

CITY OF PHILADELPHIA DEPARTMENT OF REVENUE



FY2017 YEAR IN REVIEW

message.

From the Revenue Commissioner

Nine out of ten Philadelphians pay their taxes on time, and we owe it to these hardworking individuals, families, and businesses to provide them with great customer service -- when they have a question or want to make a payment. Our goal is to make the process of paying taxes easier, for that is the most efficient way to ensure that folks pay on time. And while we are making things easier for those that are doing the right thing or need assistance, we are simultaneously getting smarter and tougher when it comes to identifying and collecting delinquent debts.

While challenges remain, the Department of Revenue has made progress in FY 2017 by nearly every measure – more dollars collected on time, more people enrolled in assistance programs and payment agreements, and fewer delinquent accounts. We're able to do this with ongoing improvements in our policies and procedures, and investments in technology that allow us to work more quickly, accurately, and strategically.

With our diverse and dedicated workforce, we will continue to promptly and efficiently increase on-time payments and decrease delinquency to generate the funds needed to support the City and School District of Philadelphia in FY 2018 and beyond.



Frank Breslin, CPA
Revenue Commissioner
& Chief Collections Officer



about.

The Department of Revenue collects taxes, water charges, and other fees and fines to provide funding for the School District of Philadelphia and City of Philadelphia.

These funds support crucial services such as trash collection, snow removal, police and fire protection, parks, libraries, and more.

About. Budget



Over 600 employees with an FY 2017 operating budget of \$48 million dollars across four areas:

Tax – responsible for tax revenue collections, enforcement, and customer service; 231 employees.

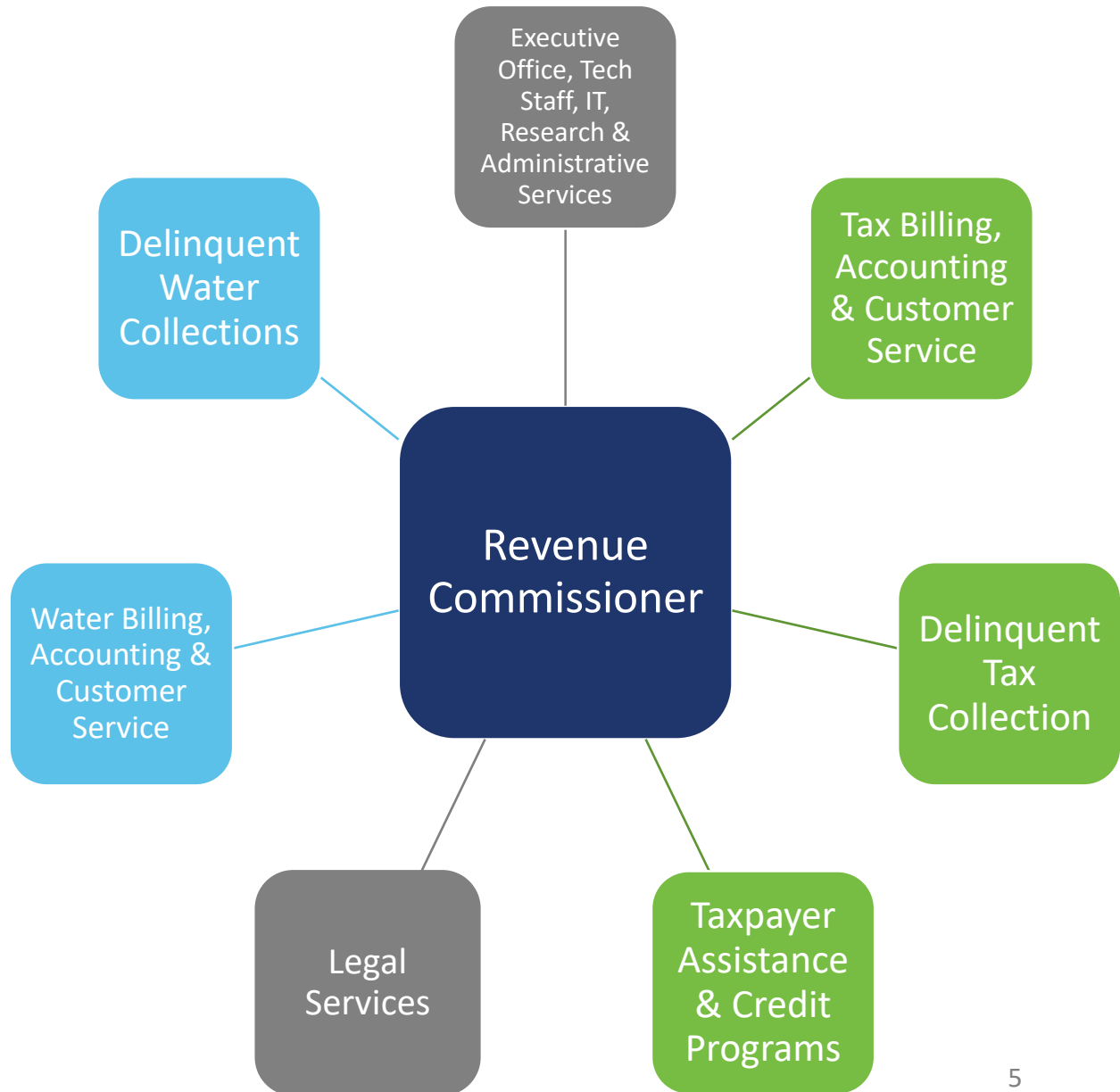
Water Revenue - responsible for water revenue collections and customer service; 224 employees.

Law - supports policy & regulatory efforts and enforcement proceedings; 93 employees.

Administration – includes research, policy, delinquent collections, and human resources; 84 employees.

*Employee counts as of December 2016

In FY18, Revenue will use Program-based Budgeting to organize its spending according to these programs.

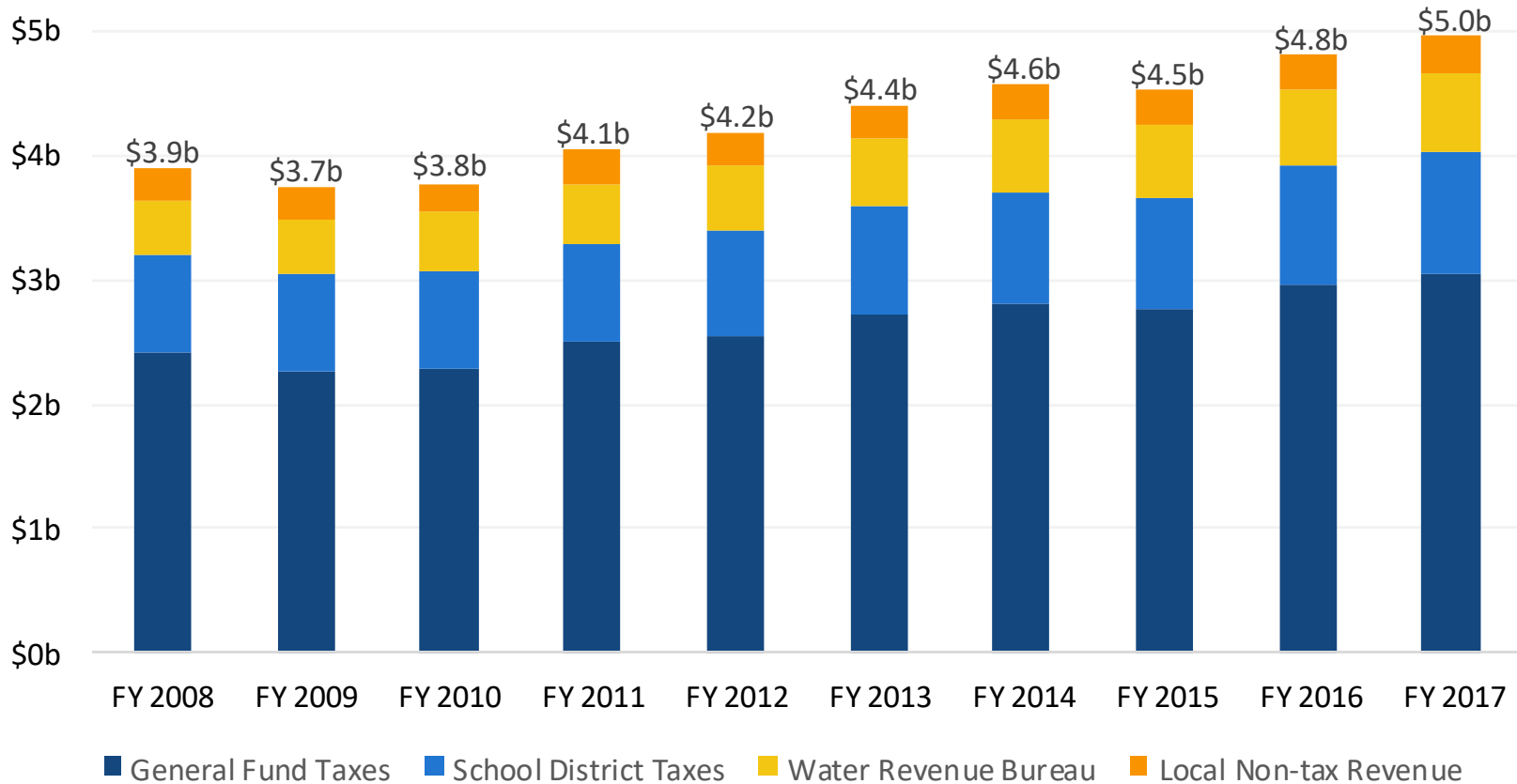




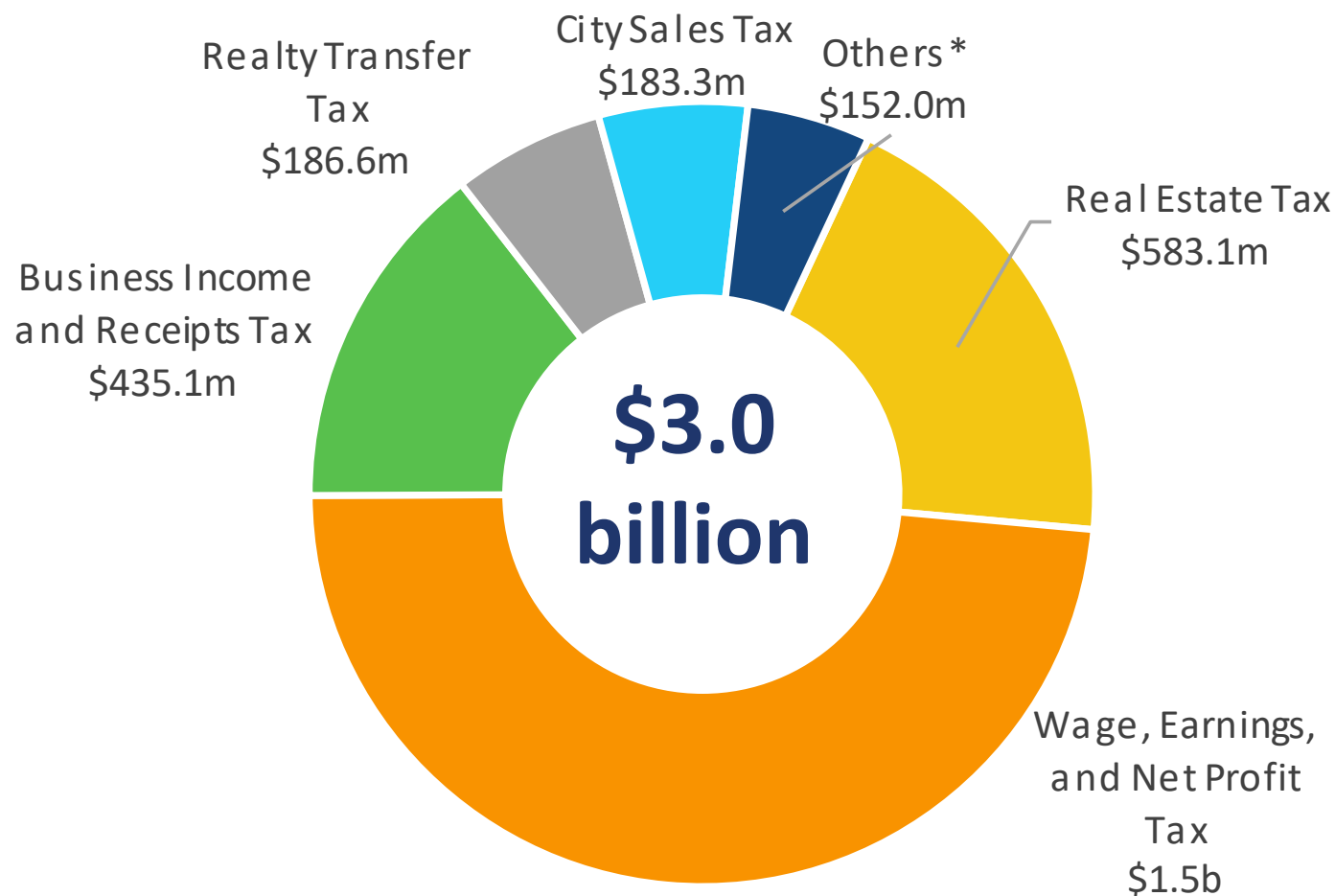
- The Department of Revenue collections for the General Fund exceeded estimates for FY17 by over \$10 million.
- Water collections exceeded the FY17 estimate by \$13 million.
- The Department of Revenue collected \$981.7 million for the School District.
- Strong Wage, Earnings, Net Profits, and Liquor Tax collections drove a 3.3% gain in tax revenue collected over FY16.

Total Revenue Collections

With approximately \$5 billion collected in FY17, **revenues increased by 3.3%** across all funds compared to FY16 collections of \$4.8 billion.

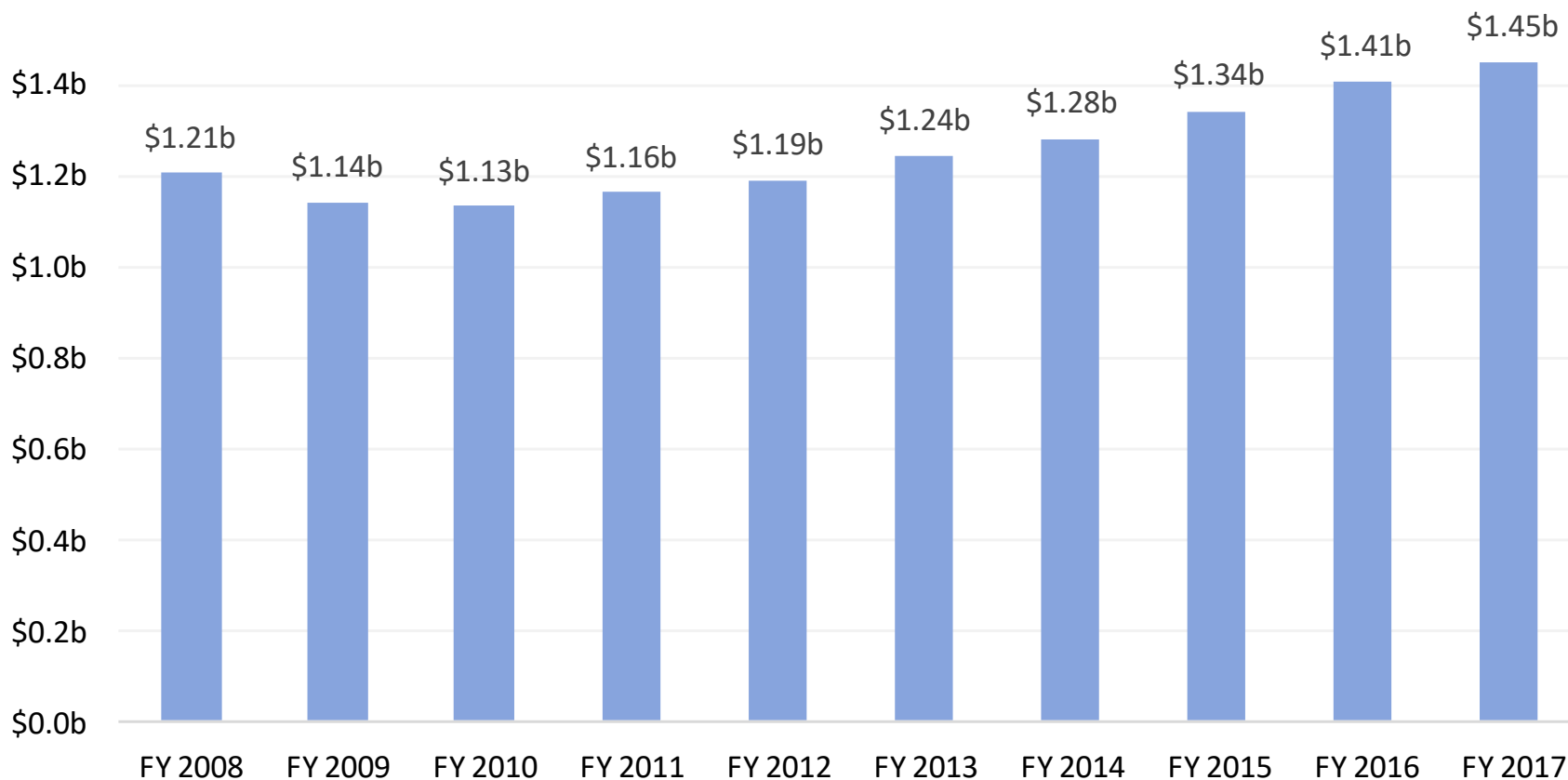


Business Taxes (Wage + BIRT) make up 63% of General Fund Tax collections



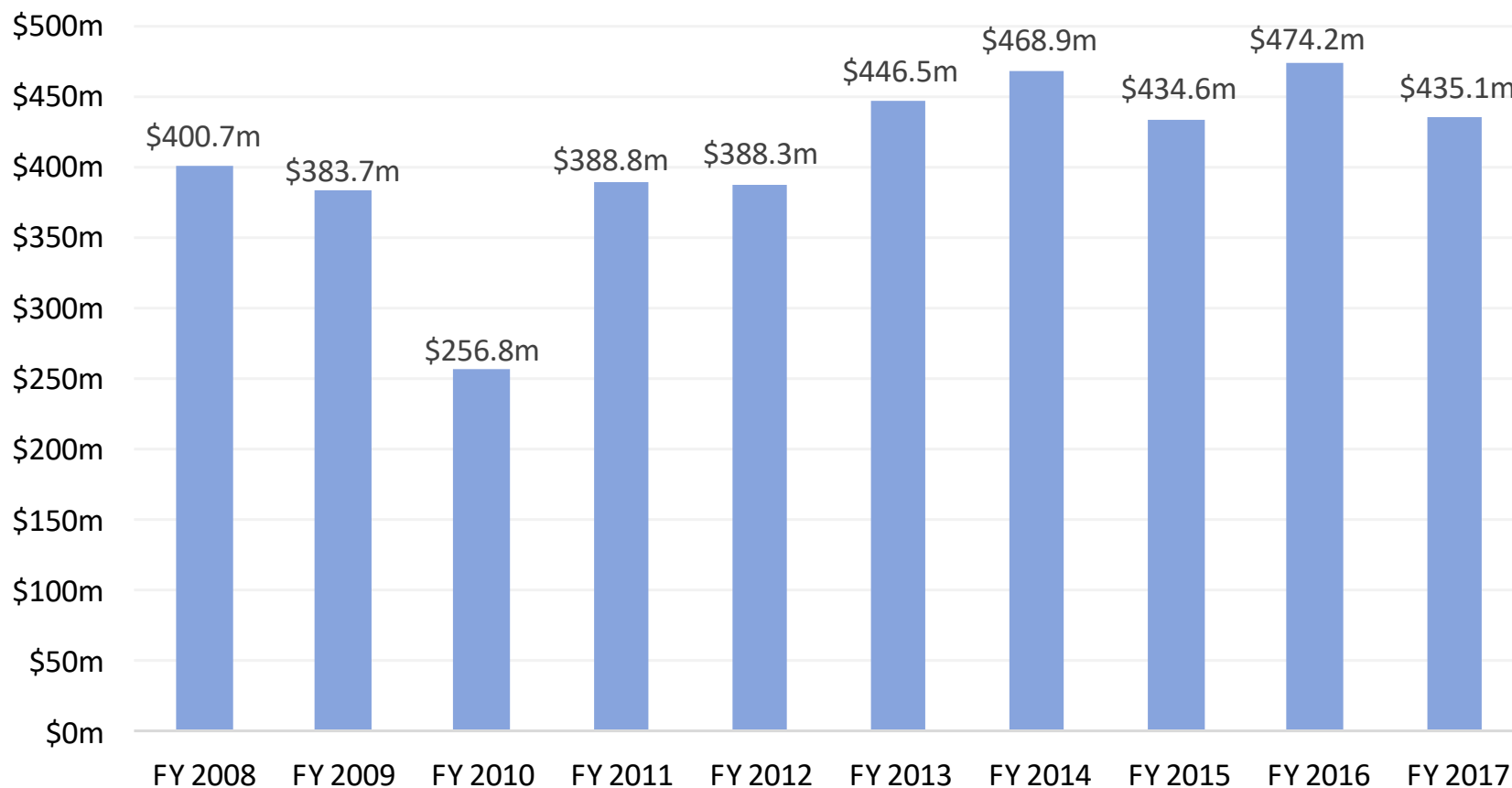
Wage Tax & Net Profits Tax

The single largest industry for Wage Tax payments was **Health & Social Services**. The industries with the highest rate of Wage Tax growth were Banking & Credit Unions and Telecommunications in FY17. Even with a tax rate cut in FY17, collections increased by 3.1%.



Business Income & Receipts Tax

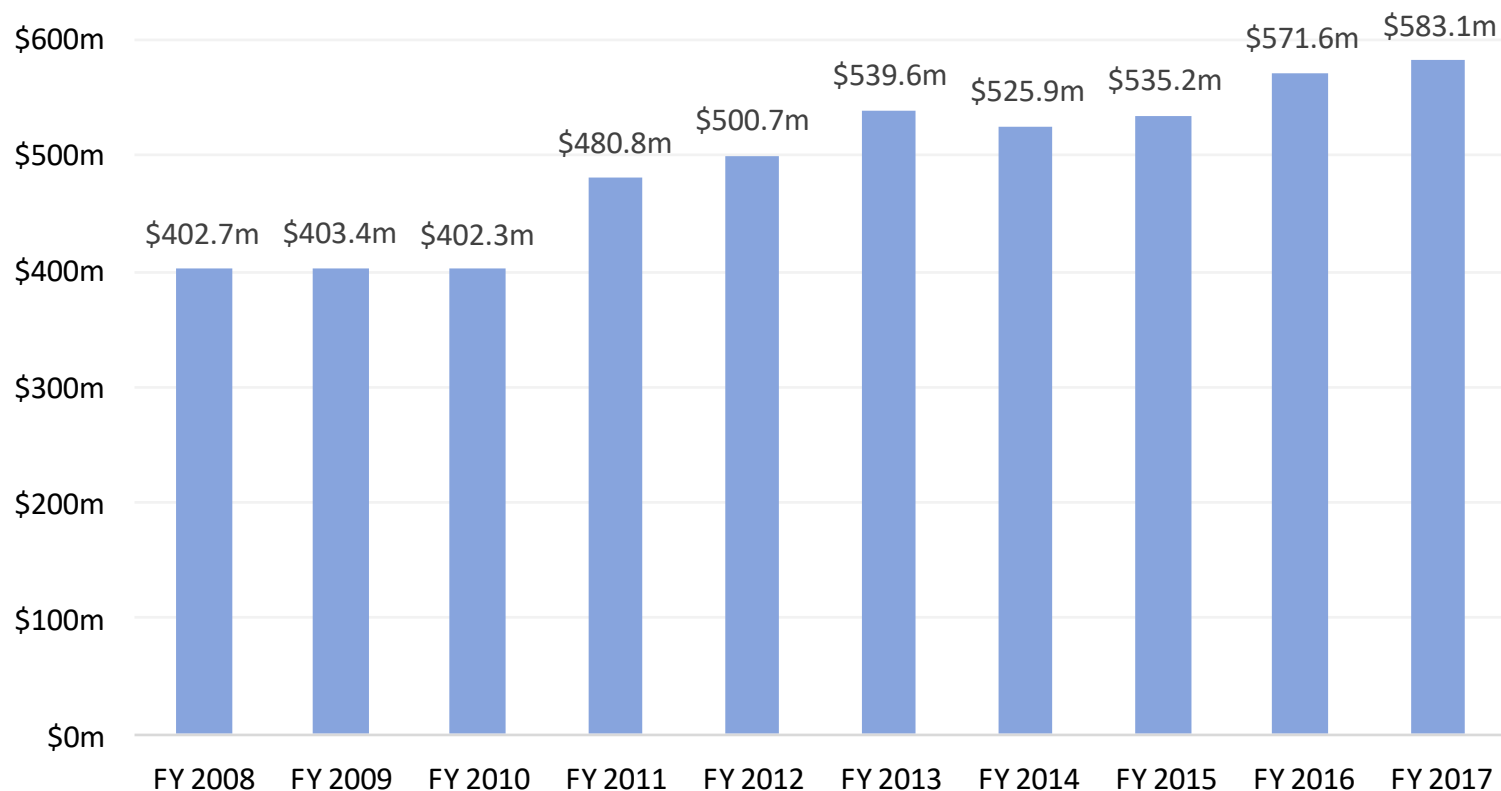
With an 8% decline from the prior year, BIRT continues to be a volatile tax. With the shift to single sales factor apportionment in TY15 and **increasing the exclusion to the first \$100,000** in receipts in TY16, and ongoing rate reductions, BIRT tax bills for Philadelphia businesses are continuing to shrink. Today, approximately 60,000 smaller businesses in Philadelphia no longer have any BIRT burden.



Note: FY2017 is preliminary, subject to change

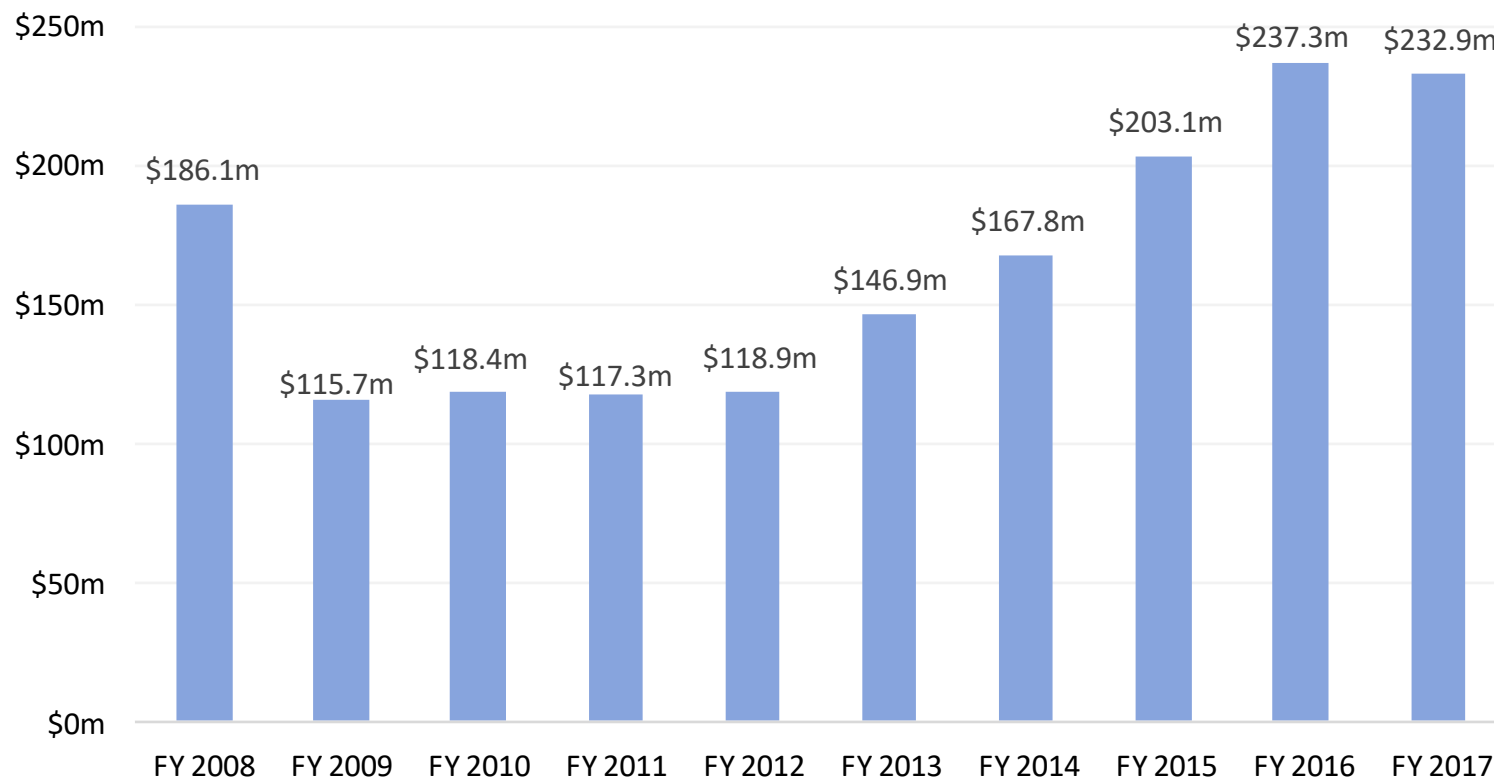
Real Estate Tax

With strong enforcement, increased outreach and assistance for homeowners, and improved billing and payment options, Real Estate collections for the General Fund **increased by \$12 million** in FY17. The sustained efforts have led to an increase in on-time payments.



Realty Transfer Tax

With a rebounding real estate market and the Department's successful efforts to identify and close tax loopholes, Realty Transfer Taxes **decreased only by 2%** in FY17 over FY16.



Philadelphia Beverage Tax

A brand new tax; the first of its type for any large city in North America. In the 2017 school year, the 1.5 cents per ounce tax on the distribution of sweetened beverages **allowed nearly 2,000 three- and four-year-olds to attend free quality pre-k**, created more than 250 jobs, and allowed 4,500 neighborhood public school students to attend community schools.



\$39.7 million collected in first six months



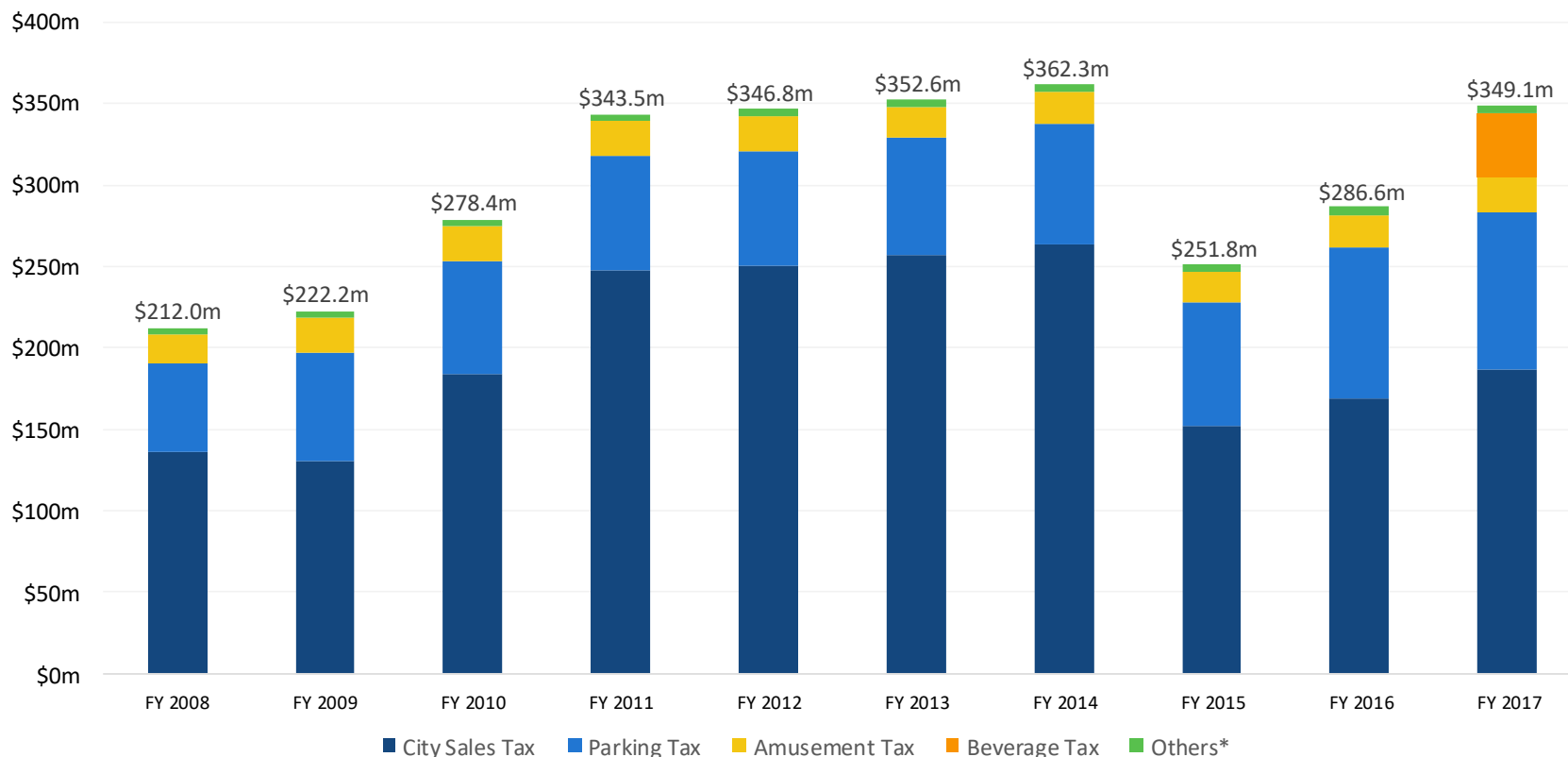
480+ Taxpayers



3,000+ businesses visited by Philly Bev Tax Investigators

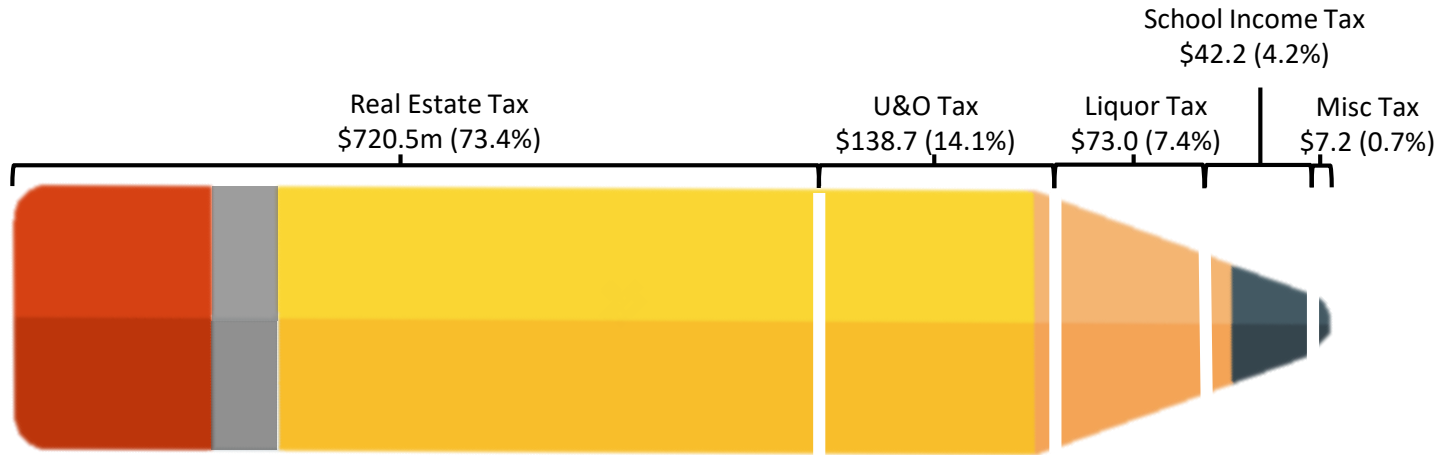
All Other Tax Types

A FY15 change in Sales Tax distribution sends more money directly to the School District, reducing General Fund collections. An increase in City Sales Tax collections, plus the introduction of the Philadelphia Beverage Tax, contributed to a **22% increase in collections from all other tax types**.



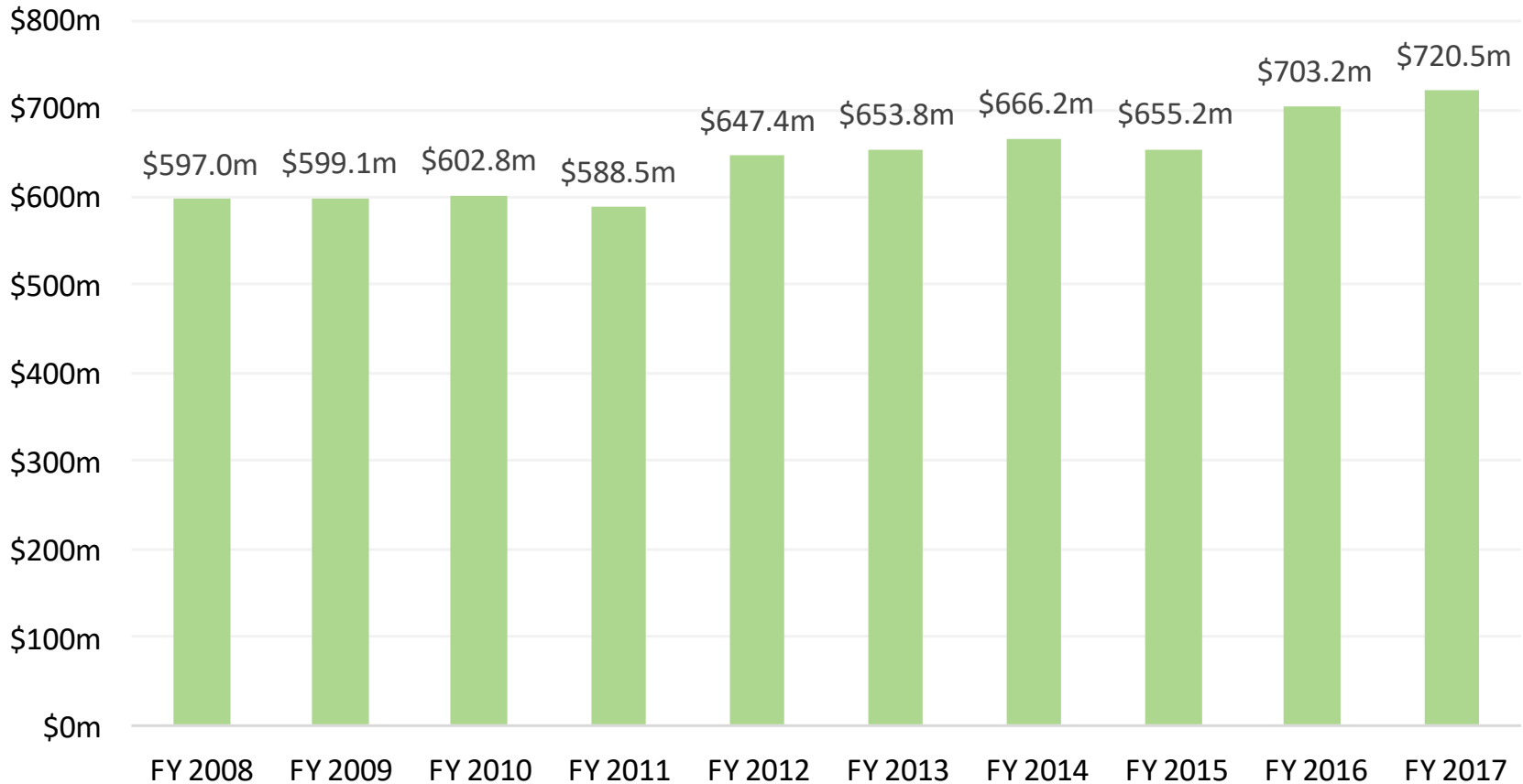
Taxes that Support the School District

Collections of \$981.7 million in FY17 represent an **increase of \$28.3 million from FY16**. Improved outreach and enforcement efforts increased collections of Liquor and School Income Tax.



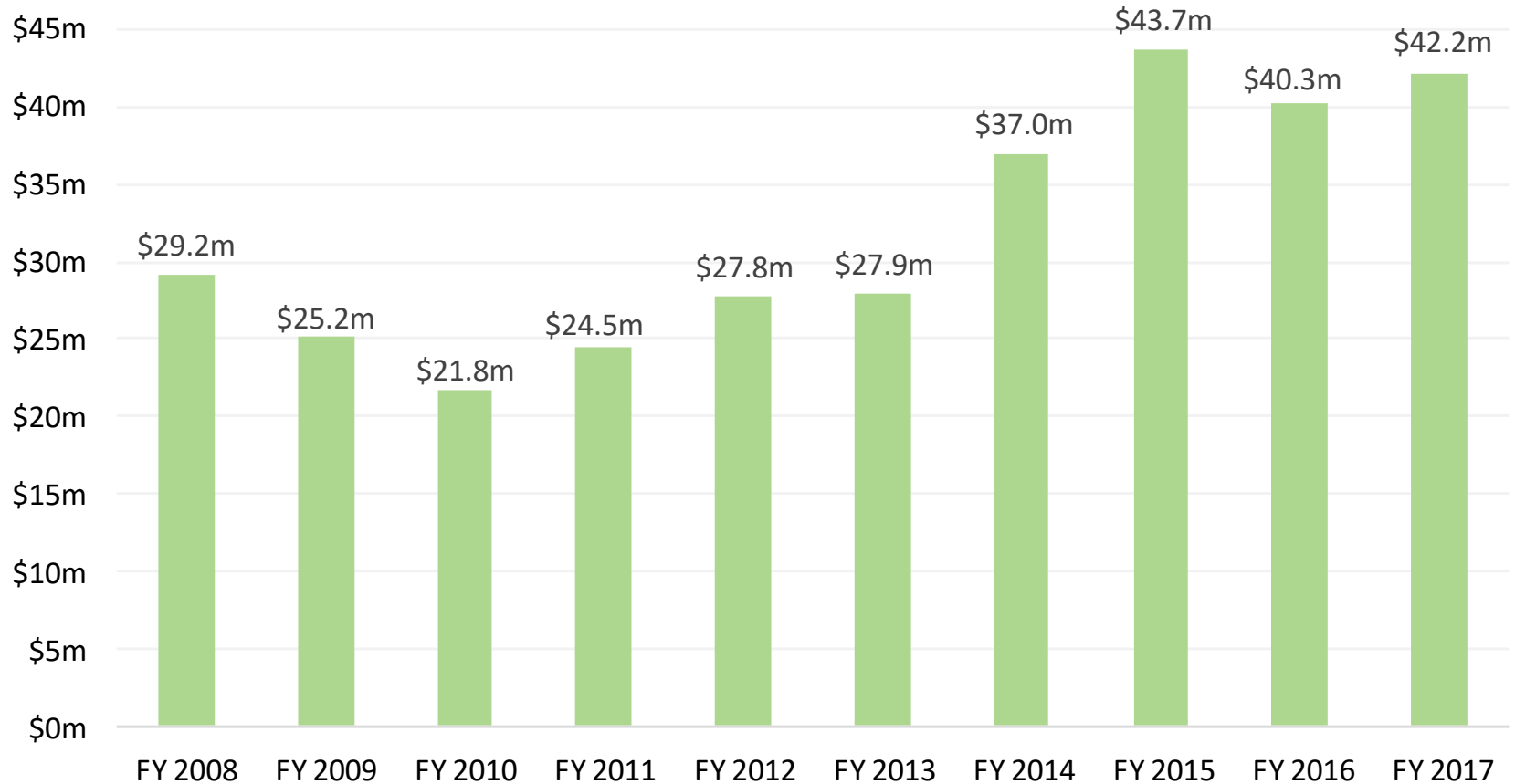
Real Estate Tax, School District Portion

School District Real Estate Tax collection trends virtually mirror the General Fund, with a **nearly \$20 million increase** in collections. For every \$1 collected in Real Estate Tax, the School District receives 55 cents.



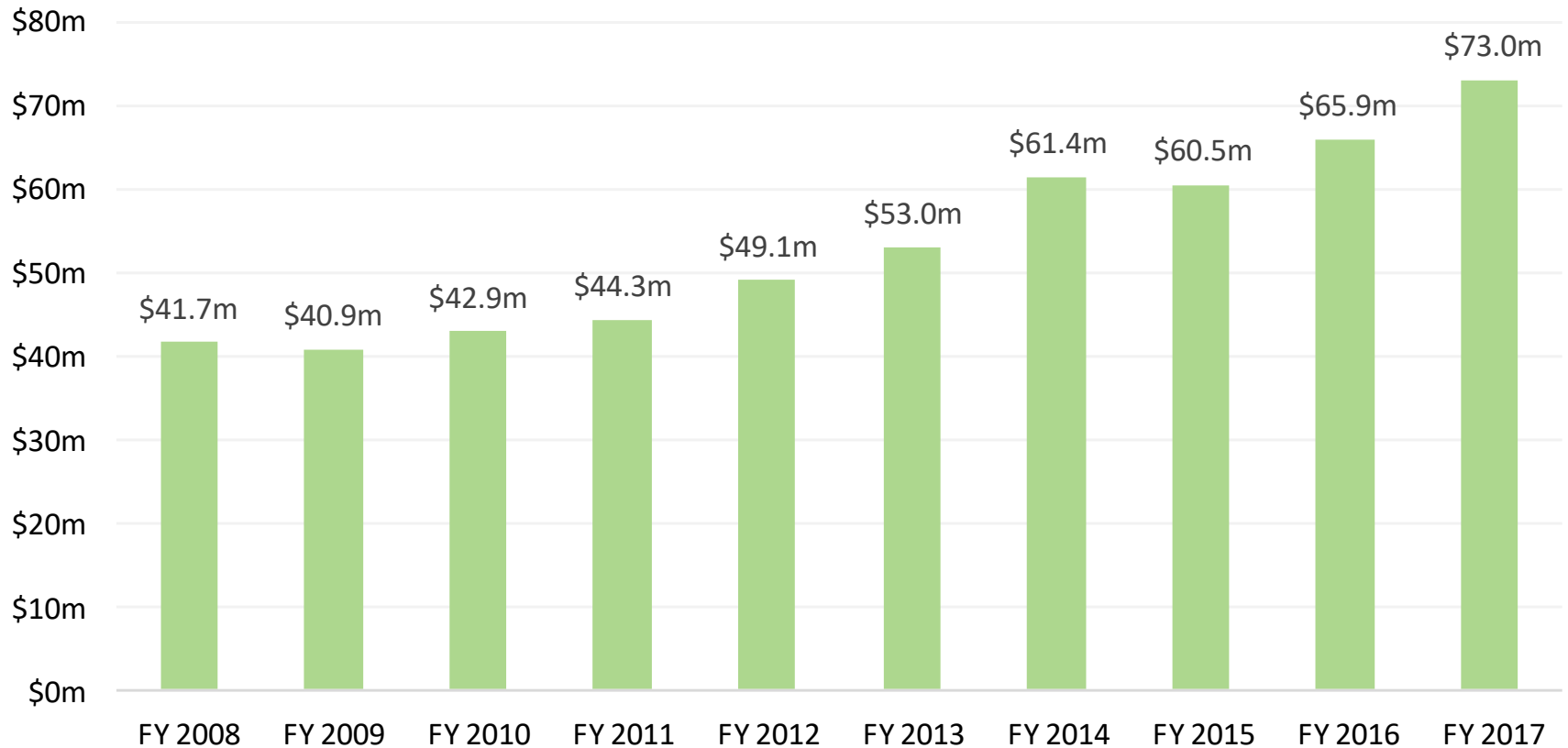
School Income Tax

Using data from the Commonwealth of Pennsylvania and the IRS, Revenue can identify unreported taxes owed to the City of Philadelphia. With **outreach and education**, we've reset the bar for SIT collections since FY14.



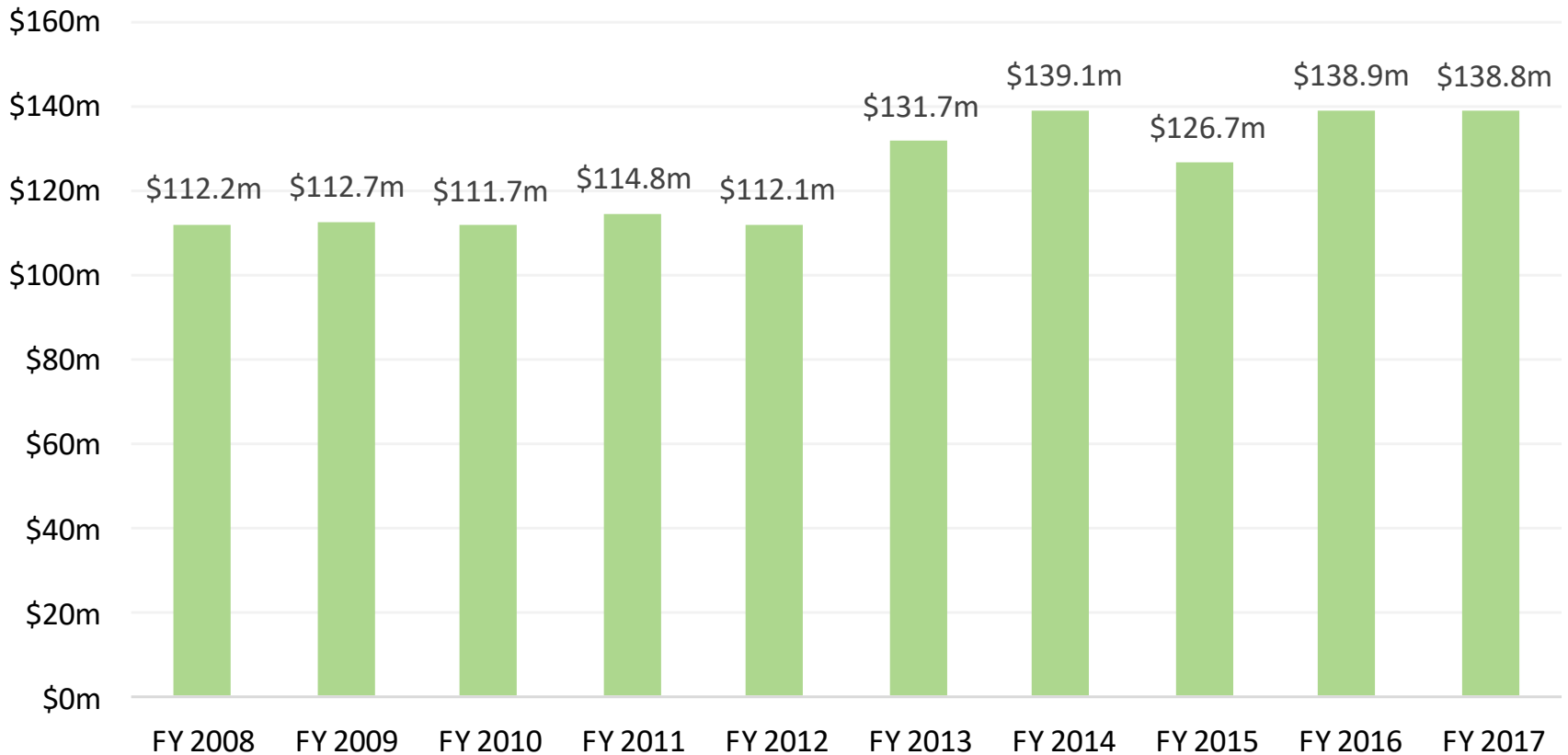
Liquor Tax

Revenue exceeded budget estimates for FY17 by **\$10 million**. We achieved this by using Liquor Control Board data to uncover underreported sales and by using the Commercial Activity License Revocation Program to close businesses that fail to pay; typically the threat of closure results in payment before action is taken.



Use & Occupancy Tax

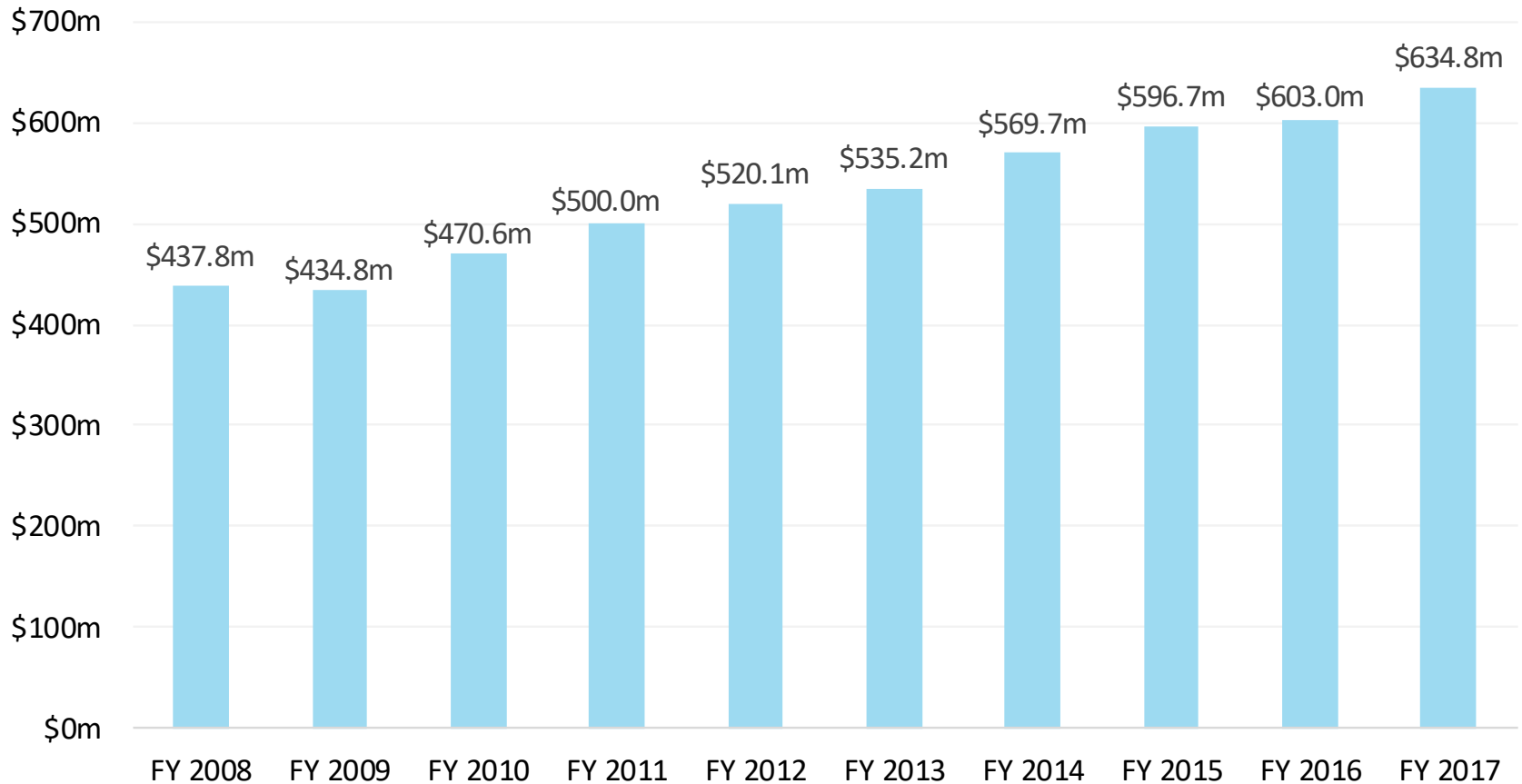
FY17 Use and Occupancy Tax collections held steady, as expected due to unchanged rates of commercial property.



Water Revenue Collections.

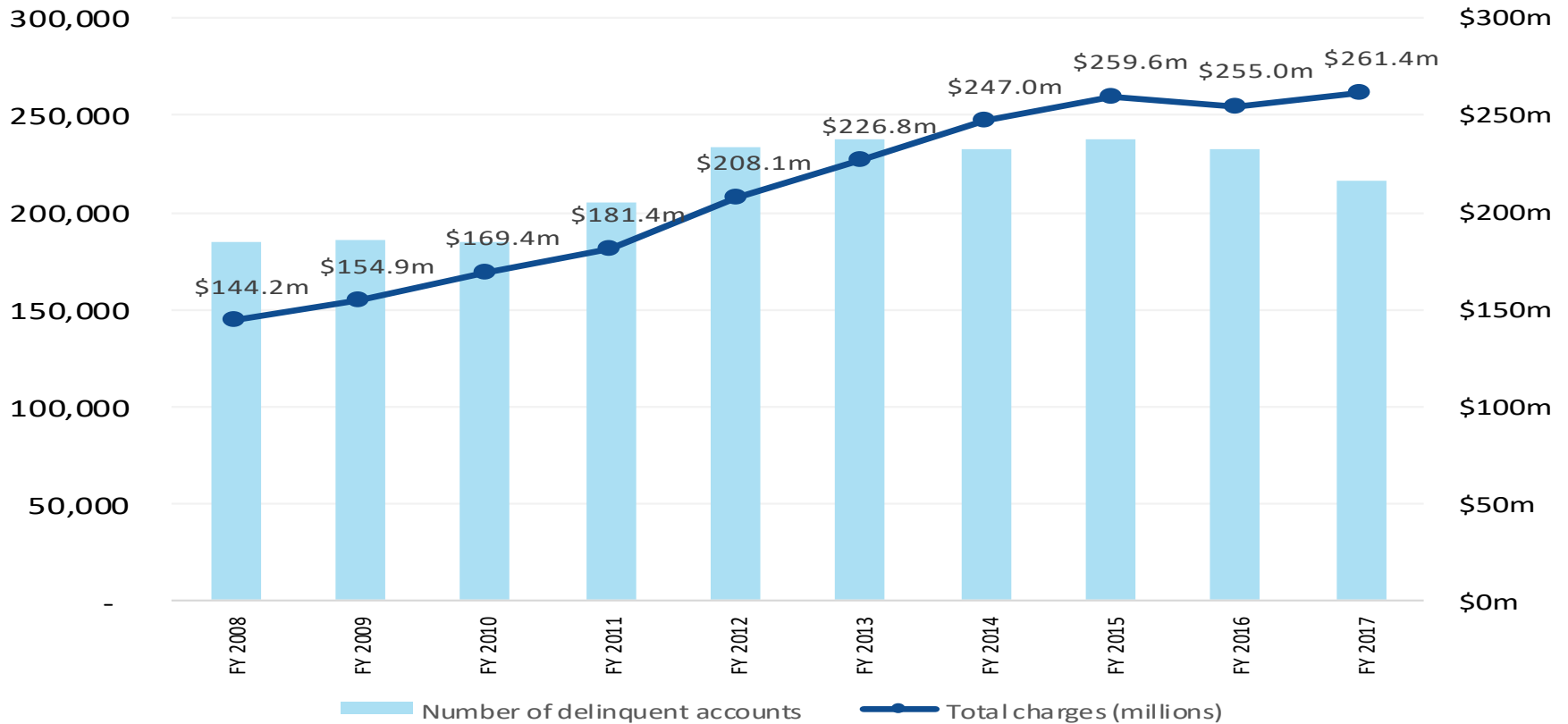
Water Revenue

There has been a steady growth in water revenue in the last 10 years, and **collections increased 5%** from FY16 to FY17. Collections in FY17 exceeded budget estimates by \$13 million.



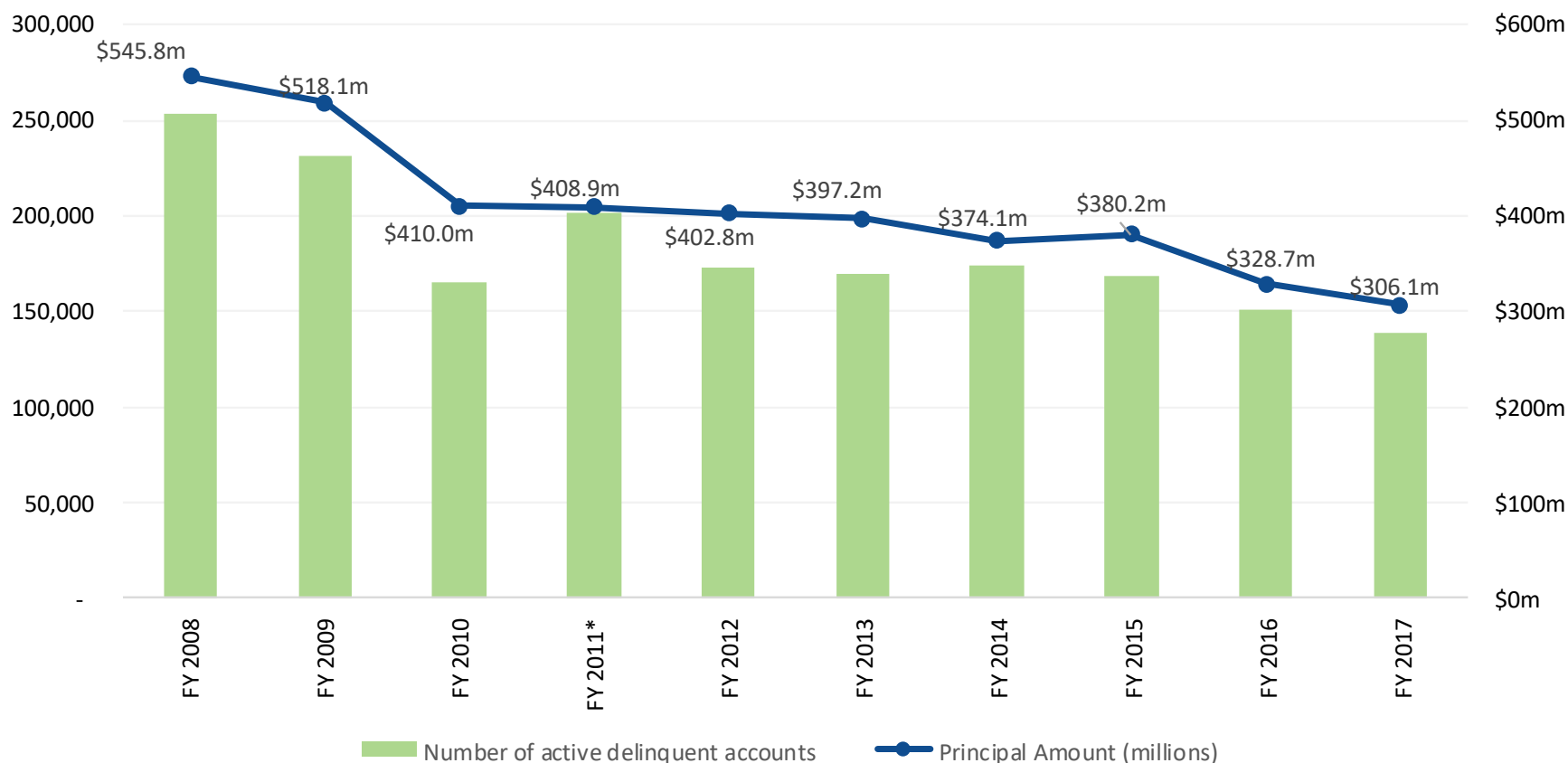
Water Revenue Delinquency

After half a decade of consistent growth, the number of delinquent water accounts has leveled off, and **had 7% decrease in FY17** from FY16.



Tax Delinquency

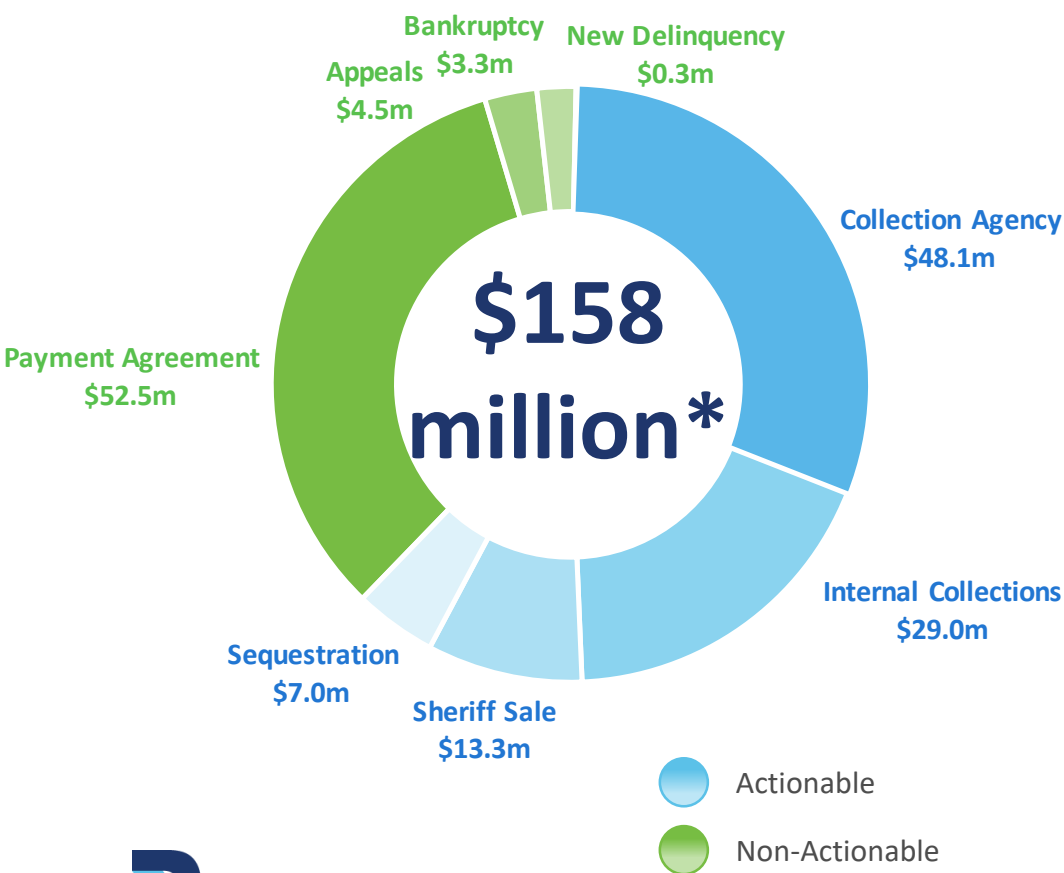
Across all tax types, the number of delinquent tax accounts reduced by almost 50% and **principal dropped by 43%** in 10 years, reaching record lows.



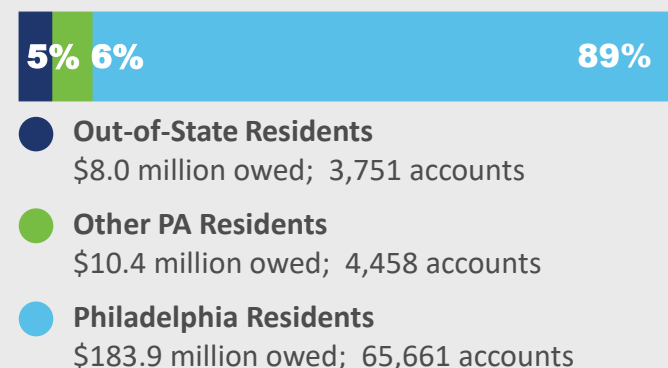
Real Estate Tax Delinquency

More than one-third (38%) of delinquent Real Estate accounts are either in a payment agreements or cannot be subject to enforcement action. For actionable accounts, they are assigned to the enforcement path identified as being the most efficient and fastest for collection.

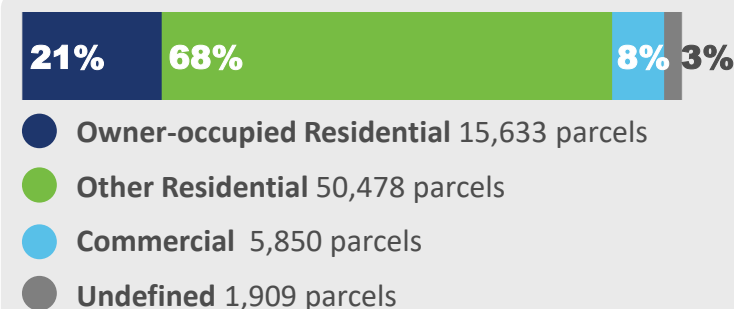
Total Principal Owed, June 2017



Owner Location



Type of Property

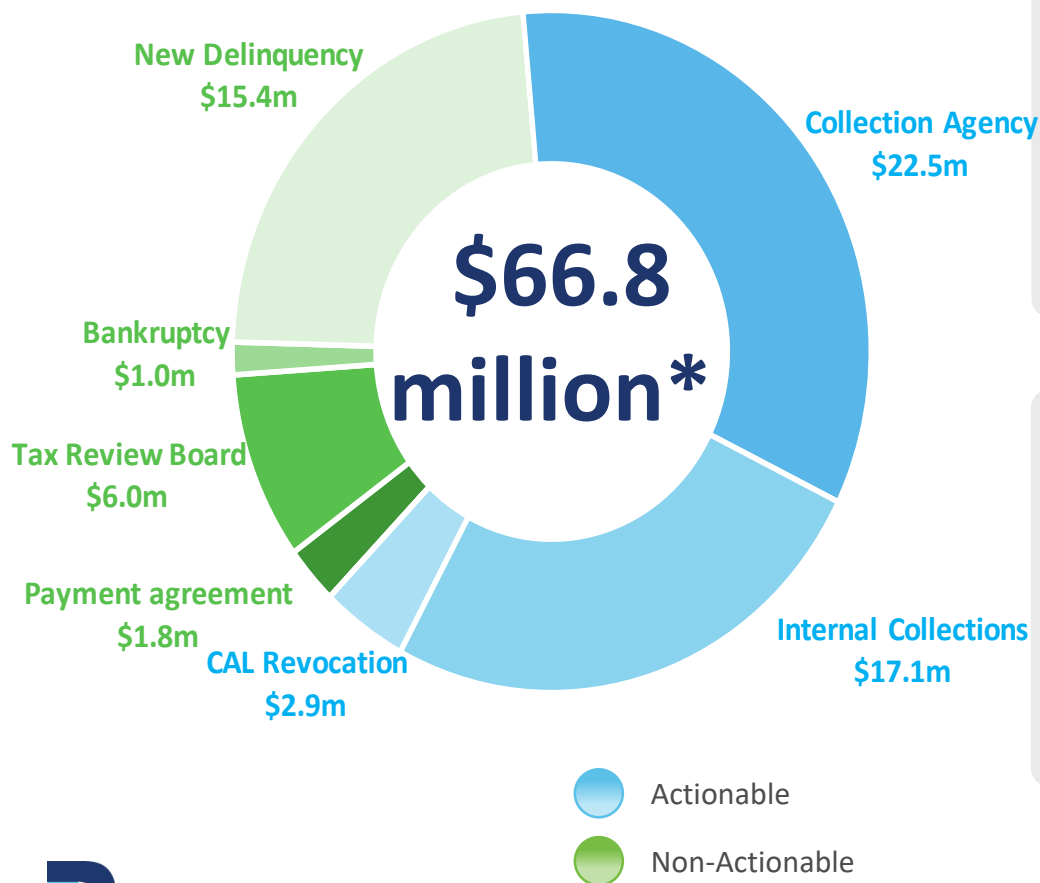


*for active periods only (periods \geq 1/1/2005)

Business Income and Receipts Tax Delinquency

BIRT delinquency has **declined by 40% in the last 5 years**, attributed to increased billing frequency and targeted used of collection tools, like the Commercial Activity License (CAL) Revocation program.

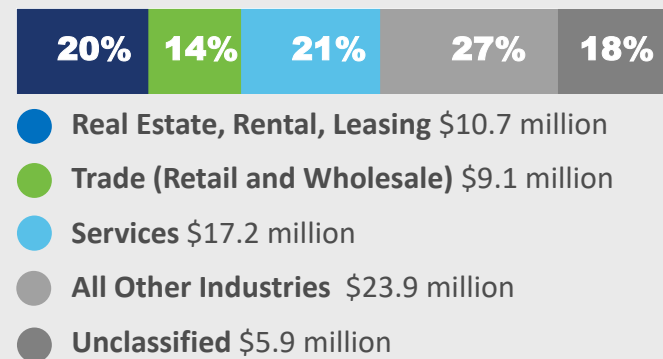
Total Principal Owed, June 2017



Two-thirds of businesses that owe the City money have closed accounts, meaning that they have likely gone out of business, hampering collection efforts.

There are also businesses that cease operations but fail to let us know, which impacts collection efforts.

Type of Industry



*for active periods only (periods >= 1/1/2010)

enforcement.

We've been making it easier for taxpayers and water customers to pay on time, and about 9 out of 10 do.

For customers that are behind, we're getting smarter and faster with enforcement – collecting nearly \$200 million in delinquent taxes and more than \$40 million in delinquent water in FY17.

Water & Sewer

Leveraging technology to improve data analysis and reporting has refined the Department's water and sewer collection strategies.

- **Prioritized Call Campaign**

Utilizing the reporting available through Revenue's new Data Warehouse, the Water Revenue Bureau began an ongoing call campaign that uses predictive analytics to identify which delinquent accounts are more likely to pay outstanding bills. For FY17, this project generated \$2.2 million from delinquent accounts.

- **Improved Municipal Court Filings**

Because of issues with the City's legacy data systems, filing liens against delinquent properties had stalled. By resolving internal data instabilities, the Law Department is now able to file 300 – 400 actions each month. This enables the City to take further action against delinquent water accounts, like sending properties to Sheriff Sale.

- **Sheriff Sale Pilots**

Using improved data reporting, the Law Department completed two pilot Sheriff Sale programs in FY17, with a third pilot scheduled for FY18. This lays the groundwork to use Sheriff Sale more extensively and successfully as a tool for enforcement.

Real Estate

More than **\$116 million collected** in delinquent Real Estate in FY17.

- **Sheriff Sale**

Maintain current high volume of Sheriff Sales. Most property owners pay or come into a payment agreement before a sale occurs. Homeowners always have the option to enter into a payment agreement to avoid sale. Our goal is for property owners to pay rather than to have a property actually go to sale.

- **Sequestration**

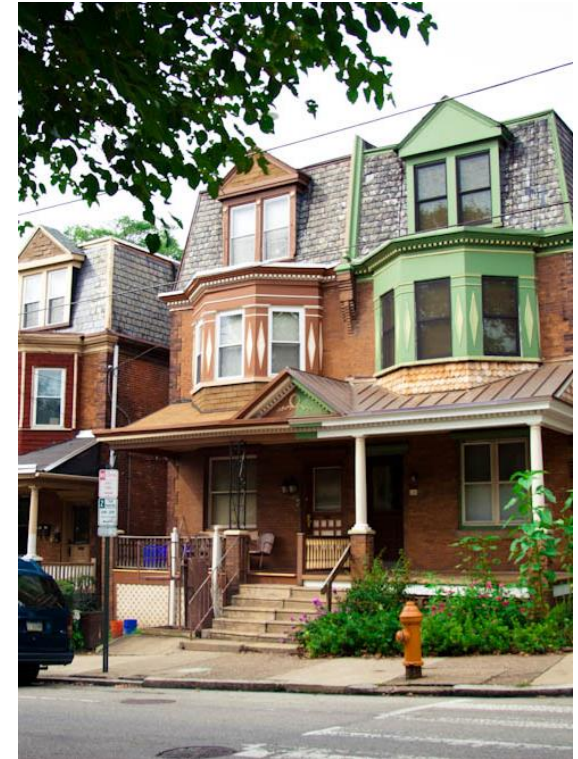
If a delinquent property is a rental property, the City can request a court appointed receiver to take over the rent collection and apply those rental payments to the overdue Real Estate Tax bill. The Department of Revenue collected \$17 million from over 3,000 accounts in FY17.

- **Increased Billing Frequency**

Moved from a 60-day billing cycle to a 30-day billing cycle, increasing the frequency that customers receive a statement.

- **Using Behavioral Economics to Improve Notices**

With Behavioral Scientists from the University of Pennsylvania, Revenue was able to test a variety of messaging and methods for communicating with taxpayers. 16,940 letters with different messaging were sent during the course of the experiment that raised \$615,752 in additional city revenues: an average benefit to cost ratio of 36.3. Among the messaging tactics used, letters indicating a potential Tax Lien or Sheriff Sale were most effective.



Credit Ellie LoNardo

All Other Taxes

Over **\$80 million in delinquent collections** from BIRT, Liquor, and other non-Real Estate Taxes in FY17.

- **Data Matching**

Better data sharing at the federal and state levels means that individuals and businesses who owe City taxes can be identified and contacted. The Department of Revenue assessed over \$21 million of delinquent accounts in FY2017 by detecting income reported to other governments but not Philadelphia.

- **Commercial Activity License Revocation**

Businesses that repeatedly fail to meet their obligations to the City are not permitted to continue operating with a Commercial Activity License from the Department of Licenses and Inspections. Most taxpayers opt to comply rather than close. The city collected \$18.4 million in FY2017, a \$1 million increase from FY16 under this program that can close non-compliant businesses.

- **New Collection Contracts**

The Law Department entered into contracts with two firms for collection of lead paint fines, L&I Code violations, and tax claims for the first time in FY17. Law's Tax Unit intends to regularly refer its smaller judgments to outside counsel for collection and to make sure all larger judgments (\$35,000 or more) are handled in-house.

- **New Payment Plan Terms**

Revenue launched new payment plan terms for delinquent Business Tax accounts. These new plans allow for more flexible terms, but encourage earlier payments. Experience suggests that the more flexible terms of the new plans should result in quicker and more complete payments.

assistance.

The Department of Revenue seeks to help its most vulnerable citizens by offering tax and water discounts, payment plans, and connections to other forms of assistance.

In FY17, the Department of Revenue created two new positions, the Administrator of Taxpayer Assistance Programs & Administration of Water Assistance Programs to coordinate and enhance our efforts to enroll Philadelphians in programs they are entitled to.

Water Revenue Assistance

Launched a groundbreaking income-based assistance program in FY17.

Throughout FY17, Water Revenue prepared for the launch of an income-based assistance program for water bills, the Tiered Assistance Program (TAP), that began July 1, 2017. TAP will offer income-qualified residential water customers a discount on their bill, tying their monthly payment to their household income and size. This is the first time that low-income customers without a past due balance will be eligible for a reduced charge.

Approximately 30,000 customers are expected to enroll.

TAP will replace the City's Water Revenue Assistance Program (WRAP). Current WRAP customers will be allowed to stay in that program, however new customers cannot enroll.

FY17 Programs



Senior Citizen Discount

- 2,136 applications approved in FY17
- Overall, 23,275 Senior Citizen Discounted accounts

Water Revenue Assistance Program (WRAP)

- No longer accepting applications
- 9,102 Households participated



Taxpayer Assistance Programs

The Department provided **over \$111 million in tax relief** to more than 230,000 homeowners through its programs.

The Department of Revenue offers many assistance programs for homeowners who need help in paying their property taxes. Apart from the highlighted programs, some of the others include:

- **Real Estate Tax Installment Plan** The program allows almost 2,500 seniors and other low income homeowners to pay their property taxes in affordable monthly payments.
- **Real Estate Tax Deferral Program** Income-based program for homeowners with Real Estate Tax increases of 15% or higher.
- **Tax Credits for Active Duty Reserve & National Guard Members** who serve outside of PA.
- **Veteran's Real Estate Tax Exemption** for any honorably discharged veteran who is 100% disabled, and has a financial need.



Homestead Exemption

- Reduces the taxable portion of an owner-occupied property assessment by \$30,000
- Saves over 212,000 Philadelphians an average of \$419 per year

Owner Occupied Payment Agreement

- Monthly payments towards past delinquency based on income
- Keeps over 10,000 Philadelphians in their homes when they become delinquent



Low-income Senior Citizen Real Estate Tax Freeze

- Income-based program of seniors that "freezes" Real Estate Taxes
- Over 18,000 senior citizens protected from tax increases

Longtime Owner Occupant Program

- Real Estate Tax discount for residents who have lived in their homes of 10 years or more
- Makes it easy for almost 18,000 long-term homeowners to keep up with rising property values



Earned Income Tax Credit Campaign

Revenue provides Philadelphians with free tax preparation services and encourages Philadelphians to take advantage of the Federal EITC, which offers an **average refund of \$2,500.**



- 24,000+ tax returns prepared for free at 20 City-sponsored sites for tax year 2016, an increase of over 40% from tax year 2015.
- Saved taxpayers \$6.6 million in service fees (\$273 average fee).
- Launched website and outreach material in 9 languages, leading to a 68% increase in website visits.
- Partnered with over 50 community organizations to:
 - Reach over 30,000 School District parents and staff
 - Distribute outreach materials to over 65,000 Philadelphians, and
 - Attend over 75 community meetings

Tax Credit Programs

The Department of Revenue administers tax credits that reduce the cost of conducting business in Philadelphia.

Among the many tax credits available to companies doing business in Philadelphia, a number of tax policy changes were implemented reducing or eliminating BIRT bills for many businesses

- Ongoing rate reductions
- A shift to single sales factor apportionment in TY15
- An exclusion to the first \$100,000 in receipts, fully implemented in TY16, eliminating liability for an estimated 65,000 businesses
- An exemption for BIRT and Net Profits for new businesses that meet employment and wage requirements for the first two years of operations

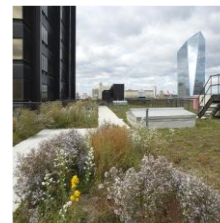


Job Creation Tax Credit

- 31 new agreements executed in TY16
- \$1.3 million in certificates issued

Sustainable Business Tax Credit

- 25 businesses approved in TY16
- Total value of credits approved since inception in 2012 is \$70,814



Green Roof Tax Credit:

- 17 businesses have been approved since inception in 2007
- Total value of credits approved is \$688,682

Community Development Tax Credit

- \$3.7 million in credits to business sponsors; \$3.7 million to support CDCs
- 42 Non-profits enrolled, the maximum allowable number



improvement.

The Department of Revenue continues to make technology, process, and customer experience improvements to increase on-time payments and reduce delinquency.

Customer Experience

Making information easier to find and bills easier to pay.

- Website: Launched new, mobile-friendly site written in plain language.
- Online transactions have increased 58% over FY16; 64% of revenue collected is paid through electronic means.
- Surveyed over 800 customers since August, 2016.
- Utilizing human-centered design to engage taxpayers for program, procedure, and collections improvements.



+13 Million Letters Sent



996,635 Calls Received



174,740 In-person Visits



+8 million Website visits



135 Outreach Events for Businesses and Residents



Reached over 1,000 tax professionals through seminars

Legislation Changes

Key pieces of legislation affecting residents and businesses.

- **Closed Real Estate Transfer loophole** that allowed large real estate transactions to avoid the tax.
- **Created a limit on Business Income and Receipts Tax payment credit/refunds**, requiring businesses to use the overpayments in three years or less.
- **Reduced Wage Tax rates**, now at it's lowest rate in decades, at 3.8907% for residents and 3.4654% for nonresidents. This reduction is part of a long-term initiative to reduce the Wage Tax for residents and nonresidents to their lowest rates in 40 years by 2022.



Credit M. Fischetti for VISIT PHILADELPHIA

Adding More Tools to the Toolbox

Leveraging technology is critical to the success of the Department's collection strategies.



Implemented Data Warehouse, combining local, state, and federal data sources to identify and track collection opportunities. Delivered on-time and under budget. Generated \$25 million to date, and the vendor only receives payment once our collections increase.



Completed installation of a new Remittance System to enable faster, upgraded payment processing.



Expanding communications strategies to include email, saving over \$27,000 in postage costs.
Improved website to make it easier to register and pay for more tax types, including 7 new tax types.



IT Revenue is working with the Office of Innovation and Technology to join the city wide modal network that is more flexible, fault tolerant, and critical for dependable processing.

moving forward.

With over \$5 billion of projected collections in FY18 for the General Fund and the School District of Philadelphia, the Department's planned projects will reduce delinquency, while providing assistance to taxpayers before delinquency occurs.

The Department will also continue to leverage technology to improve customer service and communication.

FY18 Projections



General Fund Taxes: \$3.3 billion in FY18

Wage Tax and Earnings Tax: \$1.5 billion
Real Estate Tax: \$651 million
Business Taxes: \$490 million
All other taxes: \$661 million



School District Taxes: \$1.0 billion in FY18

Real Estate Tax: \$732 million
School Income Tax: \$41 million
Use & Occupancy: \$148 million
Liquor Tax: \$74 million



Water Revenue Collections: \$637 million in FY18

Future Projects

Tax Lien Sale

Offer autopay
for payment
plans

eBilling for
Water

Implement new affordable
rate program for Water
customers (TAP)

Expand eFile
& ePay
options

Begin multi-year process to replace
30+ year old legacy tax system



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