

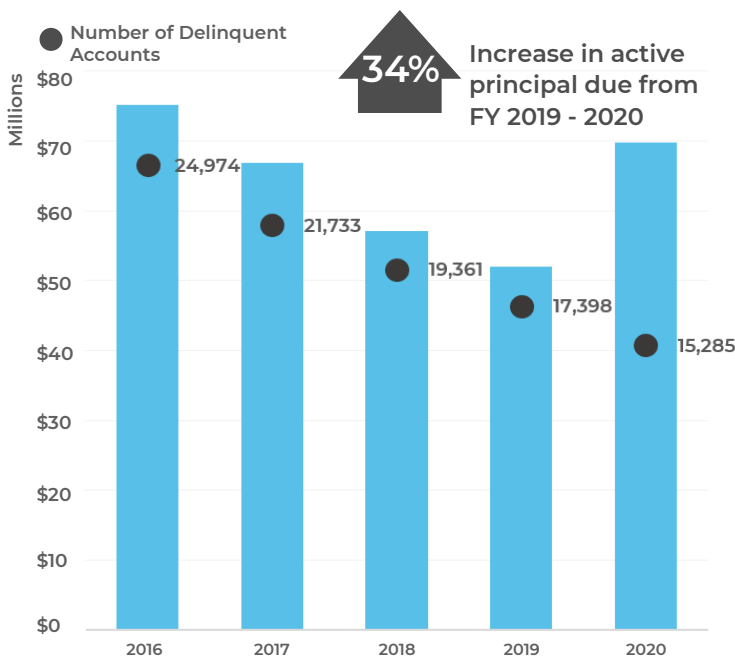
Business Income and Receipts Tax Delinquency in Philadelphia

The BIRT is a tax on business activity in Philadelphia. In FY20, the Department of Revenue collected \$555.5 million in BIRT from about 35,000 businesses who had gross receipts over \$100,000. About 15,300 businesses had delinquent BIRT debt, for FY20 and prior years, and owed close to \$70 million in principal.

The sudden onset of the COVID-19 pandemic in March 2020 required Revenue to suspend some enforcement activities and adapt day-to-day operations to ensure the health and safety of all taxpayers and employees. In response, Revenue is focused on compassionate enforcement and expanded customer service.

How are our collection efforts going?

Active Principal BIRT Delinquency*



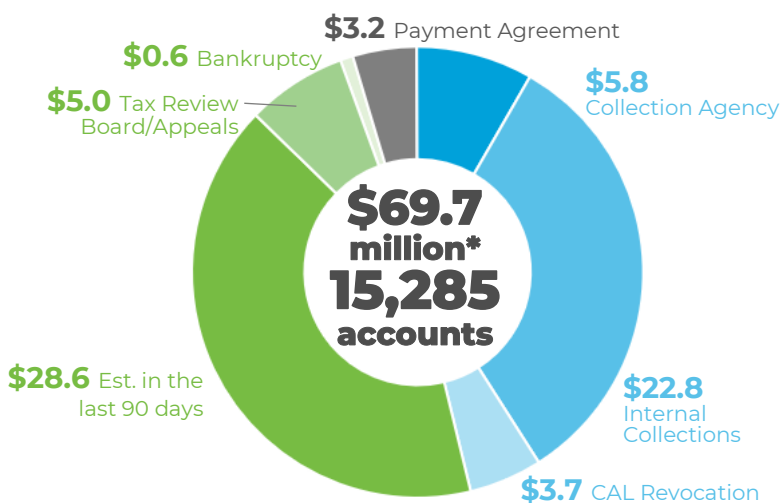
A major cause for the increase in principal due was the pause in BIRT enforcement at the beginning of the COVID-19 pandemic.

Although we continued sending notices to delinquent taxpayers, we did not add any new accounts to our enforcement pipeline or continue any prior enforcement action.

In response to COVID-19, Revenue developed a **targeted payment agreement program for businesses with delinquent debt**. This program provides businesses that could not meet their tax obligation due to the COVID-19 up-to 12 months to pay without interest or penalty.

*Active principal reflects delinquent periods after January 1, 2014

How do we collect debt from delinquent businesses?



46% is "non-Actionable"

These accounts require no further action on the part of the City or the City is barred from collection, including accounts in a payment agreement.

54% is "Actionable"

The City is actively working to collect these accounts.

What enforcement has led to an increase in total principal due from FY19 to FY20?



Principal debt **established in the last 90 days** rose from 28% in FY19 to 41% in FY20, or 13 percentage points. This increase is because Revenue changed the BIRT due date from April 15, 2020 to July 15, 2020, to offer relief to businesses & honor the IRS' extension. The FY20 number includes accrued balances from the first quarter of FY21

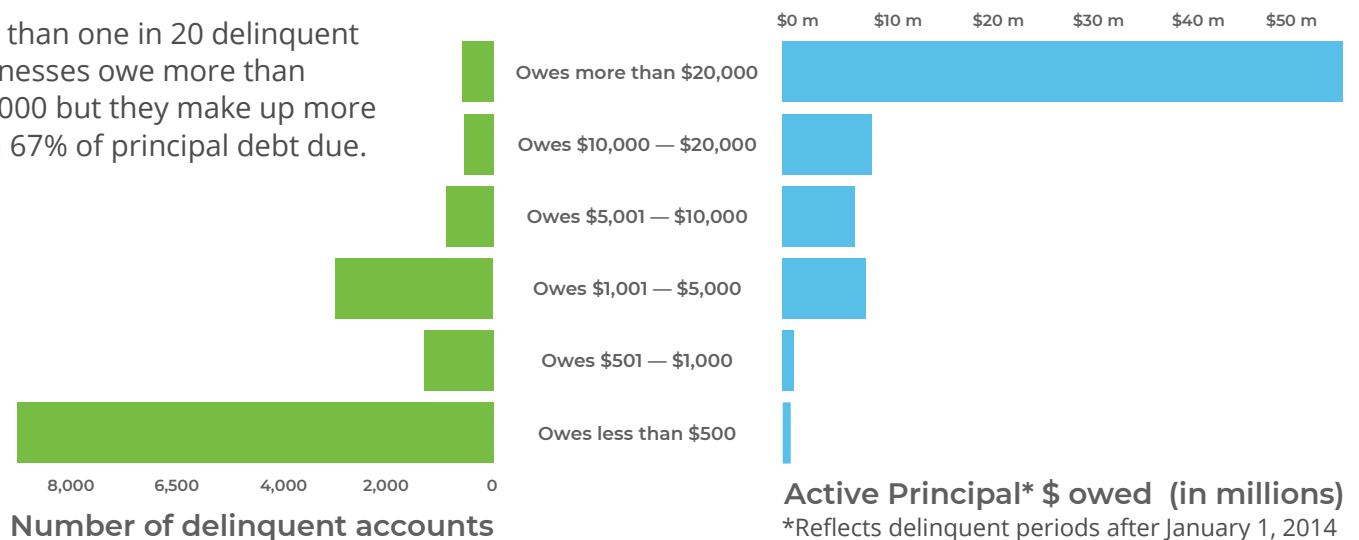


Debt with **collection agencies or internal collections (including CAL Revocation)** fell from 60% in FY19 to 46% in FY20, or 14 percentage points. This decrease is largely due to the pause in enforcement in mid-March. As of December 2020, only some enforcement actions have resumed.

*Reflects delinquent periods after January 1, 2014

What is the average amount due?

Less than one in 20 delinquent businesses owe more than \$20,000 but they make up more than 67% of principal debt due.



How does Revenue clean up old delinquent balances?



Did you know?

In FY20, Revenue received a list of deceased taxpayers from the Philadelphia Health Department and used the data to determine uncollectible BIRT debt. We found that -

4% of delinquent BIRT accounts with active periods* were owned by deceased taxpayers, and represented

10% of total debt due.

Of closed delinquent business accounts with debt due for active periods*, deceased taxpayers represented:

14% of delinquent BIRT accounts and

41% of total debt due

*Reflects delinquent periods after January 1, 2014

Cleaning up old and uncollectible balances helps Revenue by:

- Focusing our current enforcement methods on businesses that can pay, improving the effectiveness of tax collection.
- Reducing the amount of old debt we carry over to our new tax system of record in FY21. This process gives Revenue a clean slate to begin new enforcement and continue old methods.

What are Revenue's next collection strategies ?

The nature of economic recovery in Philadelphia will shape future enforcement strategies.

In Fiscal Year 2021, the City will

- Focus on compassionate enforcement, offering assistance to struggling businesses, while continuing enforcement against chronically delinquent accounts.
- Begin project work on new tax system of record improving collection and billing capabilities.
- Continue targeted outreach to businesses to improve enrollment in payment agreements.



Notes about this data

This report uses data current through September 2020. Amounts in this report refer to principal due for active and inactive periods. Active periods refers to periods after January 1, 2014.

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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