Draft

Case Studies of Business Taxes in the District of Columbia

A Comparison with Neighboring Jurisdictions

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EXECUTIVE SUMMARY

Taxes are not the only issue a company considers when making business location decisions. Businesses are not motivated by tax factors alone and may decide to move into a higher tax jurisdiction provided there is an overall increase in profits, or other business reasons, that justify the higher tax burden.

Businesses have multiple options available in the DC metropolitan area for selecting a business location. The proximity of Maryland and Virginia and availability of public transportation make alternatives to locating in the District of Columbia (the "District") viable.

This study shows that the tax burden in the District for C-corporations is not significantly different from its Maryland and Virginia neighbors. The case studies compared the tax burden on three different types of entities operating in six different jurisdictions in order to assess the tax consequences affecting each. In some cases, District was more competitive than its neighbors because of special tax incentives for qualified high technology companies. Incorporated Qualified High Technology Companies certified on and after January 1, 2012 will benefit from paying no DC franchise tax for 5 years, starting the year the company has taxable income. Thereafter, they will continue to benefit with a reduced franchise tax rate of 6%. Fairfax County, Virginia is also reaching out to high technology companies by exempting software development revenue from the gross receipts tax. Unincorporated Qualified High Technology Companies are exempt from the business franchise tax.

In addition, even though DC income tax rates are the highest in the area, the gross receipts tax in Virginia in some situations eliminated the tax savings of the Commonwealth's 6% income tax rate, which is lower than Maryland's 8.25% and DC's 9.975% rate. (Maryland's gross receipts tax is limited and not generally applicable to most businesses in the state.)

The District's reputation as a high tax jurisdiction may be fueled in part by its almost 10% business franchise tax rate, the complex rules involving the District's taxation of pass-through entities under the unincorporated business franchise tax (“UBFT”), and taxation of S-corporations as regular C-corporations. The UBFT does have exemptions. The most widely used exemption is for unincorporated personal service businesses meeting the 80% service requirement, which can allow attorneys, architects, accountants, and other non-corporate service providers to be immune from the tax.

For Virginia residents, the District's franchise tax on pass-through entities is especially onerous. Virginia courts have ruled that the District's franchise tax is illegal and consequently not eligible for credit on the Virginia resident's state income tax return. This court ruling has literally created a double tax on unincorporated business income for Virginia residents conducting business in the District.

As the case study on the software development company illustrates, locating a business in a jurisdiction is as much about the cost of real estate as it is about the tax burden associated with the location. In this case, the cost of office space rent exceeded the tax burden in the District, Arlington County, and the City of Alexandria, reflecting the higher office space costs in these areas. The high office rents in the District

EXECUTIVE SUMMARY (Continued)

are driven in part by real estate values, as is usually the case in centralized business areas of major metropolitan areas, in addition to property tax rates.

Suggestions for the District include continued marketing efforts to make businesses more aware of the true tax costs of the District compared with its neighbors. In our experience, businesses are aware of the Ballpark Fee and view it as an example of additional taxes to be avoided by staying clear of the District, but are not aware that the tax does not apply to businesses with gross receipts below $5 million and that its maximum annual tax is limited to $16,500. Yet Virginia's gross receipts tax, which can be significant for some businesses, does not seem to create the same level of criticism or concern.

The District should also consider lowering the business franchise tax rate to be more in line with Maryland and Virginia. The reductions may help the District create a more business friendly image and send a strong message of DC's commitment for business development.

INTRODUCTION

With all the discussion in political circles and among taxpayer advocacy groups about income tax rates, it would be easy to assume that one way to attract businesses into the District would be to simply reduce tax rates. After all, most would agree that one of the principal goals, if not responsibility, of management is to maximize profits and what better way than to lower the tax expense of a business.

However, rates are only part of a complex tax system. The tax burden on business is affected by a series of tax incentives and credits intended to modify, or at least influence, management's decisions in order to obtain a better outcome for all stakeholders. Local and state governments give tax breaks to certain sectors of the business community adding to exceptions that exist throughout tax codes and in doing so increase its complexity. Comingled with tax rates and incentives are political and social concerns as government, charged with the responsibility for its citizens, legislates tax provisions intended to address problems faced by state and local communities. All this creates a complex tax system that is harder to administer and increases the cost of compliance for taxpayers.

This report summarizes the major taxes affecting businesses in the District and compares its tax structure with those of its major competitors in attracting businesses, i.e. Suburban Maryland and Northern Virginia. The goal of this report is to analyze the total state and local tax cost of locating a business in each jurisdiction and to analyze how competitive the District is with its neighbors in attracting new business investment.

In order to quantify the total cost of state and local taxes on business, three case studies are presented comparing total tax costs in each jurisdiction, with the hope that our observations will help the District increase its competitive edge. Case studies are presented for different industries: a corporate business, a software developer, and a professional services firm, so that special tax assessments and incentives are considered.

Any discussion on tax policy provokes an emotional response among affected stakeholders as each one has personal beliefs on how public resources should be allocated. Our goal in this study is to objectively analyze the tax cost of doing business in our community with the hope that the District’s leadership can make better-informed decisions that will promote business expansion and improve the lives of its residents.

Business Tax Environment

TAX RATES

The District's corporate income tax rate, referred to as a franchise tax, of 9.975% is greater than Maryland's 8.25% and Virginia's 6.00%. All three jurisdictions apply the corporate tax rate as a flat rate. Only the District has a minimum tax of $250 or $1,000, depending on the business gross receipts.

As discussed later under choice of entity, the District, unlike other jurisdictions, taxes businesses organized as pass-through entities, such as S-corporations, limited liability companies, and partnerships as corporations. With a few modifications, the District taxes the income of unincorporated businesses with gross income greater than $12,000 at a flat tax rate of 9.975%. Virginia and Maryland have no similar tax on pass-through entities, but instead require the owners of the business to include the business income in their personal tax returns. Virginia and Maryland's method allows taxpayers to take advantage of personal deductions and exemptions, and personal graduated tax rates not available to DC business owners who live outside the District.

Real property tax rates for commercial properties in the District are $1.65 per $100 of assessed value for properties assessed below $3 million and $1.85 for other commercial properties. The District's commercial real property taxes, which are a function of real property values and tax rates, are among the highest in the nation and the main source of tax revenue for the District.

Unemployment compensation taxes are assessed on employers based on employee wages. The District taxes employers on the first $9,000 of wages per employee at tax rates ranging from 0.1% to 7.4% depending on the history of claims awarded to former employees. For Virginia, the first $8,000 of an employee's annual wages is taxed from 0.1% to 6.2%, while Maryland's first $8,500 of an employee's wages is taxed from 0.3% to 13.5%. A business paying the maximum rate would pay annually, per employee, $666 in the District, $1,148 in Maryland, and $496 in Virginia.

Many states and local jurisdictions have a gross receipts tax. The District imposes an annual Ballpark Fee, ranging from $5,500 to $16,500, for businesses with gross receipts over $5 million. Virginia's Business, Professional, and Occupational License tax ("BPOL") is assessed, at the discretion of the local county, on gross receipts, at varying tax rates depending on the type of industry and the location of the business. The counties in Virginia may also exempt gross receipts for certain types of business activity. For example, Fairfax County exempts gross receipts of software developers, computer hardware and software sales to the federal government, gross receipts received from sales taxed outside the Commonwealth, and certain tax-exempt organizations from the BPOL gross receipts tax. Maryland's gross receipts tax is limited to heavy equipment rental companies and certain utilities.

Green initiatives continue to expand nationwide, and the District is no exception. The District has increased sewer charges for commercial and residential properties with impervious surfaces such as parking lots, driveways, rooftops, etc. The additional sewer charge is based on the square footage area

TAX RATES (Continued)

on property deemed to be impenetrable and therefore contributing more to storm water runoff. The rate of $9.57 per equivalent residential unit or ERU applies to both residential and commercial properties. The District will reduce the rate for the property in which the owner has installed rain barrels, rain gardens, and other storm water management features. The District is also in the process of implementing green credits for property owners who create water containment areas or retention ponds.

See Exhibit 9 for a table of tax rates for the six jurisdictions represented in the case studies.

STATE AND LOCAL ADJUSTMENTS TO TAXABLE INCOME

State and local governments generally adopt and follow the federal rules for calculating taxable income. The Internal Revenue Service rules and regulations determine when and if revenue and expenses are included in the measurement of federal taxable income. The District, Maryland, and Virginia, use federal taxable income as the starting point in determining the taxable income of businesses in their jurisdictions, but can also make adjustments to the federal taxable income to determine the amount of business income subject to state and local taxes.

A common adjustment is made for depreciation deductions. To encourage spending on capital expenditures, Congress changed the tax law to allow generous depreciation deductions and expensing elections in the year the property is purchased. In response, the District and most states, including Maryland and Virginia, have adopted their own methods of calculating allowable depreciation deductions.

Other federal and state adjustments cause permanent differences, usually because a business expense is deductible by IRS rules, but denied on state and local tax returns.

In the case studies presented in this report, only permanent differences that exist between the District, Maryland, and Virginia, and the federal rules are considered. While temporary timing differences may cause a business to have more or less taxable income in any one year, in the long run these deductions do not create a permanent difference in the amount of income subject to state and federal taxation.

CHOICE OF ENTITY

The federal government does not tax the income of pass-through entities and thereby makes partnerships, limited liability companies, and S-corporations the preferred entity of choice for many business owners. Instead of taxing the income of these entities directly, the federal tax rules require the income or loss of the business be passed through to the individual owners and included on their personal income tax returns. In contrast, regular C-corporations pay income tax on its profits and the shareholders pay tax on the dividends received from the corporations. The double taxation of profits earned by a C-corporation can make this type of business entity undesirable for privately owned businesses.

The double taxation that occurs with profitable C-corporations makes doing business as a pass-through entity the preferred choice for many businesses. Both Maryland and Virginia follow the federal tax treatment and do not tax these entities, instead allowing the owners to include the income on their state income tax return, thereby avoiding the double income tax.

The District on the other hand, with limited exceptions, does not allow business owned by Maryland and Virginia residents to enjoy the benefits of pass-through entities. Motivated by the Home Rule Charter mandated by Congress in 1973 that prohibits the District from taxing nonresidents, the District has implemented the Unincorporated Business Franchise Tax designed to tax all businesses similarly regardless of its type of entity. The effect is to tax pass-through entities.

For business owners who reside in Maryland, the double taxation is mitigated somewhat by Maryland's allowance of a tax credit against Maryland income tax for income that has already been taxed in the District. For Virginians, no such relief is available. Virginia courts have ruled that the District, due to the Home Rule Charter, is prohibited from taxing Virginia residents and has ruled the Unincorporated Business Franchise tax illegal and therefore not eligible for credit against income taxes owed to the Commonwealth. Thus, Virginians must bear the total weight of two jurisdictions taxing their DC business income.

Under the current DC tax code, an unincorporated business operating in the District or earning income from within the District must pay franchise tax on its income if the annual gross income is greater than $12,000. This has not been adjusted for inflation and thus every year more and more unincorporated businesses may be subjected to the tax.

A few exceptions exist from the unincorporated business franchise tax, among them are unincorporated businesses that generate more than 80% of their gross income from providing personal services. Personal services providers include attorneys, accountants, architects, and similar businesses where gross income is generated from providing personal services and not from capital investment. Qualified high technology companies are also exempt from the unincorporated business franchise tax.

HIGH TECHNOLOGY COMPANY

All three jurisdictions vie for high technology companies. The District does not offer research and development credits which benefit high technology companies, but in order to be more competitive with Northern Virginia and Maryland, the District has implemented other tax incentives for qualifying high technology companies to locate in the District. Among incentives provided by the District to qualified high technology companies ("QHTC") are:

1. Abatement of real estate taxes attributed to new construction and improvements to commercial properties that have 50% or more QHTCs; or properties with at least 50% of its square footage leased to a QHTC.
2. Abatements are available to the building owner or tenant depending on the taxpayer responsible for the real estate taxes.
3. No corporate franchise tax for a period of five years for QHTC certified after December 31, 2011 starting in the year the company has taxable income, increasing to 6% thereafter.
4. Exemption from the unincorporated business franchise tax
5. Tax credits up to $5,000 for each employee transferred to the District.
6. Tax credits up to $7,500 for each employee who moves their residence to the District

To qualify as a QHTC, the company must be located in the District and earn the majority, i.e. at least 51%, of its revenue from qualifying high technology activities. QHTC activities include internet sales and service, including web design, maintenance, hosting, e-commerce, advanced processing technologies, engineering, bio-tech, defense technologies, and electronic and photonic devices, among others. The DC tax code excludes retail businesses, data switching services, professional teams, and businesses located in the DC Ballpark TIF Area.

Virginia also provides tax incentives to high technology companies that develop software applications by exempting their revenue from the BPOL gross receipts tax.

CASE STUDIES

METHODOLOGY

The case studies are intended to quantify and compare the total tax burden for businesses operating in the District of Columbia and neighboring jurisdictions. For these studies, we selected the neighboring jurisdictions of Montgomery County and Prince George's County in Maryland and in Virginia, Fairfax County, Arlington County, and the city of Alexandria. The case studies compare the tax burdens among the jurisdictions of (i) a business operating as a C Corporation, (ii) a software developer operating as a C Corporation, and (iii) a professional services firm operating as a pass-through entity.

Because of the complex interaction between graduated and flat tax rates, and other taxes not based on profitability, the case studies all started with the same basic financial assumptions of $30 million in revenues and approximately 8% of net profit before taxes. Using one basic set of assumptions across all the case studies makes it easier to compare the tax burdens among the jurisdictions, and within each jurisdiction, for different types of businesses and choice of business entity.

Since a large percentage of businesses have no taxable income, whether by design or economic circumstances, we also looked at the tax burden for the corporate entity studies assuming no taxable income. This approach illustrates the burden of taxes not always obvious with a large profitable business.

Varying levels of revenue also necessitate adjustments in financial components of the case studies. We identified expenses that vary in response to changes in revenue. Employee compensation and related benefits are correlated with revenues in service industries such as government contractor services, software development companies, and law firms, since all are dependent on human capital to generate revenues. While we agree that revenue and salaries and wages are not perfectly correlated, for purposes of this study we believe that it adequately illustrates the cost of state and local taxes assessed on businesses of varying sizes.

The cost of rental space, along with taxes, is a major consideration in selecting a business location. This is especially true in the DC Metropolitan area where the cost per square foot of office space can range from $18 in Prince George's County, Maryland to $55 in the District. Real estate taxes, which contribute to the total cost of leasing or owning commercial office space, is affected by the property's value and supplemental tax rates for business improvement districts, transportation, and infrastructure.

In order to assess the tax cost differences between jurisdictions, rental costs were assumed to be the same in each case in order to isolate what the difference in the tax structure and cost of the three jurisdictions would be assuming income levels consistently applied in all jurisdictions. In Case Study 2: Software Developer, we introduce real estate costs on an after-tax basis into the calculations in an attempt to measure the effect of office rent costs in each jurisdiction and to provide a more complete and realistic cost burden for each location. Location decisions involve multiple factors that go well beyond just cost, thus we make no assessment of other intangible benefits associated with each area.

METHODOLOGY (Continued)

The case studies also consider a businesses' ownership structure. As previously mentioned in the discussion on choice of entity, Maryland and Virginia follow the federal government's tax treatment of pass-through entities. With some exceptions, the District does not recognize pass-through entities. Because the District taxes pass-through entities differently from Maryland and Virginia, a professional services business operating as a pass-through entity is presented as a case study.

Overall business assumptions were made for presentation of the case studies:

1. Operates at a profit with gross revenues of $30M and net profit before taxes of approx. 8%.
2. Investment in business personal property (software, computer equipment, and furniture) is assumed to be $2.4M and purchased over a ten-year period. See Exhibit 8 for the calculation of the personal property assessment for each jurisdiction.
3. Base of operations located in one jurisdiction.
4. Differences among the jurisdictions for decoupling adjustments caused by temporary timing differences, including bonus depreciation and IRC Sec. 179 expensing elections, are not considered.
5. Only state and local tax differentials among the jurisdictions are considered. Other factors, such as differences in cost of utilities and other similar items are not considered.
6. Commercial rental rates for office space are based on *Cassidy Turley Survey of Office Space, Second Quarter 2013*. The cost of rent used in the case studies assumes there are no free-rent periods or other allowances.
7. Current tax rates in effect as of July 31, 2013.
8. Maximum tax rates were assumed without adjustment for any graduated rates, personal exemptions, or negotiated rate reduction.
9. Other than the ones specific to a high technology business, tax credits were not considered.

Case Study I: Corporate Business

COMPANY PROFILE

Exhibits 2 and 3: Corporate business operating as a C-corporation in one jurisdiction (Case Study IA and IB) and in multiple jurisdictions (Case Study IC)

TAX SUMMARY

The District is competitive with Arlington County and the City of Fairfax on a total tax basis. Even though the higher tax rate in the District produces the highest tax on income, the greater tax burden is offset by savings in the gross receipts tax. The District's Ballpark Fee of $16,500 is modest in this case compared to Virginia's BPOL gross receipts tax which ranges from $93,000 in Fairfax County to $108,000 in Arlington County.

The District is much more competitive than its neighbors in assessing personal property taxes due in part to the exemption from tax of the first $225,000 of assessed property value. The District also has a lower personal property tax rate than its Virginia counterparts. The District also contends well against Maryland counties even though the District's personal property tax rate is higher, due to the District's greater depreciation allowance in computing the assessed value. See Exhibit 8 for the calculation of the assessed value in each jurisdiction used in the case studies.

In the modified Case Study IC, where the corporate business does not generate taxable income, the District compares favorably with Virginia because of the Commonwealth's BPOL tax, but not as favorably as Maryland because of the District's Ballpark Fee.

This case was expanded to consider the tax burden on corporations that have one location, but do business in the DC metropolitan area. In each scenario, the company is physically located in one jurisdiction but has sufficient activity in the other jurisdictions to create nexus for tax reporting purposes. Payroll costs and revenues generated are both assumed to be 50% of the total in the jurisdiction where the business is physically located and split equally among the remaining states. For example, if the business is located in the District, 50% of the revenues are assumed to be in DC, 25% split among the Maryland counties and 25% split among the Virginia jurisdictions.

The income before income-based taxes is apportioned among the jurisdictions and taxed accordingly. The apportionment formula, which is the same for DC, MD, and VA, is the average of (i) double-weighted sales (ii) property, and (iii) payroll. Based on these assumptions, 62.5% of the income before income-based taxes will be allocated to the jurisdiction where the business is physical located.

Operating in multiple jurisdictions has the effect of smoothing out the different tax types and rates. At this level of income, a business located in DC and operating under the assumptions presented would have a higher overall tax burden than if the business was located in Maryland or Virginia. However, the maximum total tax difference (between DC and Fairfax County) is slightly less than 1% of the income before taxes.

Case Study II: High Technology Software Developer

COMPANY PROFILE

Exhibit 4: A software developer operating as a C-corporation. The company invests in new software development, and is eligible for federal research and development ("R&D") tax credits. The company occupies 30,000 square feet of office space in its sole location.

TAX SUMMARY

The District's current tax incentives for high-technology companies make the District the location of choice for this industry group. Exhibit 4 shows the effect of the District's current policy of exempting high-technology income from the District's franchise tax for five years starting with the first year of profitable operations. After the five-year period, the business will be subject to a reduced corporate franchise tax rate of 6%, which is less than the 9.975% standard rate.

Virginia's gross receipts tax ("BPOL"), which is administered by the individual counties and local jurisdictions, also make the District more appealing for software developers. Arlington County and the City of Alexandria's BPOL is significantly higher than the District's Ballpark Fee, which is capped at a maximum amount of $16,500. In addition, the Virginia counties assess a personal property tax on the assessed value of tangible property. The District and Maryland counties exempt high-tech companies from the personal property tax.

Maryland and Virginia follow the federal government provisions of providing income tax credits for companies conducting qualified research and development, which includes software development. Based on the assumptions made in this case study about the qualifying expenses, Maryland's R&D credit in the study was $78,996 compared with Virginia's maximum allowable credit of $25,050.

For companies with no taxable income, which could be the case if the entity paid all profits to the owners as compensation, Maryland assessed no taxes. The District has a minimum franchise tax of $1,000 at this level of gross receipts plus the maximum Ballpark Fee of $16,500.

For software developers, the City of Alexandria would create the highest tax burden for profitable companies as well as companies with no taxable income.

REAL ESTATE CONSIDERATIONS

Should high-technology companies take advantage of the District's offer of no franchise tax for a period of five years, plus tax credits for relocating employees to the District? Will the tax savings offset the high cost of real estate in the District?

Exhibit 10, summarizes the rental cost per square foot of office space in the Metropolitan DC area as reported by *Cassidy Turley Survey of Office Space, Washington, DC, Second Quarter 2013*. For this study, we assume that the software development company leases 30,000 square feet of office space in a Class B building.

The table below compares the cost of Class B office space in all jurisdictions and computes the total annual rental cost for 30,000 square feet. At an average rental cost of $42.74 in the District for class B space, the annual rent in the District is the most expensive at $1,282,200 or $106,850 per month. Prince George's County's rent of $20.13 per square foot was the lowest, with annual rent for the 30,000 square feet of $20.13 of $603,900 per year or $50,325 per month.

Since Prince George's County has the lowest rent cost, it was used as a base to measure the rent premium incurred in the other jurisdictions. To assess the true cost of the additional rent premium, the federal and state income tax savings associated with the additional rent premiums need to be considered.

In the District, the $678,300 added rent premium cost is reduced by the federal tax savings generated by the increased deduction. At a federal tax rate of 34%, the federal tax savings would be $230,622, which brings the net after-tax rent premium to $447,678, the highest of the group. Although the software developer has the lowest tax burden in the District, when the premium cost of real estate is factored in, only Arlington County has a higher combined after-tax rent premium and state/local tax burden.

Real estate cost analysis:

	DC	MD		VA		
Real Estate Cost Analysis		MG	PG	FX	AR	AL
Office space requirement in sq. ft.	30,000	30,000	30,000	30,000	30,000	30,000
Class B market rent	42.74	23.71	20.13	26.64	39.67	28.61
Annual rent	$ 1,282,200	$ 711,300	$ 603,900	$ 799,200	$1,190,100	$ 858,300
Base rent (PG County)	603,900	603,900	603,900	603,900	603,900	603,900
Premium rent	678,300	107,400	-	195,300	586,200	254,400
Less reduction in income taxes						
Federal @ 34%	(230,622)	(36,516)	-	(66,402)	(199,308)	(86,496)
State and local	-	(8,861)	-	(11,718)	(35,172)	(15,264)
Tax savings on premium rent	(230,622)	(45,377)	-	(78,120)	(234,480)	(101,760)
After tax premium rent	447,678	62,023	-	117,180	351,720	152,640
Total state/local taxes from Exhibit 4	17,500	126,378	126,378	133,962	188,614	236,524
After tax rent premium & tax burden	465,178	188,401	126,378	251,142	540,334	389,164
After tax rent premium & tax burden compared to DC is higher or lower:		(276,777)	(338,800)	(214,036)	75,156	(76,014)

Case Study III: Professional Services Firm

COMPANY PROFILE

Exhibits 5, 6, and 7: Professional services firm recognized as a pass-through-entity for federal income tax purposes.

TAX SUMMARY

Pass-through entities operating in the District and surrounding jurisdictions are faced with the added complication of the different ways these entities and their owners are taxed on business income of the pass-through entity. Maryland and Virginia follow the federal rules of taxation and allow the taxable income or loss from the business to pass-through to the individual business owners who then report the activity on their individual tax returns. Nonresidents of Maryland and Virginia are subject to tax in those states for the business income earned there.

In general, the District does not recognize the federal tax treatment of the pass-through entity and taxes the business entity directly. An S-corporation is taxed the same as a C-Corporation in the District, with entity types filing the tax Form D-20.

An unincorporated business in the District, such as an LLC (limited liability company) or partnership, is subject to the unincorporated business franchise tax and files the tax Form D-30. The D-30 provides for a deduction for personal services rendered by the owners of the business equal to 30% of the taxable income and a $5,000 exemption. These deductions result in a lower franchise tax assessed on an unincorporated business filing a D-30 than on a corporation with the same income before taxes that files a D-20.

A Form D-30 is not required to be filed by an unincorporated business operating in the District if (i) the business has less than $12,000 of gross income, (ii) is by law, custom or ethics, unable to incorporate, (iii) a blind person operating a stand in a federal building, or (iv) a business in which 80% or more of the gross income comes from personal services actually rendered by the owners of the business and capital is not a material income-producing factor.

In the case study for the professional services firm operating as a pass-through entity, three scenarios were prepared to compare the tax burden in the District based on the business operating as (i) an S-corporation filing a Form D-20, (ii) a partnership, LLC or other business relationship taxed as an unincorporated business filing a Form D-30, and (iii) as business with no District tax return filing requirement. The results are the same under all three scenarios for Virginia and Maryland, since they respect the pass-through taxation of these entities.

S-corporation

The non-recognition treatment of S-corporation affects the shareholders differently depending on where they live.

For DC resident shareholders whose S-corporation is operating in the District, there are no significant negative tax consequences. Even though the District will tax the S-corporation's income through the filing of a D-20, District resident shareholders are allowed a deduction on their DC personal income tax return for the S-corporation income already taxed. The result is no double taxation on S-corporation income for District residents.

Maryland and Virginia resident shareholders in a DC based S-corporation do not fare as well.

Maryland resident shareholders must include their portion of a DC based S-corporation on their Maryland tax return, even though the District has already taxed the income. To correct this double tax, Maryland allows its residents to claim a tax credit against Maryland taxes for the taxes paid to DC. The problem is that Maryland currently only allows the credit against Maryland state income taxes, not against the local tax, which is 3.2 % in Montgomery and Prince George's counties. As a result, in our study, Maryland resident shareholders owning an S-corporation operating in the District will pay $76,304 more in total taxes (personal and business) on the income generated by the business than a District resident would and over $106,925 more than if the business would be located in Montgomery County, Maryland.

Virginia resident shareholders fare worse. The Commonwealth does not allow DC taxes as a credit against Virginia income taxes. In this case study, Virginia resident shareholders of a District S-corporation pay $123,432 more in total taxes (personal and business) on the business income than a District resident owner of the same business and $146,494 more than if the business would be located in Fairfax County.

Unincorporated Business

The increase in tax for Virginia and Maryland residents is less in this analysis than it was for the S-corporations filing a D-20, due to the 30% salary reduction and $5,000 exemption on the D-30, which results in a lower franchise tax.

Entities with no DC filing requirements

For unincorporated businesses that meet the 80% personal services threshold, no DC tax is assessed and no DC tax return needs to be filed. In all cases, regardless of the residency of the owners, the income flows through to the owners and taxed in their resident state. In this scenario, Virginia owners with a business in the District not subject to a tax filing requirement fare the best since their personal income tax rate is the lowest and the business avoids the Virginia BPOL tax.

Exhibits 5, 6 and 7, illustrate the varying tax treatment of pass-through entities with owners living in different jurisdictions.

EXHIBIT INDEX:

Exhibit 1: Case Study Summary

Exhibit 2: Case Study Detail I.A and I.B - Corporate Business Single State

Exhibit 3: Case Study Detail I.C - Corporate Business Detail Multistate

Exhibit 4: Case Study Detail II.A and II.B - High Technology (Software Developer)

Exhibit 5: Case Study Detail III.A, III.B, III.C - Professional Service Pass-through Entity filing D-20

Exhibit 6: Case Study Detail III.A (i), III.B (i), III.C (i) - Professional Service Pass-through Entity filing D-30

Exhibit 7: Case Study Detail III.A (ii), III.B (ii), III.C (ii) - Professional Service Pass-through Entity No DC filing requirement

Exhibit 8: Personal Property Schedule

Exhibit 9: Tax Rates

Exhibit 10: Office space rental rates comparison

EXHIBIT 1: Local Business Tax Analysis - Case Study Summary

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Assumptions

Total Revenues:	**$ 30,000,000**	
Income before Taxes:	**$ 2,410,383**	**8.0%**

	Business Location					
		Montgomery County	Prince George's Co.	Fairfax County	Arlington County	City of Alexandria
	DC	MD	MD	VA	VA	VA
I. Corporate Business (C-Corp)						
A. Single State of Operations						
Income/Franchise Tax	$ 237,854	$ 197,281	$ 196,918	$ 138,125	$ 136,976	$ 137,158
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Gross Receipts Tax	16,500	-	-	93,000	108,000	105,000
Total State/Local Taxes	$ 263,738	$ 216,378	$ 220,418	$ 246,432	$ 264,424	$ 261,574
B. Single State of Operations With No Taxable Income						
Income/Franchise Tax	$ 1,000	$ -	$ -	$ -	$ -	$ -
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Gross Receipts Tax	16,500	-	-	93,000	108,000	105,000
Total State/Local Taxes	$ 26,884	$ 19,097	$ 23,500	$ 108,307	$ 127,448	$ 124,416
C. Multiple State of Operations, One Base Location						
Income/Franchise Tax	$ 210,323	$ 192,400	$ 192,042	$ 167,932	$ 167,098	$ 167,208
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Gross Receipts Tax	39,500	31,000	31,000	52,000	59,500	58,000
Total State/Local Taxes	$ 259,207	$ 242,497	$ 246,542	$ 235,239	$ 246,046	$ 244,624
II. High-Tech Company (C-Corp.)						
A. With Taxable Income						
Income/Franchise Tax, net	$ 1,000	$ 126,378	$ 126,378	$ 118,655	$ 115,166	$ 112,108
Personal Property Tax	-	-	-	15,307	19,448	19,416
Gross Receipts Tax	16,500	-	-	-	54,000	105,000
Total State/Local Taxes	$ 17,500	$ 126,378	$ 126,378	$ 133,962	$ 188,614	$ 236,524
DC Rate change in year 6	$ 160,133					
B. With No Taxable Income						
Income/Franchise Tax	$ 1,000	$ -	$ -	$ -	$ -	$ -
Personal Property Tax	-	-	-	15,307	19,448	19,416
Gross Receipts Tax	16,500	-	-	-	54,000	105,000
Total State/Local Taxes	$ 17,500	$ -	$ -	$ 15,307	$ 73,448	$ 124,416
III. Pass-Through Entity (Filing D-20)						
A. Owned 100% by DC Residents						
Entity Level Taxes	$ 263,738	$ 19,097	$ 23,500	$ 108,307	$ 127,448	$ 124,416
Individual Level Taxes	0	214,020	213,626	206,036	204,323	204,594
Total State/Local Taxes	$ 263,738	$ 233,117	$ 237,126	$ 314,343	$ 331,771	$ 329,010
i. If Filing Form D-30	$ 256,354	No Change	No Change	No Change	No Change	No Change
ii. No DC filing requirement	$ 239,297	No Change	No Change	No Change	No Change	No Change
B. Owned 100% by MD Residents						
Entity Level Taxes	$ 263,738	$ 19,097	$ 23,500	$ 108,307	$ 127,448	$ 124,416
Individual Level Taxes	76,304	214,020	213,626	206,036	204,323	204,594
Total State/Local Taxes	$ 340,042	$ 233,117	$ 237,126	$ 314,343	$ 331,771	$ 329,010
i. If Filing Form D-30	$ 268,187	No Change	No Change	No Change	No Change	No Change
ii. No DC filing requirement	$ 239,297	No Change	No Change	No Change	No Change	No Change
C. Owned 100% by VA Residents						
Entity Level Taxes	$ 263,738	$ 19,097	$ 23,500	$ 108,307	$ 127,448	$ 124,416
Individual Level Taxes	123,432	167,390	167,082	132,369	131,269	131,443
Total State/Local Taxes	$ 387,170	$ 186,487	$ 190,582	$ 240,676	$ 258,717	$ 255,859
i. If Filing Form D-30	$ 319,447	No Change	No Change	No Change	No Change	No Change
ii. No DC filing requirement	$ 162,993	No Change	No Change	No Change	No Change	No Change

Draft

EXHIBIT 2: Local Business Analysis - Case Study Detail IA and IB
Corporate Business - Single State Operations

Assumptions		
Total Revenues:	**$ 30,000,000**	
Income before Taxes:	**$ 2,410,383**	**8.0%**

	DC	Montgomery County MD	Prince George's Co. MD	Fairfax County VA	Arlington County VA	City of Alexandria VA
IA. Results - With Taxable Income						
Income/Franchise Tax	$ 237,854	$ 197,281	$ 196,918	$ 138,125	$ 136,976	$ 137,158
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Gross Receipts Tax	16,500	-	-	93,000	108,000	105,000
Total State/Local Taxes	$ 263,738	$ 216,378	$ 220,418	$ 246,432	$ 264,424	$ 261,574
Compared to DC - Taxes are higher or (lower):		$ (47,360)	$ (43,320)	$ (17,306)	$ 686	$ (2,164)
Tax Cost/(Savings) as % of Income before taxes:		-1.96%	-1.80%	-0.72%	0.03%	-0.09%
IB. Results - With No Taxable Income						
Income/Franchise Tax	$ 1,000	$ -	$ -	$ -	$ -	$ -
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Gross Receipts Tax	16,500	-	-	93,000	108,000	105,000
Total State/Local Taxes	$ 26,884	$ 19,097	$ 23,500	$ 108,307	$ 127,448	$ 124,416
Compared to DC - Taxes are higher or (lower):		$ (7,787)	$ (3,384)	$ 81,423	$ 100,564	$ 97,532
Tax Cost/(Savings) as % of Income before taxes:		-0.32%	-0.14%	3.38%	4.17%	4.05%

Supporting Analysis

	DC	Montgomery County MD	Prince George's Co. MD	Fairfax County VA	Arlington County VA	City of Alexandria VA
Income Before Taxes						
Gross Revenues	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 30,000,000
Operating Expenses	(27,240,000)	(27,240,000)	(27,240,000)	(27,240,000)	(27,240,000)	(27,240,000)
Depreciation	(349,617)	(349,617)	(349,617)	(349,617)	(349,617)	(349,617)
	2,410,383	2,410,383	2,410,383	2,410,383	2,410,383	2,410,383
State Business Taxes						
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Ballpark Fee (DC)	16,500	0	0	0	0	0
Business License (VA)	0	0	0	93,000	108,000	105,000
	25,884	19,097	23,500	108,307	127,448	124,416
State Taxable Income	$ 2,384,499	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
State Income / Franchise Tax	$ 237,854	$ 197,281	$ 196,918	$ 138,125	$ 136,976	$ 137,158

Draft

EXHIBIT 3: Local Business Tax Analysis - Case Study Detail IC
Corporate Business - Multi-State Operations

The following analysis was prepared to analyze the total state tax obligation for a corporate business generating revenues in all three states, but having only one base of operations. The assumptions made are as follows:

- Business is a "C" Corporation and files Federal tax Form 1120.
- There is only one central place of operations (the "base"). All property is apportioned to the base.
- Payroll and Sales are apportioned 50% to the base jurisdiction and 25% to each of the other jurisdictions (DC,MD,VA)

Total Revenues:	**$ 30,000,000**	
Income before Taxes:	**$ 2,410,383**	**8.0%**

	DC	Montgomery County MD	Prince George's Co. MD	Fairfax County VA	Arlington County VA	City of Alexandria VA	TOTAL
1. DC Base							
Income/Franchise Tax	$ 147,225	$ 18,265	$ 18,265	$ 8,856	$ 8,856	$ 8,856	$ 210,323
Personal Property Tax	9,384	-	-	-	-	-	9,384
Gross Receipts Tax	14,000	-	-	7,750	9,000	8,750	39,500
Total State/Local Taxes	$ 170,609	$ 18,265	$ 18,265	$ 16,606	$ 17,856	$ 17,606	$ 259,207
2. MD Base (Montgomery)							
Income/Franchise Tax	$ 44,145	$ 121,702	$ -	$ 8,851	$ 8,851	$ 8,851	$ 192,400
Personal Property Tax	-	19,097	-	-	-	-	19,097
Gross Receipts Tax	5,500	-	-	7,750	9,000	8,750	31,000
Total State/Local Taxes	$ 49,645	$ 140,799	$ -	$ 16,601	$ 17,851	$ 17,601	$ 242,497
3. MD Base (Prince George's)							
Income/Franchise Tax	$ 44,062	$ -	$ 121,475	$ 8,835	$ 8,835	$ 8,835	$ 192,042
Personal Property Tax	-	-	23,500	-	-	-	23,500
Gross Receipts Tax	5,500	-	-	7,750	9,000	8,750	31,000
Total State/Local Taxes	$ 49,562	$ -	$ 144,975	$ 16,585	$ 17,835	$ 17,585	$ 246,542
4. VA Base (Fairfax County)							
Income/Franchise Tax	$ 43,823	$ 18,122	$ 18,122	$ 87,865	$ -	$ -	$ 167,932
Personal Property Tax	-	-	-	15,307	-	-	15,307
Gross Receipts Tax	5,500	-	-	46,500	-	-	52,000
Total State/Local Taxes	$ 49,323	$ 18,122	$ 18,122	$ 149,672	$ -	$ -	$ 235,239
5. VA Base (Arlington County)							
Income/Franchise Tax	$ 43,605	$ 18,032	$ 18,032	$ -	$ 87,429	$ -	$ 167,098
Personal Property Tax	-	-	-	-	19,448	-	19,448
Gross Receipts Tax	5,500	-	-	-	54,000	-	59,500
Total State/Local Taxes	$ 49,105	$ 18,032	$ 18,032	$ -	$ 160,877	$ -	$ 246,046
6. VA Base (City of Alexandria)							
Income/Franchise Tax	$ 43,634	$ 18,044	$ 18,044	$ -	$ -	$ 87,486	$ 167,208
Personal Property Tax	-	-	-	-	-	19,416	19,416
Gross Receipts Tax	5,500	-	-	-	-	52,500	58,000
Total State/Local Taxes	$ 49,134	$ 18,044	$ 18,044	$ -	$ -	$ 159,402	$ 244,624

EXHIBIT 4: Local Business Tax Analysis - Case Study Detail IIA and IIB

High Technology (Software Developer) - Single State Operations

Assumptions		
Total Revenues:	**$ 30,000,000**	
Income before Taxes:	**$ 2,410,383**	**8.0%**
Tax Credits:		
Est. Base Expenditures	**$ 817,200**	**3% of operating expenses**
Est. Excess Expenditures	**$ 544,800**	**2% of operating expenses**

	Years 1-5 DC	Years 6+ DC	Montgomery County MD	Prince George's Co. MD	Fairfax County VA	Arlington County VA	City of Alexandria VA
A. Results - With Taxable Income							
Income/Franchise Tax	$ 238,790	$ 238,790	$ 205,374	$ 205,374	$ 143,705	$ 140,216	$ 137,158
Tax Reduction (DC)/Credits	(237,790)	(95,157)	(78,996)	(78,996)	(25,050)	(25,050)	(25,050)
Personal Property Tax	-	-	-	-	15,307	19,448	19,416
Gross Receipts Tax	16,500	16,500	-	-	-	54,000	105,000
Total State/Local Taxes	$ 17,500	$ 160,133	$ 126,378	$ 126,378	$ 133,962	$ 188,614	$ 236,524
Years 1-5: Compared to DC - Taxes are higher or (lower):			$ 108,878	$ 108,878	$ 116,462	$ 171,114	$ 219,024
Years 6+: Compared to DC - Taxes are higher or (lower):			$ (33,755)	$ (33,755)	$ (26,171)	$ 28,481	$ 76,391
B. Results - With No Taxable Income							
Income/Franchise Tax	$ 1,000		$ -	$ -	$ -	$ -	$ -
Personal Property Tax	-		-	-	15,307	19,448	19,416
Gross Receipts Tax	16,500		-	-	-	54,000	105,000
Total State/Local Taxes	$ 17,500		$ -	$ -	$ 15,307	$ 73,448	$ 124,416
Years 1-5: Compared to DC - Taxes are higher or (lower):			$ (17,500)	$ (17,500)	$ (2,193)	$ 55,948	$ 106,916

Supporting Analysis							
Income Before Taxes							
Gross Revenues	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 30,000,000
Operating Expenses	(27,240,000)	(27,240,000)	(27,240,000)	(27,240,000)	(27,240,000)	(27,240,000)	(27,240,000)
Depreciation	(349,617)	(349,617)	(349,617)	(349,617)	(349,617)	(349,617)	(349,617)
MD R&D Tax Credit Add-Back	-	-	78,996	78,996	-	-	-
	2,410,383	2,410,383	2,489,379	2,489,379	2,410,383	2,410,383	2,410,383
State Business Taxes							
Personal Property Tax	-	-	-	-	15,307	19,448	19,416
Ballpark Fee (DC)	16,500	16,500	-	-	0	0	0
Business License (VA) - Note 1	-	-	-	-	0	54,000	105,000
	16,500	16,500	-	-	15,307	73,448	124,416
State Taxable Income	$ 2,393,883	$ 2,393,883	$ 2,489,379	$ 2,489,379	$ 2,395,076	$ 2,336,935	$ 2,285,967
State Income / Franchise Tax	$ 238,790	$ 238,790	$ 205,374	$ 205,374	$ 143,705	$ 140,216	$ 137,158

Notes:

1) Arlington County assumed to have between 200 and 500 employees (for lower BPOL rate)

2) Qualified High Technology Companies in the District are exempt from the franchise tax for five years, beginning with the first year of taxable income. After the 5-year exemption, they are taxed at the reduced rate of 6%.

Draft

EXHIBIT 5: Local Business Tax Analysis - Case Study Detail IIIA,B, and C
Professional Services Pass-Through Entity (PTE) Filing a D-20 (S Corporation)

Assumptions		
Total Revenues:	$ 30,000,000	
Income before Taxes:	$ 2,410,383	8.0%

	Business Location					
	DC	Montgomery County MD	Prince George's Co. MD	Fairfax County VA	Arlington County VA	City of Alexandria VA
A. Results - Owned 100% by DC Residents						
DC Resident Taxable Income	$ 2,146,645	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
Entity Level Taxes Paid (Incl. Withholding)						
Income/Franchise Tax	$ 237,854	$ -	$ -	$ -	$ -	$ -
Non-Resident Withholding	-	167,390	167,082	115,104	114,147	114,298
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Gross Receipts Tax	16,500	-	-	93,000	108,000	105,000
Paid by Entity	263,738	186,487	190,582	223,411	241,595	238,714
Individual Level Taxes (DC Resident)						
Non-Resident Tax	-	167,390	167,082	132,369	131,269	131,443
Taxes Withheld (entity level)	-	(167,390)	(167,082)	(115,104)	(114,147)	(114,298)
DC Tax on Entity Income	-	214,020	213,626	206,036	204,323	204,594
Tax Credit	-	(167,390)	(167,082)	(132,369)	(131,269)	(131,443)
Paid by Individual	-	46,630	46,544	90,932	90,176	90,296
Total Combined Taxes	$ 263,738	$ 233,117	$ 237,126	$ 314,343	$ 331,771	$ 329,010
B. Results - Owned 100% by MD Residents						
MD Resident Taxable Income:	$ 2,384,499	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
Entity Level Taxes Paid (Incl. Withholding)						
Income/Franchise Tax	$ 237,854	$ -	$ -	$ -	$ -	$ -
Non-Resident Withholding	-	-	-	115,104	114,147	114,298
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Ballpark Fee (DC)	16,500	-		-	-	-
Business License (VA)	-	-	-	93,000	108,000	105,000
Paid by Entity	263,738	19,097	23,500	223,411	241,595	238,714
Individual Level Taxes (MD Resident)						
Non-Resident Tax	-	-	-	132,369	131,269	131,443
Taxes Withheld (entity level)	-	-	-	(115,104)	(114,147)	(114,298)
MD Tax on Entity Income	213,413	214,020	213,626	206,036	204,323	204,594
Tax Credit (State portion only)	(137,109)	-	-	(132,369)	(131,269)	(131,443)
Paid by Individual	76,304	214,020	213,626	90,932	90,176	90,296
Total Combined Taxes	$ 340,042	$ 233,117	$ 237,126	$ 314,343	$ 331,771	$ 329,010
C. Results - Owned 100% by VA Residents						
VA Resident Taxable Income:	$ 2,146,645	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
Entity Level Taxes Paid (Incl. Withholding)						
Income/Franchise Tax	$ 237,854	$ -	$ -	$ -	$ -	$ -
Non-Resident Withholding	-	167,390	167,082	-	-	-
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Ballpark Fee (DC)	16,500	-	-	-	-	-
Business License (VA)	-	-	-	93,000	108,000	105,000
Paid by Entity	263,738	186,487	190,582	108,307	127,448	124,416
Individual Level Taxes (VA Resident)						
Non-Resident Tax	-	167,390	167,082	-	-	-
Taxes Withheld (entity level)	-	(167,390)	(167,082)	-	-	-
VA Tax on Entity Income	123,432	137,499	137,246	132,369	131,269	131,443
Tax Credit	-	(137,499)	(137,246)	-	-	-
Paid by Individual	123,432	-	-	132,369	131,269	131,443
Total Combined Taxes	$ 387,170	$ 186,487	$ 190,582	$ 240,676	$ 258,717	$ 255,859

Draft

EXHIBIT 6: Local Business Tax Analysis - Case Study Detail IIIA(i),B(i), and C(i)
Professional Services Pass-Through Entity (PTE) Filing a D-30 (LLC or P'ship)

Assumptions		
Total Revenues:	$ 30,000,000	
Income before Taxes:	$ 2,410,383	8.0%
DC Salary Deduction/Exemption:	$ 720,350	

	Business Location					
	DC	Montgomery County MD	Prince George's Co. MD	Fairfax County VA	Arlington County VA	City of Alexandria VA
A. Results - Owned 100% by DC Residents						
DC Resident Taxable Income	$ 720,350	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
Entity Level Taxes Paid (Incl. Withholding)						
Income/Franchise Tax	$ 165,999	$ -	$ -	$ -	$ -	$ -
Non-Resident Withholding	-	167,390	167,082	115,104	114,147	114,298
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Gross Receipts Tax	16,500	-	-	93,000	108,000	105,000
Paid by Entity	191,883	186,487	190,582	223,411	241,595	238,714
Individual Level Taxes (DC Resident)						
Non-Resident Tax	-	167,390	167,082	132,369	131,269	131,443
Taxes Withheld (entity level)	-	(167,390)	(167,082)	(115,104)	(114,147)	(114,298)
DC Tax on Entity Income	64,471	214,020	213,626	206,036	204,323	204,594
Tax Credit	-	(167,390)	(167,082)	(132,369)	(131,269)	(131,443)
Paid by Individual	64,471	46,630	46,544	90,932	90,176	90,296
Total Combined Taxes	$ 256,354	$ 233,117	$ 237,126	$ 314,343	$ 331,771	$ 329,010
B. Results - Owned 100% by MD Residents						
MD Resident Taxable Income:	$ 2,384,499	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
Entity Level Taxes Paid (Incl. Withholding)						
Income/Franchise Tax	$ 165,999	$ -	$ -	$ -	$ -	$ -
Non-Resident Withholding	-	-	-	115,104	114,147	114,298
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Ballpark Fee (DC)	16,500	-		-	-	-
Business License (VA)	-	-	-	93,000	108,000	105,000
Paid by Entity	191,883	19,097	23,500	223,411	241,595	238,714
Individual Level Taxes (MD Resident)						
Non-Resident Tax	-	-	-	132,369	131,269	131,443
Taxes Withheld (entity level)	-	-	-	(115,104)	(114,147)	(114,298)
MD Tax on Entity Income	213,413	214,020	213,626	206,036	204,323	204,594
Tax Credit (State portion only)	(137,109)	-	-	(132,369)	(131,269)	(131,443)
Paid by Individual	76,304	214,020	213,626	90,932	90,176	90,296
Total Combined Taxes	$ 268,187	$ 233,117	$ 237,126	$ 314,343	$ 331,771	$ 329,010
C. Results - Owned 100% by VA Residents						
VA Resident Taxable Income	$ 2,218,500	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
Entity Level Taxes Paid (Incl. Withholding)						
Income/Franchise Tax	$ 165,999	$ -	$ -	$ -	$ -	$ -
Non-Resident Withholding	-	167,390	167,082	-	-	-
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Ballpark Fee (DC)	16,500	-	-	-	-	-
Business License (VA)	-	-	-	93,000	108,000	105,000
Paid by Entity	191,883	186,487	190,582	108,307	127,448	124,416
Individual Level Taxes (VA Resident)						
Non-Resident Tax	-	167,390	167,082	-	-	-
Taxes Withheld (entity level)	-	(167,390)	(167,082)	-	-	-
VA Tax on Entity Income	127,564	137,499	137,246	132,369	131,269	131,443
Tax Credit	-	(137,499)	(137,246)	-	-	-
Paid by Individual	127,564	-	-	132,369	131,269	131,443
Total Combined Taxes	$ 319,447	$ 186,487	$ 190,582	$ 240,676	$ 258,717	$ 255,859

Draft

EXHIBIT 7: Local Business Tax Analysis - Case Study Detail IIIA(ii),B(ii), and C(ii)
Professional Services Pass-Through Entity (PTE) with no DC Filing Requirement

Assumptions		
Total Revenues:	$ 30,000,000	
Income before Taxes:	$ 2,410,383	8.0%

	Business Location					
	DC	Montgomery County MD	Prince George's Co. MD	Fairfax County VA	Arlington County VA	City of Alexandria VA
A. Results - Owned 100% by DC Residents						
DC Resident Taxable Income	$ 2,384,499	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
Entity Level Taxes Paid (Incl. Withholding)						
Income/Franchise Tax	$ -	$ -	$ -	$ -	$ -	$ -
Non-Resident Withholding	-	167,390	167,082	115,104	114,147	114,298
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Gross Receipts Tax	16,500	-	-	93,000	108,000	105,000
Paid by Entity	25,884	186,487	190,582	223,411	241,595	238,714
Individual Level Taxes (DC Resident)						
Non-Resident Tax	-	167,390	167,082	132,369	131,269	131,443
Taxes Withheld (entity level)	-	(167,390)	(167,082)	(115,104)	(114,147)	(114,298)
DC Tax on Entity Income	213,413	214,020	213,626	206,036	204,323	204,594
Tax Credit	-	(167,390)	(167,082)	(132,369)	(131,269)	(131,443)
Paid by Individual	213,413	46,630	46,544	90,932	90,176	90,296
Total Combined Taxes	$ 239,297	$ 233,117	$ 237,126	$ 314,343	$ 331,771	$ 329,010
B. Results - Owned 100% by MD Residents						
MD Resident Taxable Income:	$ 2,384,499	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
Entity Level Taxes Paid (Incl. Withholding)						
Income/Franchise Tax	$ -	$ -	$ -	$ -	$ -	$ -
Non-Resident Withholding	-	-	-	115,104	114,147	114,298
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Ballpark Fee (DC)	16,500	-		-	-	-
Business License (VA)	-	-	-	93,000	108,000	105,000
Paid by Entity	25,884	19,097	23,500	223,411	241,595	238,714
Individual Level Taxes (MD Resident)						
Non-Resident Tax	-	-	-	132,369	131,269	131,443
Taxes Withheld (entity level)	-	-	-	(115,104)	(114,147)	(114,298)
MD Tax on Entity Income	213,413	214,020	213,626	206,036	204,323	204,594
Tax Credit (State portion only)	-	-	-	(132,369)	(131,269)	(131,443)
Paid by Individual	213,413	214,020	213,626	90,932	90,176	90,296
Total Combined Taxes	$ 239,297	$ 233,117	$ 237,126	$ 314,343	$ 331,771	$ 329,010
C. Results - Owned 100% by VA Residents						
VA Resident Taxable Income:	$ 2,384,499	$ 2,391,286	$ 2,386,883	$ 2,302,076	$ 2,282,935	$ 2,285,967
Entity Level Taxes Paid (Incl. Withholding)						
Income/Franchise Tax	$ -	$ -	$ -	$ -	$ -	$ -
Non-Resident Withholding	-	167,390	167,082	-	-	-
Personal Property Tax	9,384	19,097	23,500	15,307	19,448	19,416
Ballpark Fee (DC)	16,500	-	-	-	-	-
Business License (VA)	-	-	-	93,000	108,000	105,000
Paid by Entity	25,884	186,487	190,582	108,307	127,448	124,416
Individual Level Taxes (VA Resident)						
Non-Resident Tax	-	167,390	167,082	-	-	-
Taxes Withheld (entity level)	-	(167,390)	(167,082)	-	-	-
VA Tax on Entity Income	137,109	137,499	137,246	132,369	131,269	131,443
Tax Credit	-	(137,499)	(137,246)	-	-	-
Paid by Individual	137,109	-	-	132,369	131,269	131,443
Total Combined Taxes	$ 162,993	$ 186,487	$ 190,582	$ 240,676	$ 258,717	$ 255,859

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EXHIBIT 8: Local Business Tax Analysis - Personal Property Schedule

I. Business Personal Property

The case studies asssume that a business will have a total investment in personal property equipment and software equal to 8% of gross revenues (4% software, 3% computer equipment, and 1% furniture), all acquired within the last 10 years.

	3 year	5 year	7 year
Depreciable Life:	3 year	5 year	7 year
Method/Convention:	SL/HY	M200/HY	M200/HY

Year Acquired	%	Canned Software	Computer Equipment	Office Furniture	Total	Current Year Depreciation
2013	20%	$ 240,000	$ 180,000	$ 60,000	$ 480,000	$ 84,574
2012	15%	180,000	135,000	45,000	360,000	114,221
2011	15%	180,000	135,000	45,000	360,000	93,791
2010	10%	120,000	90,000	30,000	240,000	34,115
2009	10%	120,000	90,000	30,000	240,000	13,047
2008	10%	120,000	90,000	30,000	240,000	7,860
2007	5%	60,000	45,000	15,000	120,000	1,340
2006	5%	60,000	45,000	15,000	120,000	669
2005	5%	60,000	45,000	15,000	120,000	0
2004	5%	60,000	45,000	15,000	120,000	0
	100%	$ 1,200,000	$ 900,000	$ 300,000	$ 2,400,000	$ 349,617

II. Personal Property Assessed Value

The assessed values are computed based on each jurisdication's specific depreciation formula. The jurisdiction tax rate is applied to the assessed value, less any exemptions, to arrive at a the personal property tax expense used in these case studies.

	Personal Property Assessed Value					
Year Acquired	DC	Montgomery County MD	Prince George's County MD	Fairfax County VA	Arlington County	City of Alexandria VA
2013	$ 210,000	$ 348,000	$ 348,000	$ 138,000	$ 165,000	$ 165,000
2012	112,500	162,000	162,000	78,750	92,250	92,250
2011	67,500	63,000	63,000	54,000	67,500	67,500
2010	28,500	39,000	39,000	24,000	24,000	33,000
2009	25,500	36,000	36,000	13,800	13,800	16,500
2008	22,500	33,000	33,000	10,800	10,800	13,500
2007	9,750	15,000	15,000	3,900	3,900	5,250
2006	8,250	14,250	14,250	3,900	3,900	5,250
2005	8,250	14,250	14,250	3,900	3,900	5,250
2004	8,250	14,250	14,250	3,900	3,900	5,250
	$ 501,000	$ 738,750	$ 738,750	$ 334,950	$ 388,950	$ 408,750
	Does not include software	Includes software	Includes software	Does not include software	Does not include software	Does not include software

DC Note: Assets assumed placed in Service Jan. 1 for 1/2 year depreciation taken in the year placed in service.

EXHIBIT 9: Local Business Tax Study - Tax Rates Used in Case Studies

The following taxes, credits, and rates are based on current tax law existing as of July 31, 2013.

				Montgomery County	Prince George's County	Fairfax County	Arlington County	City of Alexandria
			DC	**MD**	**MD**	**VA**	**VA**	**VA**
Corporate Income/Franchise Tax Rate			9.975%	8.25%	8.25%	6.00%	6.00%	6.00%
High-Tech (1)	Years 1 - 5		0.000%					
High-Tech (1)	Years 6+		6.000%					
	Non-Profit		0.000%					
Minimum Tax : Receipts $1M or less			$250					
Minimum Tax : Receipts greater than		$1,000,000	$1,000					
Salary for Owner Services (D-30)			30%					
Exemption (D-30)			$5,000					
R&D Tax Credit (Max. allowed)	Basic Credit %			3.00%		$25,050	$25,050	$25,050
	Growth Credit			10.00%				
BPOL Published Tax Rates (per $100 revenues):								
Corporate Business (Consultant)						$0.31	$0.36	$0.35
Professional Services						$0.31	$0.36	$0.58
R&D (non-govt).						$0.31	$0.18	$0.35
R&D (govt.)						$0.03	$0.18	$0.35
Software Developer						$0.00	$0.18	$0.35
Non-Profit (non-UBIT receipts) (2)						$0.00	$0.00	$0.00
Note: The local jurisdictions have the authority to waive or reduce the BPOL rate.								
Ballpark Fee								
Gross Receipts from	$5,000,000 to	$8,000,000	$5,500					
Gross Receipts from	$8,000,001 to	$12,000,000	$10,800					
Gross Receipts from	$12,000,001 to	$16,000,000	$14,000					
Gross Receipts greater than		$16,000,001	$16,500					
Non-Profit			$0					
Personal Property Taxes:								
Tax Rate (per $100 Assessed Value) (3)			$3.40	$2.585	$3.181	$4.57	$5.00	$4.75
	High-Tech		$0.00	$0.00	$0.00	$4.57	$5.00	$4.75
	Non-Profit (4)		$0.00	$0.00	$0.00	$0.00	$0.00	$4.75
Exemption			$225,000					
Non-Resident Withholding (PTE)				7.00%	7.00%	5.00%	5.00%	5.00%
Non-Resident Individual Rates (Max.)				7.00%	7.00%	5.75%	5.75%	5.75%
Individual Tax Rates (Max) - State			8.95%	5.75%	5.75%	5.75%	5.75%	5.75%
Individual Tax Rates (Max) - County				3.20%	3.20%			

Notes

1. Rate is 0% for the first five years (starting with the first year of taxable income) and is 6% thereafter.
2. Arlington County assesses BPOL on receipts in excess of $2.5M for certain non-profit organizations.
3. Montgomery County Personal Property Tax Rate is for Bethesda Urban District ($1.898 base rate + $.687 special service area tax).
   May also be subject to local tax on personal property.
   Prince George's County Personal Property Tax Rate is for College Park ($2.343 base rate + $.838 town rate)
4. The personal property of Alexandria-based non-profits is generally taxable, with some exceptions.

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EXHIBIT 10: Office Space Rental Rates Comparison

	District		Suburban Maryland			Northern Virginia		
	Central Business District	Other	Bethesda Chevy Chase	Other Montgomery County	Prince Georges County	Arlington	Tysons Corner	Other Fairfax County
Office Space Rent								
Commercial office building market rent per square foot								
Class A	$54.85	$52.77	$42.92	$29.58	$22.92	$42.65	$32.25	$32.94
Class B	$45.17	$42.74	$33.68	$23.71	$20.13	$39.67	$26.64	$29.15
Class C	$39.58	$40.54	$26.75	$20.00	$18.04	$32.54	$26.16	$26.80