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Commissioner's Welcome

Welcome to the spring edition of ReveNews, the quarterly newsletter from the Philadelphia Department of Revenue. This publication will provide you with insights and information about tax policy and administration in the City of Philadelphia.

With tax season upon us, I want to thank you for your continuing commitment to Philadelphia as a place to live, work, and play. As Philadelphia and its residents face national and global economic distress, I greatly appreciate that the vast majority of Philadelphians are meeting their obligations by paying taxes and water bills on time and in full. Without you, the City would be unable to provide the services you and your neighbors rely on, like police and fire protection, clean and safe water, and parks and recreational activities.

Unfortunately, not everyone has been doing their part. Tax and water bill delinquents continue to ignore their responsibility to the City and their neighbors, making everyone else's burden heavier. In this edition of ReveNews, we will share how the Department of Revenue is working to improve delinquent collections, as well as how the current economic crisis will impact the City's tax policy and administration.

Best wishes and please remember to send in the city-generated payment coupons with all your payments!

- *Commissioner Keith J. Richardson*

2 Tax Rate Changes to Close Budget Gap

- Sales Tax increases from 7% to 8% for three years.
- Property Tax increases for two years before returning to FY 2009 level.

Philadelphia's fiscal condition has been affected dramatically by the national and global recession, with decreases in tax collections and losses to the City's pension fund. In November 2008, the Administration identified a \$1 billion gap in the City's five-year financial plan. To address the shortfall, the Administration found efficiencies, made service reductions, enhanced delinquent collection efforts, and suspended planned Wage and Business Privilege Tax cuts.

Unfortunately, conditions worsened and in January 2009 Mayor Nutter announced a second \$1 billion hole that needs filling over between FY 2010 and 2014. Efficiency improvements alone will not be sufficient to resolve this problem, and a plan was developed to balance the budget while protecting Philadelphia's most vulnerable people along with ensuring the long-term economic health of

Top 5 Real Estate Delinquents

- RHA/Phila Nursing Homes, Inc - 6900 Cobbs Creek Parkway - \$881,299.16
- United Machine & Tool Incorporated - 951 S. 53rd Street - \$220,308.46
- John E. McDaniel - 5301 Germantown Avenue - \$169,039.51
- Jennifer A. James - 5949-55 Larchwood Avenue - \$109,750.91
- Danuvia Development Corp. - 2013 Mount Vernon Street - \$103,650.64

*As of 2/16/09

Philadelphia.

As part of the effort to close the gap, Mayor Nutter proposed temporary increases to both Sales and Property Taxes. Legislation has been introduced into City Council for both increases, and the Sales Tax change also requires approval from the state legislature. Both pieces of legislation include rate schedules that automatically return the tax rate to current levels after a set period of time.

If approved, the Sales Tax paid by Philadelphians would increase from 7 percent to 8 percent on August 1, 2009. Currently Philadelphia receives 1 percent, and under the new legislation the City would receive 2 percent; 6 percent would continue to flow to the Commonwealth of Pennsylvania. The rate would return to 7 percent on July 1, 2012. This change is expected to generate \$341 million over three years.

The temporary Property Tax increase would raise the City portion of the tax in FY 2010 and 2011, and automatically drop back to its current level in FY 2012. The change is expected to generate an additional \$271 million over two years. If, however, state approval is not granted for the Sales Tax increase and changes to the City's pension amortization are not authorized, the FY 2012 rate reduction will still occur but be less steep. Assuming state approvals of other measures, the new schedule of proposed Property Tax rates is:

	Tax Rate per \$100 of Assessed Value		
	City Portion	School Portion	Total Tax
2009 (Current)	3.305	4.959	8.264
2010	4.905	4.959	9.864
2011	4.505	4.959	9.464
2012	3.305	4.959	8.264

Mayor Nutter says: "The free ride for tax delinquents ends now!"

Before considering service cuts and tax increases to fill the budget gap, the Administration stepped up its ongoing efforts to collect delinquent tax revenues. The vast majority of Philadelphians pay their taxes and water bills on time and in full. Without your strong participation in the civic life of our city through payment of taxes, bills, and user fees, we would not have the resources to provide the basic services upon which we all depend.

Unfortunately, not everyone has been doing their part to support city services. Tax and water bill delinquents ignore their responsibility to the city and their neighbors, making everyone else's burden heavier. All Philadelphians must pay their fair share and we are taking new, aggressive steps to ensure that everyone does their part. The City is intensifying its efforts to collect what it is owed by:

- Posting the names of tax delinquents on the City's website.
- Using data from the IRS to identify people who should be paying but aren't.

- Stepping up debt collection efforts.
- Expanding the number of audits we conduct.

Since the City published the original list of tax delinquents on November 12, 2008, it has collected more than \$1.4 million and entered into agreements to receive another \$1.4 million from those targeted for publication. The City has worked with the Sheriff's Office to serve more than 150 writs since September of 2008, seizing assets on behalf of the City from individuals and businesses that owe delinquent taxes. Overall, the Law Department's Judgment Execution Unit has collected more than \$2.6 million during the current fiscal year.

Helpful Links

Philadelphia Tax Forms
Print coupons and download Philadelphia tax forms
http://www.phila.gov/revenue/Form_2008.html

Plain Talk Tax Guide
An overview of all Philadelphia tax types
<http://www.phila.gov/revenue/pdfs/Rev%20PDFs/Tax%20Guide%20Rev.%2005-03.pdf>

Tax Rulings & Regulations
Questions of a technical nature? Check out the rulings and regulations.
http://www.phila.gov/revenue/Technical_Rulings.html

Electronic Filing & Payment
File and pay taxes online or by phone.
http://www.phila.gov/revenue/Electronic_Filing.html

If you would like to make arrangements to pay off a debt owed to the City of Philadelphia before we start legal proceedings, or post your name for friends and family to see, please contact us:

- Visit us online at www.phila.gov/revenue
- Water Delinquencies – 215.686.6880
- Real Estate Tax Delinquencies – 215.686.6442
- Other Tax Delinquencies – 215.686.6600
- Licenses & Inspections – 215.686.2463

If you have already been contacted by the Law Department, an independent law firm, or collection agency retained by the City, please contact them instead. If you don't know who to call, please call 311.

For those of you who have been paying their bills, we thank you. You are part of what makes Philadelphia such an incredible city. For those of you who have been avoiding your obligation to the City and your community, expect to hear from us!

School Income Tax - Yes, It Does Exist!

The Daily News printed a column on March 24th that appears almost every tax season. Harry Gross responded to a reader's letter asking why he got a letter from the Department of Revenue about a tax he's never heard of – the School Income Tax (SIT). Mr. Gross responded that the School Income Tax has been around since 1967 and ignorance of it is not an excuse for not filing.

The School Income Tax is a tax on various classes of unearned income which are not subject to the Philadelphia Business Privilege Tax or Wage Tax. Some examples of unearned taxable income include dividends and certain rents and royalties. All residents of Philadelphia who receive this type of income must pay the tax. If you are a Philadelphia resident for a portion of the year, the amounts are pro-rated for your period of residency.

Not all unearned income is subject to the tax. Interest received from bonds or debt obligations of the Commonwealth of Pennsylvania, its political subdivisions, or direct obligations of the Federal Government is exempt from the tax. Likewise, interest earned on savings and checking accounts is exempt.

We greatly appreciate the Daily News for calling attention to the SIT and

educating their readers about taxpayer obligations. To ensure that everyone is aware of the SIT, the Department of Revenue is spreading the word by contacting potential taxpayers directly to improve compliance in order to ensure that the School District of Philadelphia has the resources it needs to serve our students. Please help us by determining whether you or anyone you prepare taxes for should be filing. The SIT returns can be filed by mail and online. School Income Tax Forms and information can be found at:

<http://www.phila.gov/revenue/SIT.html>

New Reports & Publications Online

Ever wonder how much money the City collects and where it comes from?

The City of Philadelphia closely tracks trends in revenue collections from taxes, fees, and transfers from other governments. In this current period of economic distress, knowing how much is coming into the City's coffers is more important than ever. The Department of Revenue is now posting revenue collection reports and other publications on our website to provide citizens, taxpayers, researchers and others insight into the City's fiscal condition.

Weekly and monthly revenue collection reports for both the City and the School District are available. These reports show how much has been collected from each revenue source (ex. the Wage Tax or the Federal Government) and how it compares to a year ago. The Department is also sharing more detailed reports that track which parts of the City and types of properties are contributing to the Realty Transfer Tax and explores Business Privilege and Wage Tax payments by industry sector. All the reports can be found at:

http://www.phila.gov/revenue/Reports_and_Publicat.html

Tax Regulation Update

Tax regulations govern all the nitty gritty details of Philadelphia's tax structure. The Department of Revenue is constantly reviewing the regulations to improve Philadelphia's economic competitiveness, clarifying regulations to make compliance easier and more predictable, and improving fairness in the application of Philadelphia's tax code.

On February 13th, 2009, the Department of Revenue held public hearings on two proposed amendments. The first amendment removes a change made by a previous amendment to Section 224 of the Philadelphia Income Tax Regulation that allows certain adjustments to the Federal taxable income reported by deemed Real Estate Investment Trusts for the purpose of filing the Business Privilege Tax return under Method II. The amendment previously made was found invalid and in violation of the Business Privilege Tax enabling legislation by the Philadelphia Law Department.

The second regulation amendment serves as a clarification to the definition of doing business in Philadelphia in connection with unrelated business activities by

nonprofit entities.

The Department of Revenue was thrilled that so many taxpayers and their representatives took part in the proceedings. We welcome your interest and insights. The Department of Revenue is now drafting reports in response to the testimony to affirm, modify, or abandon the proposed regulation amendments. Once completed, the reports will be posted on the Department of Revenue website and filed with the Department of Records. Ten days after filing with the Department of Records the amendments will be come part of the City's tax regulations.

Copies of the proposed amendments and transcripts from the hearings can be found here: http://www.phila.gov/revenue/Proposed_Tax_Regulat.html

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