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November 12, 2013

**Members**  
**D.C. Tax Revision Commission**  
1101 4th St., SW  
Suite W770  
Washington, D.C. 20024

**Members of the DC Tax Revision Commission:**

The Fiscal Stability and Integrity Committee of the Federal City Council is pleased to present our perspective regarding District taxes as they impact growth and modernization within our community. Our business representatives continue to see excellent growth potential for the Washington DC region and believe that application of the following principled actions would help facilitate continued expansion of the community in which we work and live.

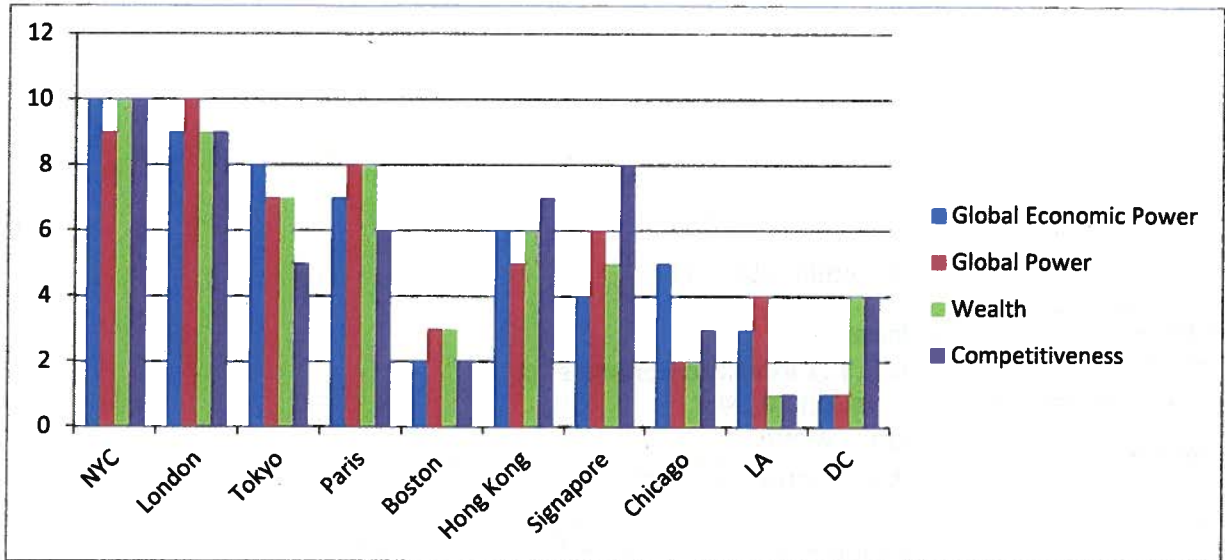
Our members look forward and see DC with the potential to become a world class city. World class cities are determined as being important politically, culturally, or economically to the world. Additionally, they have world class restaurants, tourism, and centers of higher education. Today we have many strengths and opportunities, but we must take deliberate actions if we are to become one of the world's leading cities.

*"I agree, for me, I think DC needs to attract leading corporations to become a bigger global city, currently all the corporations sit across the Potomac in VA because DC corporate taxes are too high. These need to be lowered. As people migrate from suburban living to urban life, District traffic problems will become less of an issue. But DC is doing its best to get people off the roads. Now DC has Metro, Capital Bikeshare, the Circulator and the Metrobus, streetcars, and they are in talks of creating a huge water taxi system."*

**Anonymous**

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DC compared to the World, Top 5 International Cities (Note: DC includes the DMV region):



**Global Economic Power** - In 2012, the first **Global Economic Power Index**, a "survey of the surveys" written by Richard Florida, was published by The Atlantic (to be differentiated from a namesake list published by the Martin Prosperity Institute), with cities ranked according to criteria reflecting their presence on similar lists as published by other entities.

**Global Power** - The Institute for Urban Strategies at The Mori Memorial Foundation in Tokyo issued a comprehensive study of global cities in 2012. The ranking is based on six overall categories, "Economy", "Research & Development", "Cultural Interaction", "Livability", "Environment", and "Accessibility", with 70 individual indicators among them. This Japanese ranking also breaks down top ten world cities ranked in subjective categories such as "manager, researcher, artist, visitor and resident."

**Wealth** - "The Wealth Report" (a global perspective on prime property and wealth) is made by the London based estate agent Knight Frank LLP together with the Citi Private Bank. The report includes a "Global City Survey", evaluating which cities are considered the most important to the world's HNWIs (high-net-worth individuals, having over \$25million of investable assets). For the Global City Survey, Citi Private Bank's wealth advisors, and Knight Frank's luxury property specialists were asked to name the cities that they felt were the most important to HNWIs, in regard to: "economic activity", "political power", "knowledge and influence" and "quality of life".

**Competitiveness** - In 2012, the Economist Intelligence Unit (The Economist Group), ranked the competitiveness of global cities according to their demonstrated ability to attract capital, businesses, talent and visitors.

The members of the Federal City Council believe that in aggregate, District taxes are too high and that the net tax burden on residents and organizations that conduct business here should not rise. We are, however, supportive of eliminations, additions, and revisions within the current tax structure to enable the District to better align with the principles outlined below, that will help to drive long-term growth and prosperity for Washington D.C.

**Key tax changes should:**

- **Transition the District to become a world class city.** Washington has the potential to transition from a government town to a global hub. The growth and diversification of the District's economy is emblematic of this opportunity but we have a long way to go. To become a truly global city, DC must be an attractive location for the world's leading companies, containing robust financial, operational, and technical infrastructures. Currently, DC is:
  - Rated #8 in the nation in the 2013 Cities with the Worst Traffic (US Today)
  - Recognized as one of the lowest performing urban public school systems in the country

- Rated #5 in the nation in the 2013 Highest City Crime Ranking (Large Cities), even while MPD continues to make great strides in the reduction of crime
- Not attracting Fortune 1000 large headquarters companies into the city

For DC to climb in the rankings and truly emerge as one of the world’s leading cities, the entire system, including our tax structure, must work to enable economic growth, industrial strength financial and transportation infrastructure, global business appeal, and a quality of life that is attractive to workers. Mobility is essential for today and tomorrow’s workforce and given the opportunity by their employers, we can foresee a time when large portions of these workers will prefer to work, eat, shop, and live in the District.

- **Lower the net tax burden on businesses and residents.** The business community strongly affirms that lower taxes spur growth. We desire to conduct more business in the District and our people also desire to live here, but the District is a high cost location. We are supportive of tax policies that moderate this reality. In order to build the economy, DC must be better at attracting capital investments, improving the environment and the livability of the District.

*“Signals matter. Headline rates matter. Marginal changes to tax rates matter. The perception in the broader community is that the District is not an environment that supports business growth.”*                      *Anonymous*

- **Create a comparatively competitive regional tax environment.** The region as a whole would be a better place for businesses if tax policy were more consistent across Maryland, DC, and Virginia. A stable, more consistent environment would enable businesses to more seamlessly interoperate across the region and would provide additional incentive to attract companies to our region. Research indicates that businesses choose their regional locations due to strategic, macro-level factors, but that when choosing a location within a region, tax policy matters. The incongruity of the current tax structures of the District and Maryland as compared to Virginia is too significant to for businesses to ignore. Of the Fortune 1,000, only 3 are based in Washington DC (Danaher, Pepco Holdings, Fannie Mae).

Washington DC	3
Maryland	12
Virginia	32

- The District should seek to close major tax rate differentials with Virginia to enhance its competitiveness.
- Making taxes more competitive with VA would likely attract more companies to establish their headquarters in DC.

*“Our decision on where to locate in the region is not an all or nothing decision. My firm makes decisions every year as to how to reallocate our regional workforce. We move clusters of employees from one office or another, or we may slowly shift the composition of a local office over time. While this happens under the surface, the net effect has been a shift in the composition of our regional workforce to Virginia and away from Maryland and the District.”* Anonymous

*“Speaking from the perspective of a residential property owner, over the last ten years, the growth in my tax burden on individual properties has exceeded growth in my gross income from those same properties by as much as three to one across my entire portfolio of properties. Taxes are not just increasing; they have become an increasing percentage of my operating expenses. The District’s regulatory burden, combined with its tax policy, makes it increasingly unattractive to invest in the District. There is a perverse effect in which the combination of legislated caps on income growth (rent control) and unlimited real estate tax increases forces landlords to seek alternatives to providing affordable housing such as converting units to condos or reposition their assets as luxury rentals.”* Anonymous

- **Do no harm to existing development projects.** Numerous development efforts are underway in the District where the economics have been based on existing tax policies. We do not support taxes that would potentially upend efforts already in progress.
- **Create and protect transportation funding.** Transportation is an inhibitor to business growth in DC and the surrounding geographies. We support tax policies that would improve District transportation and better enable DC to interoperate more seamlessly as an integral part of the regional economy. Representative improvements that we would readily support include:
  - Synchronized traffic lights for improved traffic flow in the District
  - Seamless commuter rail service throughout metropolitan Washington
  - Preferential treatment for infrastructure that enables moving large numbers of people by mass transit and shared transportation (i.e. bus and rideshare lanes)
- **Deny additional taxes on the upper and lower tax brackets.** We do not support the shifting of additional income tax burdens to the upper and lower brackets. The burden is already very high at the top and we want to attract more business leaders and entrepreneurs into the District. These leaders are generally very mobile and prone to relocate to maximize personal and business success, placing a greater tax burden on the middle class when they relocate, as has happened in Maryland with the “Millionaire Tax.” While we believe that all workers should be invested in supporting the District, we do not support raising taxes on residents currently paying



taxes in the lowest brackets as it would create an undue hardship on those who are truly struggling to make ends meet.

- **Focus growth initiatives on high potential job/employment sectors.** Many of our nation's key cities are known for their industry dominance. New York has financial services, Houston has energy, Silicon Valley has technology, etc. We believe that the District and surrounding locations have the opportunity to create similar hubs for some industries beyond the federal government that bring along high value jobs and high growth potential. The Federal City Council offers to convene its members to help the District evaluate opportunities for the economic growth and employment growth from sectors such as professional services, cyber security, health care, and education to continue the diversification of the District's economy. We strongly urge the District to work with us to develop an integrated plan for strategic growth of this nature. This evaluation should include an analysis of whether there are impediments to growth caused by the District's tax structure including, as an example, the structure of the unincorporated business franchise tax.

*"The District's new corporate tax apportionment structure has resulted in an additional \$400,000 tax burden for my company in exchange for no additional services. We are a homegrown company that was started here in the Washington region. Our business is not a multinational firm that happens to have a presence in the District."*  
*Anonymous*

- **Eliminate uncertainty in the Unincorporated Business Franchise Tax (UBFT).** The District's unincorporated franchise tax creates a barrier to doing business in the city across industry segments such as financial services, wealth management, and private equity due to the uncertainty about how the tax will be applied. This is due to inadequate definitions and insufficient case law.
  - The District should provide greater clarity and eliminate the risk that individuals that reside outside DC will be taxed twice on the same income in order to facilitate the growth of these business segments.
  - On behalf of one of our trustees who is a tax attorney, we suggest that a de minimis exemption from the BFT and UBFT be implemented to reduce compliance costs and administrative costs for the District.

*"The District's application of the Unincorporated Business Franchise Tax on S Corporations with ESOPs as owners or real estate partnerships with exempt organizations (Not Unrelated Business Income) as partners subject them to an income tax that that they would not incur in either Maryland or Virginia."*  
*Anonymous*

- **Broaden the tax base on visitors from outside the DC region.** Millions of visitors come to the nation's capital each year. While we are not supportive of further increasing the taxes on

hospitality or regional commuters, we do support other tax options that would increase tax revenue from tourism and business travel.

- Examples include additional taxation for rental cars, charter bus parking and those who do not have VA, MD or DC license plates but travel into the city.
- **Simplify the tax framework.** We believe that the tax framework for the District has become overly complicated. Streamlining the tax code and the supporting infrastructure will provide a lower cost to maintain. It will also result in increased transparency, helping to prevent the potential for gaming of the system (i.e., loopholes, fraud, etc.).
  - Create a tax appeals process for income and franchise tax matters.

*“What about Tax Administration? Currently, there is no independent appeals process outside of the Office of Finance and Revenue. Taxpayers may only request an independent review of Income and Franchise tax matters to an administrative law judge (OAH) or to the DC Superior Court. Since a taxpayer is required to use legal counsel in these forums, this increases their cost of compliance.”*  
*-Anonymous*

As representative members of the District’s business community, we urge the Tax Commission to consider these principles in their recommendations. While we are determined and able to help grow the District and its surrounding areas, we need the District’s tax framework and infrastructure to support our efforts to do so. We respectfully appreciate the opportunity to present our point of view and our expressed desire to help make Washington DC the most desirable location in the nation for business and life.

Sincerely,

**Stuart Solomon**

Chairman, Federal City Council Fiscal Stability and Integrity Committee

*On Behalf Of:*

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