Business Franchise Taxes in the District of Columbia

Report to the District of Columbia Tax Revision Commission

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Fiscal Year 2012 General Fund Tax Revenue

Resident/Consumer Taxes
$3.1 billion
52%

Business Share of Property, Sales and Gross Receipts taxes
$2.3 billion
40%

Business Franchise Taxes
$466 million
8%

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

Actual in 1990

$139.7

1990

Actual 2012

$465.9

Total Tax Forecast in 2017

$526.9

Unincorporated Business Franchise Tax

Corporate Franchise Tax
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

Virginia
Maryland
District
Who Pays the Tax In the District

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

<table>
<thead>
<tr>
<th>Businesses with Loss</th>
<th>CFT</th>
<th>UBFT</th>
</tr>
</thead>
<tbody>
<tr>
<td>paying minimum</td>
<td>4,774</td>
<td>7,128</td>
</tr>
<tr>
<td>paying more than minimum</td>
<td>893</td>
<td>3,051</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Small Business (Gross Receipts &lt;$500,000)*</th>
<th>CFT</th>
<th>UBFT</th>
</tr>
</thead>
<tbody>
<tr>
<td>paying minimum</td>
<td>3,524</td>
<td>1,818</td>
</tr>
<tr>
<td>paying more than minimum</td>
<td>1,605</td>
<td>1,511</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Large Business (Gross Receipts &gt; $500,000)*</th>
<th>CFT</th>
<th>UBFT</th>
</tr>
</thead>
<tbody>
<tr>
<td>paying minimum</td>
<td>8,099</td>
<td>1,162</td>
</tr>
<tr>
<td>paying more than minimum</td>
<td>5,783</td>
<td>1,070</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Number of Returns</th>
<th>CFT</th>
<th>UBFT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24,678</td>
<td>15,740</td>
</tr>
</tbody>
</table>

* Gross receipts before apportionment

Source: ORA
## Other Taxes

### Ballpark Fee Receipts

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

* 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

<table>
<thead>
<tr>
<th></th>
<th>DC Ten Year Average Growth</th>
<th>MD Ten Year Average Growth</th>
<th>VA Ten Year Average Growth</th>
<th>US Ten Year Average Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share</td>
<td>Share</td>
<td>Share</td>
<td>Share</td>
</tr>
<tr>
<td>Total, All Sizes Private</td>
<td>2.8%</td>
<td>0.9%</td>
<td>1.8%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Total, Fewer than 5 Private</td>
<td>69.6%</td>
<td>61.2%</td>
<td>60.8%</td>
<td>62.6%</td>
</tr>
<tr>
<td>Total, 5 to 9 Private</td>
<td>11.3%</td>
<td>15.8%</td>
<td>15.6%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Total, 10 to 19 Private</td>
<td>8.0%</td>
<td>10.9%</td>
<td>11.2%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Total, 20 to 49 Private</td>
<td>6.3%</td>
<td>7.6%</td>
<td>7.9%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Total, 50 to 99 Private</td>
<td>2.4%</td>
<td>2.7%</td>
<td>2.6%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Total, 100 to 249 Private</td>
<td>1.6%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Total, 250 to 499 Private</td>
<td>0.5%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Total, 500 to 999 Private</td>
<td>0.2%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Total, 1000 and more Private</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

Source: BEA Quarterly Census of Employment and Wages;
Establishment Growth Comparison

**Small Business Employers in DC, MD and VA**

- **Index 2001 = 1**
- **Source:** BLS; Establishments with 5 to 49 employees

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

- **Index 2001 = 1**
- **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