

Revenue Fact Sheet:

Wage Tax

Understanding the Wage Tax

Wage and Earnings (Wage) Tax revenues come from a tax on wages, salaries, commissions, and other compensation. It applies to all residents of Philadelphia regardless of work location and to non-residents who work in Philadelphia. Most employers withhold and remit the Wage Tax on the employees' behalf, but when the employer doesn't do that, the employee must pay the Earnings Tax. The rules and rates are the same for the Wage and Earnings Taxes, which are treated collectively.

Where does Wage Tax revenue come from?

FY	Resident		Non-Resident	
	Rate	Tax Due w/ \$50K Income	Rate	Tax Due w/ \$50K Income
FY16	3.9102%	\$1,955	3.4828%	\$1,741
FY17	3.9004%	\$1,950	3.4741%	\$1,737
FY18	3.8907%	\$1,945	3.4654%	\$1,733
FY19	3.8809%	\$1,940	3.4567%	\$1,728
FY20	3.8712%	\$1,936	3.4481%	\$1,724
FY21	3.8712%	\$1,936	3.4481%	\$1,724
FY22	3.8398%	\$1,920	3.4481%	\$1,724
FY23	3.7900%	\$1,895	3.4400%	\$1,720
FY24	3.7500%	\$1,875	3.4400%	\$1,720
FY25	3.7500%	\$1,875	3.4400%	\$1,720

Employers with a Pennsylvania location that employ a Philadelphia resident must withhold the Wage Tax from employee paychecks (even if they don't have a Philadelphia location). Those employers file quarterly returns and remit the money to the Philadelphia Department of Revenue throughout the year, with the frequency determined by the amount of money withheld. Employers with \$16,000 or more withheld per month must pay weekly.

Employed city residents and non-residents that work in Philadelphia pay two different Wage Tax rates. Resident rates are higher than non-resident rates and include the 1.5 percent PICA Tax implemented in the early 1990s. Due to the uniformity clause in the Pennsylvania Constitution, Wage Tax rates are the same at all income levels.

The PICA Tax, although experienced by employers and employees seamlessly as part of the Wage Tax, is presented in City of Philadelphia financial documents as Revenue from Other Governments, not Tax Revenues and is generally not reflected in the data that follows. For more information on the PICA Tax, see the [PICA Revenue Fact Sheet on Revenue from Other Governments](#).

10-Year Trend

In the past decade, Wage Tax revenue (not including the PICA portion) grew from \$1.37 billion in FY16 to \$1.94 billion in FY25, even with reductions to the resident and non-resident rates in many years. This growth, reflecting a compound annual growth rate of 3.9 percent, lagged the overall compound annual growth rates of tax collections (4.5 percent) and total General Fund revenues (5.6 percent). In addition to the policy choice to reduce rates incrementally, the slower growth compared to overall revenues can also be attributed to the introduction of new revenue streams, like the Philadelphia Beverage Tax and federal COVID relief, and the economic impacts of the pandemic which had a significant negative impact on earnings, particularly by non-residents working in the city during periods of lockdown.

Even with these external factors, the Wage Tax has been a remarkably reliable and resilient revenue source for the City, as noted in PICA's [Precisions in Projections](#) analysis. The predictable, steady growth is particularly important as the Wage Tax, without including the PICA Tax, accounted for more than 30 percent of all General Fund revenues from FY16 to FY25.

Although Philadelphia's Wage Tax growth has been steady and growing over the years, it hasn't kept pace with the region's personal income growth (3.4 percent versus 4.5 percent compound annual growth from 2016 to 2023). Regional incomes (rather than just Philadelphians' incomes) is an apt comparison because the Wage Tax base includes the salaries of city residents and commuters. The difference between Wage Tax growth and regional incomes is partially explained by the ongoing tax rate reductions but also suggests that wages shifted beyond the City limits for non-residents due to changes in remote work related to COVID-19. If the Philadelphia region's personal income had grown at a rapid clip, this would be less of a concern. Unfortunately, from 2016 to 2023 according to the Bureau of Economic Analysis, personal income in the Philadelphia metro area grew below

the compound rate of all metro areas in the United States (5.7 percent) and every single similarly sized or nearby metro area.

Industry Drivers and Changes

The health of the Wage Tax is directly tied to the health of Philadelphia's local economy, particularly the number of jobs and the salaries paid. Employee compensation in Health and Social Services, Education, and the public sector together accounted for a bit more than \$4 out of every \$10 collected in Wage Tax over the past decade. Together, these industries generated more than \$9 billion dollars for the General Fund from FY16 to FY25 (including the PICA Tax).

The share of Wage Tax collections from Non-Residents was declining even before the COVID-19 pandemic accelerated the trend. In 2014, 42.3 percent of Wage Tax collections came from commuters. By 2023, just 35.4 percent came from non-residents. Non-resident collections as a share of all Wage Tax hit a low of 33.9 percent in 2021.

Top 5 Sectors for Wage Tax Collections FY16-25		
Sector	\$ Collected	% of Collections
Health and Social Services	\$4,656,229,532	21.8%
Professional Services	\$2,545,694,207	11.9%
Education	\$1,934,064,100	9.1%
Local Gov't	\$1,364,191,934	6.4%
Manufacturing	\$1,235,384,043	5.8%

Over the past decade, there was minimal change in the share of overall Wage and PICA Tax collections that came from a particular industry, with none growing their slice of the pie by more than a third of a percent, and none shrinking by more than a third of a percent. Health and Human Services, the single largest sector for Wage Tax collections, had a compound annual growth rate of 5.8 percent, outpacing overall Wage Tax growth of 4.5 percent. It went from 20.2 percent of all Wage Tax collections in FY16 (\$361.1 million) to 22.7 percent in FY25 (\$598.1 million). The Insurance sector had the largest decline in share of collections, from 3.7 percent in FY16 (\$65.4 million) to 2.8 percent (\$73.7 million) in FY25.

Hotels and restaurants saw the biggest COVID-related declines by percent in FY21, with collections down by a third to a half of the prior year. These sectors rebounded and in FY25 were close to the same share of overall collections as in FY16, together accounting for dropping from 3.4 percent to 3.2 percent.

Looking Ahead

The Wage Tax is projected to continue being the single largest source of revenue for the City of Philadelphia's General Fund, at roughly one third of revenues from FY26 through FY30 (about \$11 billion of \$33 billion over five years, not including the PICA Tax).

These collections reflect both growth in the tax base and planned rate reductions for resident and non-resident taxpayers. The combined effect of these factors results in a compound annual growth rate of 3.5 percent, more than the compound annual growth rate for all General Fund taxes (3.0 percent) and all General Fund revenues (2.3 percent).

FY	Resident		Non-Resident	
	Rate	Tax Due w/ \$50K Income	Rate	Tax Due w/ \$50K Income
FY26	3.7400%	\$1,870	3.4300%	\$1,715
FY27	3.7350%	\$1,868	3.4250%	\$1,713
FY28	3.7300%	\$1,865	3.4200%	\$1,710
FY29	3.7200%	\$1,860	3.4100%	\$1,705
FY30	3.7000%	\$1,850	3.3900%	\$1,695

During the FY26-30 Plan review process, PICA's economic consultant examined the link between past Wage Tax collections experience with U.S. aggregate income levels, finding that Philadelphia typically has fallen more than nominal U.S. GDP during downturns and that while recovery periods were similar, Philadelphia experiences some additional fluctuations. Overlaying those trends onto forecasts for future national income growth and inflation, Professor Swanson's estimates for the Wage Tax were slightly lower than the City's in each year of the Plan, with a total difference of \$47 million (0.4 percent).

The Big Picture

The Wage Tax, including collections from the PICA Tax, is critical to the City's fiscal stability, accounting for more than 45 percent of all projected revenue from FY26 to FY30. The Wage Tax has been identified as a deterrent to economic growth and is a regressive tax that is more burdensome to lower income earners, but its scale and reliability have cemented its central role in the City's fiscal mix even with planned incremental rate reductions. Its size means that even small negative reactions to changing economic conditions can have a material impact on the City's overall financial health and ability to deliver services. Additionally, persistent threats of state-level legislative changes to the structure of the Wage Tax

could result in significant reductions in collections in the future. Given these vulnerabilities and the importance of this revenue stream, monitoring collections and swiftly adjusting to changes is essential to maintain a balanced Five-Year Plan.

Where to Learn More

For additional details on Wage Tax revenue and the City's financial outlook:

- See PICA's [Staff Report on the Five-Year Plan for FY26-30](#) and past Staff Reports at picapa.org.
- Find the City's revenue projections and budget documents on the [Office of the Director of Finance](#) website.
- Visit the City of Philadelphia's [Department of Revenue website](#) for reports on Wage Tax collections by sector and resident vs. non-resident.