

**D.C. Tax Revision Commission Policy Options**  
**Policy Option #30: Create a *de Minimis* Threshold for the  
Business Franchise Tax**

**MEMORANDUM**

**Proposal:** Create a *de minimis* threshold for the business franchise tax

**Tax Type:** Business

**Origin:** Public

**Commission Goal:** Fairness

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**Current Law**

A corporation carrying on a trade, business or profession in D.C. or receiving income from D.C. sources is subject to a business franchise tax (BFT) of 9.975% on business income. The minimum tax is \$250 for businesses with gross receipts of \$1 million or less and \$1,000 for businesses with gross receipts greater than \$1 million. All incorporated firms must pay at least the minimum tax. There is no threshold for paying the tax.

The unincorporated business franchise tax (UBFT) applies only to unincorporated businesses that have more than \$12,000 in annual gross income.

**Proposed Change**

Create a *de minimis* threshold of \$12,000 in annual gross income for the BFT (like the threshold for the UBFT) so that businesses with a small amount of income would not be subject to a minimum tax.

**Reason for Change**

A small business that is organized as a corporation is subject to a minimum tax of \$250 while an unincorporated business with less than \$12,000 is not subject to a minimum tax. Conforming the BFT threshold to the UBFT threshold would level the playing field. If this policy were adopted, an incorporated business with more than \$12,000 in income would pay taxes on that first \$12,000—as is the case with the UBFT.

New Hampshire only taxes corporations and unincorporated associations with gross income above \$50,000. Florida has a corporate income tax exemption of \$50,000.

**Pros**

- Would eliminate a tax burden for small businesses that choose to incorporate.
- Incorporated and unincorporated businesses would be treated equally.
- Could encourage entrepreneurs to start a business and incorporate in D.C (and not a neighboring jurisdiction) that may take a few years to return a profit.

## **Cons**

- Would reduce tax revenues.
- Some larger businesses could use “tax planning” to bring gross income below the threshold and avoid the tax. This could decrease revenue and shift the tax burden to other firms that lack the resources to plan around the tax.

## **Revenue Impact**

The Office of Revenue Analysis estimates that in the first year of implementation creating a \$12,000 *de minimis* threshold for the BFT would cost \$2,000,000 in tax revenue.