

# CITY OF PHILADELPHIA



## JOB CREATION TAX CREDIT

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2011 ANNUAL REPORT

Submitted by:

The City of Philadelphia, Department of Revenue

June 2012

*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

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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.

Application forms and procedures were developed and incorporated in amendments to the Business Income and Receipts Tax regulations and became effective at midnight on March 23, 2003. The program was amended in 2004 upon the Mayor's signing of Bill No. 040640AA to allow firms to receive a credit of either \$1,000 or two-percent (2%) of annual wages paid for each new job. The program was further amended in November 2006 with the signing of Bill No. 060630 that increased the credit given for the hiring of ex-offenders from \$1,000 to \$5,000. In connection with applications filed after the effective date of Bill No. 090012 (signed by the Mayor on 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 for each new job. This special tax credit opportunity was extended for job creation in 2012 and 2013 for applicants filing after the effective date of Bill No. 100787; Bill No. 100787 was passed by City Council on December 16, 2010 and signed by the Mayor on January 5, 2011. An additional special Job Creation Tax Credit opportunity was given by Bill No. 120012 for any applications filed on or after March 15, 2012 (signed by the Mayor on March 14, 2012) which gives Five Thousand Dollars (\$5,000) or the amount permitted under Section 19-2604(7)(d)(1)(i) of the code, whichever is higher for each job created in 2012 and 2013.

From the inception of the program in 2003 through the end of 2011, one hundred thirteen (113) businesses have applied to participate in the program; eighty-five (85) firms were approved for participation in the program, promising the creation of 5,619 jobs. The five year period allowed by the Ordinance to create new jobs has expired for thirty-eight (38) of these eighty-five (85) businesses, as of the end of 2011. As a result, promised job creation may be reduced from 5,619 to 2,119 because the thirty-eight (38) businesses either did not create the promised number of jobs or verification of job creation is in progress. To date, 1,043 jobs have been verified as new job creation, resulting in the issuance of \$1,652,890 in tax certificates, of which \$1,537,020 has been claimed.

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## HOW THE JOB CREATION TAX CREDIT WORKS

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The Job Creation Tax Credit program offers credits against firms' Business Income and Receipts 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 limited to one 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 paid, whichever is higher, for each job. 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 credit will be raised to \$5,000 or two-percent (2%) of annual wages paid, whichever is higher, for each new job created in 2012 and 2013. 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.

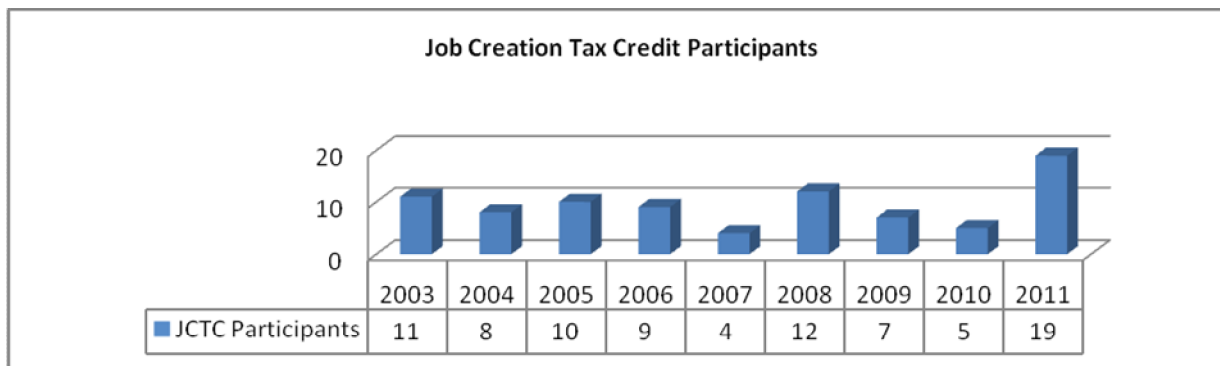
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## JOB CREATION TAX CREDIT PROGRAM ACTIVITY

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### PARTICIPATING COMPANIES

At the close of 2011, although there are 85 companies that have fully executed a Job Creation Commitment Agreement ("Agreement") with the Department of Revenue since the inception of the program in 2003, there are only 47 companies, including the 15 new companies that joined the program in 2011, whose five year period to create jobs has not expired. 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 2011.



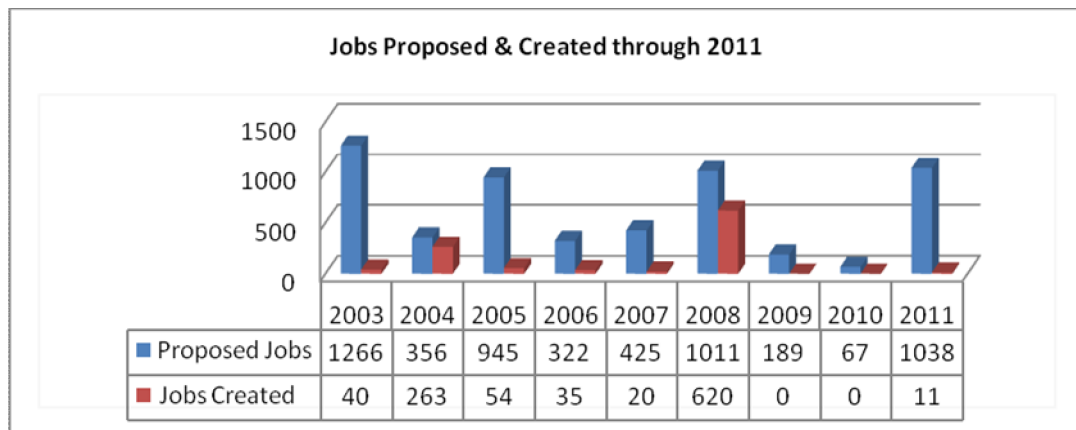
Participating firms represent at least a dozen industries. Companies engaged in Retail Trade and Professional represents the largest segments of participants, with 27 firms. Information, Finance & Insurance, and Real Estate entities are over a quarter of the participating businesses. Although Healthcare 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 Income and Receipts Tax liabilities to begin with.

INDUSTRY	NUMBER OF PARTICIPANTS
Construction	1
Manufacturing	6
Retail Trade	12
Transportation	1
Information	9
Finance & Insurance	12
Real Estate	4
Professional	15
Administrative Services	4
Educational Services	1
Health Care	6
Food Services	6
Other	8
<b>TOTAL</b>	<b>85</b>

## JOB CREATION

Overall, participating firms have committed to generating 5,619 new jobs in the City. Thirty-eight participants, whose five year period to create jobs have expired, have not fulfilled their commitment; this includes nine firms whose five year period to create jobs ended December 31, 2010. Hence, 2,711 of the promised 5,619 new jobs are not expected to be created; 150 jobs may not be created – the payroll review is in progress. The chart below illustrates the number of proposed new jobs (by businesses with fully executed Agreements as of the end of 2011) 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 2011, 1,043 (19%) 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

Following certification of job creation, participating firms are awarded certificates for the tax credit, either \$1,000 or 2% of the annual wage for each job created. The tax credit is either \$3,000 or 2% of annual wages paid for each job created in 2010, 2011, 2012 and 2013. This special tax credit opportunity is available to applicants filing JCTC applications after June 24, 2009 or after January 5, 2011. The special tax credit for job creation in 2012 and 2013 is only available to participants who filed applications after January 5, 2011.

Since the inception of the program, the Department of Revenue has issued \$1,652,890 in tax certificates, of which \$1,537,020 tax credits have been claimed by (14) 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. If all currently proposed jobs are certified as created – proposed participants with signed Agreements as of the end of 2011 whose five year period for job creation has ended and the payroll review is not in progress – at least an additional \$1.7 million in credits would be issued.