

CITY OF PHILADELPHIA



JOB CREATION TAX CREDIT

2012 ANNUAL REPORT

Submitted by:

The City of Philadelphia, Department of Revenue

July 2013

As required by Section 19-2604(7)(g) of The Philadelphia Code

Job Creation Tax Credit

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JOB CREATION TAX CREDIT OVERVIEW

The Job Creation Tax Credit program was established in May 2002 to encourage businesses to expand employment within the City of Philadelphia. It is based on the Commonwealth of Pennsylvania's Job Creation Tax Credit program and offers a credit against the firm's Business Income and Receipts Tax liability for each new job created. The program can be utilized by companies of any type or size located anywhere in the city. The Department of Revenue is designated to implement and oversee the program.

In general, the program allows firms to receive a credit of either \$1,000 or two-percent (2%) of annual wages paid, whichever is higher, for each new job. The program was amended in 2006 to provide a \$5,000 credit for the hiring of ex-offenders. In connection with applications filed after June 24, 2009, there is a special tax credit opportunity for job creation in 2010 and 2011 whereby a firm may receive a tax credit in the amount of \$3,000 or two-percent (2%) of annual wages paid, whichever is higher, for each new job. This special tax credit opportunity was extended for job creation in 2012 and 2013 for applicants filing after January 5, 2011. Special Tax Credit Opportunity, which gives \$5,000 or two-percent (2%) of annual wages paid, whichever is higher, for Job Creation in 2012 and each year thereafter was granted for any applications filed on or after March 1, 2012.

Information about the program is available on the Department of Revenue's website at www.phila.gov/revenue and other local government websites related to economic development.

From the inception of the program in 2003 through the end of 2012, one hundred twenty nine (129) businesses have applied to participate in the program; ninety six (96) firms were approved for participation in the program, promising the creation of 6110 jobs. The five year period allowed by the Ordinance to create new jobs has expired for fifty (50) of these ninety six (96) businesses, as of the end of 2012. As a result, promised job creation may be reduced from 6110 to 2707, forty (40) businesses either did not create the promised number of jobs or verification of job creation is in progress. To date, 1,057 jobs have been verified as new job creation, resulting in the issuance of \$1,777,136 in tax certificates, of which \$1,503,952 has been claimed.

HOW THE JOB CREATION TAX CREDIT WORKS

The Job Creation Tax Credit program offers credits against firms' Business Receipts and Income Tax liability if they create either 25 new jobs or increase the number of employees by at least 20 percent within five years of the designated start date. Program participants must also commit to maintaining operations in Philadelphia for five years. The annual amount of credits available for award is now limited to two percent

of the prior year's Business Income and Receipts Tax collections. Of that amount, 25 percent is reserved for small businesses and firms that hire ex-offenders.

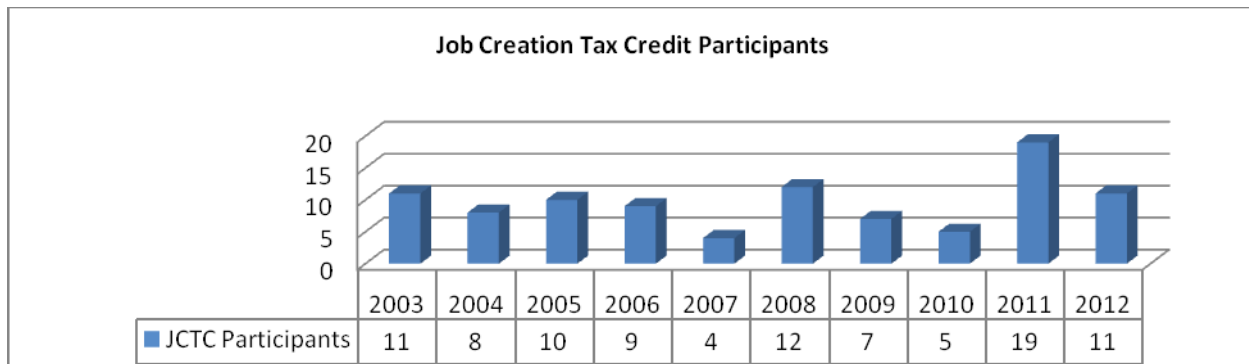
Interested firms submit applications to the Department of Revenue. Upon acceptance to the program, an agreement is executed between the business and the City that sets forth the designated start date and the number of jobs to be created. A business has up to five years to create the agreed upon number of jobs. Upon doing so, the firm asks the Department of Revenue to certify the number of jobs created and wages paid. The Department of Revenue conducts a payroll review of the company's records to compare the number of jobs when the firm entered the program with the number of jobs at the time of review. Firms that fail to substantially maintain existing operations for five years from the date the Certificate is first submitted to the Department or that fail to create the agreed upon number of jobs are required to refund the total amount of the credit or credits issued unless a waiver is granted by the Department of Revenue.

If the Department of Revenue is satisfied that the appropriate number of jobs have been created, the Department issues a certificate stating the amount of credit the firm is entitled to, either \$1,000 or two-percent (2%) of the annual wages for each job. For applicants applying after June 24, 2009, the tax credit for job creation in 2010 and 2011 is \$3,000 or two-percent (2%) of annual wages for each job, whichever is higher. For those applying after January 5, 2011, the tax credit for job creation in 2011, 2012 and 2013 is \$3,000 or two-percent (2%) of annual wages paid, whichever is higher, for each new job created. For those applying after March 15, 2012 the tax credit for job creation in 2012 and 2013 is \$5000 or two percent (2%) of annual wages paid, whichever is higher for each new job created. The firm can redeem the certificate for a tax credit either all at once or over five years from the issuance of the tax certificate. The program allows companies up to 8 years from the designated start date to claim the tax credits.

JOB CREATION TAX CREDIT PROGRAM ACTIVITY

PARTICIPATING COMPANIES

As of the close of 2012, ninety six (96) companies have a fully executed a Job Creation Commitment Agreement ("Agreement") with the Department. Of these, fifty 50 have had the five year period to create the new jobs expire. There are forty six (46) remaining participants – eleven which are new in 2012. One (1) additional firm applied in December 2012 and the application is pending review and completion of a signed Agreement. The chart reflects the year in which the approved applicants applied and the number of applicants/participants whose Agreement was fully executed as of the end of 2012.



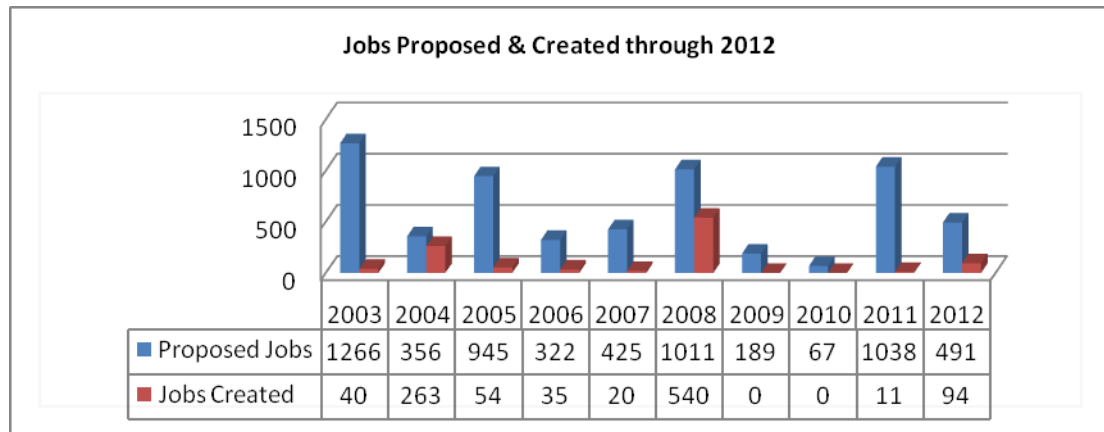
Participating firms represent at least a dozen industries. Companies engaged in Retail Trade and Professional Services represents the largest segment of participants, with 39 firms. Information, Finance & Insurance, and Real Estate entities are nearly a quarter of the participating businesses. Although Healthcare and Education are significant segments of the Philadelphia economy, they represent less than 10 percent of participants. This may be explained by the fact that many organizations in these sectors are nonprofits that do not have Business Privilege Tax liabilities to begin with

INDUSTRY	NUMBER OF PARTICIPANTS
Construction	1
Manufacturing	7
Retail Trade	13
Transportation	1
Information	10
Finance & Insurance	10
Real Estate	4
Professional Services	26
Administrative Services	4
Educational Services	1
Healthcare	6
Food	4
Other	9
TOTAL	96

JOB CREATION

Overall, participating firms have committed to generating 6,110 new jobs in the City. Forty (40) participants, whose five year period to create jobs have expired, have not fulfilled their commitment; this includes one firm whose five year period to create jobs ended December 31, 2012. Hence, 2,690 of the promised 6,110 new jobs are not expected to be created. The chart below illustrates the number of proposed new jobs by businesses with fully executed Agreements as of the end of 2012 and the number of jobs certified as created. In 2003, the first year of the program, 1,266 jobs were proposed, of which 40 have

been created to date. Approximately half the positions committed to in 2003 were by a firm that is no longer in business, and thus the full 1,266 jobs will not be created. Through 2012, 1,057 (17%) of all proposed new jobs have been certified as created by the Department of Revenue. As firms have 5 years from the designated start date to create the positions, the percentage of jobs actually created may grow in the coming years.



TAX CREDITS

Since the inception of the program, the Department of Revenue has issued \$1,771,136 in tax certificates, of which \$1,503,952 tax credits have been claimed by (15) participating firms against Business Income and Receipts Tax liability. Businesses have 5 years from the date of issuance of the certificate to claim the credit, but in no case can it be longer than 8 years from the designated start date.