Memorandum
To: Rob Dubow
From: Maia Jachimowicz
Date: November 13, 2010
Re: Comparing BPT Proposal Winners and Losers against Employment and Wages in Philadelphia

You requested an analysis of the jobs and wages of the biggest losers and biggest winners under the Sanchez/Green BPT proposal, bill number 100635. For the purposes of this analysis the biggest losers and winners include those industry groupings with over $1 million in additional or reduced tax liability under the proposal as calculated by the City's Department of Revenue.

As proposed, the bill is not revenue neutral. At the rates proposed in the bill, the change would reduce BPT revenues by an estimated $23.3 million annually. In order for the bill to be revenue neutral, gross receipts would need to increase to 5.77 mills, up from the proposed 5.3 mills[1]. This analysis shows the winners and losers with the rates as proposed in the bill, and then with the rates as needed to make the bill revenue neutral.

The tables that follow compare economic characteristics for the biggest losers and winners, including employment, average salary, additional or reduced tax liability under the BPT proposal, percentage change in tax liability and the change in tax liability expressed in terms of average-salaried employees for each industry. The equivalent number of average-salaried employees is calculated by dividing the change in tax liability by the average salary for that industry grouping. The actual behavior of firms and industries in response to the change in their costs that results from the bill will vary by firm and the exact change in employment is not possible to predict.

With the rates as proposed in the bill – which would incur an estimated $23.3 million loss to the General Fund – some key conclusions are:

- The biggest losers are primarily comprised of trade, construction, insurance (primarily HMOs), leisure and hospitality services, and health and social services industries. Average salaries fall below $85k for all of those industries. The nine biggest losers are estimated to incur an additional $41 million in tax liability. This increased tax liability is the equivalent of 793 average-salaried employees for these nine biggest loser industries. Under the proposal, the hotels and other accommodations, food and beverage products manufacturing, and insurance (primarily HMOs) industries will see their tax liabilities double.

---

[1] In order to maintain a direct comparison with the original proposal, the Department of Revenue adjusted the alternate method rates to keep the ratio between the regular (gross receipts) and alternative rates consistent. The new alternative receipt rates are: Retail: 1.1 percent; Manufacturing: 2.7 percent; and Wholesale: 3.8 percent.

- The biggest winners are primarily professional and technical services, chemical, pharmaceutical and petroleum manufacturing, and retail (food and non-food) industries. Average salaries vary significantly, with three industries above $100k. The eleven biggest winners are estimated to benefit with over $65.5 million in reduced tax liabilities. This decreased tax liability is the equivalent of 1,013 average-salaried employees for these eleven biggest winner industries. Under the proposal, the chemical, pharmaceutical and petroleum manufacturing industry and the banking and related activities industry will see their tax liabilities shrink by almost half.

- The top nine losers under the proposal represent almost 50% of Philadelphia employment whereas the top eleven winners represent 22% of Philadelphia employment.

- The top two losers – wholesale trade and construction – and the top two winners – legal services and real estate – currently represent approximately the same total number of jobs in Philadelphia (over 24,000). Under the proposal, wholesale trade and construction are estimated to incur approximately $10.7 million and $10.4 million in additional tax liability, respectively. The additional tax liabilities for these working class wage industries translate to 188 wholesale trade average-salaried employees and 154 construction average-salaried employees. Meanwhile, legal services ($27 million) and real estate ($11.7 million) will benefit by reduced tax liabilities, equivalent to 265 and 231 average-salaried employees, respectively.

- Legal services is the top winner under the proposal with an estimated reduced tax liability of over $27 million. The industry represents 3.44% of Philadelphia employment and the average salary is over $102k. Legal services has a disproportionately large tax reduction relative to the other winners in the proposal – eight times as large as financial investment services ($3.5 million) which represents the median among the top winners and well more than double real estate, the second biggest winner.

Rates as proposed in bill number 100635 ($23.3 million loss to the General Fund)

Biggest Losers: Over $1 million in additional liability under the BPT proposal

		Jobs in Phila	% of Phila Employment	Average Salary	Change in Tax Liability (additional)	% Change in Tax Liability	Equivalent Number of Average-Salaried Employees
1	Wholesale Trade	14,326	2.76%	$ 57,259	$ 10,748,587	55%	(188)
2	Construction	9,687	1.87%	$ 67,444	$ 10,399,612	43%	(154)
3	Insurance (primarily HMOs)	15,138	2.92%	$ 83,903	$ 7,099,342	92%	(85)
4	Hotels and Other Accommodations	7,157	1.38%	$ 32,627	$ 2,893,430	122%	(89)
5	Food and Beverage Products, Mnfting	5,610	1.08%	$ 52,124	$ 2,610,841	96%	(50)
6	Business Support Services*	19,545	3.77%	$ 43,681	$ 2,507,787	36%	(57)
7	Restaurants, Bars and Other Food	39,448	7.61%	$ 17,870	$ 2,177,560	26%	(122)
8	Health and Social Services	133,848	25.82%	$ 47,869	$ 1,529,416	7%	(32)
9	Telecommunications	5,406	1.04%	$ 79,632	$ 1,275,027	14%	(16)
	TOTAL	250,165	48.25%	$ 53,601	$ 41,241,602	40%	(793)

Biggest Winners: Over $1 million in reduced liability under the BPT proposal

		Jobs in Phila	% of Phila Employment	Average Salary	Change in Tax Liability (reduced)	% Change in Tax Liability	Equivalent Number of Average-Salaried Employees
1	Legal Services	17,818	3.44%	$ 102,195	$ (27,057,645)	-39%	265
2	Real Estate (including REITS)	6,854	1.32%	$ 50,631	$ (11,699,198)	-26%	231
3	Chemicals, Pharma & Petroleum Mnft	2,386	0.46%	$ 80,592	$ (8,384,062)	-49%	104
4	Accounting, Tax and Payroll Servs	5,133	0.99%	$ 78,086	$ (3,817,857)	-31%	49
5	Retail - NonFood	33,259	6.42%	$ 24,917	$ (3,686,818)	-18%	148
6	Financial Investment Services	4,782	0.92%	$ 151,362	$ (3,549,984)	-23%	23
7	Retail - Food with Fresh Food	10,199	1.97%	$ 21,439	$ (1,757,041)	-36%	82
8	Other Services**	9,855	1.90%	$ 29,356	$ (1,639,046)	-23%	56
9	Banking and Related Activites	11,474	2.21%	$ 62,524	$ (1,366,415)	-46%	22
10	Management and Technical Consult.	6,177	1.19%	$ 102,916	$ (1,358,403)	-16%	13
11	Publishing	3,531	0.68%	$ 66,971	$ (1,326,642)	-42%	20
	TOTAL	111,468	21.50%	$ 70,090	$ (65,643,111)	-32%	1,013

Net equivalent number of average-salaried employees for 9 biggest losers and 11 biggest winners	220

Notes

1. "Equivalent Number of Average-Salaried Employees" is calculated by dividing the change in tax liability by the average salary for that industry grouping. The actual behavior of firms and industries to increase or reduce jobs as a result of a change in tax liability cannot be estimated and is dependent on a variety of factors.

2. Jobs and salary data from 2009 Bureau of Labor Statistics, Quarterly Census of Employment and Wages. Data excludes non-disclosable BLS statistics. Includes private sector employment and salaries only, as available. Average salary is not weighted.

3. Tax liability data from Department of Revenue analysis of BPT Proposal, Realistic Scenario as Proposed by City Council. Realistic scenario assumes NPT credit is added back at 80% and cost percentage as a proportion of receipts is 80% for the alternative receipts method. Tax liability data based on 2008 tax returns and proposed tax rates for years 2015 and thereafter.

4. "All Other Sectors" and "Unclassified" groupings are not included

* "Business Support Services" includes janitorial and building services, employment agencies, travel agencies, security services and other miscellaneous services

** "Other Services" includes automotive and other repair services, barber shops and beauty salons, laundries and dry cleaners and other personal services

Under a revenue-neutral version of the City Council proposal (5.77 mills on gross receipts rather than 5.3 mills on gross receipts), the biggest losers incur even larger tax liability increases and the biggest winners incur smaller tax liability reductions, as compared to the proposed bill. Two additional industries are added to the biggest losers list - transportation and storage, and sports. Meanwhile, management and technical consulting does not make the biggest winners list under the revenue neutral scenario. In addition, the order among the biggest losers and biggest winners changes slightly from the proposed bill to the revenue neutral scenario. For example, construction becomes the biggest loser and wholesale trade drops to the second biggest loser under the revenue neutral scenario.

Specifically, with the rates as required to be revenue neutral – 5.77 mills on gross receipts as opposed to 5.3 mills – some key conclusions are:

- The biggest losers are primarily comprised of construction, trade, insurance (primarily HMOs), leisure and hospitality services, health and social services, and transportation and storage industries. Average salaries fall below $85k for all of those industries except the sports industry ($220k). The eleven biggest losers are estimated to incur an additional $55 million in tax liability. This increased tax liability is the equivalent of 1,064 average-salaried employees for these eleven biggest loser industries. Under the proposal, the hotels and other accommodations, food and beverage products manufacturing, and insurance (primarily HMOs) industries will see their tax liabilities more than double.

- The biggest winners are primarily professional and technical services, chemical, pharmaceutical and petroleum manufacturing, and retail (food and non-food) industries. Average salaries vary significantly, with two industries above $100k. The ten biggest winners are estimated to benefit with over $57 million in reduced tax liabilities. This decreased tax liability is the equivalent of 846 average-salaried employees for these ten biggest winner industries. Under the proposal, the chemical, pharmaceutical and petroleum manufacturing industry and the banking and related activities industry will see their tax liabilities shrink by over 40%.

- The top eleven losers under the proposal represent more than 50% of Philadelphia employment whereas the top ten winners represent 20% of Philadelphia employment.

- The top two losers – construction and wholesale trade – and the top two winners – legal services and real estate – currently represent approximately the same total number of jobs in Philadelphia (over 24,000). Under the proposal, construction and wholesale trade are estimated to incur approximately $13.4 million and $13.3 million in additional tax liability, respectively. The additional tax liabilities for these working class wage industries translate to 198 construction average-salaried employees and 233 wholesale trade average-salaried employees. Meanwhile, legal services ($25.5 million) and real estate ($10 million) will benefit by reduced tax liabilities, equivalent to 249 and 198 average-salaried employees, respectively.

- Legal services is the top winner under the proposal with an estimated reduced tax liability of about $25.5 million. The industry represents 3.44% of Philadelphia employment and the average salary is over $102k. Legal services has a disproportionately large tax reduction relative to the other winners in the proposal – more than eight times as large as financial investment services ($3 million) which represents number five among the top ten winners.

Rates as required to be revenue neutral (5.77 mills on gross receipts)
Biggest Losers: Over $1 million in additional liability under the BPT proposal

		Jobs in Phila	% of Phila Employment	Average Salary	Change in Tax Liability (additional)	% Change in Tax Liability	Equivalent Number of Average-Salaried Employees
1	Construction	9,687	1.87%	$ 67,444	$ 13,368,843	55%	(198)
2	Wholesale Trade	14,326	2.76%	$ 57,259	$ 13,330,131	68%	(233)
3	Insurance (primarily HMOs)	15,138	2.92%	$ 83,903	$ 8,389,366	108%	(100)
4	Hotels and Other Accommodations	7,157	1.38%	$ 32,627	$ 3,339,363	141%	(102)
5	Business Support Services*	19,545	3.77%	$ 43,681	$ 3,287,196	47%	(75)
6	Health and Social Services	133,848	25.82%	$ 47,869	$ 3,216,210	15%	(67)
7	Food and Beverage Products, Mnfting	5,610	1.08%	$ 52,124	$ 3,027,335	111%	(58)
8	Restaurants, Bars and Other Food	39,448	7.61%	$ 17,870	$ 3,019,354	35%	(169)
9	Telecommunications	5,406	1.04%	$ 79,632	$ 2,105,565	23%	(26)
10	Transportation and Storage	21,366	4.12%	$ 40,214	$ 1,182,434	44%	(29)
11	Sports	1,888	0.36%	$ 220,409	$ 1,174,654	50%	(5)
	TOTAL	273,419	52.73%	$ 67,548	$ 55,440,450	51%	(1,064)

Biggest Winners: Over $1 million in reduced liability under the BPT proposal

		Jobs in Phila	% of Phila Employment	Average Salary	Change in Tax Liability (reduced)	% Change in Tax Liability	Equivalent Number of Average-Salaried Employees
1	Legal Services	17,818	3.44%	$ 102,195	$ (25,496,094)	-36%	249
2	Real Estate (including REITS)	6,854	1.32%	$ 50,631	$ (10,028,998)	-22%	198
3	Chemicals, Pharma & Petroleum Mnft	2,386	0.46%	$ 80,592	$ (7,705,963)	-45%	96
4	Accounting, Tax and Payroll Servs	5,133	0.99%	$ 78,086	$ (3,501,647)	-29%	45
5	Financial Investment Services	4,782	0.92%	$ 151,362	$ (3,024,660)	-19%	20
6	Retail - NonFood	33,259	6.42%	$ 24,917	$ (2,163,644)	-11%	87
7	Retail - Food with Fresh Food	10,199	1.97%	$ 21,439	$ (1,494,684)	-31%	70
8	Other Services**	9,855	1.90%	$ 29,356	$ (1,295,549)	-18%	44
9	Banking and Related Activites	11,474	2.21%	$ 62,524	$ (1,235,936)	-42%	20
10	Publishing	3,531	0.68%	$ 66,971	$ (1,170,079)	-37%	17
	TOTAL	105,291	20.31%	$ 66,807	$ (57,117,253)	-29%	846

Net equivalent number of average-salaried employees for 11 biggest losers and 10 biggest winners	(218)

Notes

1. "Equivalent Number of Average-Salaried Employees" is calculated by dividing the change in tax liability by the average salary for that industry grouping. The actual behavior of firms and industries to increase or reduce jobs as a result of a change in tax liability cannot be estimated and is dependent on a variety of factors.

2. Jobs and salary data from 2009 Bureau of Labor Statistics, Quarterly Census of Employment and Wages. Data excludes non-disclosable BLS statistics. Includes private sector employment and salaries only, as available. Average salary is not weighted.

3. Tax liability data from Department of Revenue analysis of BPT Proposal, Revenue Neutral Realistic Scenario. Realistic scenario assumes NPT credit is added back at 80% and cost percentage as a proportion of receipts is 80% for the alternative receipts method. Tax liability data based on 2008 tax returns and proposed tax rates for years 2015 and thereafter.

4. "All Other Sectors" and "Unclassified" groupings are not included

* "Business Support Services" includes janitorial and building services, employment agencies, travel agencies, security services and other

** "Other Services" includes automotive and other repair services, barber shops and beauty salons, laundries and dry cleaners and other