

Business Privilege Tax Pilot Programs Frequently Asked Questions

What are the pilot programs and who is affected?

The Administration has established two separate pilot programs to test the feasibility and effectiveness of implementing apportionment methods different from the City's current apportionment method.

- The first program requires the use of Single Receipts Factor apportionment method for businesses engaged in Research and Development in the Physical, Engineering, and Life Sciences classified in Industry 54171 of the NAICS. For this pilot program, for the tax year beginning January 1, 2010, a taxpayers' net income (after adjustments and allocation) shall be apportioned based on business receipts only, without considering property and payroll factors.
- The second program mandates Market-Based Sourcing of service revenue for businesses engaged in Computer Systems Design and Related Services classified in Industry 54151 of the NAICS. Under this pilot program, for the tax year beginning January 1, 2010, a taxpayers' net income (after adjustments and allocation) shall continue to be apportioned based on property, payroll and business receipts. However the receipts factor will be based on the location of the customer. Currently the receipts factor is based on where the income-producing activity takes place.

Where can I find the regulation on the Business Privilege Tax pilot programs?

Access the regulation here:

<http://www.phila.gov/revenue/pdfs/Rev%20PDFs/AmendmentToSection408.pdf>

How do I file under the pilot programs?

Access instructions on how to file under the pilot programs here:

<http://www.phila.gov/revenue/pdfs/Rev%20PDFs/BTPilotProgramsInstructions.pdf>

What's the City's purpose in implementing this pilot program?

Studies have shown that Philadelphia's business tax structure provides a disadvantage to Philadelphia-based businesses. The Mayor's Task Force on Tax Policy and Economic Competitiveness recommended implementing these two business tax changes in order to remove that perceived disincentive for businesses to locate in Philadelphia. However, the impact of changing the City's current apportionment method on Philadelphia's economy and finances are unclear, which is why the Administration has chosen to implement small-scale pilot programs. The impact of these tax changes on the targeted sectors will be studied annually in order to better understand whether and how the policy changes affect businesses.

(Access the final report and recommendations from the Mayor's Task Force on Tax Policy and Economic Competitiveness at: <http://www.phila.gov/taxpolicy/>)

Why was (wasn't) my industry picked?

The Administration sought to balance the following criteria in selecting the pilot sectors for the regulatory tax changes:

1. A sector that is expected to grow nationally in the next 5-10 years.
2. A sector for which Philadelphia offers a competitive locational advantage.
3. A sector that employs Philadelphia's existing workforce, retains recent graduates and/or attracts new talent.
4. A sector that will export goods or services.
5. A sector that has an above-average economic impact for the city and/or region.
6. A sector that is currently under-represented in Philadelphia relative to the nation and/or region.
7. A sector that would benefit from the proposed change.

Both of the sectors selected for the pilot - Computer Systems Design and Related Services, and Research and Development in the Physical, Engineering, and Life Sciences - scored well with the criteria listed above.

I ran the numbers and I pay more, how is this fair?

The purpose of these pilots is to demonstrate whether changing the City's current apportionment method can put all businesses on a level playing field and have a positive impact on Philadelphia's economy. That will mean that some businesses will pay more and some will pay less, but we are attempting to determine whether the overall impact on Philadelphia's economy will be beneficial. We appreciate all of the businesses that operate in Philadelphia and are hoping to create an environment where all can prosper. If you would like to speak with a technical advisory staff member in the Department of Revenue, please contact: 215-686-6434 or RevenueTaxAdvisors@phila.gov

When will the first results of this program be out?

The results of the pilot programs will be studied annually and the first assessment will be complete by Fall 2011.

How long will the pilot programs last?

The pilot programs are expected to be in effect for two years. The City will determine their impact on businesses and, based on the results, decide whether to expand or abolish the pilot programs.

I am registered under a different NAICS code, but my business operations better match one of the pilot program NAICS codes. What do I do if I want to utilize the pilot program?

The NAICS code should represent the primary operation of the business. If you believe your business is registered with an incorrect NAICS code you should contact the technical advisory staff at the Department of Revenue at: 215-686-6434 or RevenueTaxAdvisors@phila.gov

Is this a credit program?

No, businesses do not receive a tax credit under these pilot programs. Businesses affected by these pilot programs are required to use a modified apportionment formula when filing their Business Privilege Taxes.

Who should I contact for more information?

Please contact the technical advisory staff at the Department of Revenue at: 215-686-6434 or RevenueTaxAdvisors@phila.gov.