

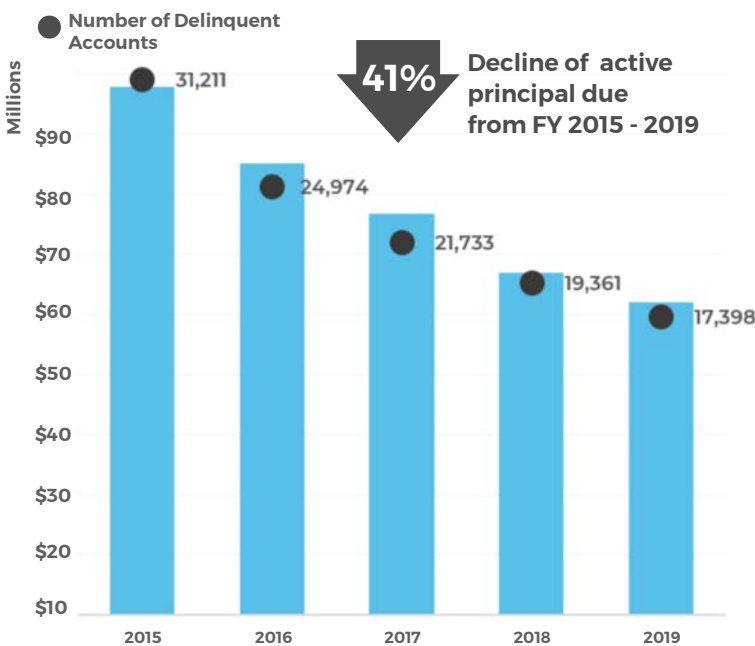
Business Income and Receipts Tax Delinquency in Philadelphia

The BIRT is a tax on business activity in Philadelphia. The Department of Revenue collected \$548.7 million in BIRT in FY19 from about 33,000 businesses who had gross receipts over \$100,000. In the same year, about 17,400 businesses had delinquent BIRT debt and owed close to \$88 million, or 16% of total BIRT collections.

Although this report was prepared prior to the disruptions of the COVID-19 pandemic, Revenue's biggest challenge in pursuing BIRT debt remains that over 60% is owed by closed businesses. Moving forward, Revenue is committed to developing compassionate enforcement tools to support businesses affected by economic and operational changes due to COVID-19.

How are our collection efforts going?

Active Principal BIRT Delinquency*



*Active principal reflects delinquent periods after January 1, 2013

Strong enforcement has consistently reduced the number of delinquent businesses by 44% and the principal due by 41% in the last five years.

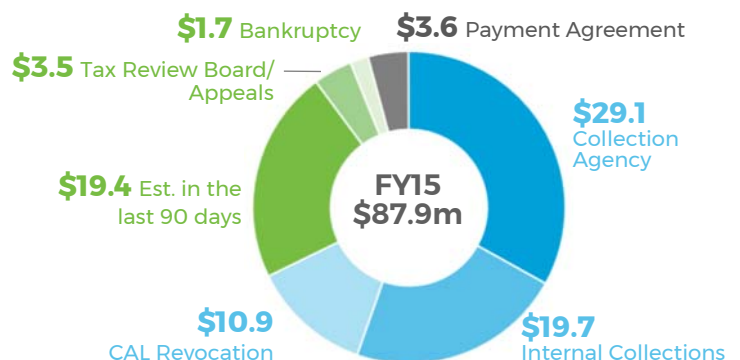
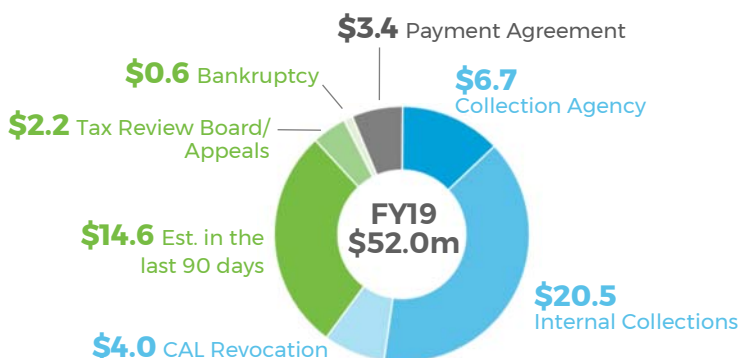
Revenue has reduced delinquency using **early intervention** and **data-driven** tactics to collect debt. We've enrolled more than \$3 million into payment agreements. Other enforcement tools, such as CAL Revocation and litigation in court, have reduced the number of delinquent accounts, and amount owed.

- One of our early-intervention tactics is requiring businesses to get **tax clearance** if they pursue City contracts, apply for L&I permit applications or receive a City benefit.
- Using outside counsel to pursue **long-time debtors in court** usually motivates payment and is part of our data-driven enforcement tactics.

How do we collect debt from delinquent businesses?

FY19 and FY15, active principal* owed by enforcement categories (in millions)

*Reflects delinquent periods after January 1, 2013



In FY19

40% 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.

60% is "Actionable"

The City is actively working to collect these accounts.



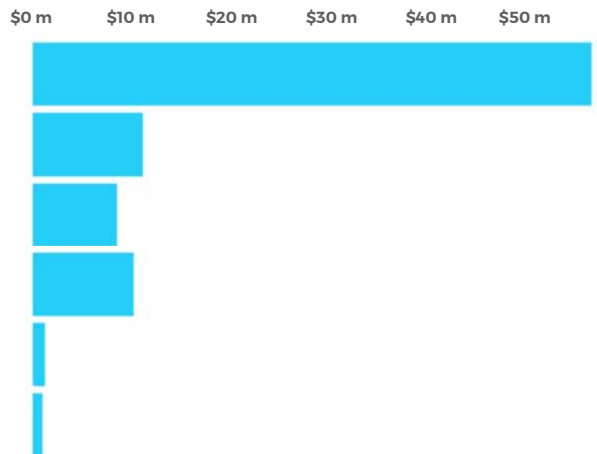
2 in 3 business with delinquent accounts were closed

But these accounts represent **63%** of the principal tax due

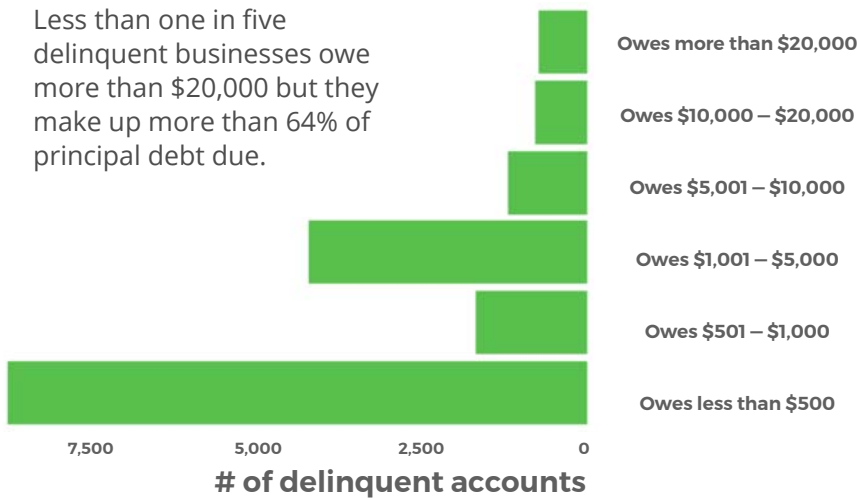
What is the average amount due?

Active Principal* \$ owed (in millions)

*Reflects delinquent periods after January 1, 2013



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



How does Revenue use CAL Revocation for enforcement?

What is CAL Revocation?

The CAL Revocation program revokes the activity licenses of businesses that fail to pay the City, forcing them to stop operations. In the last three years, we've made improvements to the program using technical upgrades through the Revenue Data Warehouse.

What is the Data Warehouse?

The Data Warehouse is an internal research team that uses technology to consolidate federal, state, and local information about anyone who has a financial obligation to the City. This team has allowed the city to become **smarter** and **tougher** about enforcement.

- 1 All accounts with delinquent business taxes.
- 2 Data Warehouse **automatically** identifies accounts with a physical location in the city, which are ideal for CAL Revocation.
- 3 Internal enforcement group selects accounts to pursue, based on:
 - Total amount owed.
 - Probability of collection (modeled using taxpayer attributes).
- 4 Data Warehouse **automatically sends** notices of enforcement action to the taxpayer & **tracks** case information.

If business misses a payment, internal enforcement group is immediately notified.

What are Revenue's next collection strategies?

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

In Fiscal Year 2020, the City will

- Begin project work on new tax system of record, improving collection and billing capabilities.
- Develop tools to take a compassionate approach to enforcement. While balancing actions against bad actors who are chronically non-compliant prior to disruptions from COVID-19, and taxpayers in good standing who are now unable to pay by no fault of their own.



Notes about this data

This report uses data current through June 2019. Amounts in this report refer to principal due for active and inactive periods. Active periods refers to periods after January 1, 2013.

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.

Icon Credit: Creative stall; Blair Adams, savgenjory from the Noun Project.