUNCILMAN GOODE: The Jobs Commission recommended paying for business tax cuts by setting a higher rate for commercial and industrial property taxes; is that correct?

MR. DUBOW: That's right.

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

MR. DUBOW: It would require a constitutional amendment.

COUNCILMAN GOODE: Which policy is better?

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

COUNCILMAN GOODE: So commercial and industrial property owners will pay less under AVI; is that correct?

MR. DUBOW: That's correct.

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

MR. DUBOW: That is correct.

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

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

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

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

MR. DUBOW: That's correct.

COUNCILMAN GOODE: How many jobs will that create?

MR. DUBOW: I don't know.

COUNCILMAN GOODE: How many jobs would that save?

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

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

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

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

MR. DUBOW: No.

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

MR. DUBOW: So the $160 million was included in the plan last year, so it was part of kind of the overall plan. There weren't specific areas that we said we're cutting this to pay for it or we're not doing this. It was just part of the overall plan. It's like when we increase funding for police, it's just part of how we put our plan together.

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

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

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

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

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

MR. DUBOW: That's correct. I

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

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

MR. DUBOW: So I think that

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

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

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

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

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

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

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

COUNCILMAN GOODE: Isn't the

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

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

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

MR. DUBOW: That is.

COUNCILMAN GOODE: And your new analysis is not complete?

MR. DUBOW: It is not.

COUNCILMAN GOODE: Thank you.

COUNCILMAN GREEN: Thank you.

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

MR. DUBOW: The bill is intended to be revenue neutral, and the analysis that we're doing is how to make it -- what the gross receipts rate would have to be to make it revenue neutral.

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

MR. DUBOW: Correct.

COUNCILMAN GOODE: Point of information.

COUNCILMAN GREEN: Councilmember Goode.

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

MR. DUBOW: Correct.

COUNCILMAN GOODE: Thank you.

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

MR. DUBOW: It will cost no

money --

COUNCILMAN GOODE: From the current Five Year Plan.

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

COUNCILMAN GREEN: Thank you.

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

MR. DUBOW: It would be other businesses.

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

MR. DUBOW: That's correct.

COUNCILMAN GREEN: And so I guess the final question I have is, if you recall, the Administration's analysis and our analysis in 2010 agreed that we would be shifting $60 million of our $360 million tax burden from Philadelphia headquartered and based businesses to businesses that are not headquartered and based in Philadelphia, businesses like Home Depot, Target, Lowe's, who currently have no profits or claim no profits in the City of Philadelphia. Is that likely to still be the case here because of the Delaware loophole?

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

COUNCILMAN GREEN: Right.

Councilmember Reynolds Brown.

COUNCILWOMAN BROWN: Thank you, Mr. Chairman.

Good morning.

MR. DUBOW: Good morning.

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

MR. DUBOW: Yes.

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

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

On the analysis by the outside firm, we are in the process of trying to finalize the request for services. We're having some discussions with the sponsors on that. We hope after that process is over, and hopefully that will be within the next week, we'll ask people to -- we'll post the request, ask people to get back to us I guess within a couple of weeks after that, and then see whether they can be done within maybe a month to six weeks after that. So it would probably be sometime late January, I would think, early February.

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

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

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

Thank you, Mr. Chairman.

COUNCILMAN GREEN: Thank you.

Any further questions?

(No response.)

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

Next we will have Matt Melinson --

COUNCILWOMAN TASCO: I have a question.

COUNCILMAN GREEN: Oh, I'm sorry.

Mr. Dubow.

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

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

COUNCILWOMAN TASCO: I can't hear you.

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

COUNCILWOMAN TASCO: It's not your issue, right?

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

COUNCILWOMAN TASCO: Whether it comes out or not, right?

MR. DUBOW: Yes.

COUNCILWOMAN TASCO: So we don't vote it out. What happens?

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

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

MR. DUBOW: That's correct.

COUNCILWOMAN TASCO: Okay. Thank you.

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COUNCILMAN GREEN: Thank you.

Thank you, Mr. Dubow.

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

(Witnesses approached witness table.)

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

MR. SHINNERS: Shinners.

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

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

Because our practice is located within the Greater Philadelphia metropolitan region, I became intrigued when I learned about this Council initiative. We have clients that both do business in the City and some that periodically consider expanding into the City. Unfortunately, when those who have a choice as to where to locate their business and come to us seeking advice, we're required to review all the potential taxes to which they can be exposed, and for Philadelphia, as you know, that includes the BIRT, the NPT, the U&O, the CWT, the SIT, higher real estate transfer taxes. We have to do that. We don't have a choice.

But at the same time, I've tried -- I've always tried to frame the client conversations from the point of view that current City leaders are not the ones who have made a conscious choice to create and maintain a high tax environment. Rather, it's a situation where they're forced to play out the hand that's been left to them by prior generations. This view is based on my own personal experiences growing up in the City and then reinforced through interactions with City Council members and DOR professionals at various PICPA functions over the years.

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

My sense is that you understand these dynamics all too well. However, by setting forth these proposals, you are setting the stage for a less burdensome decision-making process for those who are thinking of moving their business into the City and a more difficult decision for those who are considering moving out. Some of the specific points I'd like to highlight are as follows:

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

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

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

The second section I'd like to focus upon is Section 19-2604, and that's where the BIRT net income tax rate reduction is taken down to zero by the year 2019. This proposal, more than any other, would have the most profound impact.

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

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

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

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

Item C is a side note, basically talks about service businesses that are not profitable or currently paying no BIRT net income tax, and regardless of whether they operate as corps, partnerships or proprietorships, could see a negligible increase in the overall tax because of the increase in the gross receipts tax rate without having the corresponding benefit in the reduction of a net income tax that they're paying.

Hopefully this is all making some sense to you folks.

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

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

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

COUNCILMAN GREEN: Thank you.

Ms. Facer-Mee. Is that --

MS. FACER-MEE: Facer-Mee.

COUNCILMAN GREEN: Facer-Mee. Thanks.

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

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

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

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

I do provide a lot of volunteer services for the PICPA and the AICPA and other organizations. I also have a daughter that works in the City of Philadelphia, and I'd like to keep her here. I lost one to Boston. So I'd like to make sure that I keep the one in Philly. So we need to keep the prosperous businesses going.

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

So, for example, one of the types of things that I'm noticing is also we're not only dealing with international competition, we're also dealing with competition among the states. We have some clients that have moved their businesses to Ohio. They've experienced reduced tax rates. I can't say anything. I'm the independent accountant working for the company, and I have to tell them, Your taxes are lower when you went to Ohio.

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

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

Our clients also appreciate the fact that there are tax credits on the books, but our small clients from their perspective many times, the credit -- the cost to generate the credit, the time and effort to administer it, to calculate it outweighs the savings and the credit for a small business. Now, that's not necessarily a case for the larger businesses. For the small businesses, that really these credits are targeted toward, a lot of them don't take advantage of it, especially with the jobs credit that these businesses are marginally profitable and they don't have the funds set aside to pay us.

So taxpayers are also confused about the existence of these types of complex items. Removing the net income portion of the BRT will reduce the complexity and confusion. So that's why I like that portion of the bill. It will increase the transparency in that the taxpayer knows what threshold BIRT will be imposed on. So if the taxpayer understands laws, they're more likely to trust the taxing authorities and comply with them correctly in an efficient manner. So simplification is really key and needed in Philadelphia, and that will attract new business and also small businesses, because they have the unsophisticated management.

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

However, I suggest to the City that when I'm talking with clients and when the City -- when I'm analyzing these bills for the clients, I use the Guiding Principles of the Good Tax Policy that were set by the AICPA. I hope and I trust that you've received a copy of this.

Did they receive this?

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

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

I'm not here just to tell you -- I don't think that's fair, as the CPA, the P in CPA stands for "public," and I have an obligation to the public, and I think that's to guide you with the principles of what we think good tax policy is. And a lot of us have spent a lot of time -- I'm a CPA ambassador for the AICPA as well -- on these types of tax policies. When you're looking at each part of these proposals within this bill, look for them for equity and fairness, for certainty, convenience of payment, economy of collection, simplicity, neutrality, economic growth and efficiency, transparency and visibility, minimum tax gap, appropriate government revenues. If you look at all those pieces of the puzzle and evaluate those proposals, you also need to balance these things, because not all the principles can be achieved at the same degree for all of the proposed changes. It's just that if you focus -- and I know that you're all going to cringe at this one, but I also encourage every taxing authority when I'm talking with them as well as every governmental agency not only focus on the revenue side, but to also make sure -- taxpayers want to make sure that there's cost reduction and managing all their resources efficiently and effectively, and they're going to be behind you if they know that every department is tearing apart their budgets and they're looking at that. Because you're asking the taxpayers to pay more taxes, you want to make sure on the other side that you're ensuring that everything

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

I also caution taxing authorities to implement -- to be cautious in trying to implement social or economic policies or attract certain businesses or jobs to the City. We've already suffered the loss of significant tax revenues from providing tax incentives to various large companies to locate in the City. We've eroded our tax base right there. Generally, in evaluating the principle of equity and good tax policy in that circumstance, consideration was given to the entire range of taxes and you made that decision, but the problem with that is you erode the base. So I don't like excluding any industry, regulated or not, or any company from tax, because a broader tax base is not only more fair to all taxpayers and all industry, it allows for lower tax rates since there's more taxpayers subject to the tax.

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

The method will reduce fees that our clients pay us, because it's less complex on the gross receipts than the net income portion. Our net income starts with federal taxable income, and frankly, my C corps, when we're doing federal taxes, we don't want to be taxed twice. So we are making sure that they don't have any net profit. We try to bonus that all out to the owners.

Oh, good, Matt is here.

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

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

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

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

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

MR. MELINSON: Thank you. I jumped out of a meeting, jumped into a cab, and it looks like I made it in the nick of time here. So thanks for having me, and always nice to have the opportunity to speak with Glen and Karen, and I appreciate you as Council taking the time to focus on tax matters. Certainly nothing new in that regard, but I think that this is a good -- it's good when we shed some light on some of these taxes and we put some focus on. We all know we need to improve the tax structure in the City of Philadelphia. I think that's a fairly almost unanimous consensus.

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

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

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

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

Specifically, I'm going to focus within the context of Bill 130530 on the definition -- the primary piece of the puzzle here, which is the elimination of the net income portion of the BIRT with the corresponding increase of the gross receipts tax, and there's some other industry-specific subcomponents. I'll steer clear of those, unless you have questions at the end.

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

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

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

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

Furthermore -- I don't know this one has been focused upon too much in the discussion so far, so I want to highlight this a little bit. Many taxpayers don't pay the net income portion of the business income and receipts tax due to something called federal public -- it's a federal law from 1959 called Public Law 86-272. I don't want to bore you with technical stuff, but basically what it means is if all you're doing in the City is soliciting business for the sales of tangible personal property, you're not subject to an income tax. You're only subject to a gross receipts tax.

So that's an important distinction I think for Council to consider at least and understand, as the net result of this in part -- I don't know that it was necessarily the intention, but part of the net result of this is a potential tax shift away from businesses who reside in the City of Philadelphia towards non-resident business that happen to be selling into the City of Philadelphia, because those non-resident businesses have what's called nexus, meaning the City is allowed to tax these businesses based on mere presence, even if they just have a salesman coming through and they're shipping goods in. You're allowed to impose that gross receipts tax, whereas a higher standard for income tax. You have to have, to keep it simple, a more kind of a physical presence or a higher presence in the City of Philadelphia. That kind of hovers around the concept of equity.

The second canon of certainty is served because it reduces the fluctuations and volatility of a net income tax base. Income may -- we've certainly seen this in my client base and throughout the economy in the last five or six years. You may have income may sharply rise or fall due to many factors, including changes in the business sales or fluctuations in the nationwide or local economy. So, in other words, an income tax, to keep it simple, is less predictable than a gross receipts tax. A gross receipts tax is pretty highly predictable, even in economic times of uncertainty. You might get a 2, 3, 5 percent shift, whereas income tax you can have a significantly higher or lower shift, as I'm sure some people from Philadelphia Department of Revenue may comment on.

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

Also, gross receipts tax is entirely independent of federal taxable income, which is noteworthy. You haven't seen a lot of changes, but note that you are dependent upon federal law and Congress. Congress can change the federal net income tax at any time. As you know, federal income tax is a starting point for the BIRT Method 2. So if Congress changes something, the City of Philadelphia could be impacted when you have a net income tax. You get indirectly impacted there. We get indirectly impacted.

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

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

But the bottom line is when you have a receipts tax, there's really only one item you need to focus on. So if you kind of theorize it, in an optimal theory here, the Department of Revenue auditors would have a little more time to focus on it and rather than getting bogged down with a lot of different nuances of an income tax and potentially could bring in some more revenue based on refocused efforts.

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

Notwithstanding the above positive traits of the bill, Council should at least be mindful that there would likely be both opposition and support from various components of the business community here. There are usually winners and losers with any tax reform. As I referred to it earlier, tax shift. You guys know the deal. When you shift tax, there's some winners and losers out there, and you're going to probably hear from both. The people who tend to be losers would tend to be loss companies and companies with relatively slim margins. So they're going to come forth potentially and suggest that a gross receipts tax with a higher rate is a little more onerous to them relative to the current tax. So, therefore, when you focus on the ability to pay concept, that's a potential risk associated with the bill.

Another item I wanted to flag from a technical standpoint, this might be -- I'm not sure if it's been raised by anybody else, but really my colleague came up with this observation, just something to consider, more of a technical -- if you decide to go this route, you may want to consider some things. We see these laws get phased out around the country. So that's kind of what is being proposed in the bill here. So you have basically a rate reduction. Now, the end result of that in 2018, or whatever the final year was, would be a zero rate. Now, there might be good and bad to that, I imagine, from Council perspective. The bad to that is the certainty component I talked about earlier. It is kind of hovering, so it's like -- it's sort of like the tax isn't dead. It's on life support there, with just a zero percent rate. So anybody ever wanted to reinvigorate that tax, you could pop the rate back up, I guess, like I said. Depending upon your perspective, maybe that's a positive, maybe that's a negative. I think from a business community perspective, you would probably hear that as a modest negative in terms of -- and there might be some ways I thought of you might be able to deal with that in terms of -- you might be able to strike -- one issue that Council could just handle itself, you could just strike all the language in the net income portion of the business receipts tax -- excuse me; the net income portion of the BIRT. You can just strike all the language rather than just the rate language. So you're leaving nothing there, making it a little bit harder to reenact.

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

So thank you very much for the opportunity to provide testimony, and I'm sure myself and my friends here might be willing to answer any questions that you may have.

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

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

Just a couple of quick questions. Can, I guess, any of you describe tax analyses that you've done for companies considering locating in the City of Philadelphia or are located in the City of Philadelphia and considering a move to the suburbs, et cetera, both what the 6.45 percent advertised net income rate does to a company in terms of sticker shock considering locating here, but then also discuss how easy it is for sophisticated tax professionals like yourselves to advise your clients how to, even if they are here, legally avoid the 6.45 percent net income tax, leaving only unsophisticated Philadelphia headquartered businesses to pay it. Any of you.

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

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

MR. MELINSON: We have a

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

For perspective, on a nationwide basis -- and I'll give you a quote from one of my mentors, who is since deceased, but with Pennsylvania having a 10 percent rate and then coupling that with Philadelphia's 6 and a half percent rate, you're 16.5. Then you tack on federal, you're more than 50 percent when you aggregate all that in income taxes alone if you decide to locate primarily within Philadelphia. That is very strongly out of proportion with the taxes in the rest of the country.

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

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

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

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

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

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

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

COUNCILMAN GREEN: Right. And so big-box retailers, for example, who generally are non-union, pay low wages, and avoid all our net income tax, can you give an example of how they avoid paying taxes to the City of Philadelphia in the net income portion?

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

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

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

So you have a lot of, as you put it, kind of large distribution companies around the country, large big-box type companies that are selling into the City, but they're not paying income tax that would somewhat mitigate -- in essence, what would occur here is, it would shift more of the tax burden towards those type of companies relative to the ones that are located here with property and payroll and who do tend to pay the income tax.

COUNCILMAN GREEN: Okay. Thank you.

Ms. Facer-Mee --

MS. FACER-MEE: Just call me Mee.

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

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

COUNCILMAN GREEN: Okay.

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

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

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

MS. FACER-MEE: Correct.

COUNCILMAN GREEN: Which is essentially a gross receipts tax?

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

COUNCILMAN GREEN: I understand, but from the tax perspective, going to a gross receipts rate is attractive to many businesses that are profitable.

MS. FACER-MEE: That's correct.

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

Councilmember Goode.

COUNCILMAN GOODE: Thank you, Mr. Chairman.

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

The first being, is there

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

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

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

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

MS. FACER-MEE: You like to put me on the hot seat because I have clients that this is going to hurt.

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

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

COUNCILMAN GOODE: You have given that testimony already. In your written testimony, it says specifically, My opposition to the bill is the rate increase to gross receipts tax.

MS. FACER-MEE: That's correct.

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

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

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

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

COUNCILMAN GOODE: Okay.

MR. MELINSON: I mean, again, I don't remember precise collection figures, but I want to ball park it at $300 million a year or something like that. Am I in the right universe there? So, I mean, obviously we're pragmatic. We understand that these things -- we need to run a fiscally responsible City also. So if one part goes down, something else has to go up or something else has to give elsewhere in government. So we certainly get it, similar to my colleagues here. I mean, as --

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

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

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

MR. MELINSON: I would say to the extent that it's necessary to run a fiscally responsible city, I would.

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

MR. MELINSON: That component in isolation, when viewed in isolation, sure, of course. I mean, it's a higher tax rate. Of course it would. But kind of to level the playing field with the surrounding municipalities in suburban Pennsylvania, Councilman, what you would need to do specifically is eliminate the net income portion of the business tax and keep the rate around where it is. It's actually come down quite a bit from the mid '90s. It used to be 3.25 mills. Now it's down more than 50 percent, well more. So it's at a reasonable rate as it stands right now. So the ideal scenario from -- I actually think from a tax almost policy perspective, notwithstanding eliminating the tax as a whole, would be to keep it around the same.

COUNCILMAN GOODE: So an increase in the gross receipts portion will hurt certain businesses and industries?

MR. MELINSON: Of course, as testified.

MR. SHINNERS: Yeah. For full disclosure, it would be a harder question for me to answer if I had significant client base in, say, the retail, wholesale or manufacturing in the City. We don't. Most of our clients in the City are service businesses. They come out as clear winners. So it's really easy for me to answer that question.

COUNCILMAN GOODE: Ms. Facer-Mee.

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

COUNCILMAN GOODE: I get that. That was not my question. My question was, will an increase in the gross receipts portion hurt locally based businesses?

MS. FACER-MEE: I think it will, but it will also -- some of the reduction in the net -- in this proposal in the net income will also help some of those clients too.

COUNCILMAN GOODE: I'll ask the question a bit differently since you tried to run around at the end. Will the increase in the gross receipts portion hurt certain industries?

MR. MELINSON: I actually don't know if you could zero it in, Councilman, on industries. Specific businesses? Absolutely, I mean, again, as testified by probably all three of us, but there's going to be winners and losers. So certainly you could take a look at select businesses, the ones that run on a relatively thin margin, the ones that may be losing money, those type of businesses. Are they going to be hurt relative to the tax position right now? Of course.

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

MR. MELINSON: Personally I -- feel free to react. I'd want to think more about that, but my gut reaction is -- would it hurt certain industries? Let's think about it. Again, what kind of -- maybe large like wholesaler types or large retailers maybe that run on a thin margin, those type of industries that are kind of hot professional employer organizations, PEOs. I'm shooting from the hip here a little bit, Councilman, so bear with me. But those types of businesses that are very high, high relative revenues relative to the profit level --

COUNCILMAN GOODE: What about the hotel industry?

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

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

Thank you.

MR. MELINSON: You're welcome.

COUNCILMAN GREEN: Thank you very much.

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

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

COUNCILMAN GREEN: Under existing state law.

MR. MELINSON: Right. We don't want to create a new capital stock tax or network tax or anything like that. So given the construct and without the creation of new taxes that are not income taxes, no. I mean, you have the gross receipts portion, the income tax portion. So, Councilman, it would have to be on the gross receipts side.

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

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

COUNCILMAN GREEN: So with respect to a level playing field, regardless of whether or not companies -- what margins are or anything else, the gross receipts tax for people who sell goods -- so that's wholesalers, retailers, distributors, manufacturers, who, by the way, all have alternative rates other than the gross receipt rates, which is essentially a net receipts rate after cost of goods and labor, et cetera, which you guys didn't address, but I'll just state on the record. All of those businesses when they sell into this market, regardless of whether they are headquartered here, would you agree that they will pay the same tax to the City of Philadelphia based only on their sales with a gross receipts rate only in place?

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

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

MR. MELINSON: Correct.

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

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

No. I mean, again, let me take maybe a round-about route on this one. You're taking that $300 million I referred to, and it's a matter of how you redistribute it to some degree here. That's what we're talking about. So more is going to go towards non-resident businesses than the ones in business. We talked specifically about the apportionment concept. So there's not going to be, if you would, a penalty for having property or payroll here. There's not going to be a punitive increased tax by the fact that you have a property here.

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

MR. MELINSON: Correct.

COUNCILMAN GREEN: So without respect to whether businesses are here or not, with respect to any one business that sells goods, is there any advantage to being located outside the City of Philadelphia -- forget wage taxes. Hold everything else constant. Is there any advantage to being located outside of the City of Philadelphia any longer if we make this change?

MR. SHINNERS: Not that I can think of.

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

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

MS. FACER-MEE: Correct.

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

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

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

COUNCILMAN GREEN: Right.

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

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

COUNCILMAN GREEN: Thank you very much.

Councilmember Goode.

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

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

COUNCILMAN GOODE: I'm talking about any type of businesses, including certain service type businesses. The way it was characterized just now is businesses that serve goods and how the gross receipts portion is calculated. I'm saying are there other businesses that would find a shift less attractive in terms of locating in Philadelphia?

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

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

COUNCILMAN GOODE: I'm talking about industries, but I will actually change the question to a more direct question. And whether we want to view it in terms of inside firms or outside firms, I want an analysis of both.

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

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

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

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

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

MS. FACER-MEE: No.

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

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

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

MR. SHINNERS: That's right.

MR. MELINSON: I don't personally know.

MR. SHINNERS: That's right.

COUNCILMAN GREEN: Thank you.

But we know that for all businesses that sell goods, we'll have a completely level playing field with respect to business taxes they'll pay in the City of Philadelphia if we make this change, regardless of where they are in the world, completely removing the disincentive to locate here, or said another way, there's no advantage to not being here with respect to service industries, which have far higher margins, based on your testimony, Mr. Shinners. It is clear that this shift will be fundamentally good, and based on all of your testimony, it is clear that a lot of the burden of these businesses that are located here will be picked up by businesses who are not located in the City of Philadelphia. What that exact distribution is, we don't know and, frankly, wouldn't know until we implement this tax. But I thank you all for your testimony.

COUNCILWOMAN SANCHEZ: Councilman.

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

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

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

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

From the very beginning, this process has been driven by data - data around who pays, data about who doesn't pay, data around winners, and the data around the losers. There is no way that we can provide a more balanced way of taxing without getting around the state uniformity.

In lieu of that, we are faced with the tools that we have at hand. In this particular case, through the research that was conducted two years ago by Steve Mullin -- and I know he'll come forward and talk a little bit about that -- we are able to pinpoint who are some of the big winners and who are some of the big losers. Who are some of the big winners, for me small businesses in the 7th Councilmanic District, like the one I was at this morning that was opening up in the American Street corridor, a manufacturer who creates a unique product that is a global product. They are a winner. This new company that's moving into the 7th District will create 15 new jobs. Small businesses, small businesses who have a penalty, who try to hide their 6 and a half percent and then are faced with challenges as they look to expand within neighborhoods in the 7th Councilmanic District.

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

What is most intriguing to me about this is that we understand that this must be studied and it must be analyzed throughout the whole process, and that's why it's important that the Mayor's commitment and the Administration's commitment to study this not only as we create models but to study it every single year, because in this Council, we have the obligation and the responsibility to make sure that we are not providing cuts at a time when our services and other things are our priority. I would never support something that would take money away from the much-needed services as my district is in the 7th Councilmanic District.

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

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

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

Thank you.

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

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

Councilmember Goode.

COUNCILMAN GOODE: Just one final question. One of you testified that you sat at the Mayor's Task Force on Tax Economic Competitiveness. I forget which one it was. Were there any recommendations regarding this policy from that task force?

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

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

COUNCILMAN GOODE: So you sat around and you discussed tax policy and economic competitiveness and you did not come up with this. Is that fair to say?

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

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

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

COUNCILMAN GOODE: Thank you.

MR. MELINSON: You're welcome.

COUNCILMAN GREEN: Thank you.

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

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

So thank you very much for your testimony.

The next panel is Rick Rasansky and Aaron Maass.

(Witness approached witness table.)

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

(Witnesses approached witness table.)

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

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

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

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

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

As a native of Dallas, Texas, I came to Philadelphia to study at the Wharton School of the University of Pennsylvania, graduating, well, a long time ago, in '83. Although the vast majority of my classmates either returned to their respective hometown roots, took finance jobs in New York, tech jobs in Silicon Valley or sought opportunities in other major business centers around the world, I made Philadelphia my home and the basis of my career, in large part because of my incredible experience at Penn and for what I believe then was an unappreciated, incredibly undervalued city here in Philadelphia. I was emotionally invested in the City and was not about to leave, even though the job market here was limited for me and my peers. I wanted to make a difference, and I thought that with my determination, drive, enthusiasm, and passion I could do that by contributing to make Philadelphia a place where graduates would want to stay, work, and play.

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

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

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

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

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

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

We all know the activity from this hub is growing and nurturing the reputation of Philadelphia as a great place to work, invest, live, and play. Key contributors to this phenomenal growth and the ecosystem at large, to name a few, include Philly Tech Week, Technically Philadelphia, First Round Capital, StartUpPHL (the Philadelphia's own seed fund), the Philly Tech MeetUp, and DreamIt Ventures. There's also all the shared workspaces that we can't forget like Indy Hall that started it all, VentureFOrth, Benjamin's Desk, SeedPhilly, and the list goes on and on. I can't help to feel proud about this growth and accomplishment here in Philadelphia. You should too.

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

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

We can all agree that

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

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

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

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

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

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

COUNCILMAN GREEN: Thank you.

Mr. Jurash.

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

COUNCILMAN HENON: No.

COUNCILMAN GREEN: Please proceed. Thanks.

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

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

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

We support this bill because it eliminates the net income portion of the BIRT, which is certainly a step in the right direction in that it now levels the playing field for our domestic companies. It is exceedingly rare for cities and other local jurisdictions to tax business income, and it's unheard of, except in Philadelphia, to tax both receipts and income at the local level.

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

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

We urge the passage of this

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

Thank you.

COUNCILMAN GREEN: Thank you, Mr. Jurash.

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

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

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

We employ over 300 employees with diverse backgrounds, and this year alone we hired over 50 new employees in 2013 and expect another 50 in 2014. Employees want to work in Philly. We want to work in Philly. The employees are so concerned about their future. Case in point is, we are starting a voluntary 401(k) in 2014, and 80 percent of our employees have signed up, knowing that this will take more out of their pay.

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

Thank you.

COUNCILMAN GREEN: Thank you.

Mr. Maass, please come forward.

John, if you wouldn't mind.

(Witness approached witness table.)

COUNCILMAN GREEN: Please state

your name for the record and proceed with your testimony.

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

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

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

Speaking of offices, as you may know, one of the first decisions you have to make when starting a business is what your company's address will be. Choosing an address is important for more than just determining where to receive your mail. You need it to establish your company as a separate legal entity. You need it to open a bank account, and you need it to calculate and pay your taxes.

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

In the end, I picked Philadelphia. But it was not an easy decision to make, in large part because Philadelphia's relatively high tax rates on business. Last year, as both a resident and a business owner, I paid five different City taxes - school income tax, real estate tax, business income and receipts tax, gross receipts tax, and net profits tax. Ten percent of my income went to the City of Philadelphia alone, a good portion of which, actually 74 percent, were taxes imposed on my business.

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

I keep my company in Philadelphia because I like it here and because it is convenient, but as my company continues to grow, I must give serious thought to how to grow and still stay in business. As it is, I have not increased my salary in the five years since I started. I put all my company's profits back into hiring more people.

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

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

COUNCILMAN GREEN: Thank you.

I also note for the record that we have testimony or a written letter from McCormick Taylor, an engineering firm with over, I think, 100 employees in the City, who was founded in 1946. It has 12 offices in seven states and could easily change their headquarters to one of those other offices and avoid the City taxes. This bill, if passed, will prevent them from making that decision, allowing them to leave their headquarters in Philadelphia and, therefore, make them more competitive when competing for work. Obviously if their tax burden is higher as they compete for engineering work around the country, they make less profit when they charge the same amount as their competitors, and this would be a great help for them. So I'm going to submit that letter from Patrick Guise, the Co-Chief Executive Officer of McCormick Taylor for the record.

I thank you all for your testimony. For the manufacturers there, if you listened to the colloquy with the accountants regarding what it does for your industry in terms of location decision-making, would you agree with what they said? In other words, you're only going to pay taxes based on your sales in the City of Philadelphia and pay no taxes based on your sales outside the City of Philadelphia, and that completely removes any incentive to leave the City from a City tax perspective. Is that correct?

MR. JURASH: I would agree, yes.

COUNCILMAN GREEN: Okay.

MR. SEINER: I would agree also.

COUNCILMAN GREEN: Thank you.

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

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

(Witnesses approached witness table.)

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

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

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

Please proceed.

MR. GRACE: Thank you, Mr. Chairman.

Good morning, Chairman Green and members of the Finance Committee. I'm Joe Grace, the Director of Public Policy for the Greater Philadelphia Chamber of Commerce. Thanks for the opportunity to testify today on Bill 130530, which eliminates the net income portion of the business income and receipts tax over the next five years while quadrupling the gross receipts portion of the tax over the same timeframe.

I'm joined at the table today by representatives of the four other local Chambers of Commerce - the African American Chamber of Commerce, the Greater Philadelphia Hispanic Chamber of Commerce, the Asian American Chamber of Commerce of Greater Philadelphia, and the Greater Northeast Philadelphia Chamber of Commerce.

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

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

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

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

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

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

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

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

MR. TAUBENBERGER: First, we commend Councilman Green, Councilwoman Quinones-Sanchez, Councilman Henon, and all members of Council for their work over the past several years on the important issues surrounding business taxes and tax policy in Philadelphia. When Council introduced legislation adopting a single-sales factor apportionment, we supported this reform to help simplify business privilege tax payments and collections and increase the City's ability to attract and retain business investment in jobs and facilities. When Council exempted all businesses from the gross receipts and from net income taxes on their first 100,000 of receipts, our Chambers supported this reform as well.

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

MR. BRADLEY: Second, we reiterate our position today to encourage Council to enact comprehensive tax reform for Philadelphia. Over the past four budget cycles, comprehensive tax reform -- excuse me. Over the past four budget cycles, fiscal pressures as caused by the recession led the Administration to put a hold on its program of gradual, incremental reductions in the City's wage tax and business taxes. In addition, pressures caused by increased demand for City services, rising pension obligations, and a growing deficit at the Philadelphia School District led Council and the Mayor to increase City taxes by $275 million, a serious disincentive to job creation and economic competitiveness for every business in our city.

MS. FERNANDEZ: We restate our support for the Philadelphia Tax Reform Commission's recommendation of 2003 to gradually eliminate both sides of the BPT, now known as BIRT. It is worth quoting the Commission's recommendations: Elimination of the business privilege tax promotes tax system competitiveness by attracting new business investment, retaining those businesses that are considered leaving, fostering business expansion, and creating more jobs. Simply put, other local jurisdictions do not tax businesses the way Philadelphia does.

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

MR. TAUBENBERGER: We have also lent our strong support to City Council's drive to embrace new ways to raise revenues to deliver services without raising taxes, such as the Council President's push to allow advertising on City-owned property, and Council's plan to sell vacant school buildings to generate millions of dollars for public education. These are both very good ideas.

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

MR. BRADLEY: At the same time, similar data has not been presented. Without new data from the City or an independent expert on the impact of the bill on different business sectors, we cannot offer a reasoned judgment on how we view this legislation. We understand from conversations with the bill's sponsors and from the Nutter Administration that a study of the economic impact of the bill on different kinds of companies that do business in Philadelphia will be conducted over the next several months.

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

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

MR. TAUBENBERGER: It was not that long ago when this Council rightfully balked at moving forward with a new method of assessing property in Philadelphia, the AVI, until it had all the relevant data, assessment data, it need to make the right decisions about that important reform. We respectfully urge similar caution here until we all understand the data and the legislation's impact on the business community.

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

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

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

MR. GRACE: You're welcome.

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

So to be clear, we have the data. Yes, there are winners and losers. The losers are the people who are not located in the -- the losers are the people who are located in the City of Philadelphia and the winners today, as you heard the accountants testify, are people who can legally avoid paying any business taxes to the City of Philadelphia because of the 1959 federal law that has them only paying gross receipts and no net income. We will shift the tax burden, at least $60 million, to businesses not headquartered here, many of whom are your members. Businesses not headquartered here are members of the Philadelphia Chamber of Commerce.

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

I will say the City's largest manufacturer and Chamber member, Cardone Industries, sent a letter asking us to pass this tax because it will essentially allow job growth in Philadelphia instead of them having to locate plants elsewhere for their profitable lines. They take all their marginal lines and leave them in the City and they take their most profitable lines and -- this letter doesn't cover that; covered in conversations -- and they put them in other jurisdictions, because they don't have to pay net income on those very profitable lines of business that they have.

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

Councilmember Goode.

COUNCILMAN GOODE: Thank you, Mr. Chairman.

Good afternoon.

MR. GRACE: Good afternoon.

MR. TAUBENBERGER: Good afternoon.

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

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

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

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

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

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

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

Five Year Plan?
COUNCILMAN GOODE: No. There is $160 million already within the Five Year Plan.
MR. GRACE: I understand that.
COUNCILMAN GOODE: Would you change that to reflect this bill? Would you keep the 160 million in cuts as they are on the books as they are or do you have another proposal?
MR. GRACE: Well, the 160 million, correct me if I'm wrong, sir, the 160 million that's built into the Five Year Plan now is for incremental reductions in business taxes and I believe some in the wage tax. I'm not --
COUNCILMAN GOODE: The wage tax is separate.
MR. GRACE: So you're referring just to incremental reductions in --
COUNCILMAN GOODE: And it's not just incremental reductions.
MR. GRACE: -- the BPT over the next five years?

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

MR. GRACE: The other changes and exemptions.

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

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

MR. GRACE: So, in other words,

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

COUNCILMAN GOODE: Or --

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

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

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

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

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

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

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

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

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

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

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

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

MR. GRACE: Well --

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

COUNCILMAN GOODE: Fair enough.

MR. TAUBENBERGER: Thank you, sir.

COUNCILMAN GREEN: Thank you very much.

I do notice Councilman Goode pointed out that the 2003 Tax Commission report, which you've sort of readopted here, calls for the elimination of all business taxes, which created I think something like a $400 million hole in the City budget over eight years to accomplish, which then growth was assumed after that. So your testimony is, you would like us to create a $400 million hole in the City budget over the next eight years, and how would you propose we pay for that?

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

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

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

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

MR. GRACE: We said specifically that we talked about, as it applies to this bill, that we supported the recommendation of the Tax Reform Commission concerning gradual elimination of both sides of the BPT. We didn't talk about all the other --

COUNCILMAN GREEN: The 2003 report --

MR. GRACE: -- recommendations in the report.

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

MR. GRACE: Yes.

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

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

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

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

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

Thank you for your testimony.

Councilmember O'Brien.

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

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

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

In talking with the Chairman, we want to get -- he wants to get this study done as expeditiously as possible. That would mean that the Administration and the economists that are going to be employed to task this will be about that business as quickly as possible and as thoroughly as possible.

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

I believe that it would be next to impossible to include all of those interests in the study itself, but what I would ask the Chairman -- and I would ask if you would agree to this -- if we were to proceed, report this bill out today, do the study as the Chairman has outlined, and then after the study is completed, allow you and other interested parties to provide substantive comment, I believe that would provide an orderly process for this bill to move forward. And I would just ask the Chairman if he would accommodate that when the study is complete and if you would be willing to accept that as a condition that once the study is done -- I think it would be premature to try to incorporate all these moving parts in the study itself, but once we have that document, then everyone can comment and work off of that.

Mr. Chairman.

COUNCILMAN GREEN: Certainly. The Administration is paying for the study, and I'm confident that they will, after the study is complete, seek comment from various constituencies and stakeholders. We're hiring an economist to see what the impact on job growth will be, to see what the impact on City revenues will be, to see what the impact on increases in aggregate value of real estate will be. Essentially it is not something that can be done by a group. It has to be done by an economist. But once that economist is finished, certainly I'm confident the Administration would be happy to share the work.

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

COUNCILMAN GREEN: Well, it's almost impossible to do that, because every business -- some businesses in the same industry have very different tax situations. Some take advantage of the Delaware loophole, like most of your members, some don't. And so, you know, for people who take advantage of the Delaware loophole and avoid our taxes, once again, like many of your members, they will be hurt, and for people who pay their fair share of taxes to the City of Philadelphia, people who are small businesses, who are headquartered in neighborhoods, and businesses that don't take advantage of the Delaware loophole, they will be benefited. Businesses that are not headquartered here will be hurt.

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

MR. GRACE: I understand.

COUNCILMAN GREEN: Okay. Thank you.

Councilmember Goode.

COUNCILMAN GOODE: Thank you, Mr. Chairman.

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

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

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

MR. GRACE: I understand, sir, and I know that in 2010, because you're always a student of legislation and your next question may be in 2010 did this Chamber -- there's five Chambers up here right now, but did this Chamber oppose a previous version of this legislation. I think the answer is that it said they couldn't support --

COUNCILMAN GREEN: Point of information.

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

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

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

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

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

COUNCILMAN GREEN: It said there was not enough information.

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

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

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

COUNCILMAN GREEN: Sort of.

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

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

COUNCILMAN GREEN: Mr. Taubenberger, I don't have any further questions. If Councilmember Goode has a question, that's fine.

COUNCILMAN GOODE: I just want to read from the testimony. "Without new data from the City or an independent expert on the impact of this bill on different business sectors, we cannot offer a reasoned judgment on how we view the legislation." That means you cannot support it; is that correct?

MR. GRACE: You mean the legislation today?

COUNCILMAN GOODE: Yes. This is your testimony.

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

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

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

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

MR. GRACE: We cannot support it today.

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

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

COUNCILMAN GOODE: Thank you, Mr. Chair.

COUNCILMAN GREEN: Thank you.

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

So thank you for your testimony.

MR. GRACE: Thank you.

COUNCILMAN GREEN: Is Steve Mullin here?

(No response.)

COUNCILMAN GREEN: Okay. Brian

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

(Witnesses approached witness table.)

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

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

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

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

Many of our members act as their general contractor, hiring subcontractors to do most of the work, as well as the developer selling the completed project. In those two scenarios, we are subject to an onerous tax multiplier effect, but Bill No. 130530 is written to avoid repeatedly taxing subcontracted work. With that and similar safeguards in place, the bill neatly anticipates potential problems on the way to providing the City with a more predictable revenue stream and business-friendly tax environment.

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

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

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

Thank you for your consideration.

COUNCILMAN GREEN: Thank you.

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

Our organization is about 179 new car and truck franchise dealers. Seventeen of them are in Philadelphia. It used to be a lot more, but there's 17 left, and they employ about 1,400 people, most of whom live in Philadelphia. We generate about $2.7 million in wage tax and business taxes of about 2 million and, of course, sales tax generated on the sale of the vehicle, and we sell about a billion dollars a year, just those 17 franchise dealers in Philadelphia.

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

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

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

I think I'll stop there. We've done enough today. I appreciate -- our support is going to be for the bill, and appreciate the effort of Councilman Green and his peers in pushing it forward.

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

MR. EMMONS: Absolutely. Absolutely.

COUNCILMAN GREEN: And why will it do that?

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

COUNCILMAN GREEN: And is your deciding as Toll Brothers -- I guess you can speak more for them than as the BIA as a whole -- where to make investments, buy real estate, create jobs by building things, et cetera, how much the taxes play into whether or not a project pencils or not between, say, here, Montgomery County, other places you guys invest? I mean, is it an important factor in your decision-making?

MR. EMMONS: Absolutely.

COUNCILMAN GREEN: Thank you.

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

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

COUNCILMAN GREEN: Mr. Masters.

Thank you very much.

(Witnesses approached witness table.)

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

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MS. GAUTHIER: I am.

MR. MASTERS: Jamie is going to be testifying.

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

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

SBN is a non-profit membership organization for locally owned businesses that are environmentally and socially responsible. Our mission is to help our business members thrive while also working towards a greener and fairer economy in the Philadelphia region. We have about 400 business members that are mostly small businesses, 50 employees or less, that represent a wide variety of industries and business sectors, including retailers, manufacturers, renewable energy providers, green builders, local banks, food businesses, small business service providers, and others.

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

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

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

We like that it has the

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

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

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

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

We also really like the fresh food tax credit and think that it has the potential to positively impact food deserts. And so there are several things about this bill that we support.

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

There are also areas of this bill that concern us. Highest on this list is the eventual phasing out of both the gross receipts and the net income tax, essentially excusing businesses, even large ones, from paying any local corporate income taxes. SBN, as an organization advocating for sustainable local economy and sustainable communities, cannot endorse a bill that would essentially allow all businesses, even large players, to avoid their fair share of paying for our city's infrastructure, community, and quality of life, the essential public assets each business relies upon to maintain and grow their operations.

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

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

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

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

MS. GAUTHIER: Thank you for

coming.

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

MS. GAUTHIER: Thank you.

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

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

COUNCILMAN GREEN: Thank you.

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

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

(Witness approached witness table.)

COUNCILMAN GREEN: Mr. Hoffman,

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

MR. HOFFMAN: My name is Seymore Hoffman. I'm here for a property that we have in Germantown section, Greene and Chelten, northwest corner. Our family owns the property. It's a commercial property. And every item of taxes that we can are leases we pass through to our tenants. In the last two to three years, we did not charge the increases in CPI or the use and occupancy tax or our liability insurance, which is part of the lease. Now we got Germantown Special Services, additional 12 percent of our real estate taxes, and my -- our property, by the way, is 40 percent vacant because of all the taxes and all the competition and what-have-you. So the more taxes makes it less attractive for us to be able to rent our spaces, which again will produce more taxes, the use and occupancy, so forth and so on. This is a disadvantage to small businesses that may want to rent a property anywhere in the City of Philadelphia. The more taxes, the less opportunity to invest, what-have-you.

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

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

The City, I know, needs money. We need money. And it's a vicious cycle. Taxes are necessary, but some of these taxes, it's like you're sitting over the weekend trying to figure out where else can we get money. There's other places to get money, and if you want, I'd be more than glad to sit down with somebody and explain different things that I learned from my father over the last bunch of years.

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

That's it.

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

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

COUNCILMAN GREEN: Great.

Thank you.

Any questions?

(No response.)

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

MR. HOFFMAN: Thank you.

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

(Witnesses approached witness table.)

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

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

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

I am here today to urge this

committee to hold this bill and reject Bill 130530 because it is unconscionable. This bill calls for the complete reduction to the elimination of the main business tax of the City. You are talking about the elimination of $400 million from the City budget, 10 percent of our City budget, and you have not announced where the replacement revenues are going to come from, how else you're going to fund our schools and our City services.

COUNCILMAN GREEN: Just point of information. No revenue from business taxes goes to schools. That's a separate tax. But please proceed with your testimony.

MS. COHEN: All right. Well, 10 percent of the City budget you're talking about eliminating and we don't know where the revenue is going to come from and we don't know if you know where the revenue is going to come from to replace that.

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

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

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

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

MS. COHEN: Well, the contrast could not be more clear, how Council repealed my father's, Councilman David Cohen's, wage tax rebate for low-income working families and apparently there was a thought that we don't have enough money to help low-income working families, but suddenly we have enough money, $400 million, to give a windfall to corporations.

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

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

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

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

Also, our world at this moment, the entire global community, is mourning the passage of Nelson Mandela, one of the greatest leaders of all time. One of my favorite quotes of his, he states, Like slavery and apartheid, poverty is not natural. It is people who have made poverty and tolerated poverty, and it is people who will overcome it. And overcoming poverty is not a gesture of charity. It is an act of justice. It is a protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom.

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

COUNCILMAN GREEN: Thank you.

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

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

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

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

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

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

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

Diane Mason says, Repealing the

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

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

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

John Spear says, How dare you

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

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

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

Janet Boise says, Repeal the tax on small businesses. Not everyone who run businesses are not yet making a profit. Make other businesses pay.

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

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

COUNCILMAN GREEN: Thank you.

Is anybody else here to testify?

Please state your name for the record and proceed.

MR. BUTLER: Thank you. Good afternoon, City Council, Chair, Mr. Green, Mr. Greenlee, good afternoon. My name is Andre Butler and I'm a Board member of the Philadelphia Unemployment Project. I also am here representing TURN, Tenants Unit Representative Network. But I would like to be speaking predominantly as a common person, even though the people that we represent and that I represent are other common folk, but just to put a common citizen, plain citizen face on this particular issue.

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

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

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

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

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

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

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

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

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

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

Secondly, the last thing I would like to say is, human face on a particular issue. Several years ago my father went to one of the non-profits in this city, because we were in a situation where we were about to lose our house. And there was a grant that the City had. It was a $10,000 grant that certain non-profits had to pay for when you were behind in your mortgage. At that time, the non-profits who were allowed to have that grant didn't have them because the City had reduced the grant, because the City didn't have the money to pay for that particular grant. So we had to go through other means to save our house. But that was a very traumatic position for my father to take -- to see, because he couldn't get the money from the City to help save his house. So on last Friday, had to go to the funeral home to identify his body. I don't believe he ever got over that. I know he didn't get over that, because there was a house for which he had worked for and had paid a mortgage on for almost 40-some years that he couldn't save the way he wanted to save it, because he needed -- he had to get a loan to be able to keep it, not a grant you could just have the money and just paid for it and gotten it back. He had to get a loan to be able to keep that house.

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

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

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

COUNCILMAN GREEN: Thank you very much.

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

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

My church is around an area in North Philadelphia where there's a 50 percent poverty rate. Twenty-five percent of the individuals are in deep poverty. That is for an individual $5,500 a year that they're making. Most of the area that I'm in has a 30 percent unemployment rate for African Americans.

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

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

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

I also was concerned with, as I've heard the conversation -- because one of the questions I had, was it revenue neutral or not. And I heard many people say it is revenue neutral. But then I got -- as I read the bill, I can only see that I guess that would be up to 2019, because after 2019, both of these taxes are reduced to eventually there is neither one of these taxes on the book. So essentially the bill then becomes a business tax cut. And in this time of very low revenues and this time in which we don't have enough money, even though you correctly said that you don't have to fund the school budget, but it was every year you're asked to do it anyway or do some part of it, that of all of the things going on in the City regarding our infrastructure, regarding our streets, regarding our buildings, just regarding the quality of life in the City of Philadelphia, I find it very difficult to support a tax cut, even if the tax cut begins in 2020 and then stretches from that point on.

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

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

I know everybody has an interest and a concern for creating jobs, but I also know that every business that receives a tax cut doesn't create a new job with it. Many times they just put those profits in their pocket or they move on in their business. To assume that somehow by giving a tax credit we are definitely going to create more jobs for the City of Philadelphia seems to be, without the statistical analysis and study, seems to be not exactly as clear as it needs to be.

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

Also, finally, I would say that over the last 30 years in this country, almost a solution to everything has been a tax cut, a business tax cut, the whole idea of supply side economics, the whole idea of trickle-down economics. And it doesn't really -- it has proven that it doesn't really trickle down on the poorest of poor people and doesn't really help the poorest of poor and doesn't make a difference in the lives of poor people. Since 1973, real wages of all employees in the United States have gone down, and a lot of it has been because of the business tax policies, that somehow if we give money to those who are in business or we give money to the very rich, somehow it's going to help the very poor.

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

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

Thank you very much for your time.

COUNCILMAN GREEN: Thank you very much.

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

So just a few quick notes. I appreciate all of your testimony, and I agree with the sentiment of it completely. I want to end poverty. I want to create jobs for Philadelphia residents. I want to do all of the things you described, and that's why I'm promoting this bill, because my view is it does exactly the opposite of what your fears are. I will give you some stark examples.

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

Now, there are lots of other examples like that.

The economic rent that is paid by tenants in Class A space here in Center City is $12 per square foot net income tax. In the suburbs, rents are 27 bucks a foot. In the City, rent is 27 bucks a foot, plus 12 bucks. So the effective rent is $39 a foot.

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

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

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

REVEREND HOLSTON: If I could respond to just one of your comments, and I understand what you're saying. I don't think the City will ever be able to compete with the suburbs as far as tax base is concerned. Because of the services that are necessary to run the City, because of really the poverty that's in the City, we'll never be able to get as low. So if you chase that, you'll keep going lower, they'll go lower, you'll go lower, they'll go lower, and they will always win.

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

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

MR. SHAPIRO: He said he might.

REVEREND HOLSTON: He said he

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

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

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

COUNCILMAN GREEN: I'm not.

REVEREND HOLSTON: I think you are.

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

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

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

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

MR. SHAPIRO: Not paid for with taxes.

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

MR. SHAPIRO: But you are not replacing the taxes that you're repealing by continuing a policy which was not going to zero, which you're not taking to zero. You have no plan to replace those taxes, and yet you ask for a high quality of life. I mean, it's a wonderful wish list, which perhaps exists in Oz, but there's no evidence that there's any reason it can exist in Philadelphia.

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

COUNCILMAN GOODE: Thank you.

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

MR. SHAPIRO: I heard that discussion earlier. I'm opposed to this bill because there's no trade-off in this bill. There's no benefit in this bill that can possibly compensate for taking the business tax down to zero with no replacement of revenue. So I'm opposed to the bill, but on the theoretical question, I haven't given it a lot of thought. It seems to be a very worthwhile idea. It's certainly unconscionable that Center City real estate or U&O payments have declined at the same time that a huge number of ordinary Philadelphia citizens have seen their real estate taxes skyrocket over the last several years. So the owners of that real estate should pay their fair share.

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

COUNCILMAN GREEN: Just for the

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

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

Twenty million dollars of increased revenue is a fine thing, but it may be in the year 2025 that there is a tremendously pressing need other than that, and there should not be anything that's cooked into the books that says under this particular circumstance, the first thing that happens is if we have more money, the tax goes down. That's unacceptable to me.

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

MR. SHAPIRO: Well, I haven't seen the tail language of the amendment, and I think that Council also will perhaps have a different idea than the Administration whether or not all the needs have been taken care of by the spending that's in the budget.

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

MR. BUTLER: May I make a quick last comment, Chair, speaking about the City services. From an ideological standpoint, if we're eliminating the business taxes, I believe it's not fair, because they're benefiting by the City services, by the police, by the fire, by the first responders. Even if they don't live in the City, their business is in the City. And if we're eliminating their tax burden, then they're not paying their fair share for the services that they actually receive for their businesses. It's falling on our backs, on the workers' backs, on the workers of the poor that pay for City services for everybody else, and from an ideological standpoint, I don't believe that that's fair.

COUNCILMAN GREEN: Thank you

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

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

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

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

Mr. Mullin, Ms. Ward.

(Witness approached witness table.)

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

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

COUNCILMAN GREEN: Thank you very much for coming.

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

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

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

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

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

I don't want to point out and I'm happy to share with you, because I know that both of you read, a very small manuscript that goes through really extensively the economic literature about the impact of business taxes on location decisions and on growth, and really the literature concludes several things. One is that business tax changes do not pay for themselves, and I think it's clear that you've anticipated that there will be some reduction in revenue, and that general business tax cuts will return about 25 to 30 cents for every dollar in revenue loss.

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

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

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

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

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

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

So why does that happen? Because these are blunt instruments. Tax rate reductions are very blunt instruments. You are going to eliminate net profits for profitable corporations that are not based in the City of Philadelphia, and they will invest those dollars elsewhere. That's the reality -- the reality is that tax rate reductions can be -- increase income, and income can be spent outside the City. It can be distributed in terms of shareholders or investments in other places. And because of that, there's a lot of leakage. So, again, there are quantitative ways to look at what the benefit might be and determine if it is worth the expenditure.

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

So it does -- it leads to, I have to say, a lack of confidence in the public that the thought that is driving these policy proposals is unreliable, and that is the problem that we have here. Have we spent a hundred million dollars on gross receipts tax reduction over the past decade, almost 20 years, for naught? And, again, I'm not -- it's not -- it's an intellectual exercise. It is what's the best policy.

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

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

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

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

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

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

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

I certainly am not here to suggest that you might not want to make some modifications, but simply recognize that the cost and the incidence of those tax shifts have dramatic ramifications for others in the City, and I'll stop there.

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

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

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

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

So just a few facts that tend to be important.

Mr. Mullin.

MR. MULLIN: Yes.

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

MR. MULLIN: I heard Econsult

mentioned, yes.

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

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

Essentially I think it's two

things. One standard -- two reasons for this. One, the standard story of businesses setting up what I consider to be a straw dog of businesses versus residents and people, and a very strong sense of wanting to or trying to do income redistribution. The result I think here is, I've spent in the past ten years, I've been on panels, the real estate and economic development and business community here, lamenting the fact that we have -- there's a quip out there that we have Baltimore rents and New York City costs as one of the reasons why we have virtually no growth in our commercial office sector, while other central business districts throughout the country do and also commercial -- the no growth -- we've essentially had occupancy rates flat for the past 30-some-odd years in Philadelphia. Our one saving grace is that we have been able to reuse a lot of our older commercial buildings into hotels and residential because they fit out pretty well, and that I think has been a really big plus for Philadelphia. But overall it's been 25 to 30 million square feet of Class A office space built in the metropolitan area since Commerce Square was finished 20-some-odd years ago, all of it outside the City. That to me, there's no single number, data, story, analysis that doesn't point out that that's -- that that is primarily tax driven. This is commercial office space.

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

Number one, there's no question in the world of public finance theory or practice that says that if you try to redistribute income at the local level, you will not -- it will not work. You can't do that within a certain boundary. Firms move out of that when they hit a tipping point in their decision-making.

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

I think I've heard some testimony and I'm familiar with lots of discussion, I think we oftentimes will hear incredible confusion between three fundamental pieces of the tax story. One is a tax rate, one is a tax base, and the other is tax revenues. I actually remember seeing and I used for one of my classes -- one of my classes I used an Inquirer article where the first four paragraphs of the story used all three of those incorrectly, and my view, frankly, is that the business community will pay, if this is enacted in some way, shape or form like this, the business community will pay far more in taxes over time. It will be because the base is significantly greater and lower tax rates and we'll actually have more revenue. So the term "cutting taxes" versus "cutting tax rates" are things that I think we have to be very careful about.

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

I also will note too I've seen and I've heard now in my years in government, in Philadelphia and St. Louis, both two cities that were, relative to their suburban areas, were declining and relative to other cities and metropolitan areas were declining, that taxes don't matter, that the academic world says taxes don't matter. Those typically are macro cross-section analyses that basically say do you have a high tax in Philadelphia and you want to be in California? Guess what. That tax doesn't mean anything. When you get down to regional levels and smaller areas, taxes do matter, and it's very well established. Taxes do matter. I think you can take a look at the classic story that Paul Levy often shows, and that's a picture looking up and down City Avenue on that right in our own backyard here.

A couple of things I'd note here about the proposal to swap the roughly $300 million in the corporate income tax for gross receipts and others, where will the revenues come from? I think one thing to note here, there's been a lot of confusion out and I've read in the papers where they've incorrectly stated this too. Our net income tax is a corporate income tax. Our net profits tax is a version of our wage tax.

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

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

Second is the gross receipts, where right now it raises about a hundred million dollars, and raising another hundred to 200 million dollars of that would mean a doubling or a tripling of the gross receipts tax there.

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

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

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

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

I do consider that the corporate income tax, the net income tax, is the bad tax here in Philadelphia. It is the biggest and main one. It's unprofitable on growing companies. I believe that our net income tax has been at least a good chunk of the reason why Conshohocken and suburban office locations throughout the entire metropolitan area have been as strong as they have been over the past 20 to 30 years, even though they're having some overbuilding stories very, very recently. Most of those new office buildings -- I recall when I was Commerce Director getting invited to many ribbon cuttings, where I knew the businesses that were moving into the new offices and the new spaces in Montgomery County and Chester County, because the six months before we had been in saying, What do we have to do to get you to stay in the City. So I knew a bit of them. I'm not saying that's a hundred percent, but that's certainly a big chunk.

It is the -- as Councilman Green mentioned a few minutes ago, it is a sizable chunk of the extra cost associated with commercial office rental in the City of Philadelphia, and that money is basically not available for the supply, so you don't get any supply on that. It hurts exporting companies that otherwise would be ideal -- when I say "exporting," I mean with a little E. That means anybody who sells services or products outside of the City of Philadelphia who don't have to be inside the City of Philadelphia, and they get an immediate increase in their bottom line there that in other cities you would find these businesses in the central business districts supporting the overall city's general fund and general operations.

And in a more competitive world -- and I think that's possibly the one forecast that I believe is legit forevermore, is that every minute of every day of every week of every month of every year from now on, the world will be more competitive in the business world here. That non-competitiveness associated with the taxes here in Philadelphia will be bad. I also happen to believe that because of that, it will have a significant employment effect, both direct and indirect there.

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

Another thing that would be interesting to see -- my recollection from a few years ago and from many years ago, that after you take the top 10 or 20 payers of the gross receipts tax, the amount, the average amount, for the other tens of thousands of companies paying gross receipts tax falls dramatically, and the numbers that people are talking about are really pretty small on that front.

I've heard a lot of talk about gross receipts being -- and this is one of the things I think drove things in the past couple decades here, that the gross receipts was not related to income. Well, neither is the property tax, retail sales taxes or all the other charges and regulations that the City or any, for that matter, local governments do. And in the olden days, since we didn't have a working property tax system that most other cities have one way, shape or form, we didn't sort of understand that paying taxes related to income as opposed to paying taxes based on your operations.

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

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

So I think I'll stop there, if I may.

COUNCILMAN GREEN: Thank you.

Thank you both for your testimony. You both were not here when the accountants who represent all sorts of people were here, and basically they agreed with the following statement, that a company that sells goods into this market, so not a service company, if we pass this tax, will have no advantage to be located outside of the City. They will have no disadvantage by locating inside the City of Philadelphia from a business tax perspective if we pass this bill, because they will pay the same tax whether they are located in Russia or Philadelphia, because they'll pay the gross receipts tax based on their sales only within the City and county limits.

So we are completely leveling the playing field for every business and industry without -- at least initially in the first five years this is revenue neutral -- without impacting the City's revenues.

And the other major point made by the accountants that maybe you could both address is that when you're talking net income tax, you're subject to Congress changing the law with respect to what net income is in terms of what the City and state can collect, and you also because of a 1959 law have to have much more of a nexus to be able to collect it for businesses that aren't headquartered here. So businesses headquartered here can't -- or have property or plant or equipment here can't avoid the net income tax very easily. Companies that sell into this market that don't can easily avoid it because of a 1959 federal law. Are you familiar with that law?

MS. WARD: (Ms. Ward shakes head in the affirmative.)

COUNCILMAN GREEN: And going to gross receipts will allow a shift of a significant burden of tax that is paid currently -- and I think, Mr. Mullin, you can speak to the data you studied in 2010 that bore this out -- shift a significant portion of the business tax burden that is currently paid to the City from Philadelphia headquartered and based businesses to non-Philadelphia headquartered and based businesses, like they've seen in Ohio with the adoption of the commercial activity tax there, because the tax can't legally be avoided when it's a gross receipts tax in our market.

MS. WARD: So I'm sure Steve can discuss that, but I want to say a couple of things about that. The reality is this, that across the country, states have been adopting changes that essentially shift the tax burden to people outside their political jurisdiction. We've just moved to single-sales factor here in Pennsylvania and in the City of Philadelphia. So big manufacturers who use the roads, the schools, the waters essentially pay no income taxes.

COUNCILMAN GREEN: That's not true. If they have property, plant, and equipment here --

MS. WARD: I'm talking about in Pennsylvania. And, again, we're moving toward single-sales factor and we are shifting the responsibility to sales, and in doing so, that means that we are taxing out-of-city, out-of-state companies. Everyone in every other state is doing the same thing. So the net -- what's the net impact? Has it had any difference -- is it making any real difference on business location? I don't believe that it is.

Let me talk --

COUNCILMAN GREEN: It's making a real difference for the $60 million in taxes that Philadelphia businesses won't pay that will be reverberating around our local economy that they used to pay.

MS. WARD: Potentially. At the same time, those companies may be investing those dollars in their -- in expansion outside the City of Philadelphia.

COUNCILMAN GREEN: Of course, but why is it --

MS. WARD: They may be investing those dollars --

COUNCILMAN GREEN: But nothing

you said explains why it's a bad policy to level the playing field for Philadelphia businesses.

MS. WARD: Well, I would say that there are two reasons.

COUNCILMAN GREEN: So on a revenue neutral basis, it's your view that it's a bad policy to level the playing field for Philadelphia businesses that sell goods?

MS. WARD: Let me say that there are advantages, I would agree, to a gross receipts tax. There are advantages to a wide base and a low rate. I would agree with that assessment.

I would second say that I don't believe that -- I think that it's very nice that we will be giving a tax break to Philadelphia businesses. I don't believe that that translates -- leveling the playing field? I don't believe that business decisions are made to the extent that all of these models assume based on tax rates. Let me give you an example.

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COUNCILMAN GREEN: Before you do that, before you do that, are you familiar with Paul Peterson?

MS. WARD: Yes.

COUNCILMAN GREEN: An economist from -- I think he was at the University of Chicago. He may have moved on. I don't know where. But he wrote a book called City Limits. Are you familiar with the Tebow theory?

MS. WARD: No, I'm not.

COUNCILMAN GREEN: In today's modern mobile economy, employers migrate freely from one community to another and, as a consequence, they will calculate the impact of local government decisions such as taxes in choosing their community of residence. That's from City Limits by Paul Peterson, a very respected economist on this area.

Basically the point of City Limits is simple. In a region, as Mr. Mullin testified, the people who want to locate in that region can choose one side of a city line or another, and can easily do so while taking advantage of all of the options and opportunities available to them in that region, the arts, the airport, everything, and that is what is reflected on City Line Avenue. Do you disagree with that theory?

MS. WARD: I don't disagree with the theory.

COUNCILMAN GREEN: Do you disagree that as Mr. Mullin testified, the research in this area when you're not looking at macro issues, moving from states to states, when you're looking at moving within a region, the research is clear that you want to have as consistent a tax rate across the region as possible, and anybody with an inconsistent taxing jurisdiction will be not selected or adversely selected by businesses making location decisions?

MS. WARD: I can tell you this, that in regional areas in which there's a central city and there are suburbs that have no business taxes and no wage taxes, over the past 30 years those businesses have made decisions to move outside of the city. Those decisions were driven by factors other than taxes.

I also want to say that in Pennsylvania we have had a particular problem --

COUNCILMAN GREEN: But that doesn't answer the question.

MS. WARD: It does.

COUNCILMAN GREEN: Because obviously some businesses left because of quality of life here too.

MS. WARD: It does. My suggestion to you is simply that the business decisions are not going to be driven in entirety to the degree that these models are predicting by tax rates.

COUNCILMAN GREEN: It's the fallacy of the single factor, and I'm not suggesting there is a single factor.

MS. WARD: It is.

COUNCILMAN GREEN: I am

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suggesting it is an important factor.

MS. WARD: I think that remains to be seen. I think, again, we'll have to look at the total impact. Are we talking about 63 millionaires or are we talking about 6,300 millionaires? Again, it's simply a factor of an analysis that looks at is it worth it. Moving beyond the anecdote to the --

COUNCILMAN GREEN: But that's an analogy that doesn't apply to business location decisions.

MS. WARD: Well, other economists have said -- have used the same analysis to describe migration patterns of individuals.

So, again, I'm not suggesting that the City should not move forward with some ways of bringing more in line their business taxes with municipalities. I don't think you should overreach. I don't think that you should assume that all those dollars or even the majority of those dollars are going to be spent in the City of Philadelphia. I do not believe that you should discount the other benefits that occur and the premium here in the City of Philadelphia --

COUNCILMAN GREEN: Let me ask you -- it's a simple question. You heard Mr. Mullin's testimony. I've told you about the research and City Limits and the Tebow theory and other things. You understand broad-based, low-rate taxes are the least dissortative tax you can apply to an economy. It will result in far less tax avoidance behavior. One of those behaviors is moving. We've had numerous people testify over the years that we've talked to that do move because of our taxes. In fact, as Commerce Director, our current and our past, that's generally what they do, chase businesses that say we're moving out because of your tax structure.

So the question is this: If this were revenue neutral, a shift from net income to gross receipts, would you object to it?

MS. WARD: No, I don't think I would.

COUNCILMAN GREEN: Thank you.

That is all the questions I have for now.

Councilmember Goode.

COUNCILMAN GOODE: Thank you, Mr. Chair.

Mr. Mullin, you're the former Finance Director for the City under Mayor Ed Rendell, former Commerce Director for the City. I know because my office was next to yours in one building and down the hall in another. You've been with Econsult or Econsult Solutions for several years, which did work with the Tax Reform Commission report, I believe probably did work with the report from the Mayor's Tax Force on Tax Policy and Economic Competitiveness. I know firsthand you did work on the Jobs Commission report.

None of those administrations

and/or administrative commissions made this recommendation. I'm not going to ask you whether that makes a difference or not. The question is now two very simple questions. One, how much can we afford to invest in business tax reform within the City's Five Year Plan, one; and, two, where is it best invested?

MR. MULLIN: One, I think that we can afford in terms of actual reductions close to zero, frankly, going out in the future. I know there are reductions in the rates contemplated in the Five Year Plan there, but I think that there isn't a lot of room for saying let's reduce the budget by a significant amount. By the way, on that I consider -- I heard a number 20 million, 30 million, 40 million, those sort of one percent of the budget. I consider that to be, you know, straddling the line of still balance in one sense there, but not a real lot of money for that. And the way -- and what's the best -- where do I think we get the best return for a dollar or a rate reduction --

COUNCILMAN GOODE: I'm not sure you answered the first question.

MR. MULLIN: What's that?

COUNCILMAN GOODE: I'm not sure you answered the first question. The first question was how much can we afford to invest in business tax reform. There is $160 million on the books now within the Five Year Plan. Can we afford that? Can we afford a lesser amount? Can we afford a greater amount? How much can we afford in terms of business tax reform? That's the first question.

MR. MULLIN: I would say that I would essentially buy the Administration's story that that's about what you could do. I'd always be a little bit more aggressive and say we could buy more, because I do believe that there's growth in the tax base. So over five years, I would say $50 million a year instead of the roughly 30 if you're saying 160 over five years there. So something in that order of magnitude.

COUNCILMAN GOODE: How would you invest that quarter of a billion dollars?

MR. MULLIN: I would invest that in first reducing the net of -- reducing the net income rate, tax rate.

COUNCILMAN GOODE: And would you raise the gross receipts at all?

MR. MULLIN: I'd raise the gross receipts to either allow for that 50 million that I was talking about or --

COUNCILMAN GOODE: But you can invest that same amount of money in just cutting the net income portion without raising the gross receipts?

MR. MULLIN: Correct.

COUNCILMAN GOODE: I'm asking how would you do it.

MR. MULLIN: How would --

COUNCILMAN GOODE: How would you invest that quarter of a billion dollars?

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MR. MULLIN: I'd invest it by not raising the gross receipts tax as much.

COUNCILMAN GOODE: So you would not --

MR. MULLIN: No. I would still have the gross receipts tax increased to make up the reduction, but it doesn't have to be completely -- it wouldn't have to be the full amount now.

Now, that said, if I'm --

COUNCILMAN GOODE: So you would not raise the gross receipts portion as much as is within this bill?

MR. MULLIN: Yeah. If I were in charge, that's what I would say.

COUNCILMAN GOODE: I gave you the big buildup, former Finance Director, former Commerce Director. You've contributed to probably every report on this subject over the last I don't know how many years. I'm asking how much can we invest and what you would invest in. So I'm asking you specifically how would you invest it.

MR. MULLIN: Yeah. I think my answer to that is that I would invest it in the reduction of the net income tax rate and increase -- which, by the way -- I'd have the net income tax rate reduced more than the 50 million and have the gross receipts tax rate increased to get to the -- to have it be a net of 50 million, if I were looking aggressively. I think this has -- the gross receipts tax rate would go the full amount to get rid of any of that gap.

COUNCILMAN GOODE: And if we have the option of increasing the commercial and industrial property tax rate, would you use that vehicle?

MR. MULLIN: Yes.

COUNCILMAN GOODE: Thank you.

MR. MULLIN: I agree with that.

COUNCILMAN GOODE: Thank you.

COUNCILMAN GREEN: I agree with that too and, frankly, if -- I'm told by Senate republicans that there won't be, but if there is a constitutional amendment that would permit us to differentially tax in the future, I certainly would swap whatever gross receipts tax we have for that tax. I far prefer that too, Councilmember. It's just not an option that's available to us today, and we have to retain our businesses today, put our businesses today who are here invested in our city on a level playing field with their competition, and we'll have sent a strong message to the business community that we're open for business on a revenue neutral basis for at least the first five years.

MS. WARD: Could I suggest if you had additional dollars that you might consider spending them on not the tax side of the ledger. Our community college system is woefully underfunded.

COUNCILMAN GREEN: Ms. Ward, we completely agree with you. That was not the premise of Councilman Goode's question.

MS. WARD: That is true. Had he asked it to me, I believe he would have allowed me additional latitude to answer the question as I saw fit. And having to also unfortunately spend a great deal of my time in Harrisburg, I can tell you at the moment that a constitutional amendment around uniformity is a distant object, although it would be very beneficial to have support of the Philadelphia business community on that. There are several things that could be done, though.

COUNCILMAN GREEN: But just to make clear, it's highly unlikely that we're going to get that constitutional amendment.

MS. WARD: Yes. That's what I meant. Not happening.

I mean, there are other options. You could dramatically increase the homestead exemption and increase the property tax rate. I mean, that really is the only way under the uniformity clause that you would be able to change the difference, essentially accomplish the same goal.

COUNCILMAN GREEN: Actually, Ms. Ward, that does not accomplish your goal, because that shifts -- although it shifts a significant tax burden to businesses and commercial and industrial properties, most of the tax burden that results from increasing -- most of the burden goes to residential property owners, not to businesses. So when you increase the rate, it's paid by residential, not commercial and industrial. So even though you're giving an exemption, it only benefits those whose properties, say, are below 120, 150 thousand and everybody else is paying more. So you could make a decision that you want a whole bunch of people who pay no property taxes to the City of Philadelphia and then everybody else supports them getting City services, but that's what the policy you just proposed would do, because we did look at the balance of all of that in the AVI discussion last year.

MS. WARD: Well, I do have to say that -- and you acknowledge that -- I would be much happier with a revenue neutral approach. I'm concerned that individuals in Philadelphia will pay income taxes and companies will not. I think that that is relatively unfair and it's --

COUNCILMAN GREEN: Companies will pay taxes, and there are only -- do you know what the five cities are in the country that have a net income tax?

MS. WARD: There are a small number of them.

COUNCILMAN GREEN: Yes, five, because it's a model that doesn't work. New York and Washington, DC are exceptions to every rule, and they have them. The other cities are Philadelphia; Columbus, Ohio; and Detroit. And we are

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starting to emulate Detroit in terms of our poverty rate.

MS. WARD: I have to tell you, Columbus --

COUNCILMAN GREEN: Now, I wouldn't tie it just to this factor, because I agree, but the many factors, poor quality of life in many neighborhoods, our schools, and our business tax structure, is what drives that. If we had the businesses that are on the other side of City Line Avenue that are knowledge-based industries, that are the trading firms that used to be in our stock exchange, et cetera, we'd have hundreds of millions of dollars in more tax today. And I know why all those companies left, because I talked to their founders. They left because of the net income portion of the business privilege tax.

MS. WARD: Well, two points. One is, Pennsylvania's economic development subsidy policies have been a real detriment to Philadelphia and other inner cities. There has been -- they've driven sprawl pretty dramatically.

I also want to point out that the State of Ohio is performing much more poorly than Pennsylvania or most other states in the nation. The exception in Ohio is Columbus, Ohio. That town and that county are enjoying extraordinary growth quite different from the rest of the states.

So I simply want to say that a debate that looks just at business taxes overemphasizes the value in location and investment decisions.

COUNCILMAN GREEN: I don't --

MS. WARD: And we disagree, and I can appreciate that.

COUNCILMAN GREEN: Yes. But I'm not suggesting that we should look at a single factor, and on that I want to be clear. I'm saying it's the only factor that I can influence as a Councilmember.

MS. WARD: We can put a heck of

a lot more money into our community colleges and our schools.

COUNCILMAN GREEN: Councilmember Goode.

COUNCILMAN GOODE: Just real briefly. I don't know how we determine the livelihood of a constitutional amendment in the future, just like if you go back three years ago, if someone told you that this legislation was going to pass three years later, most people would say you're wrong. So I think that the issue is whether we pursue the best policy, not whether we think it is politically practical or not.

COUNCILMAN GREEN: Mr. Mullin, and then we're going to take a five-minute recess for the stenographer and hopefully call people back to the Committee. Mr. Mullin.

MR. MULLIN: By the way, I agree wholeheartedly on the notion of the commercial -- heavier reliance -- heavier assessment ratio for commercial and

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industrial properties here, and I think that's standard around. I am not in the group that believes that the U&O is not -- the U&O tax that we already have is not a very, very good approximation of that. In other words, I believe that U&O is an approximation that, for all intents and purposes, would work very, very similarly. I know that that's like dropping the fizzy in the water in some circles, but...

COUNCILMAN GREEN: So I want to thank both of you for your testimony. You are very well respected in your fields both here and in Harrisburg. Thank you.

I want to note for the record that you have both testified that if this were revenue neutral, you would favor this change. And so we'll see what happens once we get this out of committee. But thank you very much.

MR. MULLIN: Thank you.

COUNCILMAN GREEN: We will take

a five-minute recess.

(Short recess.)

COUNCILMAN GREEN: The Committee on Finance hearing will come back into order. Is there anybody else here to testify on Bill 130530?

(No response.)

COUNCILMAN GREEN: Seeing none, we will now end the hearing and recess for two minutes and go into the meeting.

(Pause.)

COUNCILMAN GREEN: The meeting on Bill 130530 will come to order. I will ask the Vice Chair, Marian Tasco, to please move the amendment to Bill 130530.

COUNCILWOMAN TASCO: I move the amendment to Bill No. 130530 as presented.

(Duly seconded.)

COUNCILMAN GREEN: The amendments which have been circulated have been moved and seconded.

All in favor?

(Aye.)

COUNCILMAN GREEN: All opposed?

(No response.)

COUNCILMAN GREEN: The ayes have it.

Councilmember Tasco, if you would please move the bill, as amended.

COUNCILWOMAN TASCO: Mr. Chair, I move that Bill No. 130530, as amended, be reported out of committee with a favorable recommendation.

COUNCILMAN GREEN: Thank you.

(Duly seconded.)

COUNCILMAN GREEN: The bill has been moved and seconded, as amended, to be reported from this committee with a favorable recommendation.

All in favor?

(Aye.)

COUNCILMAN GREEN: All opposed?

COUNCILMAN GOODE: No.

COUNCILWOMAN BLACKWELL: No.

COUNCILMAN GREEN: Let the record reflect that Councilmembers Squilla, Greenlee, Tasco, Johnson, and

Brown voted yes -- Green and Brown voted yes, and Councilmembers Blackwell and Goode voted no.

That concludes the business of the Finance Committee. Thank you, everyone, for your attendance and patience.

(Committee on Finance concluded 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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