



CITY OF PHILADELPHIA

DEPARTMENT OF REVENUE
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FRANK BRESLIN, CPA
Revenue Commissioner
Chief Collections Officer

June 30, 2017

The Honorable James F. Kenney
Mayor
City of Philadelphia
215 City Hall
Philadelphia, PA 19106

Dear Mayor Kenney:

I am pleased to transmit herewith a report summarizing the City's experience in 2016 regarding the Job Creation Tax Credit, as required by Section 19-2604(7)(g) of The Philadelphia Code. Copies of the report are also being sent to the President and the Chief Clerk of Council as required.

I will be pleased to provide any additional information that you or the members of Council may have regarding the status of this program.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Frank Breslin".

Commissioner Frank Breslin
Chief Revenue Collections Officer

Enclosures

cc: Council President Darrell L. Clarke
Michael Decker, Chief Clerk
Rob Dubow, Finance Director

CITY OF PHILADELPHIA



JOB CREATION TAX CREDIT

2016 ANNUAL REPORT

Submitted by:

The City of Philadelphia, Department of Revenue

July 3, 2017

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

Job Creation Tax Credit

2016 ANNUAL REPORT

JOB CREATION TAX CREDIT OVERVIEW

Key Stats for the Job Creation Tax Credit

- There have been 174 applications approved between 2002 and 2016.
 - 34 Businesses applied in 2016
 - 10 applications were approved in 2016. An additional 15 applications received in 2016 have been approved in 2017 to date.
- Approved applicants between 2002 and 2016 promised to create 8,472 jobs.
 - The 10 applications approved in 2016 promised 322 jobs (the additional 15 applications received in 2016 but approved in 2017 promised another 510, for a total of 832).
 - Of the 8,472 promised jobs, 1,856 have been created (22% of the jobs promised).
 - 353 of those were created in 2016.
 - 4,297 promised jobs were not created within 5 years, as required to receive the credit (51% of jobs promised)
 - 2,319 promised jobs have not yet been created, but may still be created in time to receive the credit (27% of promised jobs)
- \$4.8 million in credits have been awarded to businesses for jobs created since 2002.
 - \$1,315,107 in credit certificates were issued in 2016.
- \$2.6 million in credits have been used by businesses since 2002.
 - \$718,285 in credits were used in 2016.

History

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.

Initially, the program allowed 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 Returning Citizens. For applications filed after June 24, 2009, there was a Special Tax Credit Opportunity for Job Creation in 2010 and 2011 whereby a firm could receive a tax credit in the amount of \$3,000 or two-percent (2%) of annual wages paid, whichever was 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. The Special Tax Credit Opportunity provided \$5,000 or two-percent (2%) of annual wages paid, whichever is higher, for Job Creation in 2012 and each year thereafter for any applications filed on or after March 15, 2012. For applications filed after October 29, 2014 (for jobs created in calendar year 2015 only), the Special Tax Credit Opportunity gives \$5,000 per year for five (5) years or (2%) of annual wages paid, whichever is higher for jobs created in 2015 or \$5,000 or two-percent (2%) for one year for jobs created after 2015 but within 5 years of the start date of the agreement. For applications filed on or after January 1, 2016, the special tax credit opportunity provides \$5,000 or two percent (2%) of annual wages paid whichever is higher for job creation within five years.

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.

Results-to-Date

From the inception of the program in 2002 through the end of 2016, two hundred eighty-seven (287) businesses have applied to participate in the program; one hundred and seventy-four (174) firms were approved for participation in the program, promising the creation of 8,472 jobs.

The five-year period allowed by the Ordinance to create new jobs has expired for eighty-two (82) of these one hundred and seventy-four (174) businesses, as of the end of 2016. Of these eighty-two (82) businesses, sixty-seven (67) did not create the number of jobs promised. Therefore, the number of promised jobs to be created is reduced from 8,472 to 4,175.

To date, 1,856 new jobs have been verified under this program, resulting in the issuance of \$4,886,502 in tax certificates, of which \$2,618,882 has been claimed by the businesses.

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 total amount of credits available for award is 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 Returning Citizens.

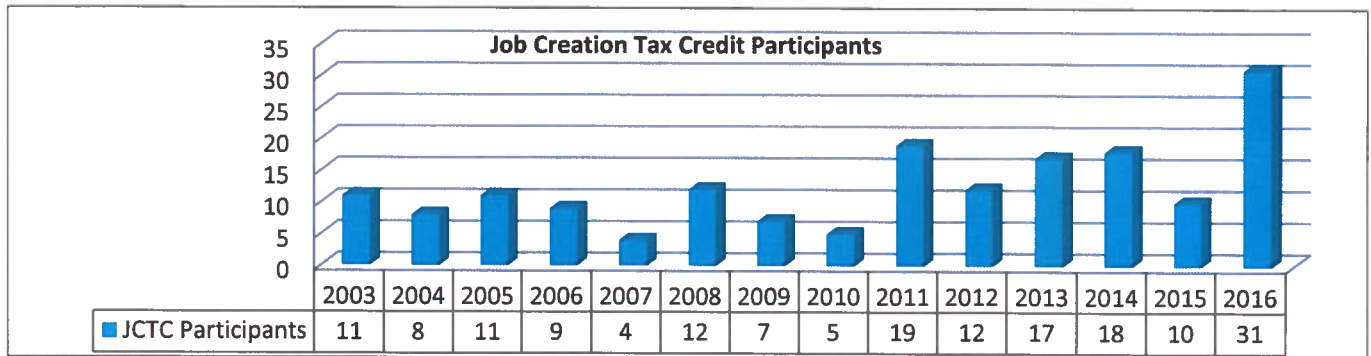
Interested firms submit applications to the Department of Revenue. Upon acceptance to the program, an agreement is executed between the business and the City that sets forth the designated start date and the number of jobs to be created. A business has up to five years to create the agreed upon number 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 Tax Credit 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 Tax Credit Certificate stating the amount of credit the firm is entitled to. 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 2016, one hundred and seventy-four (174) companies have a fully executed Job Creation Commitment Agreement (“Agreement”) with the Department. Of these, sixty-seven (67) have had the five-year period to create the new jobs expire, and thus will not be eligible to receive credits. There were one hundred seven (107) remaining participants at the close of 2016 that can claim a tax credit for creating new jobs. The chart reflects the year in which the approved applicants’ agreements were fully executed as of the end of 2016.



Participating firms represent at least a dozen industries over the life of the program. Companies engaged in Retail Trade and Professional Services represents the largest segment of participants, with 98 firms.

Manufacturing, Information, Finance & Insurance, and Real Estate entities represent 25 percent of the participating businesses. Although Healthcare and Education are significant segments of the Philadelphia economy, they represent less than 5 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.

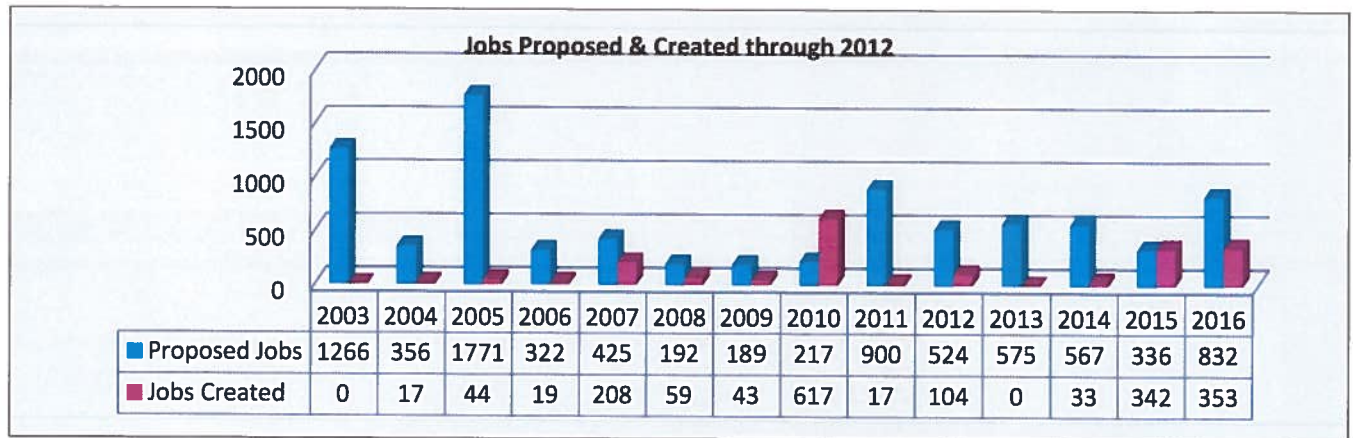
| INDUSTRY | NUMBER OF PARTICIPANTS |
|-------------------------|------------------------|
| Construction | 1 |
| Manufacturing | 19 |
| Retail Trade | 20 |
| Transportation | 2 |
| Information | 10 |
| Finance & Insurance | 10 |
| Real Estate | 4 |
| Professional Services | 78 |
| Administrative Services | 6 |
| Educational Services | 1 |
| Healthcare | 7 |
| Food | 4 |
| Other | 12 |
| TOTAL | 174 |

JOB CREATION

Overall, participating firms committed to generating 8,472 new jobs in the City. Sixty-seven (67) participants, whose five-year period to create jobs have expired, have not fulfilled their commitment. Hence, 4,297 of the promised 8,472 new jobs or roughly half of the jobs promised by companies entering the program were not created.

The chart below illustrates the number of proposed new jobs by businesses with fully executed Agreements as of the end of 2016 and the number of jobs certified as created in each year. In 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.

Through 2016, 1,856 (22%) 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

In 2016, 353 jobs were created resulting in the issuance of \$1,315,107 in tax certificates. In 2016, \$718,285 in tax credits were used and were a combination of tax credit certificates issued in 2016 and earlier years. Since the inception of the program through the end of December 2016, the Department of Revenue has issued \$4,886,502 in tax certificates, of which \$2,618,822 tax credits have been claimed by (39) participating firms against the 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.