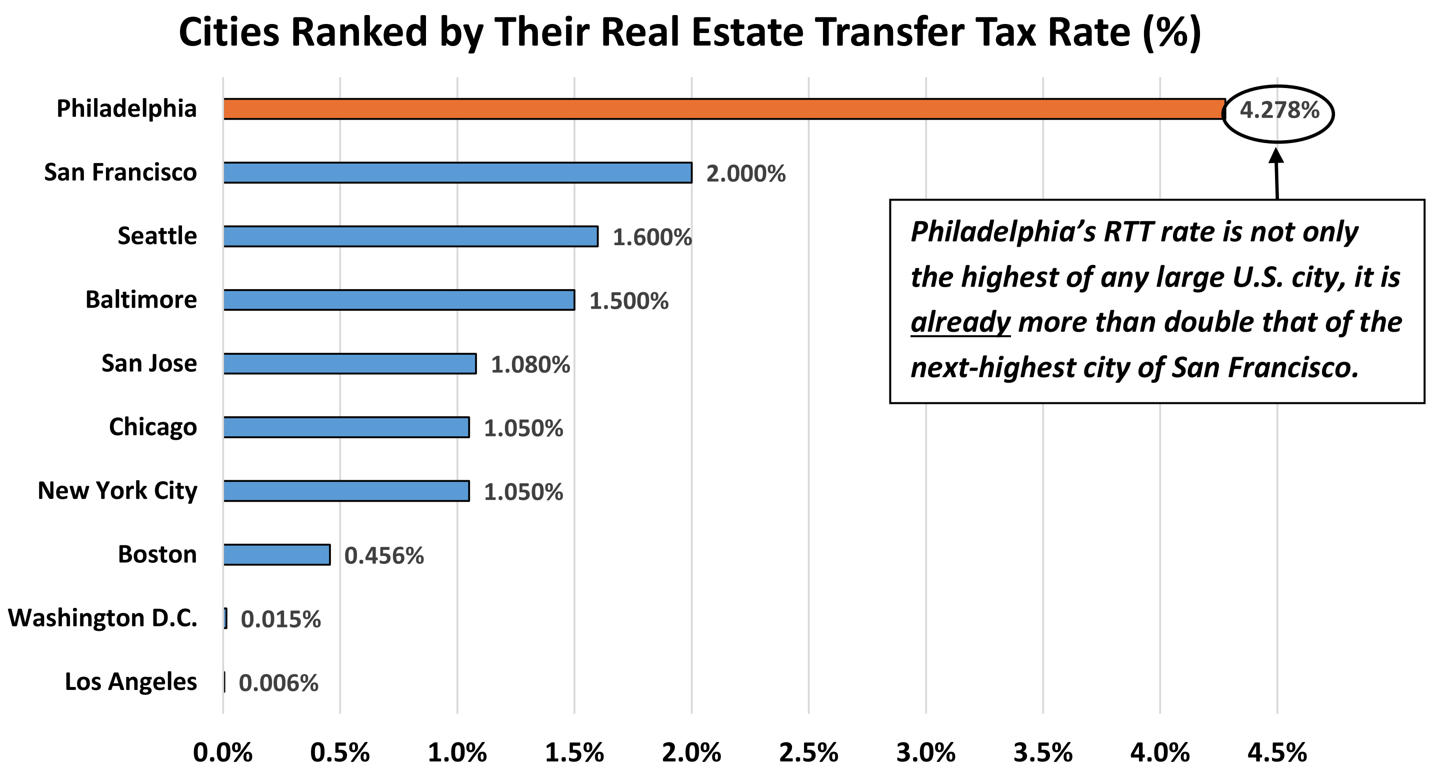
WHAT ARE THE IMPLICATIONS OF INCREASING PHILADELPHIA'S REALTY TRANSFER TAX?

Philadelphia's City Council's Bill #250211 would significantly raise the City's Realty Transfer Tax ("RTT") rate: It would increase the City's share of this tax from its current level of 3.278% to 3.578%. When added to the Commonwealth's 1% additional levy, the total RTT rate will rise to 4.578%.

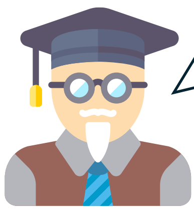
This will make Philadelphia's RTT rate the highest of any major city in the U.S.: The following chart ranks each major U.S. city that levies a significant RTT by its statutory rate:



The peer-reviewed academic literature strongly indicates that there are substantial diminishing returns to increasing tax rates: Because people and businesses generally react adversely to increases in the amount of money that is confiscated from them, this limits the amount of money that additional increases to an existing tax can raise. So, when taxes are already high, further increases in the tax rate will not only fail to yield meaningful amounts of additional revenue, but can actually result in tax revenue declining. The reason is because very high taxes either discourage work and business activity, or force it to relocate elsewhere.

This existing research has already found that previous increases in Philadelphia's other high taxes have already cost the city both revenue and jobs:

> *"For two of the cities for which the authors have employment data -- New York and Philadelphia -- the effect of tax increases is to reduce city jobs. In 1970, New York City had 5.28 percent of the nation's jobs. By 2001 it had 2.88 percent. Similarly, Philadelphia lost 173,000 jobs between 1971 and 2001 because of increases in city wage tax rates… **[Therefore] cuts in these tax rates are likely to be an economically cost effective way to <u>increase</u> city jobs**.*"*



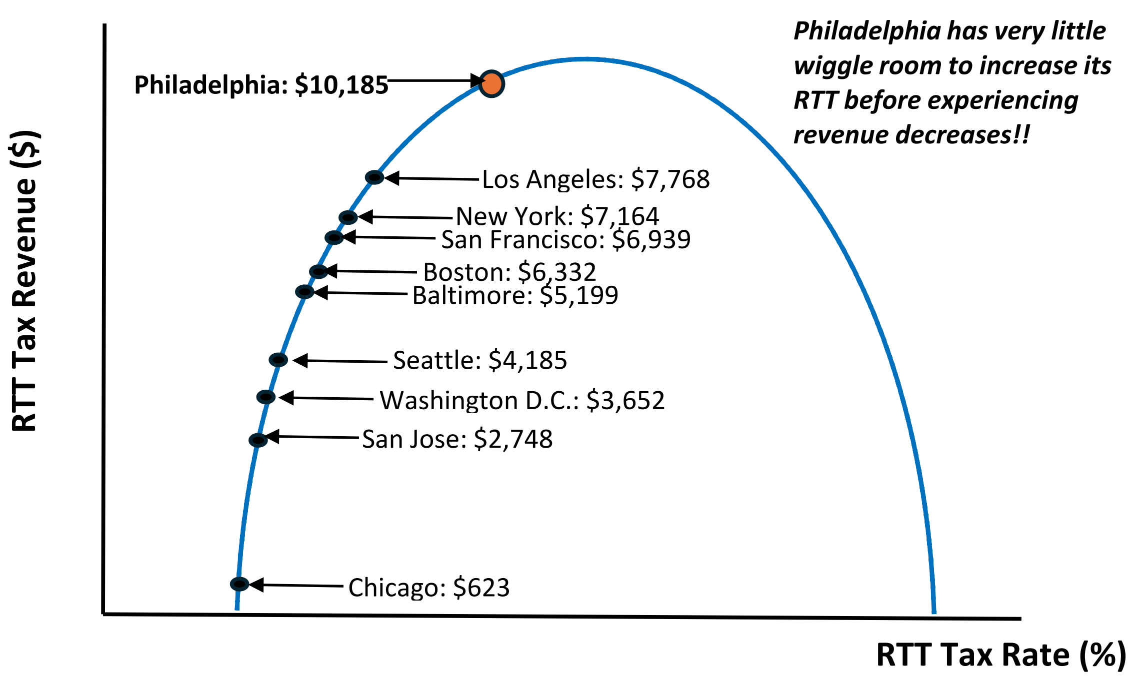
**(emphasis mine) Andrew Haughwot, Robert Inman, Steven Craig & Thomas Luce, 2004. "Local Revenue Hills: Evidence from Four U.S. Cities," The Review of Economics and Statistics, MIT Press, Vol. 86(2), Pages 570-585, 06.*

As such, further increases to the already-high RTT will likely either result in only slight revenue gains, or in actual revenue declines: This will be due to buyers, sellers and Realtors either:

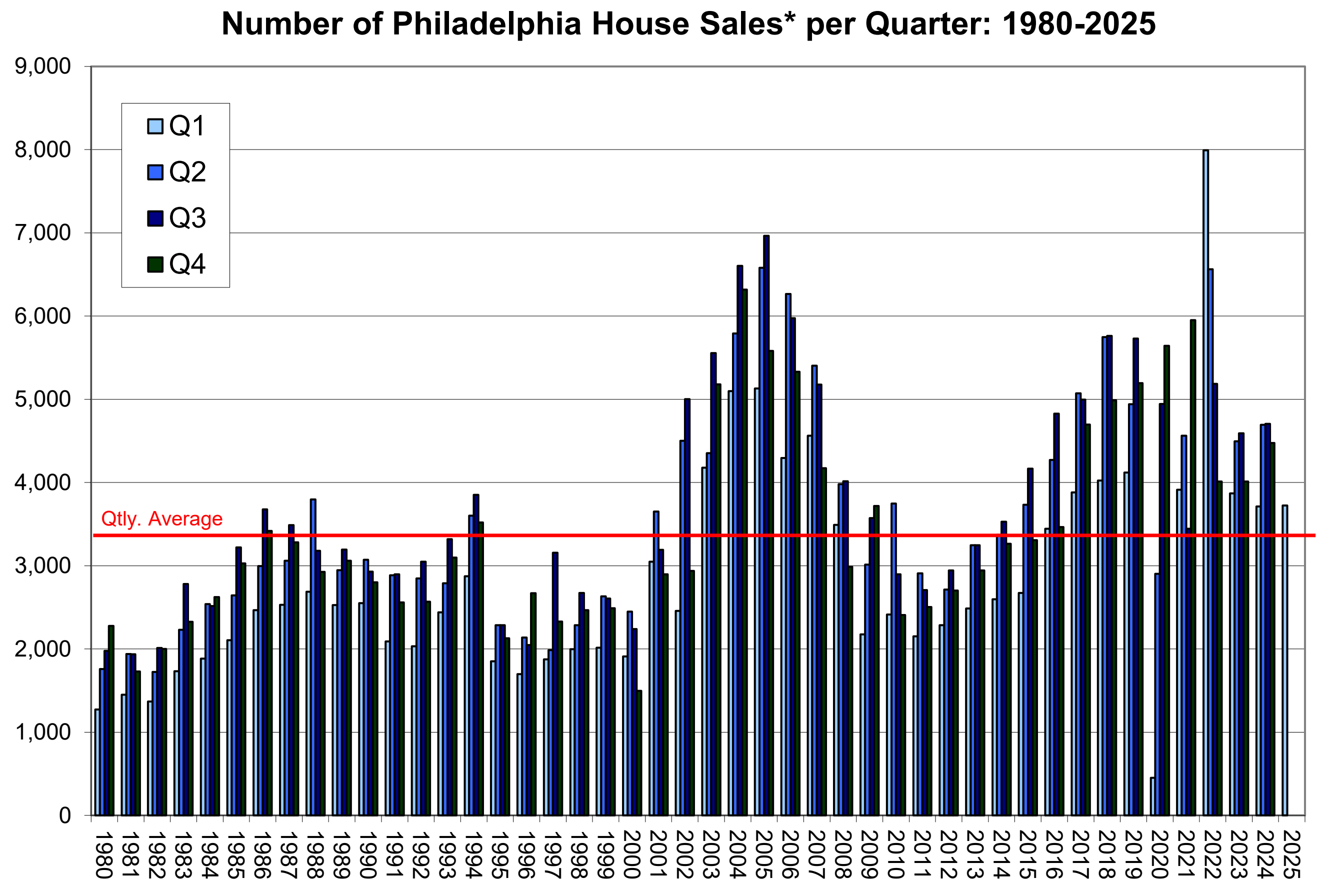
- Reducing their involvement in the housing market, due to their perception of punitively high tax rates; or
- Shifting their activity to the suburbs, due to a more attractive market environment; or
- Some combination of both.

The following chart visually illustrates how Philadelphia is near the maximum amount of revenue that it can collect from the RTT before further increases will result in actual revenue declines:

Current RTT $Revenue Per Residential Sale, by City



Moreover, the revenue from the RTT is much less stable than other tax-related revenue sources: The following chart shows the total number of arms-length sales of residential units[1] in Philadelphia over time since 1980:



Sales volume—and the associated RTT revenue upon which it is based—fluctuates by a whopping average of 150% over the course of a typical ten-year economic cycle: this is because home and condo sales are much more susceptible to short-term changes in factors like interest rates and consumer sentiment than other, more stable sources of tax revenue, like income, wages and property values.

This can make fiscal planning much more difficult and unreliable: because movements in the funding requirements of major public expenditure categories like schools, police, fire and parks are relatively stable from one year to the next, but the RTT is comparatively unstable, significant budget shortfalls and even fiscal crises can frequently result from over-dependence on such volatile revenue streams.

In summary, increases in the RTT are likely to result in less revenue than either predicted or hoped for, while also introducing additional and undesirable volatility into Philadelphia's budgetary process.

[1] Mostly houses and condos. Apartments (buildings with >4 units) and commercial properties are excluded.

This analysis is courtesy of Kevin C. Gillen, Ph.D., a Drexel University employee with positions as a Senior Research Fellow with its Lindy Institute for Urban Innovation and an Adjunct Professor with the LeBow College of Business's Department of Finance. He is also a current board member of Philadelphia's Building Industry Association. He received no funding or other compensation for this research brief. As such, the analysis and opinions herein are entirely his own and do not necessarily reflect those of Drexel, Lindy or LeBow or carry their official endorsement or that of any other organization or persons. Any errors are entirely his own. Lastly, this analysis does not take into account any offsetting effects that changes to Philadelphia's other tax rates that may take place as part of the increase to the RTT that is under consideration by City Council.

Data and Sources

City-specific websites
Zillow.com
U.S. Census

Endnotes

The RTT rates for other cities used in this analysis are often a weighted average of the different RTT rates that occur in each city. This is because a number of cities have a progressive RTT rate, based upon the final sale price of a given property. Additionally, revenue numbers had to be imputed for some cities because RTT revenue could only be obtainable for the total city and state amount. In this case, the city's share of revenue was computed by applying the city's %share of its state's housing stock to the total revenue collected. All numbers are from the most recent year available, which were in the 2022-2024 range.

Table of Raw Data

City	Tax Rate	Revenue Collectec	#Arms-Length Home Sales	$Revenue/Sale	#Sales MSA	#Occ. Units MSA
Philadelphia	4.278%	$398,000,000	17,585	$10,185	76,817	2,280,000
New York City	1.050%	$1,430,000,000	89,826	$7,164	152,846	7,215,000
Los Angeles	0.006%	$672,000,000	38,927	$7,768	81,206	4,365,000
San Francisco	2.000%	$177,700,000	11,524	$6,939	37,541	1,750,000
Chicago	1.050%	$56,000,000	40,452	$623	109,814	3,495,000
San Jose	1.080%	$50,000,000	8,186	$2,748	14,614	685,743
Baltimore	1.500%	$90,000,000	7,790	$5,199	39,105	1,127,320
Boston	0.456%	$99,700,000	7,086	$6,332	47,270	1,860,000
Washington D.C.	0.015%	$251,600,000	31,000	$3,652	74,938	2,350,000
Seattle	1.600%	$91,400,000	9,829	$4,185	47,043	1,600,000

Note: $Revenue per sale had to be computed by adjusting for the %share of total revenue attributable to just residential sales.