LOCAL ECONOMY

Aiming to Ease

Some Council members want lower taxes on small business.

As Philadelphia city government increases spending, businesses have been paying less of certain familiar taxes. Now a couple of City Council members are pushing again to ease business taxes. Their proposal would let start-ups and other money-losing businesses avoid paying a business income tax even after they have become profitable.

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At-large councilmen Al Taubenberger (R) and Allan Domb (D) say they plan a bill to let businesses that lose money apply past losses against future profits to avoid the 6.3 percent city tax on business earnings for 20 years after the loss. The current rule gives a tax discount for just three years after a loss: Use it or lose it.

Philadelphia has already been easing this part of its Business Income and Receipts Tax (BIRT). The city collected $271 million from the income tax in fiscal 2016 (officials don't have final numbers for 2017 yet). That's down from a peak of $310 million in 2014. Collections fell when the city began exempting businesses with yearly sales under $100,000, and the number of businesses paying that tax fell from more than 100,000, to just the 39,000 largest.

Tax collections under the city's other BIRT tax on business revenues — a secret sales tax that retail customers don't see — are also down, from a recent high of $105 million in 2013 to $89 million in 2016.

Even with the Trump tax cuts last year, federal corporate income taxes still eat up to 21 percent of business profits yearly, not counting employer Social Security and other federal levies. Pennsylvania charges an additional 9.9 percent.

Besides the 6.4 percent city BIRT income tax, there's also a city Net Profits Tax on noncorporate business income of up to 3.9 percent. Plus real estate taxes, license, sales taxes, and other business levies.

Net Profits Tax collections jumped $10 million, to $33 million, last fiscal year. The city hopes that's because businesses are earning more. But it's also partly because businesses that no longer pay the BIRT income tax end up owing more in Nets Profits Tax, said Marisa Waxman, the city's first deputy revenue commissioner.

It all adds up, though many businesses qualify for exemptions and deductions and don't pay maximum rates on all taxes.

Despite recent moves toward lower business taxes, Philadelphia, compared with Boston, New York, and other East Coast cities, has suffered from slow growth and the exodus of corporate headquarters, which business leaders blame on taxes, regulations, and other nuisances of operating in the city.

"We really need to take a hard look at how our city affects businesses" and offer companies "long-term support," said Taubenberger, a former president of the Greater Northeast Philadelphia Chamber of Commerce.

He said the longer tax-loss period "would put the City of Philadelphia in line with the Federal IRS requirements" on banking losses against future taxable income. Tax people call these net operating loss carryforwards. City revenue officials haven't yet estimated how much this will cost the city. They're working on it.

The federal government actually scrapped its 20-year tax carryforward last year. It's now unlimited as to how far in the future you can apply an old loss to trim your taxable income, but that credit is now limited to 80 percent of a past year's loss, tax accountant David L. Zalles, CPA, told me

The Taubenberger-Domb proposal would fit neatly with Pennsylvania's own 20-year loss tax-credit carryforward, says Paul Adelizzi, CPA, of Citrin Cooperman's Philadelphia office. "Having the Philly rule conform to the Pennsylvania statute certainly would be a big win for Philadelphia taxpayers," he added. "This certainly has much more value to a Philadelphia taxpayer experiencing a one-year blip in their business."

By giving businesses up to 20 years to write off their losses against possible profits to erase future taxes, the city is making it more likely that companies will be able to use the tax break. While many small businesses don't last long enough to start making money, at least half last at least five years, noted Mitchell Gerstein, CPA and senor tax adviser at Isdaner & Co., citing Small Business Administration data. The longer a business lasts, the more likely it is to have profits to write off losses against.

He noted that Philadelphia Forward and other business-backed groups have been advocating for longer loss carryforwards.

A bigger city break would be extra welcome to many small-business owners, Gerstein added, since the Trump tax reform limited federal deductions for state and local taxes while also ending the federal tax loss carryforward for pass-through companies that could previously shelter larger losses from federal taxes. The Trump reform also ended business' ability to apply losses to past tax years to get old income taxes refunded ("carryback").

Two members say they plan a bill to let businesses that lose money apply past losses against future profits to avoid the 6.3 percent city tax on business earnings for 20 years instead of three. MICHAEL BRYANT / Staff

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