

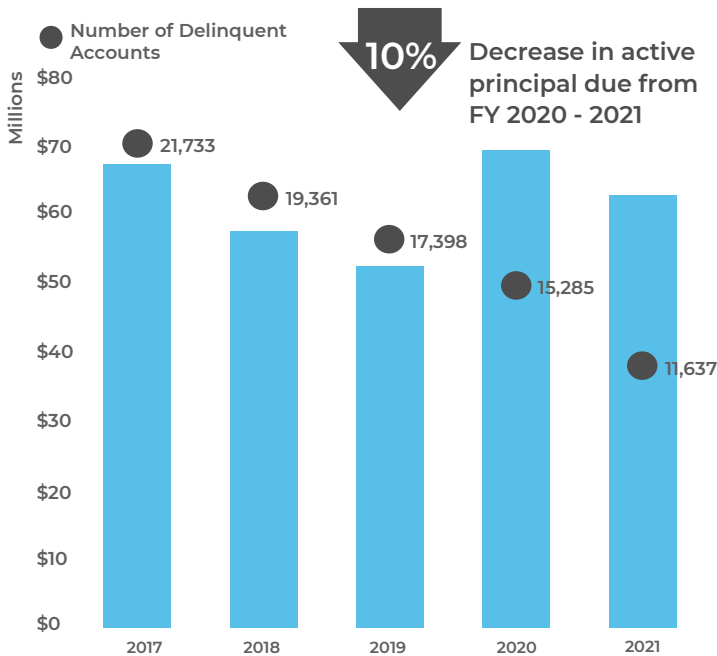
FY21 Philadelphia Business Income and Receipts Tax Delinquency

The Business Income and Receipts Tax (BIRT) is a tax on business activity in Philadelphia affecting over 130,000 businesses each year. About 40,000 of these businesses generate a combined liability totaling \$460 million on average. About 11,600 businesses had delinquent BIRT debt and owe close to \$63 million in principal in FY21.

The sudden onset of the COVID-19 pandemic in March 2020 required Revenue to suspend some enforcement activities. In response, Revenue is focused on compassionate enforcement, expanded customer service, and is slowly resuming enforcement as economic recovery allows.

How are our collection efforts going?

Active Principal BIRT Delinquency*



New delinquent balances generated in 2021 decline after COVID-19 spike

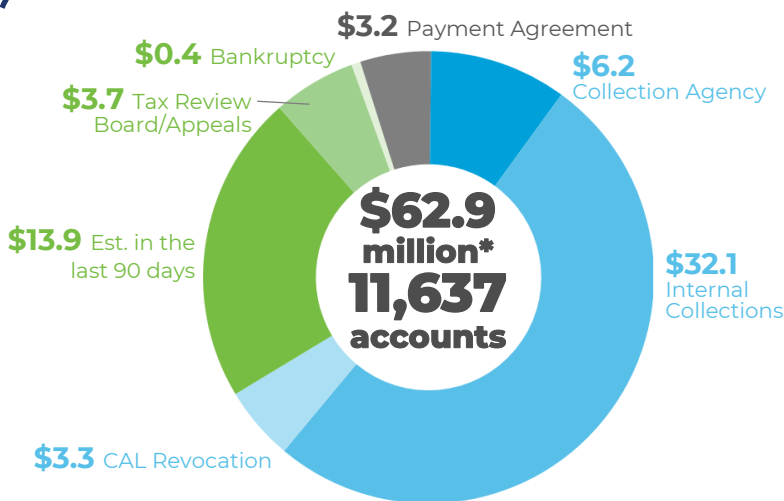
New balances generated from the previous year's activity decreased compared to FY20 (\$11.5M in 2021 versus \$21.9M in 2020). As the Philadelphia economy has reopened for business, more businesses have paid on liabilities generated during the pandemic.

In response to COVID-19, Revenue implemented a new **targeted payment agreement program for businesses with delinquent debt** and launched an **Offers in Compromise (OIC)** program to help businesses settle debts owed to the city.

Offers in Compromise is an agreement between Revenue and the taxpayer to settle debts for less than full amount, usually when collection of the debt is doubtful.

*Active principal reflects delinquent periods after January 1, 2015

How do we collect debt from delinquent businesses?



34% is "non-Actionable"

These accounts require no further action on the part of the City or the City is barred from collection, including accounts in a payment agreement.

66% is "Actionable"

The City is actively working to collect these accounts.

How has the distribution of delinquency changed from FY20 to FY21?



Given the temporary suspension of enforcement activity, **Internal Collections** represents more than half of all active BIRT debt. As enforcement actions wind up, the City will refer many of these balances to other collection types such as: sequestration, and collection agencies.

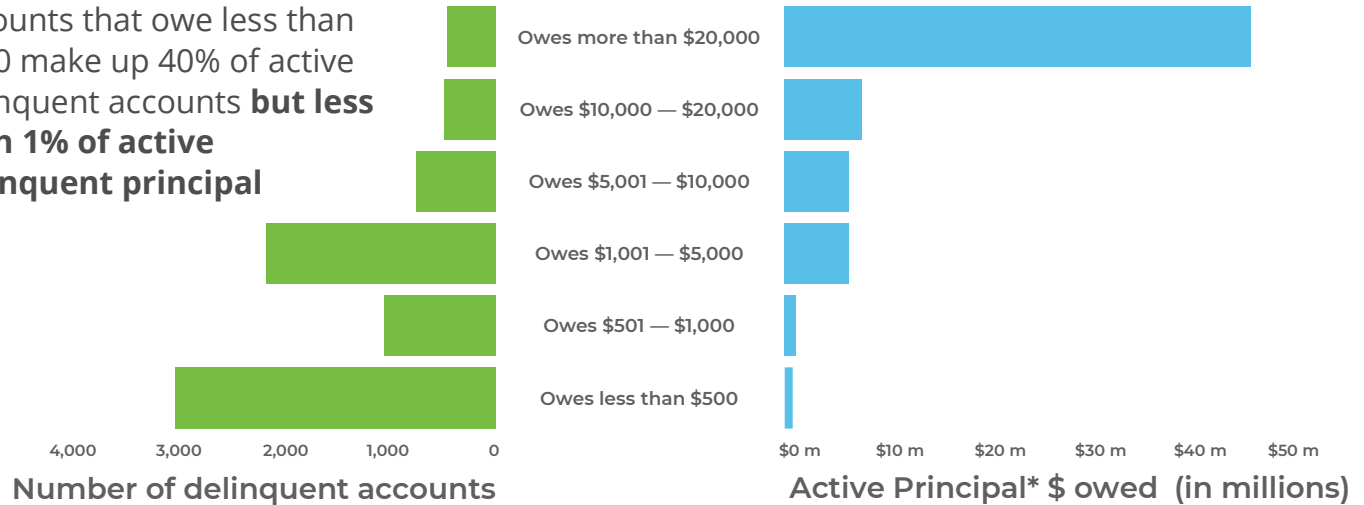


Despite offering new **payment agreement** options, delinquent balances in a payment agreement remained unchanged from FY20.

*Reflects delinquent periods after January 1, 2015

What is the average amount due?

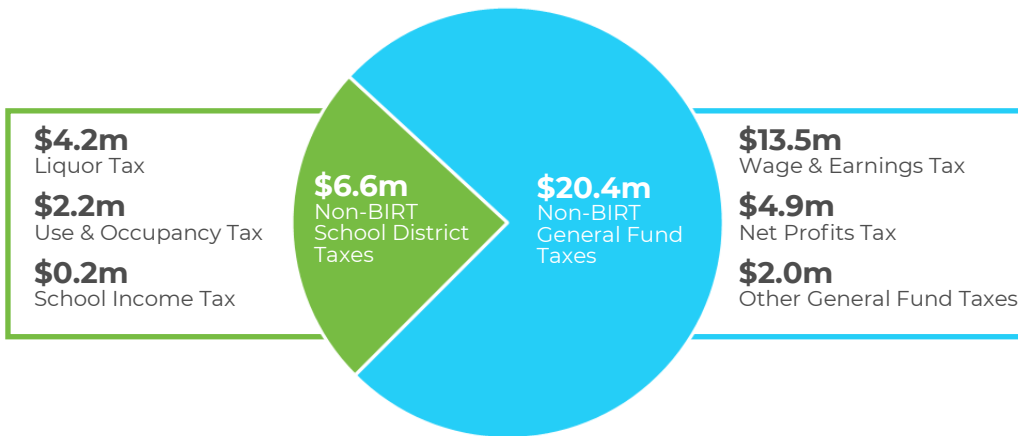
Accounts that owe less than \$500 make up 40% of active delinquent accounts **but less than 1% of active delinquent principal**



*Reflects delinquent periods after January 1, 2015

How much do Delinquent BIRT Accounts Owe in Other Taxes?*

Businesses with delinquent BIRT accounts also owe \$27M across other tax types



1 in 3 Entities with an active BIRT delinquency are also delinquent in other taxes

25% of tax delinquency held by active BIRT accounts is for taxes owed to the School District (Liquor, U&O, and SIT)

\$3,323 Average amount owed in other taxes for accounts that have an active BIRT delinquent balance

*Includes active and inactive principal balances, excluding Real Estate Tax

What are Revenue's next collection strategies ?

The nature of economic recovery in Philadelphia will shape future enforcement strategies.

In Fiscal Year 2022, the City will

- Rollout the first phase of PRISM, Revenue's new tax system of record, which will include BIRT and other major business taxes. The new system will make it easier to file and pay taxes, and request a payment agreement.
- Focus on compassionate enforcement, offering assistance to struggling businesses, while continuing enforcement against chronically delinquent accounts.
- Continue to evaluate the efficacy of tools like Offers in Compromise and customized payment agreement options that aim to reduce delinquency and improve overall tax compliance



Notes about this data

This report uses data current through June 2021. Amounts in this report refer to principal due for active and inactive periods. Active periods refers to periods after January 1, 2015.

Older debts, interest and penalties are much less likely to be collected and are often reduced or waived when payment does occur. Presenting the active, principal delinquency is reflective of reasonable expectations for collections.

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