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**Bill number:** 250270

**Introduced by:** Brooks

**Cosponsor(s):** Not applicable

**Assigned committee:** Not assigned to a committee

**Date introduced:** 03/27/2025

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## **Fiscal Note**

### **Overview**

This bill would expand the eligibility for Wage and Net Profits Tax relief, and potentially lower the Wage and Net Profits Tax rates for both low-income residents and non-residents. The anticipated cost to the City ranges from \$31,480,000 to \$685,980,000 over five years.

### **Legislative Summary**

#### ***Refunds and Forgiveness for Low-Income Individuals***

##### *Expanding Eligibility*

Currently, low-income residents and non-residents are eligible for Wage and Net Profits Tax relief if they are entitled to a refund on the Wage and Net Profits Tax according to the State Low-Income Tax Provisions. The enactment of this legislation would expand eligibility for Wage and Net Profits Tax relief for the following:

- Low-income residents and non-residents whose income qualify for real estate tax relief programs under the Affordable Housing Tax Exemption Act, which incorporates the PA Pharmaceutical Assistance Contract for the Elderly Needs Enhancement Tier (PACENET<sup>1</sup>) program.

##### *Setting Conditions for a Grant Program*

Currently, residents eligible for Wage and Net Profits Tax relief have their Wage and Net Profits Tax rates under Chapter 19-1500 set to zero. However, low-income residents remain liable for the 1.5% Pennsylvania Intergovernmental Cooperation Authority (PICA) portion of the Wages and Net Profits Tax set in Chapter 19-2800. Low-income non-

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<sup>1</sup> <https://www.aging.pa.gov/aging-services/prescriptions/Pages/default.aspx>

residents' tax rate on Wages and Net Profits is set to 1.5%. This bill would lower the low-income non-residents' tax rate on salaries, wages, other earnings, and net profits to zero if:

- The Office of the Director of Finance establishes a grant program, where low-income residents are eligible to receive a grant equal to the taxes paid under the PICA Tax and Wages and Net Profits (1.5%) set in Chapter 19-2800.

***Enrollment and Outreach***

The legislation would authorize the Department to automatically enroll individuals for Wage and Net Profits Tax refunds. It would also allow the Department to streamline and simplify the application process for refunds and enhance outreach efforts to improve awareness among individuals qualified to receive refunds.

***Reporting***

Every year, on September 1st, the Department of Revenue would provide a report to the Chief Clerk of Council, outlining the following:

- The number of individuals receiving Wage and Net Profits Tax refunds,
- The average amount of refunds,
- The total amount refunded,
- An estimate of the total number of additional taxpayers eligible for refunds that have not applied.

***Pennsylvania Intergovernmental Cooperation Authority (PICA) Tax on Wages and Net Profits***

PICA, the City's financial oversight body, was created by the Commonwealth of Pennsylvania in 1991 to provide financial assistance to cities of the first class. In the early 1990s, PICA issued bonds on the City's behalf during a time of severe fiscal distress. PICA has a "first dollar" claim on the resident portion of the City wage tax in order to pay debt service on the bonds. PICA then returns any remaining tax collected to the City after paying debt service and administrative costs. The state-appointed board was set to expire when the final debt service payment on outstanding bonds was made in 2023. In 2022, the Commonwealth amended the PICA Act to extend the existence of PICA until at least 2047. Currently, there is no outstanding PICA debt.<sup>2</sup>

The enactment of this legislation would allow the Office of the Director of Finance to establish a grant program. This program, which would be equal to the PICA portion of the Wage and Net Profits Tax would allow eligible low-income residents to receive a grant in lieu of a Wage and Net Profits Tax refund.

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<sup>2</sup> <https://www.phila.gov/media/20250408124051/proposed-five-year-plan-FY26.pdf>

**Proposed Effective Date**

This legislation would be effective January 1, 2026.

**Fiscal Impact Analysis**

The estimated cost of implementing this legislation is summarized in the below table. The total cost is estimated to be \$31,480,000 to \$685,980,000 over the FY2026 to FY2030 Five Year Plan.

<b>Fiscal Impact Summary</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total</b>
<b>Expenditure Increase/(Decrease)</b> Class 200: Purchase of Services	\$100,000-\$250,000	\$100,000	\$100,000	\$100,000	\$100,000	<b>\$500,000-\$650,000</b>
<b>Revenues Increase/Decrease)</b> General Fund	(\$5,700,000-\$126,500,000)	(\$5,970,000-\$131,870,000)	(\$6,200,000-\$137,160,000)	(\$6,440,000-\$142,360,000)	(\$6,670,000-\$147,440,000)	<b>(\$30,980,000-\$685,330,000)</b>
<b>Net Cost/(Savings)</b>	<b>\$5,800,000-\$126,750,000</b>	<b>\$6,070,000-\$131,870,000</b>	<b>\$6,300,000-\$137,160,000</b>	<b>\$6,540,000-\$142,360,000</b>	<b>\$6,770,000-\$147,440,000</b>	<b>\$31,480,000-\$685,980,000</b>

**Department of Revenue****Expenditure Estimates:**

The Department anticipates absorbing a portion of the cost associated with implementing this legislation. Existing staff would develop and administer a grant program for the PICA refund. Staff would also be responsible for updating, publicizing and circulating new regulations.

Furthermore, the enactment of this legislation would require the Department to develop a new application form to accommodate two income eligibility options and the new grant program. System updates and new programming would be required for the City's Tax Center. The changes are expected to result in a one-time cost estimated between **\$100,000-\$150,000**.

The additional operational changes would require the Department to conduct outreach to all internal and external stakeholders, as well as develop educational materials with a potential recurring annual cost of **up to \$100,000**.

**Revenue Estimates:**

Overall, the financial impact to the City is closely tied to both the number of eligible participants and actual participation rates. Based on the current and projected participation levels, the revenue impacts could range from \$5.4 million to \$1.3 billion over a

five-year period. This broad range reflects the potential for significant program growth driven by expanded eligibility under the legislation and increased participation through stakeholder outreach efforts.

***Wage and Net Profits Tax Refund Five-Year Fiscal Impact Range based on Participation***

	<b>Current Participation 4.5% 5YP Cost</b>	<b>Projected Participation 10%-100% 5YP Cost</b>
<b>Cost of PICA Portion</b>	\$5.4 million	\$10.4-\$104.2 million
<b>Projected Cost adding PACENET at current income threshold</b>	\$31 million	\$68.5-\$685.3 million
<b>Projected Cost using proposed PACENET increased income threshold (PA House Bill 654)</b>	\$60.3 million	\$133.2 million-\$1.3 billion

***Number of Eligible Participants:***

*The current eligibility with the cost of the PICA portion*

The Department of Revenue estimates there are approximately 83,000 taxpayers eligible to receive income-based tax relief under the existing income thresholds. The current estimated participation rate is 4.5%. With increased outreach efforts, the participation rate could increase to 10% to 25%, approximately 8,300 to 20,750 taxpayers. The average benefit currently awarded is approximately \$380 per approved applicant, with a year-over-year participation increase. Below are the total five-year costs associated with the current and projected participation rates:

**Current Participation Rate 4.5% Cost, \$5.4 million**

**Participation Rate 10%-25% Cost, \$10.4 to \$26.1 million**

**Participation Rate 100% Cost, \$104.2 million**

*The cost of adding PACENET at current income thresholds with both Wage and Net Profits refunds and PICA portion*

Currently, under PACENET guidelines, individuals with incomes up to \$33,500 (single) and \$41,500 (married, combined) are eligible. The enactment of bill 250270 would expand the eligibility for income-based Wage and Net Profits refunds to include individuals who meet the PA PACENET income requirements. Using the current program participation rate of

4.5%, the number of program participants could increase to 7,000 taxpayers with the expanded income limits. Based on the Department's projected increase to 10% to 25% participation rates, the program could grow to serve 15,500-38,900 eligible individuals. At 100% full participation, the program could reach a maximum of approximately 155,300 participants. Below are the total five-year costs associated with the current and projected participation rates:

**Current Participation Rate 4.5% Cost, \$31 million**

**Participation Rate 10%-25% Cost, \$68.5 to \$171.3 million**

**Participation Rate 100% Cost, \$685.3 million**

*PA House Bill 654 and the Pennsylvania PACENET program*

As of February 20, 2025, PA House Bill 654 was introduced and referred to committee. This legislation, if enacted, would increase PACENET income eligibility to \$45,000 for single individuals and \$55,000 combined income for a married couple.

If enacted, Bill 250270 would expand eligibility by aligning with the income limits set by the Pennsylvania PACENET program. Incorporating the income limits would not only expand the eligibility, it would also tie the City's program eligibility directly to the PACENET criteria. As a result, any changes made by the Commonwealth to PACENET income limits could have a direct fiscal impact on the City. The frequency and extent of such changes would be a significant factor in determining future costs. The current income requirements for the PACENET program were last increased in 2022.

Additionally, if PA House Bill 654 is enacted, approximately 10,700 applicants would be eligible to participate in the Wage Tax refund program using the current 4.5% participation rate. Based on the Department's projected increase to 10% to 25% participation rates, the number of participants could grow to about 23,850-59,600 eligible participants. At 100% full participation, the program could potentially serve about 238,500 participants. Below are the total five-year costs associated with the current and projected participation rates:

**Current Participation Rate 4.5% Cost, \$60.3 million**

**Participation Rate 10%-25% Cost, \$133.2 to \$333.1 million**

**Participation Rate 100% Cost, \$1.3 billion**

## **Legislative History**

### ***2002 - 2020***

These legislations, among many things, proposed Wage and Net Profits Tax relief to low-income residents and non-residents by entitling them to refunds or forgiveness. The following highlights some of the key proposed changes to the Wage and Net Profits Tax Program:

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- Revisions of tax rates
- Creating definitions and technical amendments
- Repealing Section 19-1508 “Refunds and Forgiveness for Poverty Income.”
- Reinstating Section 19-1508 “Refunds and Forgiveness for Poverty Income.”

<b>Bill Number</b>	<b>Enacted</b>	<b>Introduced by</b>
020182	Not Applicable - Lapsed	Former Councilmember Cohen
020309	Not Applicable - Lapsed	Former Councilmember Cohen
030163	Not Applicable - Lapsed	Former Councilmember Cohen
030421	Not Applicable - Lapsed	Former Councilmember Cohen
030422	Not Applicable - Lapsed	Former Councilmember Cohen
040397	June 10, 2004	Former Councilmember Cohen
040610	Not Applicable - Lapsed	Former Councilmember Nutter
060007	June 15, 2006	Former Councilmember Blackwell
080161	May 22, 2008	Former Councilmember Tasco on behalf of Former Council President Verna
110138	June 24, 2011	Former Councilmember Tasco on behalf of Former Council President Verna
120174	June 29, 2012	Councilmember Jones on behalf of Former Council President Clarke
140140	June 17, 2014	Former Councilmember Greenlee
190746	Not Applicable - Pocket Vetoed	Former Councilmember Domb
200016	March 12, 2020	Former Councilmember Domb

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

**Date:** 09/25/2025

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.