

TESTIMONY OF BARBARA LANG DC CHAMBER OF COMMERCE

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Before the District of Columbia Tax Revision Commission
Tuesday, November 12, 2013

I am pleased to be here again this evening to testify on the status of the District's taxes. I am Barbara Lang, President and CEO of the DC Chamber of Commerce. I am pleased to be here today to represent the 1700+ members of the Chamber, the hundreds of thousands of employees they employ, and the millions of dollars in District tax revenue they provide yearly to the District's coffers. The DC Chamber of Commerce represents businesses large and small. At the Chamber, we truly work hard to make living, working, playing and doing business in the District of Columbia a much better proposition for all of our residents.

As I have stated to you previously the DC Chamber urges the Commission to recommend revenue changes that will benefit the District in the long-run and help the City operate within its means. We urge the Commission to make sure your findings create economic tools to streamline the District's bottom-line but do not simply find new revenue for the sake of generating revenue. It is important that the outcome of your work makes the DC tax system fairer for businesses and residents, which are not mutually exclusive groups, more competitive to our neighboring jurisdictions, have a broader base to draw from, are easier to understand and encourage small business and employment growth.

What we need to do is support entrepreneurs and small business people who want to make a better life for themselves and their communities and are the true job-creators in our economy. Once again, I applaud your efforts and would like to discuss issues currently on your proposed list as well as issues I think must be addressed.

First, due to the tremendous contribution our businesses make to the District's tax base, we recommend that Fiscal Impact Statements not only analyze the direct District Budget impact, but also include economic analysis on the effect legislation will have on business. According to data presented to the Commission, District businesses provided 31.1% of the \$6.6 billion in revenues received in FY2012 through gross receipts, franchise, personal property and sales taxes¹. Additionally, businesses pay into the 32.3% real property and 22.1% of income tax². Our membership even makes a significant contribution to the 15% in miscellaneous revenues with mandatory fees and fines and special purpose revenue funds³. Simply, put, without the District's private businesses, the City would not have a stable tax base. Therefore we believe economic impact analysis is crucial for lawmakers to see the entire picture on policy initiatives.

Second, as I have stated previously two of the major taxes which make the District uncompetitive in attracting business: franchise tax and commercial property tax must be addressed. The District levies an effective corporate franchise tax of 9.975% compared to Maryland's 8.25% and Virginia's 6%⁴. A

¹ Overview of DC's Economy and Tax Base, Presentation to the District of Columbia Tax Revision Commission, Stephen Swaim, November 19, 2012. Page 2.

² Id.

³ Id.

⁴ District of Columbia Tax Comparisons, Richard Auxier, April 2013 draft. Page 8.

couple percent may not seem like a lot, but when a company considers a location or relocation, the tax burden can easily remove the District from a short-list when combined with other regulatory and operational costs DC businesses face. When looking at the nation, only Pennsylvania and Iowa have higher corporate income tax rates⁵. We agree with you Mr. Chairman that lowering this rate could be a powerful signal if the District lowered that rate to incentivize more businesses to the District which would provide greater sales tax and other revenues to the District. Growing the base of businesses should be a goal of this Commission rather than being dependent on the current businesses in DC. However, this should not be done at a detriment to lowering property taxes or adding a gross receipts tax. The Chamber is very cognizant of the type of businesses that are flourishing in the District and could just as easily go across the river or into Maryland. The service industry is too important to the District coffers and employment structure to change the tax structure by implementing a flat gross receipts tax. We strongly urge you not to support a gross receipts tax on the service industry in DC.

Third, another major concern for businesses is the total commercial property tax rate which sits \$0.40 above the next highest city tax in the region⁶. For comparison, Rosslyn is the lowest in the region, levying \$1.224/\$100 assessed and Reston is the highest neighbor at \$1.487/\$100 assessed. The region comes nowhere near the \$1.882 rate imposed by the District. The Chamber asks the Commission to recommend reducing the District's uncompetitive commercial real property tax rate.

Fourth, we implore the Commission to look into creative ways to work around the loss of commuter taxes instead of persisting with the worst business tax climate in the nation. The solution is a competitive business tax climate that makes doing business in the District feasible for all types of private enterprise. The current recommendation of simply tax the employer for each resident it employs is not appropriate and should not move forward. Yes, we are in a very unique situation without having a commuter tax. However, just because we cannot tax a significant portion of the income that is generated in the city, does not mean the city should levy that lost revenue in a vertical tax or increased business taxes. As previously discussed by the Commission, this "head tax" could be off-set by reductions or off-sets in the corporate tax rate, but that would severely impact the non-profit community which I should remind you the Chamber is a member of. So this would directly impact the Chamber and all businesses in the District, which puts an unnecessary cost on the employer unlike other Cities in the US which have implemented so-called "head taxes" like Pittsburg and Denver and placed the tax on the employee.

With more private businesses in the District, more residents will be employed, paying more income tax and reducing dependence on human services. Also, as private businesses expand in the District, non-residents will relocate, further increasing income tax and sales tax revenues. Please look very closely at making the District's business taxes competitive with the region so that the District can stop using the federal government and commuter tax as excuses for high business taxes. Again, I thank you for your time and consideration of such an important issue as tax reform in the District. Please keep in mind that the taxes of the District cannot be considered in a vacuum and your recommendations will become part of a total package. Businesses look at the cost of real estate,

⁵ Id.

⁶ Id. at 4. Reston has a total commercial tax rate of \$1.487/\$100 of assessed value compared to \$1.882/\$100 in the District for commercial property valued above \$3 million.

prevailing wages and proximity of an employable workforce before locating. In order to improve the quality of life for all District residents, increase the tax base, and reduce dependence on human services, the District must have an inviting tax regime that encourages private industry to become to economic driver of our City.

Thank you for the opportunity to testify I am available to answer any questions at this time.