

**D.C. Tax Revision Commission Policy Options**  
**Policy Option #36: Levy a Local Services Tax on Employers**

**MEMORANDUM**

**Proposal:** Levy a local services tax on all D.C. employers

**Tax Type:** Business

**Origin:** Public

**Commission Goal:** Broaden the tax base

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**Current Law**

There is no local services tax currently.

**Proposed Change**

Create a local services tax. All D.C. employers would pay a \$50, \$75 or \$100 tax per employee. The proposed tax would exempt some employers (e.g., the federal and District government) and some employees (e.g., low income and part time workers).

**Reason for Change**

Under the Home Rule Act, the D.C. Council cannot “impose any tax on the whole or any portion of the personal income, either directly or at the source thereof, of any individual not a resident of the District.”

As a result, many businesses (with numerous non-resident employees) consume city services but do not contribute to their maintenance. A local service tax, also sometimes referred to as an emergency and municipal services tax, could address this disparity. That tax would be imposed on the employer and be based on the employer’s number of employees.

Pittsburgh and Denver both have a similar tax. The Pittsburgh tax is a \$52-a-year levy on employees engaging in an occupation within the city. The tax is withheld from employee paychecks by employers. Employees with less than \$12,000 in annual income, active military members and veterans are exempt from the tax. The Denver tax is a monthly \$9.75 levy (or \$117 annually) on employees who perform services in the city. Roughly half of the tax is withheld from the employee’s paycheck and the other half is a direct contribution from the employer. Employees must earn \$500 in monthly gross income (not taxable income) to be eligible for the tax.

**Pros**

- Would make D.C. taxes fairer by broadening the city’s tax burden.
- Would increase tax revenue.
- In some jurisdictions, the local services tax is often dedicated to specific projects (such as fire/emergency services or capital improvements) that specifically benefit both city residents and commuters, making the tax more politically palatable.

## **Cons**

- Businesses may attempt to avoid the tax by hiring fewer workers or cutting employee hours and/or pay if there are minimum thresholds.
- Some businesses may be negatively affected by the tax.
- Even though the tax would affect all employers and employees in D.C., it may still be interpreted as a “commuter” tax.

## **Revenue Impact**

The Office of Revenue Analysis estimates that in the first year of implementation a local services tax would produce the following revenue changes:

- A local services tax of \$50 per employee would raise \$25,000,000 in new tax revenue.
- A local services tax of \$75 per employee would raise \$37,000,000 in new tax revenue.
- A local services tax of \$100 per employee would raise \$50,000,000 in new tax revenue.