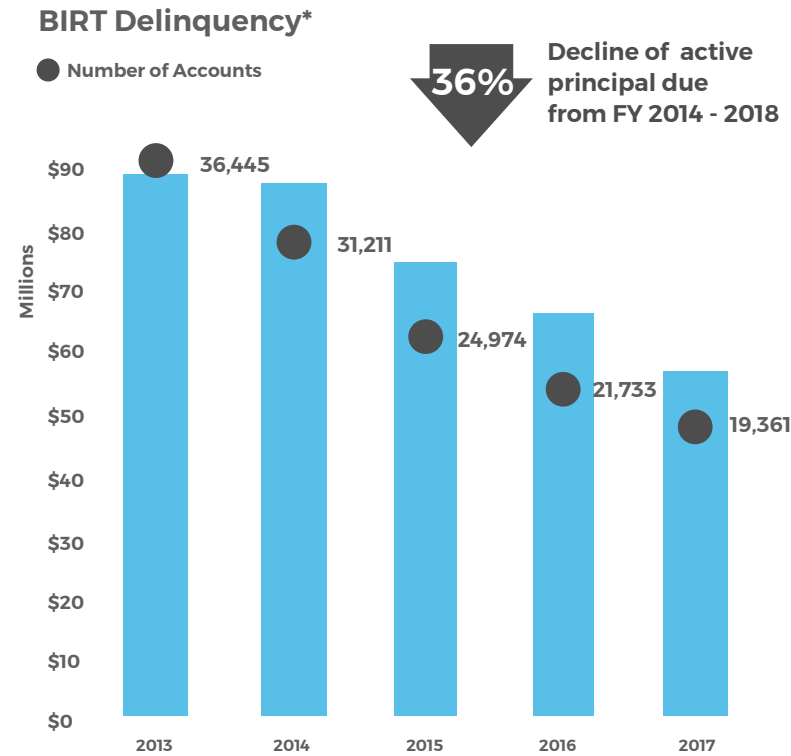


Business Income and Receipts Tax Delinquency in Philadelphia

The BIRT is a tax on business activity in Philadelphia. The Department of Revenue collected \$446.1 million in BIRT in FY18, an increase of 8.7% from the prior year. The number of businesses that pay the tax has reduced from about 100,000 to 30,000, because those that have less than \$100,000 in Philadelphia

sales do not pay the tax. We reduced delinquent principal due by 15% from FY17 to FY18 by enrolling businesses in payment plans, placing accounts with collection agencies and using enforcement tools like Commercial Activity License Revocation to pursue businesses with physical locations in Philadelphia.

How are our collection efforts going?



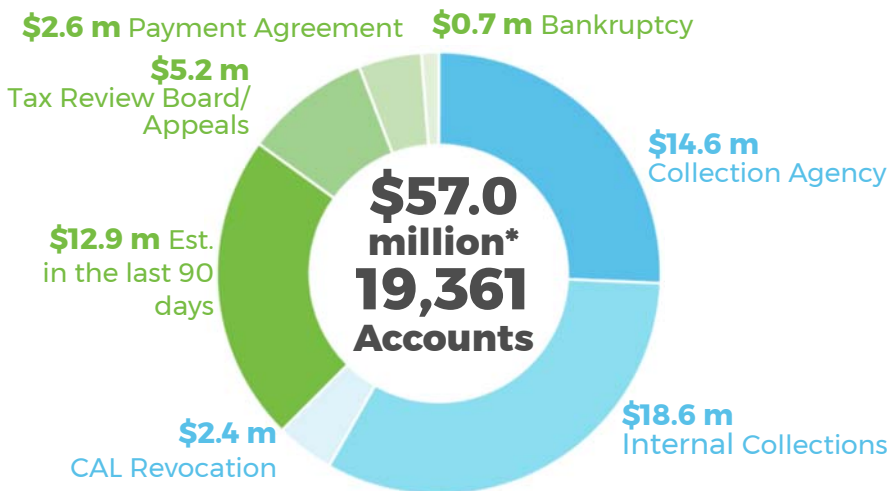
Strong enforcement has consistently reduced delinquent businesses by 47% and amount due by 36% in the last five years.

Revenue has pushed delinquency down and improved collections by:

- Placing accounts with collection agencies to provide added capacity and flexibility
- Expanding efforts to enroll businesses into payment plans
- Utilizing our Data Warehouse to identify Commercial Activity License (CAL) Revocation candidates
- Increasing legal enforcement on long-time debtors through partner law firms

*Active principal: delinquent periods after January 1, 2012

How do we collect debt from delinquent businesses?



What collection strategies work?



The **CAL Revocation program** revokes the activity licenses of businesses that fail to pay the City, forcing the business to stop operations.

In FY18, \$9 million was paid by delinquent businesses to avoid closure, with 80% of the accounts coming into compliance. Just 6% of businesses were shut down for non-compliance. The last 14% were routed to more effective enforcement actions.



In FY 2018, we made our **payment agreement terms** more affordable and flexible.

Almost 900 delinquent BIRT businesses had an agreement last year, an increase of 41% in principal due from FY 2017.

38% is "non-Actionable" 62% is "Actionable"

These accounts are in payment agreements or the City is barred from collection.

The City is actively working to collect these accounts.

*Active principal: delinquent periods after January 1, 2012

What is the average amount due?

The majority of accounts owe less than \$500, requiring low-cost collection efforts to ensure a reasonable return on investment.



Less than one in five delinquent businesses owe more than \$20,000 but make up more than 64% of principal debt due.

*Active principal: delinquent periods after January 1, 2012

Who are delinquent businesses?

	Principal owed by open delinquent businesses	Principal owed by new* and open delinquent businesses	Active principal owed by top 100 delinquent businesses	Average debt of top 100 delinquent businesses
2017	38%	26%	\$24.2 m	\$242,608
2018	33%	15%	\$20.9 m	\$209,881

! * in businesses for less than two years
CAL Revocation works best for these businesses

! Revenue increased legal enforcement on long-time debtors through partner law firms

! Most of this debt is in litigation at the Tax Review Board

What are Revenue's next collection strategies?

Data analysis and expanded capacity will continue positive trends without requiring new funding

In Fiscal Year 2019, the City will

- Continue using the CAL Revocation program to reduce principal due
- Use behavioral science best practices and outreach to increase the number of businesses in payment agreements
- Utilize the Data Warehouse to identify specific candidates for legal enforcement

Notes about this data

This report uses data current through June 2018. Amounts in this report refer to principal due for active and inactive periods. Active periods refers to periods after January 1, 2012.

Older debts, interest and penalties are much less likely to be collected and are often reduced or waived when payment does occur. Presenting the active, principal delinquency is reflective of reasonable expectations for collections.

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