

May 1, 2020

## **Revenue for A Just Recovery: Philly Government Must Fully Fund our Communities and City Services**

The Coronavirus pandemic has created both a public health and fiscal crisis for the City of Philadelphia. The City Controller's Office [reported possible declines](#) in tax revenues between \$344 million and \$674 million over the next two years. Black and Brown communities in the city have historically been underfunded and most impacted by austerity measures. Now more than ever, our communities need [deep investment that support working families](#)- not cuts that reduce city services.

We are calling on our elected officials to take swift action to stop the spread of the virus and [support bold policies](#) that fully fund recovery and [mitigate the lasting impact of the virus](#) on working families throughout the city. In order to do this, the city must explore progressive revenue options. Progressive revenue streams shift the burden from the shoulders of working class Philadelphians and small businesses to the people and institutions with the resources to fund our communities. Below is a list of progressive options we believe the city should explore and implement, as we move through this unprecedented crisis.

### **Progressive Revenue Options on the City Level**

#### *Fully End the Tax Abatement*

In December 2019, city council voted to reform the 10-year tax abatement, reducing the abatable amount available for residential properties by about 50%. While this is a step in the right direction, it fell short of what is needed--[a full elimination of the abatement](#) to fund schools, affordable housing, and urban agriculture. The abatement lets wealthy real estate developers and corporations off the hook for paying their fair share of taxes; for example, Comcast won't pay taxes on the value of its \$1.2 billion Technology Center in Center City until 2027.

#### *Raise the Gross Receipts Tax*

This is a tax on the total amount of receipts a business gets from selling goods and services in the City. It applies to *all* businesses that sell goods and services in the City regardless of whether or not they are physically located here or not. So, a business cannot leave the City to avoid the tax. It is particularly progressive in two ways. First, it exempts the first \$100,000 in receipts, thus protecting neighborhood mom and pops. And second, it doesn't allow giant businesses like Comcast to use tax loopholes to avoid payment, since every single sale to a person or business in the City is subject to the tax.

#### *Cancel Cuts to Business Net Income Tax*

Unless Council says otherwise, the Net Income tax will automatically go down from its current 6.2% rate to 6% in stages ending in 2023. There is no justification for the City to give up that revenue at this time.

#### *Cancel Cuts to Wage Tax*

The City schedules cuts to the wage tax to attract businesses to the city. But these cuts siphon money away from our city's budget and force cuts that are most deeply felt by black and brown residents in the city.

#### *Pass Municipal Fair Share Tax*

This would impose a higher tax than the wage tax on unearned income like dividends and capital gains from stocks and bonds, investments which are held

almost entirely by the wealthy. A similar tax is levied on the School District side, but with many loopholes. Research is needed to determine if state authorization would also be required to raise the rate of the tax and eliminate the loopholes and, if so, the City should lobby for it.

*Apply a Sales Tax for Legal & Accounting & Other Services*

This exemption is one of the major reasons the sales tax is as regressive as it is. The City Law Department must research whether the tax could be imposed at the State rate, the City rate, or the combined State/City rate. Depending on what rate is allowed,, broadening the tax in this way could bring in so much revenue that a lowering of the overall rate might be possible while still supplying extra revenue to the City.

*Increase the Realty Transfer Tax*

The Realty Transfer Tax is levied when high value real estate changes hands. Currently, the city's Realty Transfer Tax rate is at 3.278%, plus a 1% state tax. The city should increase its portion of the tax and demand wealthy property owners pay their fair share.

*Use a portion of the Rainy Day Fund (Budget Stabilization Reserve Fund)*

Philly's Rainy Day fund was created to help the city survive revenue volatility. The fiscal turbulence caused by the Coronavirus pandemic is the very situation that the Fund was designed to deal with.

*Establish a [PILOT](#) program with mega-nonprofits*

Some of the wealthiest institutions in our city like Penn, Drexel, and Temple do not pay any property taxes. UPenn, which owns at least \$3.2 billion in property and has a \$14.7 billion endowment, makes no contribution to our city via property taxes. At a time when working people are struggling to pay rent and feed their families, we need our wealthiest institutions to [do their part in funding public education](#) in the city.

*Restart the Personal Property Tax*

This is a wealth tax on the value of intangible personal property like stocks and bonds. It was imposed in Philadelphia until the late 1990's when it was declared unconstitutional for excluding the value of stock in companies that are based in Pennsylvania. If that exclusion were removed it would be a perfectly legal and valid tax. It could be levied at a modest rate, as before, and likely bring in substantial revenues almost entirely from the wealthiest among us.

*Create a Philadelphia Public Bank*

If the City had its own bank to hold and invest all City funds, its borrowing costs would be substantially cut, and small businesses would have access to the low-interest working capital they need to re-open, thus increasing City business and wage taxes.

**Progressive Revenue Options on the State Level**

*Close the "Delaware loophole"*

The city should push PA state officials to establish "combined reporting" to require corporations to more accurately report revenues earned in Pennsylvania. Often referred to as the "Delaware loophole," the loophole enables huge corporations to declare certain types of revenue in the state where the company is incorporated rather than in the state where the business operates and the

revenue is earned. This loophole may also exist in the City's Net Income Tax and should similarly be closed.

### **Progressive Revenue Options on the Federal Level**

Use [Federal CARES Act](#) to fund services in Black and Brown communities

The City of Philadelphia should be meeting the needs of its residents and the CARES Act funding allows for the creation of emergency relief programs- like an emergency fund for struggling homeowners, free testing sites or public provisions of personal protective equipment to residents and healthcare workers. Black and brown workers are those hit hardest by the virus while disproportionately working on the front lines of the crisis. The City should prioritize public services and relief in our black and brown communities.

[Demand Stimulus #5](#) for the Real Cost of Covid 19 Crisis

Congress is exploring a Stimulus #5 that would offer at least an additional \$500 billion to local governments. The City of Philadelphia would have access to this relief and should place pressure on state officials to use the funding to create a [People's Bailout](#) in Philadelphia.

### **Progressive Revenue Options from the Federal Reserve**

Expand the [Municipal Liquidities Facility](#) from the Federal Reserve

The Federal Reserve recently announced that it will start lending to a limited number of municipal borrowers for a limited set of uses on a short-term basis using the Municipal Liquidity Facility. Philly is included in the list of qualifying borrowers. Public loans from the Fed could address revenue gaps and provide low cost financing for the city that otherwise may be provided by predatory Wall Street deals.

Philly's elected officials should call on the Federal Reserve to dramatically expand the MLF program and demand the Federal Reserve provide low-interest loans on an ongoing basis.

*Additional resources on Federal Reserve*

[Municipal Liquidity Facility FAQ](#)

[Section 14\(2\)\(b\) of Federal Reserve charter](#) - Section 14(2)(b) of the Federal Reserve charter allows for the Fed to purchase municipal or state debt as long the maturity is within 6 months. This is a different power than that under the Municipal Liquidity Facility

[Letter from Congressman Bill Pascrell \(D-NJ-09\) explaining why the exercise of the Fed's power under Section 14\(2\)\(b\) of its charter is legal and necessary](#)

[Letter from "The Squad" demanding that Fed purchase more state and municipal debt](#)

["Collective Bargaining with Wall Street and Direct Fed Lending" from Action Center on Race and the Economy](#) calling on cities to band together and collectively bargain with banks to secure fair terms and affordable prices for any borrowing they undertake, as well as call on the Federal Reserve to provide a public option for municipal loans

*This proposal is endorsed by:*

Movement Alliance Project/Media Mobilizing Project

215 People's Alliance

PA Domestic Workers Alliance

Philly Thrive

Neighborhood Networks  
Philly Power Research  
Asian Americans United  
Juntos  
Project SAFE  
Reclaim Philadelphia  
Jobs With Justice  
One Pennsylvania  
Philly Schools Unifying Neighborhoods  
Youth Art & Self Empowerment Project  
Vietlead  
Action Center on Race and the Economy (ACRE)