

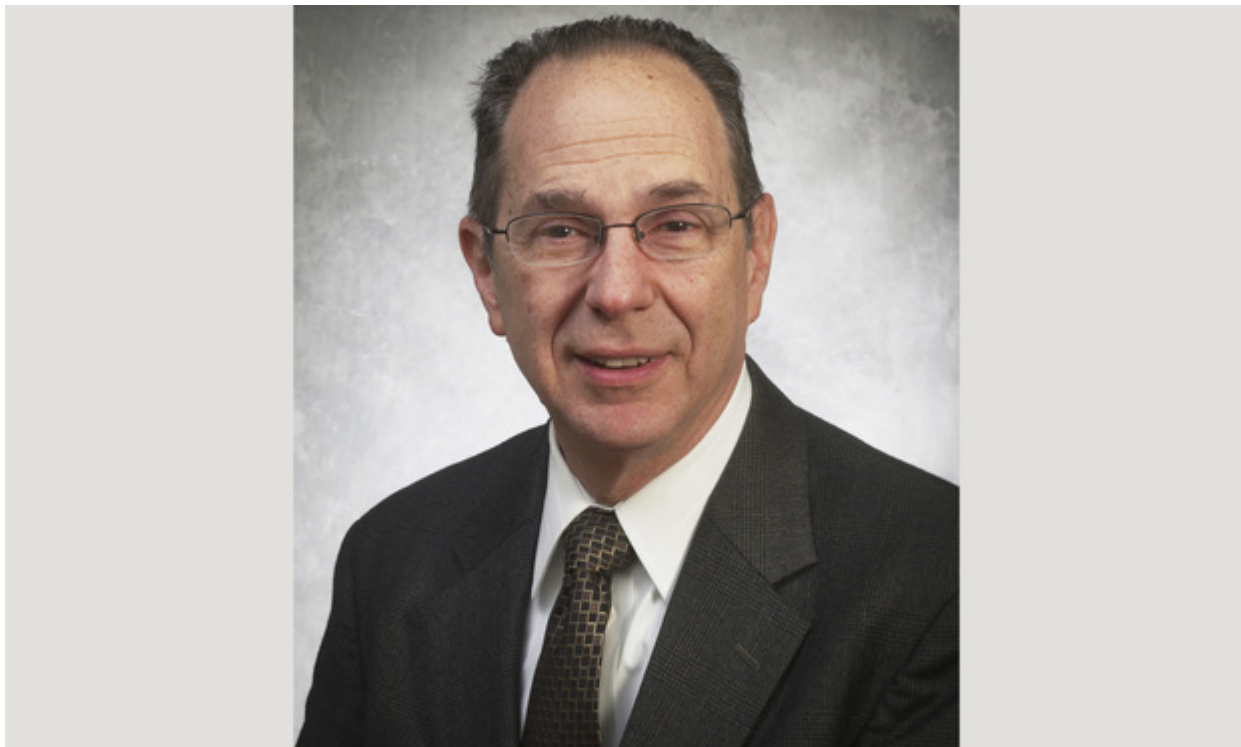
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Philadelphia's Pandemic Budget: Drawing From Reserves and Tax Hikes

As a result of the COVID-19 pandemic, the city of Philadelphia encountered a double-barreled budget attack. To combat the pandemic, the city's costs sky-rocketed and its tax collections dropped leaving the budget out of balance by approximately \$650 million (see May 5, 2020, Revised Budget Message by Mayor James Kenney).

By **Stewart Weintraub** | August 05, 2020



Stewart M. Weintraub of Chamberlain Hrdlicka

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City Budget

To enact the city's operating budget:

"It shall be the duty of the council, at least 30 days before the end of the fiscal year, to adopt the annual operating budget ordinance for the next fiscal year. Philadelphia Home Rule Charter (PHRC) Section 2-300(1)."

Because the fiscal year 2020 operating budget will end with a deficit the PHRC requires that:

"the annual operating budget ordinance shall provide for discharging any deficit and shall make appropriations to the Council, the Mayor, and all officers, departments, boards and commissions which form a part of the executive or administrative branch of the City government, and for all other items which are to be met out of the revenue of the City. PHRC Section 2-300(2)."

As a result, to enact a balanced budget, Kenney proposed a combination of drawing from reserves, cost reductions and tax increases.

Tax Legislation

The tax component of the city's budget balancing effort led to the passage of three bills passed by city council June 25, and signed by the mayor June 26.

Until Dec. 31, 1995, the city's wage tax rate for residents was 4.96%. Beginning Jan. 1, 1996, the city embarked upon a gradual, very gradual, reduction of the resident wage tax rate. This gradual reduction continued until June 30, 2011. By that date the resident wage tax rate was reduced to 3.9280%. Due to the impact of the 2008 Great Recession, Mayor Michael Nutter was compelled to "freeze" the Wage Tax rate and deferred continuation of the pre-programmed wage tax reductions. Wage tax reductions resumed July 1, 2013, and has continued through June 30. Currently the resident wage tax rate of 3.8712% will continue for the foreseeable future. See Phila. Code Section 19-1502(1)(a).

For nonresidents, until Dec. 31, 1995, the city's wage tax rate was 4.3125%. For the year beginning Jan. 1, 1996, the city also gradually reduced the non-resident wage tax rate. This gradual reduction continued until June 30, 2011. By that date the nonresident wage tax rate was reduced to 3.4997%. Due to the impact of the 2008 Great Recession, Nutter also was compelled to "freeze" the non-resident wage tax rate and deferred continuation of the pre-programmed wage tax reductions. Wage tax reductions resumed July 1, 2013, and has continued through June 30. By June 30 the nonresident wage tax rate had been reduced to 3.4481%. Due to the impact of the COVID-19 pandemic, at Kenney's request, city council approved Bill No. 200291, increasing the nonresident wage tax rate for the year July 1, 2020-June 30, 2021 to 3.5019%. Beginning July 1, 2021, the nonresident wage tax rate returns to 3.4481% and continues for the foreseeable future.

The city also imposes its net profits tax (NPT) upon owners of unincorporated businesses, proprietorships, partnerships and limited liability companies. The NPT rate for residents and non-residents parallels the Wage Tax rates. See Phila. Code Section 19-1502 (2)(a) and (b) and Bill No. 200291.

Apart from raising the nonresident wage tax rate, the city made two other tax changes intended to balance its fiscal year ending June 30, 2021, operating budget. First, the city increased the parking tax from 22.5% to 25%. Effective July 1, 2021, the parking tax rate returns to 22.5% and continues for the foreseeable future.

Second, since, at least, the 1970s payment of real estate taxes has been due as of March 31 of the tax year for which the taxes are assessed. Also since the 1970s, the city offered a 1% discount for real estate taxes paid by either the last day of February of the tax year for which the taxes were assessed or, if billed later, within 20 days of the mailing of the tax bill. Bill No. 200292 repealed the 1% discount. As a result, tax payments are still due by March 31 with no discount for any early payment.

Unlike the amendments to the wage tax (Bill No. 200291) and parking tax (Bill No. 200288), both of which sunset after one year, the repeal of the discount for the early payment of real estate taxes contains no sunset provision. No discount will be available for taxpayers for the foreseeable future.

Only time will tell when the current health crisis abates and how long its impact will be felt by the city. Hopefully it will not, but, if the financial impact of the COVID-19 pandemic extends beyond fiscal 2021, similar problems will confront the city next year.

Stewart Weintraub (https://www.chamberlainlaw.com/people-stewart_weintraub-state_and_local_tax_planning_controversy_and_litigation.html) *is a shareholder at Chamberlain Hrdlicka and is the S.A.L.T. practice chair emeritus. He may be reached at sweintraub@chamberlainlaw.com.*

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