

Business Franchise Taxes in the District of Columbia

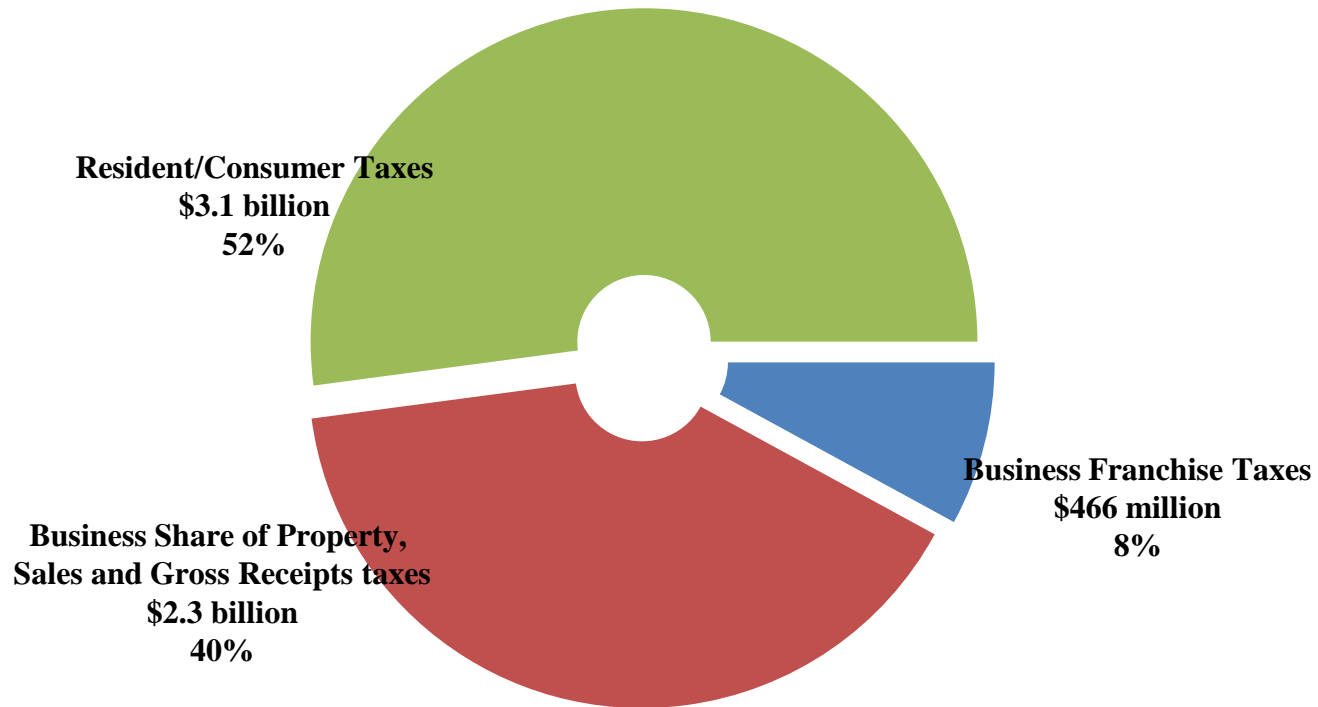
Report to the District of Columbia Tax
Revision Commission

May 6, 2013

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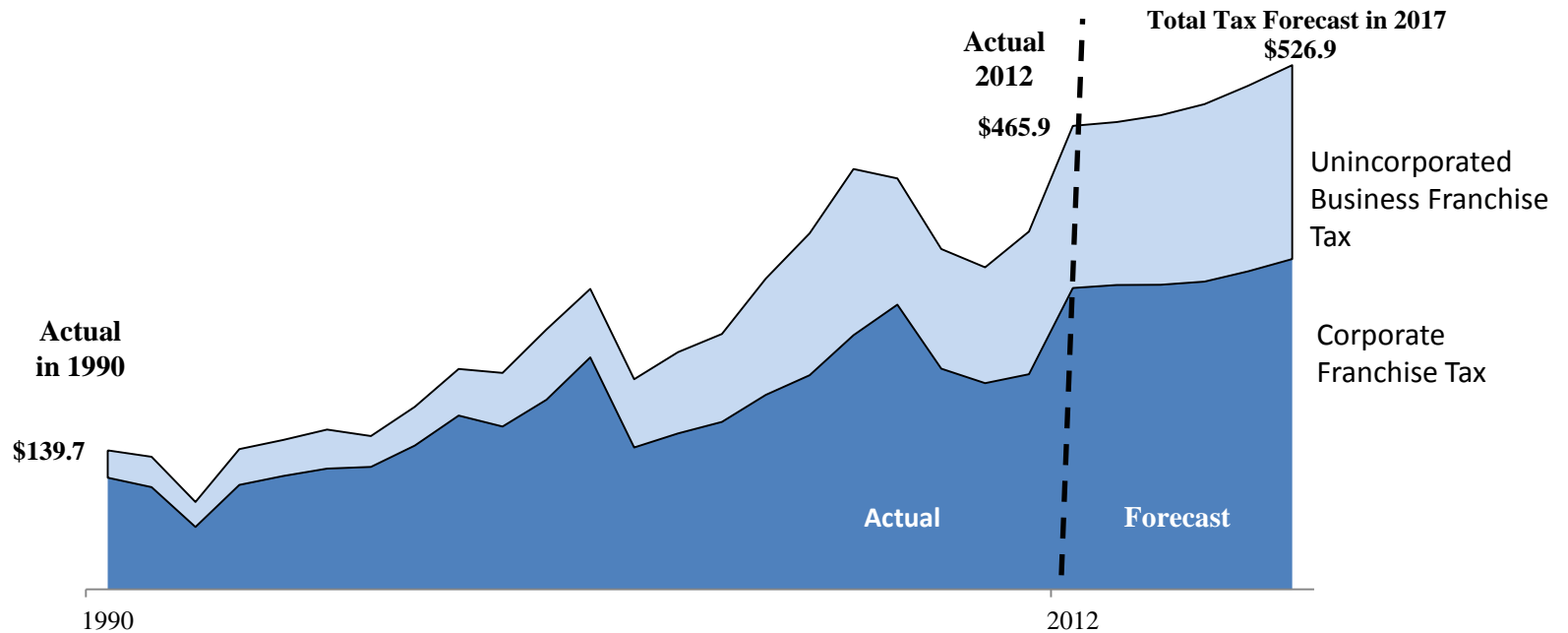
Fiscal Year 2012 General Fund Tax Revenue



Source: Author's analysis of FY 12 revenue from OCFO (2013).
Total tax revenue here refers to gross tax revenue before earmarks
and does not include nontax or lottery revenue.



Business Franchise Taxes in the District



Source: OCFO; Dollars in Millions

Taxing Business Income

- Steps to identify tax liability in the District
 1. Identify the taxpayer: Nexus
 2. Identify the entity and allocate income to the taxpayer: combined reporting
 3. Apportion income to the District: Double weighted sales
 4. Apply rate: 9.975%
 5. Credits

Unincorporated Business Franchise Tax

– Special Features

- All unincorporated businesses with gross receipts greater than \$12,000
 - Residents can deduct income reported on UBFT return from individual income tax return
 - Nonresidents in Maryland qualify for a credit
 - Nonresidents in Virginia do not qualify for a credit
- Prohibition on taxing income of nonresidents
- Other states tax partners' income through individual income tax

Maryland and Virginia

Maryland

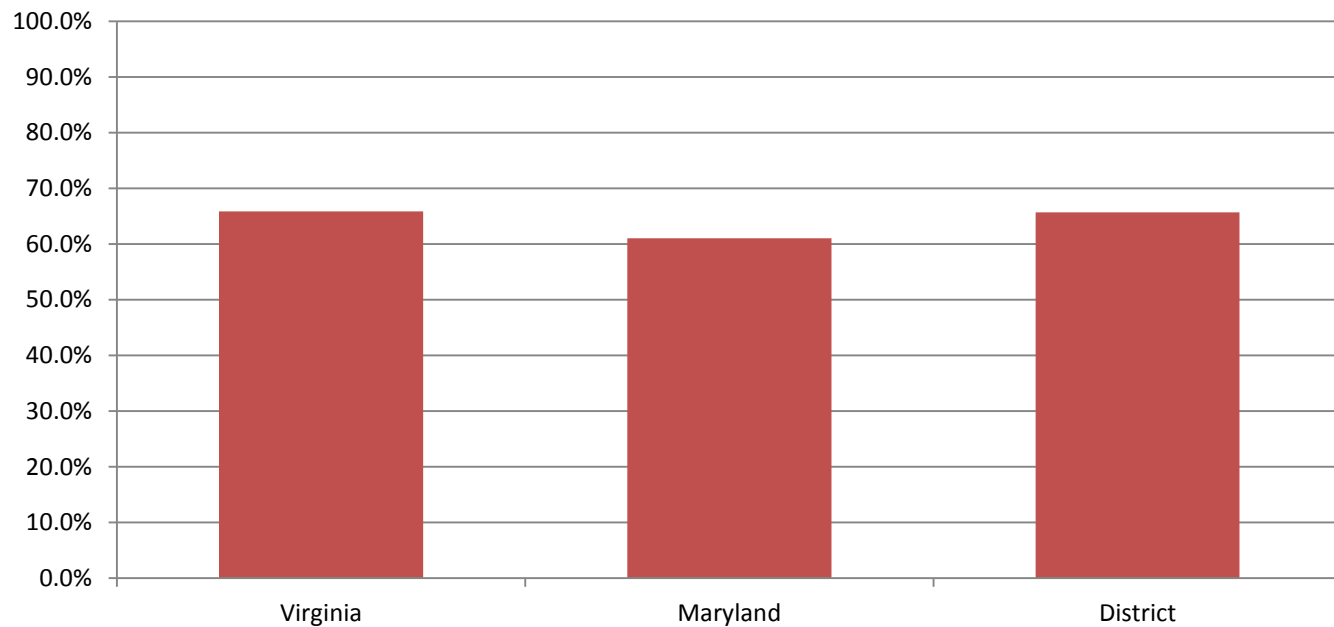
- Corporate income tax
 - Separate entity reporting
 - Rate = 8.25
 - Double weighted sales apportionment factor except manufacturing (single sales factor)
- Partnership income
 - Non resident partners' income taxed at 7% (includes non resident surtax)
- Credit for DC Unincorporated business franchise tax

Virginia

- Corporate income tax
 - Separate entity reporting
 - Rate = 6%
 - Double weighted sales; phasing in single sales for retail and certain manufacturing
- Partnership income
 - Non resident partners' income taxed same as individual income tax (top rate 5.75%)
 - No credit allowed for DC unincorporated business franchise tax
- Local option gross receipts tax

Who Pays the Tax?

Share of Taxpayers with minimum or no tax liability



Who Pays the Tax In the District

Corporate Franchise (CFT) and Unincorporated Franchise (UBFT) Filers - 2009

	CFT		UBFT	
Businesses with Loss	5,667		10,179	
paying minimum	4,774	84%	7,128	70%
paying more than minimum	893		3,051	
Small Business (Gross Receipts <\$500,000)*	5,129		3,329	
paying minimum	3,524	69%	1,818	55%
paying more than minimum	1,605		1,511	
Large Business (Gross Receipts > \$500,000)*	13,882		2,232	
paying minimum	8,099	58%	1,162	52%
paying more than minimum	5,783		1,070	
Total Number of Returns	24,678		15,740	

* Gross receipts before apportionment

Source: ORA



Other Taxes

- Ballpark Fee Receipts

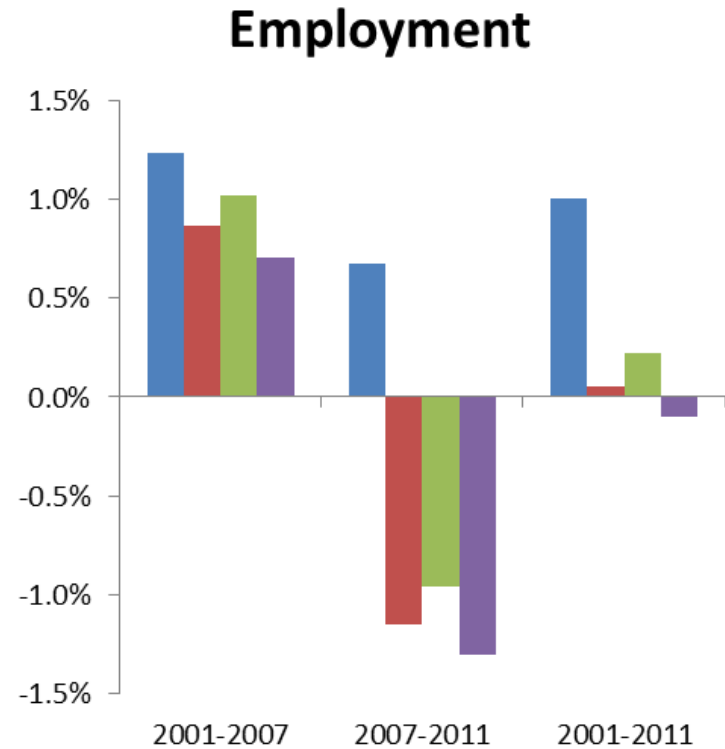
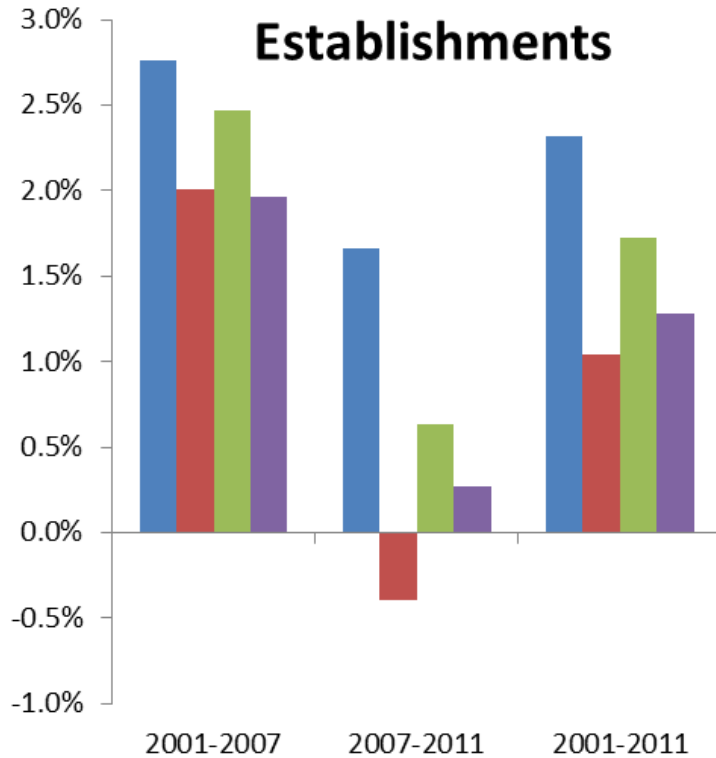
Tier	Fee	# of Returns	2012 Collections
1 \$5,000,000 - \$8,000,000	\$5,500	508	\$3,815,887
2 \$8,000,001 - \$12,000,000	\$10,800	414	\$5,469,764
3 \$12,000,001 - \$16,000,000	\$14,000	226	\$3,958,137
4 Greater than \$16,000,000	\$16,500	807	\$16,402,671
Unattributable			\$3,015,453
	Total:	1,955	\$32,661,912

* Includes approximately \$6.3 million attributable to prior years

Source: OCFO Economic Development Finance

- Personal Property Tax (Equipment tax)

District economic performance



Source: BLS Quarterly Census of Employment and Wages

Number of Businesses

- By Size of Establishment

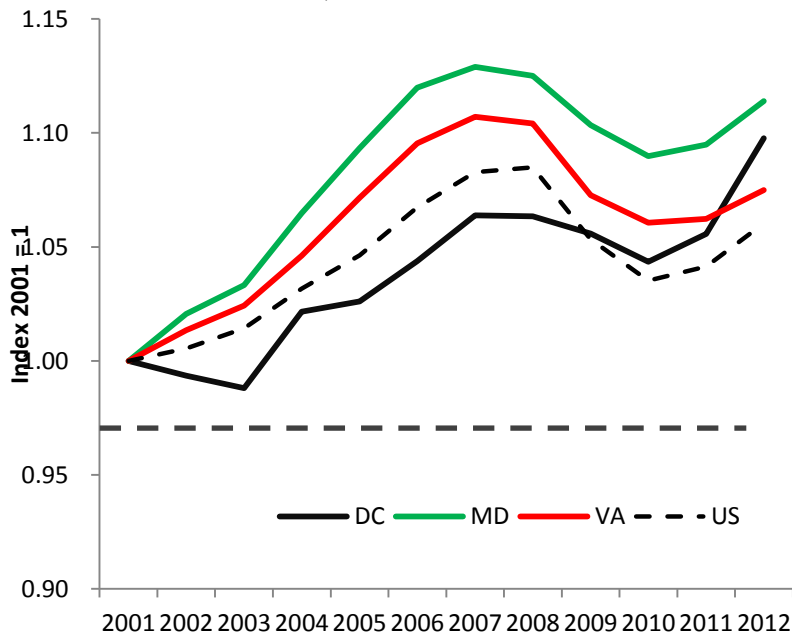
	DC		MD		VA		US	
	Share	Ten Year Average Growth	Share	Ten Year Average Growth	Share	Ten Year Average Growth	Share	Ten Year Average Growth
Total, All Sizes Private		2.8%		0.9%		1.8%		1.3%
Total, Fewer than 5 Private	69.6%	3.6%	61.2%	1.0%	60.8%	2.7%	62.6%	1.8%
Total, 5 to 9 Private	11.3%	0.8%	15.8%	0.7%	15.6%	0.3%	15.5%	0.4%
Total, 10 to 19 Private	8.0%	1.1%	10.9%	1.0%	11.2%	0.8%	10.5%	0.8%
Total, 20 to 49 Private	6.3%	1.3%	7.6%	1.0%	7.9%	0.9%	7.1%	0.5%
Total, 50 to 99 Private	2.4%	1.3%	2.7%	0.6%	2.6%	0.9%	2.4%	0.4%
Total, 100 to 249 Private	1.6%	1.6%	1.5%	0.0%	1.4%	0.7%	1.3%	0.2%
Total, 250 to 499 Private	0.5%	0.2%	0.3%	-0.7%	0.3%	-0.1%	0.3%	-0.1%
Total, 500 to 999 Private	0.2%	0.2%	0.1%	-1.6%	0.1%	-1.9%	0.1%	-0.8%
Total, 1000 and more Private	0.1%	2.3%	0.0%	-3.0%	0.1%	-1.0%	0.1%	-0.6%

Source: BEA Quarterly Census of Employment and Wages;



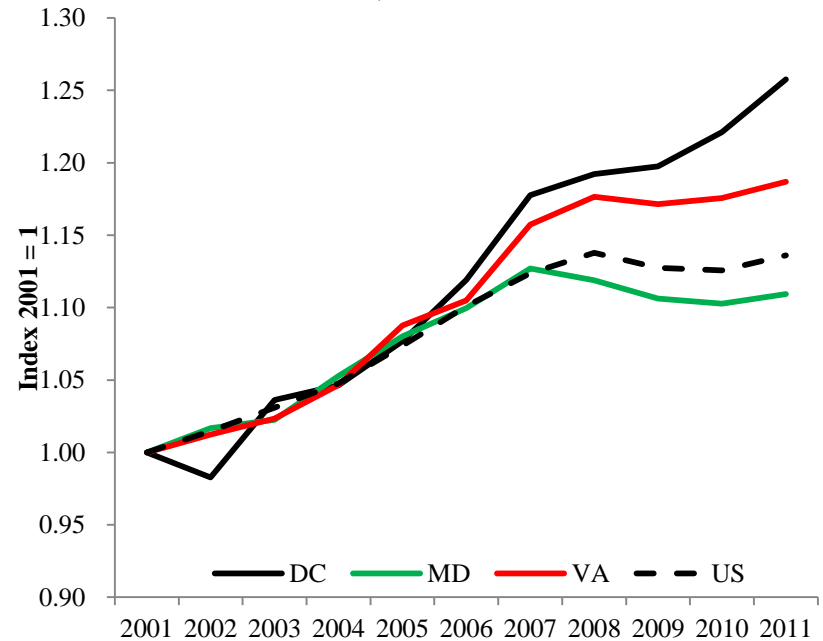
Establishment Growth Comparison

Small Business Employers in DC, MD and VA



Source: BLS; Establishments with 5 to 49 employees

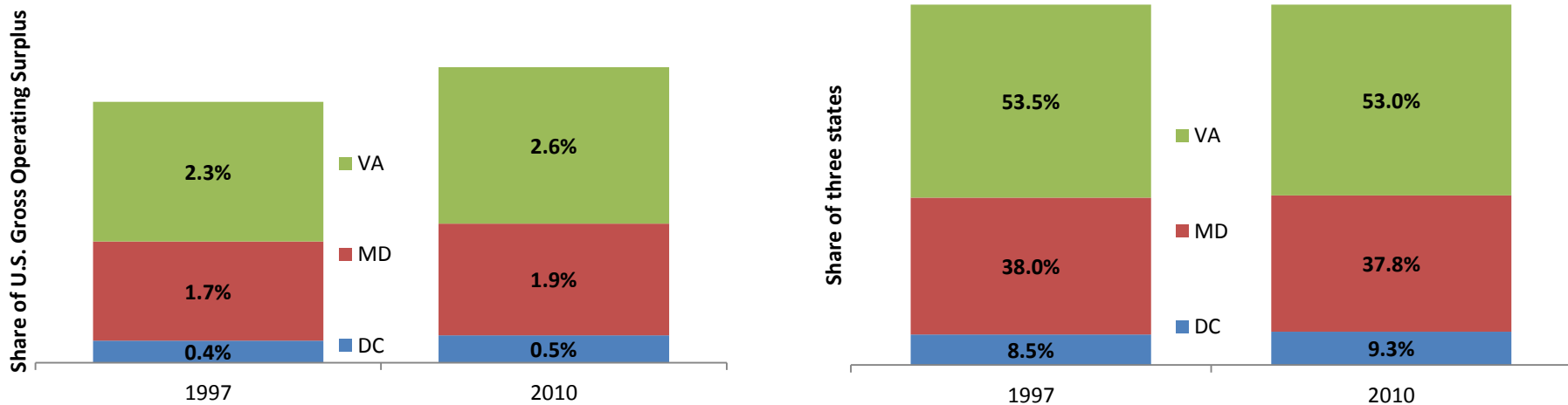
All Business Growth: DC, MD, VA, and US



Source: BLS

All three states grew and District increased share

- Gross Operating Surplus



Gross operating surplus. Value derived as a residual for most industries after subtracting total intermediate inputs, compensation of employees, and taxes on production and imports less subsidies from total industry output. Gross operating surplus includes consumption of fixed capital (CFC), proprietors' income, corporate profits, and business current transfer payments (net). Source: BEA

Options

- Recommended:
 - Analyze and report on impacts of recent changes
 - Expand base by asserting economic presence nexus
 - Single sales factor for apportioning income
- Not Recommended at this time:
 - Rate reduction (equal to MD)
 - Replace franchise taxes with gross receipts tax