



CITY OF PHILADELPHIA

DEPARTMENT OF REVENUE
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June 28, 2018

FRANK BRESLIN, CPA
Revenue Commissioner
Chief Collections Officer

The Honorable James F. Kenney
Mayor
City of Philadelphia
215 City Hall
Philadelphia, PA 19107

Dear Mayor Kenney:

I am pleased to transmit herewith a report summarizing the City's experience in 2017 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.

Very truly yours,

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

Commissioner Frank Breslin
Chief Collections Officer

mnm

Enclosure

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

CITY OF PHILADELPHIA



JOB CREATION TAX CREDIT

2017 ANNUAL REPORT

Submitted by:
The City of Philadelphia, Department of Revenue
June 2018

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

Job Creation Tax Credit

2017 ANNUAL REPORT

JOB CREATION TAX CREDIT OVERVIEW

Key Stats for the Job Creation Tax Credit

- There have been 207 applications approved between 2002 and 2017.
 - 22 Businesses applied in 2017
 - 16 applications were approved in 2017. An additional 5 applications received in 2017 have been approved in 2018 to date. An additional 2 applications received in 2016 were approved in late 2017.
- Approved applicants between 2002 and 2017 promised to create 10,472 jobs.
 - The 16 applications approved in 2017 promised 1,460 jobs (the additional 5 applications received in 2017 but approved in 2018 promised another 287, for a total of 1,747).
 - The 17 applications approved in 2017 for 2016 promised 540 jobs.
 - Of the 10,472 promised, 2,125 have been created (20% of the jobs promised).
 - 255 of those were created in 2017.
 - 4,698 promised jobs were not created within 5 years, as required to receive the credit (43% of jobs promised)
 - 4,067 promised jobs have not yet been created, but may still be created in time to receive the credit (37% of promised jobs)
- \$7.1 million in credits have been awarded to businesses for jobs created since 2002.
 - \$2,215,547 in credit certificates were issued in 2017.
- \$3.0 million in credits have been used since 2002.
 - \$417,672 in credits were used in 2017.

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.

City Council Bill No. 160015-A added a new Chapter 18-300 to the Philadelphia Code, entitled *Economic Development Reporting*. The Bill requires businesses that receive certain tax credits and other subsidies to provide certain economic development data to the City's Department of Commerce. Additionally, Bill No. 160015-A specifically requires a company participating in the Job Creation Tax Credit program to agree (pursuant to the terms of the commitment agreement) to comply with the new economic development reporting requirements by providing certain economic data directly to the Department of Revenue. This new ordinance is effective for Job Creation Tax Credit applications received by the Department of Revenue on or after September 27, 2016.

Participants that receive tax credit certificates issued by the Department of Revenue in calendar year 2017 (for verified job creation) will need to make an Economic Development Report directly to the Department of Revenue by May 1, 2018. The new law requires the report to include (but is not limited to) the number of full-time, part-time, temporary employees and subcontractors employed by the business in the City at the start and end of the calendar year. Participants will also need to include the locations within the City where employees work and descriptions of the jobs created, and compensation levels (including salaries and benefits). The participant will need to file a report for each of the five (5) years following a year in which the tax credit certificate is received from the Department. The Department of Revenue will provide a summary report of the information supplied by applicants to the Commerce Department on an aggregate basis so that no specific applicant's confidential tax information is reported separately.

Twelve (12) businesses whose Job Creation Tax Credit application was received by the Department on or after September 27, 2016 and whose fully executed commitment agreement did not contain the now

legally required language, received a letter explaining the details of Bill NO. 160015-A. The letter included an Addendum to the Job Creation Tax Credit Commitment Agreement which was to be signed and returned to the Department if the business wanted to continue participation in the program. All twelve (12) businesses returned the signed addendum to their Commitment Agreement.

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 2017, three hundred and nine (309) businesses have applied to participate in the program; two hundred and seven (207) firms were approved for participation in the program, promising the creation of 10,472 jobs.

The five-year period allowed by the Ordinance to create new jobs has expired for ninety-four (94) of these two hundred and seven (207) businesses, as of the end of 2017. Of these ninety-four (94) businesses, seventy-six (76) did not create the number of jobs promised. Therefore, the number of promised jobs to be created is reduced from 10,472 to 5,723.

To date, 2,125 new jobs have been verified under this program, resulting in the issuance of \$7,102,049 in tax certificates, of which \$3,036,554 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.

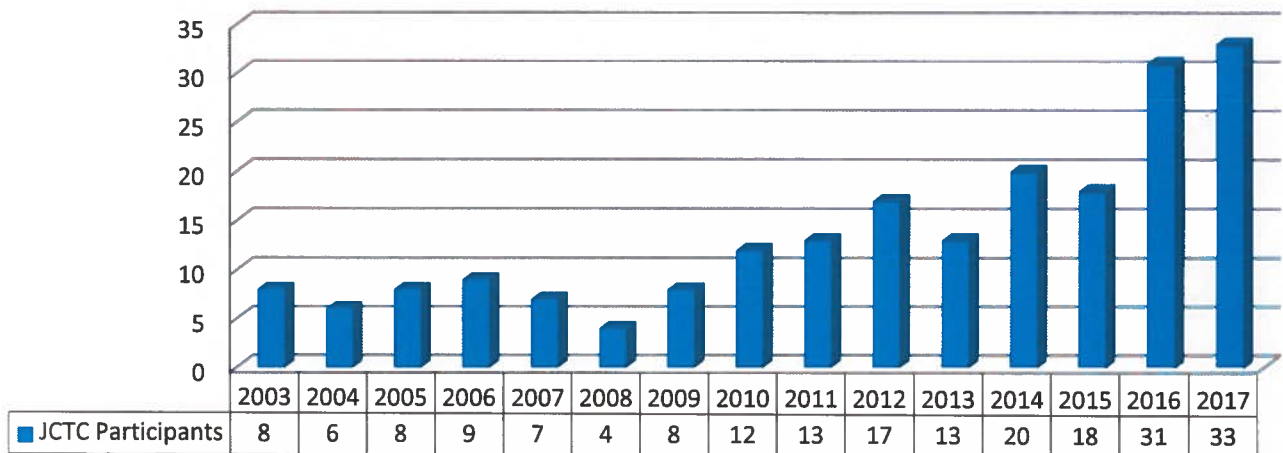
If the Department of Revenue is satisfied that the appropriate number of jobs have been created, the Department issues a Tax Credit Certificate stating the amount of credit the firm is entitled to. The firm can redeem the certificate for a tax credit either all at once or over five years from the issuance 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 2017, two hundred and seven (207) companies have a fully executed Job Creation Commitment Agreement (“Agreement”) with the Department. Of these, ninety-four (94) 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 and thirteen (113) remaining participants at the close of 2017 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 2017.

Fig 1. Job Creation Tax Credit Participants



Participating firms represent at least a dozen industries over the life of the program. Companies engaged in Manufacturing, Retail Trade and Professional Services represents the largest segment of participants, with 146 firms. Information, Finance & Insurance, and Real Estate entities represent 12 percent of the participating businesses. Although Healthcare and Education are significant segments of the Philadelphia economy, they represent less than 1 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	2
Manufacturing	24
Retail Trade	24
Transportation	2
Information	10
Finance & Insurance	11
Real Estate	4
Professional Services	98
Administrative Services	6
Educational Services	1
Healthcare	7
Food	4
Other	14
TOTAL	207

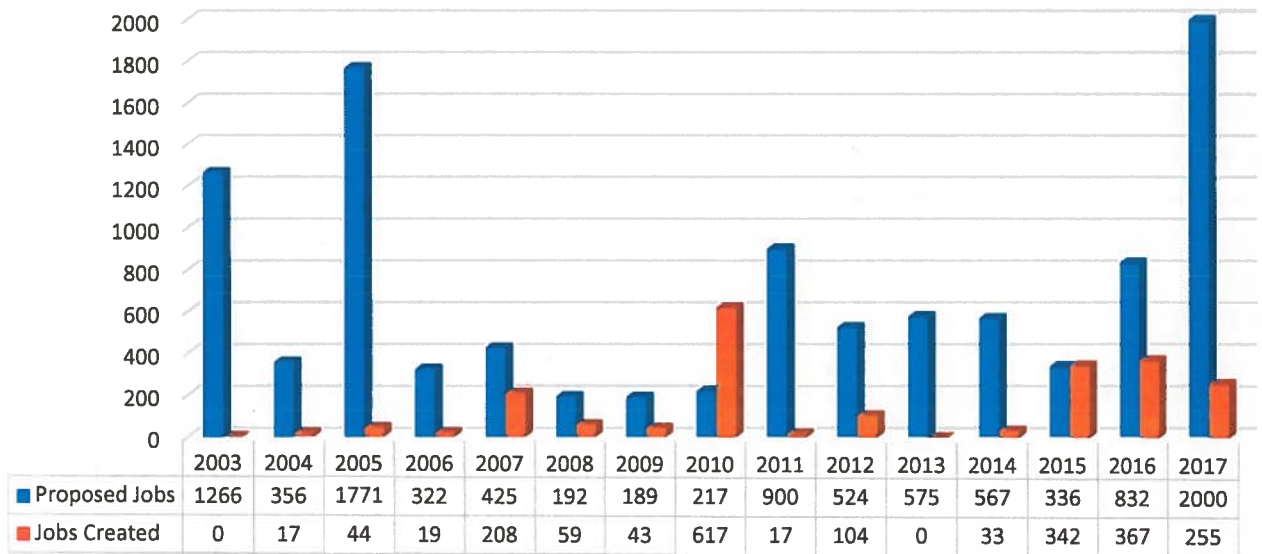
JOB CREATION

Overall, participating firms committed to generating 10,472 new jobs in the City. Ninety-four (94) participants, whose five-year period to create jobs have expired, have not fulfilled their commitment. Hence, 4,749 of the promised 10,472 new jobs or roughly 45% of the jobs promised by companies entering the program were not created.

The next chart illustrates the number of proposed new jobs by businesses with fully executed Agreements as of the end of 2017 and the number of jobs certified as created in each year. 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.

Through 2017, 2,125 (20%) 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.

Fig 2. Jobs Proposed and Created through 2017



TAX CREDITS

In 2017, 255 jobs were created resulting in the issuance of \$2,215,547 in tax certificates. In 2017, \$417,672 in tax credits were used and were a combination of tax credit certificates issued in 2017 and earlier years. Since the inception of the program through the end of December 2017, the Department of Revenue has issued \$7,102,049 in tax certificates, of which \$3,036,454 tax credits have been claimed by forty-four (44) 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 state date.