

Revenue Fact Sheet:

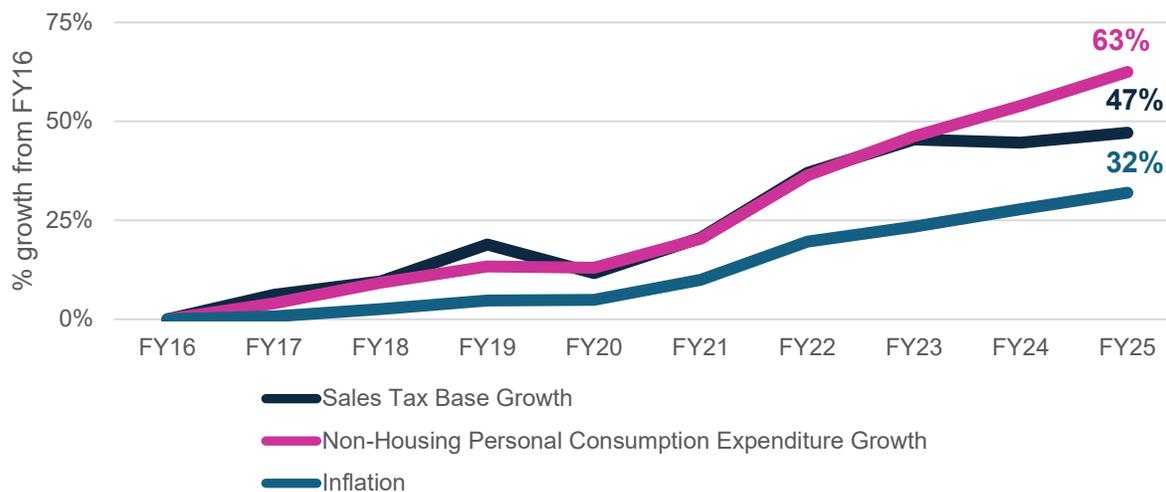
Sales Tax

When PICA was established, the PICA Act set aside a portion of the City of Philadelphia's Wage Tax to serve as the PICA Tax, providing revenue to repay the bonds PICA issued to resolve the City's fiscal crisis of the early 1990s. To limit the use of borrowed funds on operating expenses and close ongoing operating deficits, the PICA Act gave the City the authority to establish a local Sales Tax on top of the Pennsylvania Sales Tax already in place. Philadelphia's Sales Tax revenues have since been used to diversify the City's General Fund revenue, bolster the School District of Philadelphia's finances, and help dramatically improve the funding of the City's Pension Fund.

Philadelphia's local Sales Tax is a two percent tax on sales of goods and services in the City of Philadelphia. From FY16 through FY25, the City collected \$2.41 billion in Sales Tax revenue, making up 6.5 percent of the City's General Fund Tax revenue, and 4.7 percent of total General Fund revenue, averaging \$240.7 million in Sales Tax revenue annually.

Understanding the Sales Tax

Sales Tax growth moves in the same direction as inflation and consumer spending. As pandemic-related spending trends eased, consumer spending grew more rapidly than Sales Tax collections.



Source: [Bureau of Economic Analysis, Personal Consumption Expenditures by Major Type of Product](#); [Bureau of Labor Statistics, Consumer Price Index – Urban, Philadelphia Metropolitan Area](#)

Sales Tax collections are responsive to trends in the broader economy. When consumer prices have experienced inflation, Sales Tax collections have grown. When non-housing-related personal consumption expenditures (PCE) have grown,

so have Sales Tax collections. When Sales Tax revenues grow faster than inflation or non-housing PCE, it is a sign that growth in local sales of goods and services is outpacing national economic trends. Growth in Sales Tax collections can fall behind non-housing PCE growth with increased spending on non-taxed goods like food, utilities, and healthcare. Because the Sales Tax is so closely linked to consumer spending, downturns in the economy that cause consumers to cut back on their spending can severely impact collections.

Philadelphia's Sales Tax revenues don't all go to the General Fund. Each year, \$120 million in Sales Tax collections are directed to the School District of Philadelphia. Through its [award-winning](#) Revenue Recognition Policy, the City also uses a portion of Sales Tax revenue to bolster the strength of its Pension Fund, helping to put it on a [path to be fully funded](#) by FY33.

Where does Sales Tax revenue come from?

Philadelphia's Sales Tax revenues are generated by the sale of goods and services in the City of Philadelphia. With the rise of online shopping, a 2018 Supreme Court decision held that Sales Tax is due even when retailers have no physical location in the taxing state. This has had some benefit to Philadelphia's Sales Tax collections.

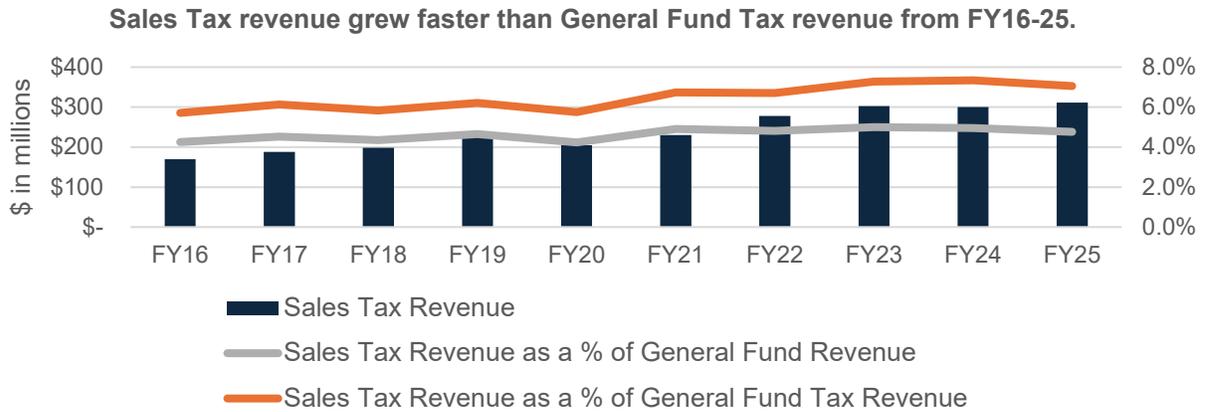
Certain sectors of the economy generate more Sales Tax revenue than others. From FY16 through FY25, the retail sector generated the largest portion of Philadelphia's Sales Tax revenue, between 22.1 and 29.9 percent each year. Motor vehicle sales and the food service sector are also top sources of Sales Tax revenue. With changes in the economy from FY16 through FY25, some sectors rose in the ranks while others fell behind. Tax revenue generated by services (excluding repairs) made up 6.3 percent of Sales Tax collections in FY16. In FY25, non-repair services generated nearly 10 percent of all Sales Tax collections. The telecommunications sector generated 6.5 percent of Sales Tax revenue in FY16 but fell to just 1.4 percent of collections in FY25.

10-Year Trend

From FY16-25, Sales Tax revenue grew at a 7.0 percent compound annual rate, more than both General Fund Tax revenue (4.5 percent) and total General Fund revenue (5.6 percent). The faster rate of growth made Sales Tax revenue a larger component of General Fund Tax revenues, growing from 5.7 percent of General Fund Tax revenue in FY16 to 7.1 percent in FY25.

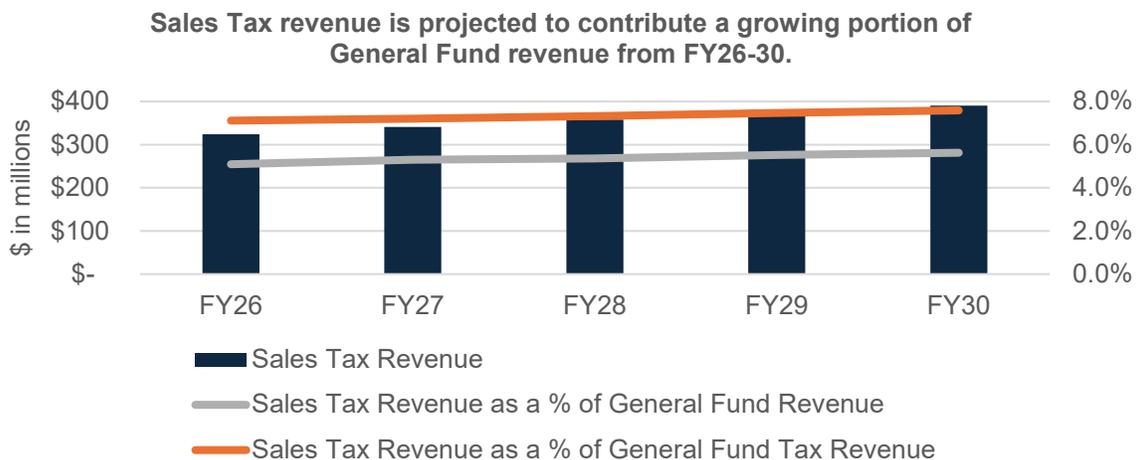
With a volatility rate of 7.9 percent from FY16 through FY25, the Sales Tax is one of the City's least volatile sources of tax revenue. Only the Wage and Real Estate Tax were less variable. Sales Tax revenues grew by double digit percentages in five

of ten years from FY16-25, and declined in only two, falling 8.7 percent with the onset of the pandemic in FY20, and experiencing a decline of less than one percent in FY24.



Looking Ahead

Sales Tax revenue is projected to continue growing faster than General Fund Tax revenue and overall General Fund revenue from FY26-30. At 4.8 percent, compound annual growth in Sales Tax revenue is projected to be lower from FY26-30 than the 7.0 percent experienced from FY16-25. The impacts of the COVID-19 pandemic caused drove Sales Tax revenue volatility to 7.9 percent from FY16-25. Estimates for FY26-30 assume that Sales Tax volatility will be just 0.5 percent. Although the Sales Tax is generally less volatile than other sources of General Fund Tax revenue, it is still highly responsive to economic downturns that cause local consumers to cut back their spending. With Sales Tax revenues projected to make up a larger portion of overall General Fund revenues in the coming years, the effects of any such downturn on the City’s revenues will be amplified accordingly.



The Big Picture

The Sales Tax is one of the City of Philadelphia's least volatile sources of tax revenue, and its persistent growth has made it a larger component of the City's overall General Fund revenues. Because Sales Tax revenues are based on prices of goods and services sold in Philadelphia, its collections keep pace with inflation. In a city with relatively low levels of household income and economic resiliency situated in a [K-shaped economy](#), where growth is driven by the consumption trends of high-income households as inflation, stagnant wage growth, and lagging employment put pressure on low-income households, the future strength of local Sales Tax revenue is uncertain.

Where to Learn More

For additional details on the City of Philadelphia's Sales Tax:

- 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 Sales Tax by sector.