



CITY OF PHILADELPHIA

OFFICE OF THE MAYOR

204 City Hall
Philadelphia, PA 19107
(215) 686-7508
FAX (215) 686-2555

CLARENCE D. ARMBRISTER
CHIEF OF STAFF

December 14, 2010

Councilwoman Maria Quiñones-Sánchez
City Council
592 City Hall
Philadelphia, PA 19107

Councilman Bill Green
City Council
599 City Hall
Philadelphia, PA 19107

Dear Councilmembers Quiñones-Sánchez and Green:

Thank you once again for focusing on the crucial issue of the City's tax structure. As you know, tax reform has been a central focus of the Mayor for over a decade. The Finance Director and I are happy that our conversation yesterday produced a framework for moving forward to improve the City's business tax climate.

As we have said consistently, we agree with most of the goals of your proposal – improving Philadelphia's economy, helping small businesses, and removing disincentives for businesses to locate in the City. Our main concern with your bill is the damage we believe would be caused by quadrupling the gross receipts tax rate. We remain committed, however, to working with you to produce business tax legislation that we can all support.

Based on the discussions we had yesterday, we think that among the ways we could improve our business tax structure are:

1. Providing the benefit to small businesses that an exclusion of the first \$100,000 of receipts from the gross receipts tax would provide, even if we choose another vehicle to get that benefit.
2. Exploring changes to the business privilege tax to remove the disincentive for firms to be in the City. Those changes could include moving to single sales factor apportionment; market based sourcing and/or using an active presence standard.

3. Advocating for changes in state law that would rationalize the process of claiming deductions from income earned in the City.
4. Examining the appropriate balance between net income and gross receipts reductions in any future tax reduction proposal.

In order to ensure that we have the best information as we proceed, the Revenue Department will continue to work with both the Administration and Council to provide data as we craft potential new legislation. In addition, to ensure that we do not lose the momentum we have gathered in addressing this issue, the Administration and Council should have regular meetings on this topic.

We believe that through this process and through pursuing the options described above, we can achieve the major objectives of your legislation while addressing the major concerns that the Administration has with your legislation as currently proposed. We do not believe that we could replace the \$270 million that would be lost by eliminating the net income side of the business privilege tax without having to take extremely damaging compensating actions (like quadrupling the gross receipts tax).

Again, on behalf of the Administration, I would like to thank you for your hard work in raising these important issues of tax policy and economic development that are critical to the long term fiscal health of the City. The citizens and taxpayers of this City will all benefit from this constructive debate.

We look forward to continuing to work with you.

Sincerely,



Clarence D. Armbrister
Chief of Staff

cc: Mayor Michael A. Nutter
All Members of City Council
Rob Dubow, Finance Director