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**Bill number:** 240875

**Introduced by:** Gauthier

**Cosponsor(s):** Jones, Landau, Brooks, O'Rourke, Squilla

**Assigned committee:** Finance

**Date introduced:** 10/10/2024

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## **Fiscal Note**

### **Overview**

This bill addresses Sustainable Business Tax Credits that would reduce a business's liability to pay Business and Income Receipt Taxes (BIRT) to the City. The anticipated cost to the City is \$460,000 to \$1,275,000 over five years.

### **Legislative Summary**

This bill would re-establish a tax credit that certain "B Corporations" or entities certified by the Office of Sustainability as Sustainable Businesses could claim to reduce their annual BIRT liability. Businesses would need to apply for certification from the Department of Revenue and demonstrate that they meet the sustainable business certification criteria established by the Office of Sustainability to receive the tax credit.

Businesses would generally be certified in the order that applications are received and once certified, businesses that continue to meet the sustainable business certification criteria would be able to receive the credit as long as it remains authorized. Beginning with the 2024 tax year, certified sustainable businesses would be able to receive an \$8,000 tax credit each year to use against their total annual BIRT liability. Any unused tax credits would not be eligible for carryover to a future tax year.

The bill also provides that by December 31<sup>st</sup> of each year, the Department of Revenue would submit a written report to the Mayor, as well as the Council President and Chief Clerk of Council, summarizing the City's experience during the prior tax year with the Sustainable Business Tax Credit. The first such report would be due by December 31, 2025.

FOR MAPS or other images – images must be in line with text and add alt text describing the image must be added

**Proposed Effective Date**

This bill would take effect immediately upon becoming law.

**Fiscal Impact Analysis**

The estimated cost of implementing this legislation is summarized in the below table. The total cost is estimated to be \$460,000 to \$1,275,000 over five years.

<b>Fiscal Impact Summary</b>	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>Total</b>
<b>Expenditures Increase/(Decrease)</b>						
Department of Revenue						
Class 200: Purchase of Services	\$200,000 -\$400,000	-	-	-	-	<b>\$200,000 - \$400,000</b>
<b>Revenues Increase/(Decrease)</b>						
General Fund	(\$52,000 - \$175,000)	(\$52,000 - \$175,000)	(\$52,000 - \$175,000)	(\$52,000 - \$175,000)	(\$52,000 - \$175,000)	<b>(\$260,000 - \$875,000)</b>
<b>Net Cost/(Savings)</b>	<b>\$252,000 - \$575,000</b>	<b>\$52,000 - \$175,000</b>	<b>\$52,000 - \$175,000</b>	<b>\$52,000 - \$175,000</b>	<b>\$52,000 - \$175,000</b>	<b>\$460,000 - \$1,275,000</b>

The above table is rounded to the nearest thousand.

**Expenditures**

- **Department of Revenue:** If enacted, the Department of Revenue will need to implement the credit in PRISM, the City's tax system of record. The technical implementation can be absorbed by current budget allocations, however at the expense of other enhancement plans for the Department. Costs could range from \$200,000 - \$400,000 in Class 200 to develop the application within the City's tax system. Additionally, Revenue will need to update paper forms, create a phila.gov service page, and update other print materials, which can be absorbed in the existing budget.
- **Department of Commerce:** The enactment of this legislation would require Commerce to participate in the tax credit's program design, including gathering feedback from stakeholders. The costs associated with implementing this legislation are expected to be absorbed within the Department's existing budget.
- **The Office of Sustainability:** The Office of Sustainability would participate in the tax credit program design prior to implementation. This may include research on B Lab certified "B corporation" standards or criteria, or a reasonable alternative. This upfront work, and subsequent updates, if needed, would be done with existing staff, but would necessitate the de-prioritization of other tasks. The costs associated with designing criteria for this legislation are expected to be absorbed within the Office's existing budget. However, if the Office of Sustainability is required to support the

implementation of the tax credit program, post-program design, an additional staff member may be required, increasing the overall costs of this legislation.

**Revenues**

The previous table shows the fiscal impact of this legislation as a decrease in revenue ranging from \$52,000 to \$175,000 per year. The lower end of the range is calculated using the average number of businesses that received the previous iteration of the sustainable business tax credit (22 businesses) and the average credit they received (\$2,324.92) from 2017 to 2022. The higher end of the range assumes 75 businesses receive the credit with an average credit amount of \$2,324.92.

From 2017 to 2022, the max sustainable business tax credit was \$4,000. However, the average tax credit received remained well below the max at \$2,324.92. This legislation would increase the max credit to \$8,000, but it is unlikely the average tax credit received would significantly increase as the tax credit depends on business' BIRT liability. Additionally, as detailed in the Legislative History section, this tax credit had a cap on the number of businesses that could receive the tax credit. First, the cap was 25 businesses and later the cap was increased to 75 businesses. However, from 2017 to 2022, the number of businesses receiving the tax credit remained well below the caps with an average number being 22 businesses. This bill would remove the cap, but historical data indicates that it is unlikely more than 75 businesses would participate. Therefore, it is likely the fiscal impact of this legislation will remain on the lower end of the estimated range of decreasing revenue from \$52,000 to \$175,000 per year.

**Legislative History****2009**

Bill Number 090119, which was signed into law on December 16, 2009, established a similar but more limited Sustainable Business Tax Credit for tax years 2012 to 2017. The credit, which applied to a business's total annual receipts, was capped at \$4,000 per business annually and available to only 25 businesses each tax year. The bill also provided for annual reporting by the Department of Revenue on the City's prior year experience with the tax credit.

**2011**

Bill Number 110442, which amended Bill No. 090119 and was signed into law on November 14, 2011, made the Office of Sustainability responsible for issuing the annual report, instead of the Department of Revenue.

**2016**

Bill Number 160133, which was signed into law on June 28, 2016, expanded the availability and impact of the tax credit. The bill extended the tax credit through the 2022 tax year and

expanded the number of certified sustainable businesses eligible to receive the credit to 50 businesses for the 2017 and 2018 tax years and 75 businesses thereafter until 2022. It also provided that the credit would apply against a business's total BIRT liability, rather simply than reducing the business's annual receipts calculation. The bill did not authorize a tax credit amount or number of eligible businesses beyond the 2022 tax year.

**Prepared by:** Policy and Fiscal Analyst Unit, Mayor's Office of Legislative Affairs

**Date:** 12/02 /2024

This document is a summary of proposed legislation as introduced and is prepared by the Mayor's Office of Legislative Affairs for general information only. It does not represent the official legal position of the City. Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.