

Tax Bill Summaries

Bill No. 040009—Reduces Wage and Net Profits Tax Rates

This Bill would accelerate the incremental reductions in the Wage, Earnings, and Net Profits Taxes already built into the proposed Plan and mandate reductions in every year through 2014. The resident rate would reduce more rapidly than the non-resident rate so the two rates would equalize at 3.25% (including the 1.5% PICA tax for residents) in ten years. The Tax Reform Commission (TRC) projected that this bill would cost the City \$98.1 million from FY05-FY09, in addition to the \$236 million in cuts already proposed in the Plan. The impact would increase dramatically beginning in FY09, however; the cost is projected to be at least \$291.3 million from FY10 to FY14, based on the FY09 tax base (the TRC provided no estimates). By locking in rates in future years, the Bill is also inconsistent with the TRC's theory that the City should have the flexibility to increase rates by less than the amounts included in their report if financial conditions worsen. The Administration *opposes* this Bill.

Bill No. 040010—Business Privilege Tax (BPT) Rates

This Bill provides for the incremental elimination of the BPT by fiscal year 2015. The gross receipts rate reductions proposed through 2008 are those already in the City's Five-Year Financial Plan. The phase-out of the net income portion of the tax begins in fiscal year 2006. This Bill is projected to cost the City \$194.5 million from FY05-FY09, in addition to the \$125.1 million already included in the Plan. The impact would increase beginning in FY09, as the size of the tax rate cuts become larger in the later years. This bill would cause the City to eliminate a tax that currently provides 14 percent of all tax revenues, with no offsetting compensation. In other words, the City would have to increase real estate taxes by 75 percent to pay for this bill by FY15. By locking in rates in future years, the Bill is also inconsistent with the TRC's theory that the City should have the flexibility to increase rates by less than the amounts included in their report if financial conditions worsen. The Administration *opposes* this Bill.

Bill No. 040011—Establishing Property Assessment Appeals Board

This Bill would lead to the implementation of the Tax Reform Commission's recommendations concerning the reorganization of the functions of the Board of Revision of Taxes (BRT). It would remove the authority to hear appeals from the BRT and reassign it to a newly appointed independent City agency to be known as the Property Assessment Appeals Board. It would also require the BRT to adopt, publicize, and annually update assessment practice principles. This amendment would require the approval or disapproval of the voters. As a result, the Bill includes authorization for a special election on November 2, 2004, sets forth the proposed ballot questions, and sets forth requirements for publicizing the election. The BRT *opposes* this Bill. The Administration is neutral regarding this Bill, assuming that it is implemented in a cost-neutral way.

Bill No. 040012—BPT Definition of Net Income

This Bill would amend the definition of "Net Income" used to determine the net income of unincorporated businesses by allowing them to deduct payments (distributions) to partners, members, and sole proprietors as though they were wages. This would reduce the net income base for the BPT. The Bill would phase-in these deductions until the deduction reaches 100% in 2010. The TRC and the Revenue Department have been unable to identify a cost for this change.

Although this change would benefit partnerships like law and accounting firms by making their tax liability more similar to those of incorporated businesses, the change could be costly (at least \$10 million per year). The Administration *opposes* this Bill.

Bill No. 040013—Real Estate Tax Rates and Bill Timing

This Bill would totally change the way real estate taxes are levied, beginning with the real estate taxes that fund the fiscal year 2006 budget. The TRC recommended the implementation of a system of budget-based property taxation. This Bill sets forth their proposal for putting this system in place. Effective with the tax year 2005, it requires the setting of two tax rates annually—a Land Value Tax Rate and an Improvements-Value Tax Rate and sets forth the method for calculating each. This Bill would also change the way the tax would be billed. Beginning with the real estate taxes that fund the budgets for fiscal year 2006 and thereafter, the tax will be billed and payable on a fiscal year basis instead of a calendar year basis. The tax would be due in one lump sum on or before August 31 each year, or, at the option of the taxpayer, in installments as provided in Bill No. 040018 and with discounts and penalties as described in Bill No. 040020. The impact of this revised billing schedule on operations and cash flow need further analysis. We also need to determine the impact that this will have on mortgage company escrow accounts and the way those payments are handled. The Administration *opposes* this Bill.

Bill No. 040014—BPT Estimated Payments

This Bill would require the Department of Revenue to provide for a minimum of two estimated tax payment dates for the BPT between April 15 and June 30. It also authorizes additional estimated payments in the first six months of the subsequent fiscal year. Under the terms of this Bill, the City would forego half the annual collections of the BPT in the year of implementation, causing budget and cash flow disruption. The Administration *opposes* this Bill.

Bill No. 040015—Phase-in of Land Value Tax

This Bill would mandate the phase-in over ten years of Land Value Taxation. Beginning in FY05 and thereafter a tax would be levied on assessed land at one rate and assessed improvements at a second rate. Over a ten-year transition period the tax rates for land and improvements would be changed so that the tax collected from each would equal 50 percent of total real estate tax revenues. A transition schedule and formula for implementing the change is included in the legislation. The Administration *supports* this Bill, on the condition that the start date is moved to FY06, when the BRT will have more accurate land values to support the implementation of the Bill.

Bill No. 040016—Repeal of Non-Utilization Tax

The Real Estate Non-Utilization Tax was designed to penalize the owners of unused, deteriorating properties. The City has never been able to collect this tax due to a court ruling. This Bill would repeal the tax. The Administration *supports* this Bill.

Bill No. 040017—BPT Definition of Net Operating Loss

This Bill would extend the net operating loss carry forward from three years to ten years, effective with the losses reported on next year's tax returns. Other jurisdictions, including Pennsylvania and the federal government, allow such losses to be carried forward for 20 years.

This Bill would require State-enabling legislation. The Administration *opposes* this Bill because the potential costs are unknown.

Bill No. 040018—Real Estate Tax Installment Payments

This Bill would establish a formal payment schedule for four installment payments of real estate tax and revise the discount, additions, and penalty schedule (See Bill No. 040020) in order to permit timely payment of these installments without additions. Implementing this Bill would require either that taxpayers make real estate tax payments twice within one year, or require the City to forego real estate tax collections in a fiscal year. It would also entail some increase in mailing and processing costs. The Administration *opposes* this Bill.

Bill No. 040019—Realty Transfer Tax Definition of Value

This Bill would amend the Realty Transfer Tax to restrict a taxpayer's ability to structure real estate transactions in order to avoid the tax. It would require the use of the formula now used to calculate the value of a property sold at sheriff sale to determine the value when the deed is transferred in lieu of condemnation. This is a change that has been recommended by Revenue and Law in the past in order to close a loophole, and the Administration *supports* this Bill.

Bill No. 040020—Real Estate Tax Discounts and Penalties

This Bill would establish new schedules for real estate tax due and payable commencing July 1, 2005 as a result of the proposed change from calendar to fiscal year due dates (See Bill No. 040013) and the establishment of quarterly installment payments (Bill No. 040019). The Administration *opposes* this Bill.

Bill No. 040021—Audit Time Period

This Bill would set the statutory refund and assessment periods at a uniform three years, which is consistent with Revenue Department practice, except for certain extreme cases. The Administration *supports* this Bill, except for Section 19-510A(2)(b), which the Revenue Department would like amended. That section provides that a taxpayer can disclose that an underpayment of tax has occurred because they have a position/interpretation of the tax that is contrary to the Department's position simply by putting a statement on the applicable tax form. This is unacceptable to the Department. It must be a written statement separate from the form. Tax returns are processed in mass with much of the data gathered by optical scanning. A note on a return form could easily be missed.

Bill No. 040022—Requires Council Ordinance Adjusting Real Estate Tax Rates to Use New Assessed Values for Billing

This Bill is in response to the BRT's announcement that they will change the way they determine the market value of a property—that they will assess at 100% of market value instead of a fraction of market value. The Bill would require that any change in the Assessment Ratio would only be enacted if City Council by ordinance adjusts the real estate tax rates to a level that will render the Assessment Ratio change revenue neutral or Council by ordinance makes a finding regarding the impact this change will have on revenues and expressly approves this impact. The Administration supports the concept of revenue-neutral changes in assessment ratios, but prefers not to have such narrow limitations written into law at this date. The Administration *opposes* this Bill

Bill No. 040023—Reduces BPT Rates

This Bill is *not* a Tax Reform Commission proposal, it was proposed separately by Councilmen Goode and Nutter. This Bill proposes the elimination of the gross receipts portion of the BPT by 2009, with faster tax rate reductions than those proposed in the FY05-FY09 Plan or in Bill No. 040010. This Bill would cost the City \$115.4 million from FY05-FY09. The Administration *opposes* this Bill.

