

CITY OF PHILADELPHIA



JOB CREATION TAX CREDIT

2018 ANNUAL REPORT

Submitted by:
The City of Philadelphia, Department of Revenue
June 2019

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

Job Creation Tax Credit

2018 ANNUAL REPORT

JOB CREATION TAX CREDIT OVERVIEW

Key Stats for the Job Creation Tax Credit

- There have been 218 applications approved between 2002 and 2018.
 - 10 Businesses applied in 2018
 - 9 applications were approved in 2018. One application was denied.
- Approved applicants between 2002 and 2018 promised to create 11,966 jobs.
 - The 9 new applications approved in 2018 promised 1,102 jobs.
 - Of the total 11,966 jobs promised, 2,262 have been created (19%).
 - 137 of those were created in 2018.
 - 4,905 promised jobs were not created within 5 years, as required to receive the credit (41% of jobs promised)
 - 4,799 promised jobs have not yet been created, but may still be created in time to receive the credit (40% of promised jobs)
- \$8.3 million in Credit Certificates have been awarded to businesses for jobs created since 2002.
 - \$1,135,000 in Credit Certificates were issued in 2018.
- \$4.1 million in credits have been used since 2002.
 - \$1,017,492 in credits were used in 2018.

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 (basically a gift certificate that can be used to pay their Business Income and Receipts Tax liability). 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 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.

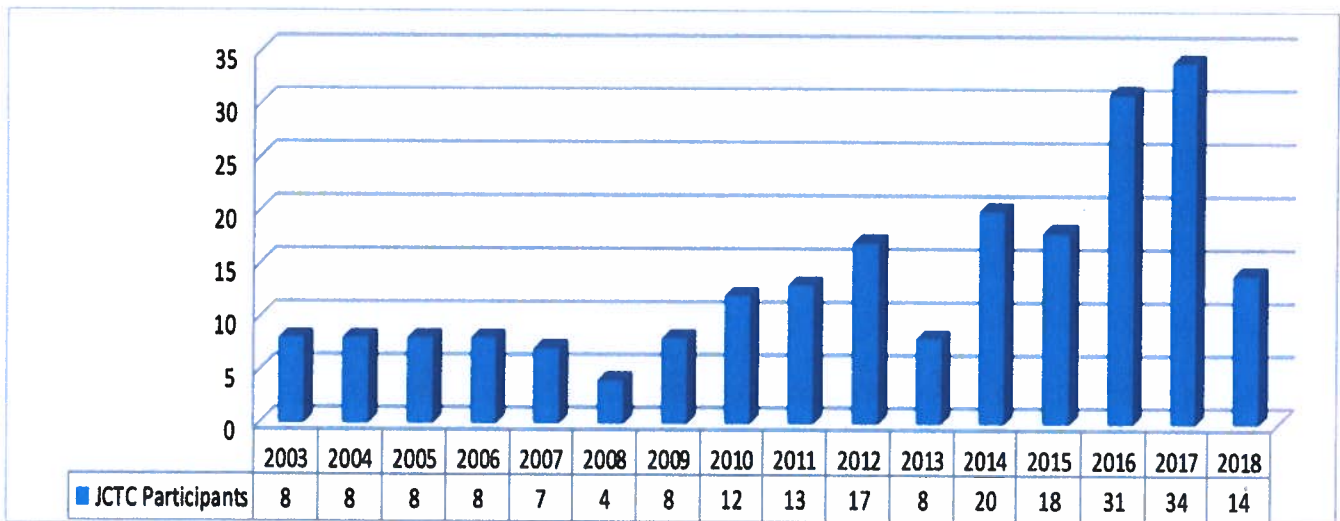
Information about the program is available on the Department of Revenue's website at www.phila.gov/revenue and other local government websites related to economic development.

JOB CREATION TAX CREDIT PROGRAM ACTIVITY

PARTICIPATING COMPANIES

As of the close of 2018, two hundred and eighteen (218) companies have a fully executed Job Creation Commitment Agreements (“Agreement”) with the Department. Of these, one hundred and fifteen (115) 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 2018 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 2018.

Fig 1. Job Creation Tax Credit Participants by Approval Year



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 153 firms. Information, Finance & Insurance, and Real Estate entities represent 14 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	4
Manufacturing	26
Retail Trade	26
Transportation	2
Information	10
Finance & Insurance	11
Real Estate	4
Professional Services	101
Administrative Services	6
Educational Services	1
Healthcare	8
Food	4
Other	15
TOTAL	218

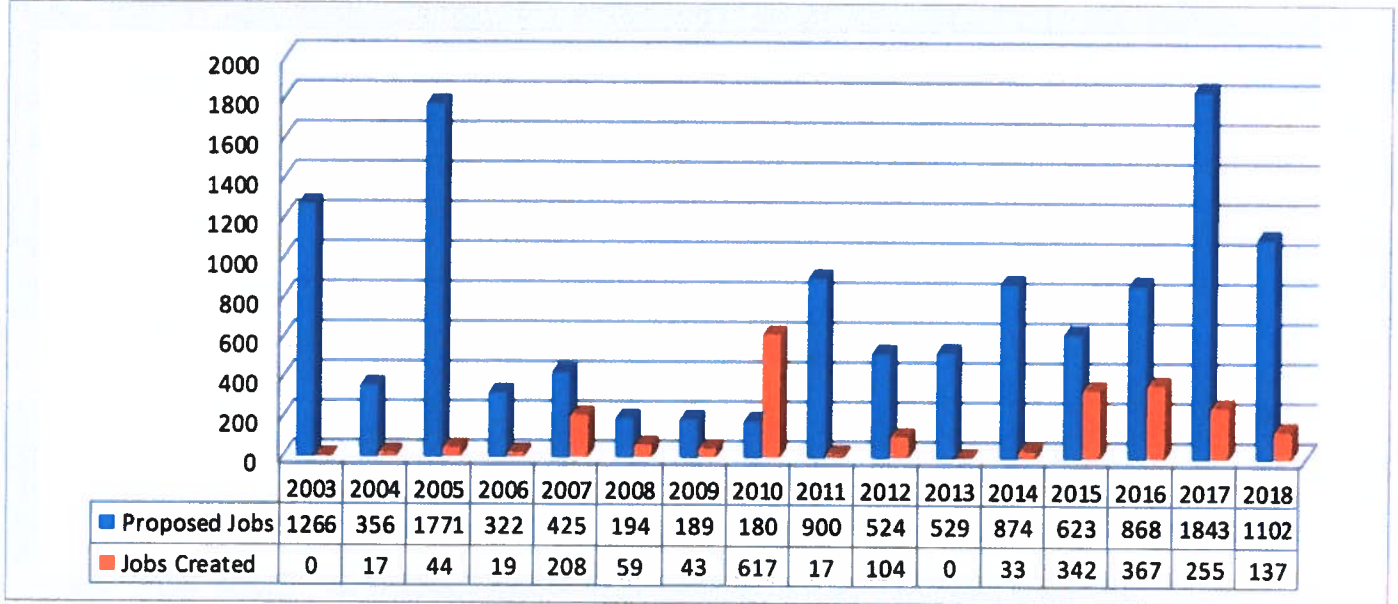
JOB CREATION

Overall, participating firms committed to generating 11,966 new jobs in the City. One hundred and fifteen (115) participants, whose five-year period to create jobs have expired, have not fulfilled their commitment. Hence, 4,905 of the promised 11,966 new jobs or roughly 41% 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 2018 and the number of jobs certified as created in each year.

Through 2018, 2,262 (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.

Fig 2. Jobs Proposed and Created through 2018



TAX CREDITS

In 2018, 137 jobs were certified as created, resulting in the issuance of \$1,135,000 in Tax Certificates. In 2018, \$1,017,492 in tax credits were used and were a combination of Tax Credit Certificates issued in 2018 and earlier years. Since the inception of the program through the end of December 2018, the Department of Revenue has issued \$8,348,049 in Tax Certificates, of which \$4,145,865 tax credits have been claimed by forty-nine (49) 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.