Testimony of Barbara B. Lang – President & CEO

DC Chamber of Commerce
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Before the District of Columbia Tax Revision Commission
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I am pleased to be here again this afternoon to testify on the status of the District's taxes. Now more than ever, the District must have a comprehensive plan that is put forth without the politicization associated with so many public policy initiatives. The responsibility you have chosen to bear as part of the Tax Revision Commission is tremendous.

I am Barbara Lang, President and CEO of the DC Chamber of Commerce. I am pleased to be here today to represent the 1700+ members of the Chamber, the hundreds of thousands of employees they employ, and the millions of dollars in District tax revenue they provide yearly to the District's coffers. The DC Chamber of Commerce represents businesses large and small. At the Chamber, we truly work hard to make living, working, playing and doing business in the District of Columbia a much better proposition for all of our residents.

Since you convened last fall, the District's current political leaders and its hopefuls have repeatedly pledged to defer to your recommendations in reforming the District's tax structure. You, as a Commission, have a realizable chance of bringing your recommendations into reality for the benefit of all of us who are proud to be Washingtonians. However, with this opportunity must come great restraint. The DC Chamber urges the Commission to recommend revenue changes that will benefit the District in the long-run and help the City operate within its means. We urge the Commission to make sure your findings create economic tools to streamline the District's bottom-line but do not simply find new revenue for the sake of generating revenue.

What we need to do is support entrepreneurs and small business people who want to make a better life for themselves and their communities and are the true job-creators in our economy. Due to the tremendous contribution our businesses make to the District's tax base, we recommend that Fiscal Impact Statements not only analyze the direct District Budget impact, but also include economic analysis on the effect legislation will have on business. According to data presented to the Commission, District businesses provided 31.1% of the $6.6 billion in revenues received in FY2012 through gross receipts, franchise, personal property and sales taxes[1]. Additionally, businesses pay into the 32.3% real property and 22.1% of income tax[2]. Our membership even makes a significant contribution to the 15% in miscellaneous revenues with mandatory fees and fines and special purpose revenue funds[3]. Simply, put, without the District's private businesses, the City would not have a stable tax base. Therefore we believe economic impact analysis is crucial for lawmakers to see the entire picture on policy initiatives.

We must emphasize that stifling taxation and fees only make the decision easier for a small business to locate in Virginia or Maryland. While some large businesses may be able to spread the risk associated

[1] Overview of DC's Economy and Tax Base, Presentation to the District of Columbia Tax Revision Commission, Stephen Swaim, November 19, 2012. Page 2.
[2] Id.
[3] Id.

with the high cost of doing business in the District, the majority cannot. We are aware that some advocates are still looking for ways to rebut the statement that businesses leave the District because of the taxes and fees, but the evidence is clear in this region. Last time I testified, I asked you to simply look across the border to see how the District's tax policies have discouraged private enterprise in the District. This time, I am happy to point to the data already presented to the Commission as proof of my statements.

For example, two major taxes make the District uncompetitive in attracting business: franchise tax and commercial property tax. The District levies an effective corporate franchise tax of 9.975% compared to Maryland's 8.25% and Virginia's 6%[4]. A couple percent may not seem like a lot, but when a company considers a location or relocation, the tax burden can easily remove the District from a short-list. When looking at the nation, only Pennsylvania and Iowa have higher corporate income tax rates[5]. Another major concern for businesses is the total commercial property tax rate which sits $0.40 above the next highest city tax in the region[6]. For comparison, Rosslyn is the lowest in the region, levying $1.224/$100 assessed and Reston is the highest neighbor at $1.487/$100 assessed. The region comes nowhere near the $1.882 rate imposed by the District. We applaud the Mayor for recognizing the burden that the commercial real property tax rate imposes on our competitiveness but wish the FY2014 Budget had included permanent instead of contingent funding to reduce the tax. The Chamber asks the Commission to recommend reducing the District's uncompetitive commercial real property tax rate.

We implore the Commission to look into creative ways to work around the loss of commuter taxes instead of persisting with the worst business tax climate in the nation. The solution is a competitive business tax climate that makes doing business in the District feasible for all types of private enterprise. Yes, we are in a very unique situation without having a commuter tax. However, just because we cannot tax a significant portion of the income that is generated in the city, does not mean the city should levy that lost revenue in a vertical tax or increased business taxes. The District has depended far too long on the federal government and the city's location as justification for uncompetitive taxes. Also, the District has used the commuter tax as a convenient excuse for heavily taxing business or relying on businesses to collect tax for the District. The District's CFO has also warned of the need to attract new businesses and residents[7]. This simple policy shift will increase the tax base in many areas, diluting the need to find ways around the commuter tax issue. It is simple, the more private businesses in the District, the more taxes collected, including: franchise, real property, deed and recordation and vault. With more private businesses in the District, more residents will be employed, paying more income tax and reducing dependence on human services. Also, as private businesses expand in the District, non-residents will relocate, further increasing income tax and sales tax revenues. Please look very closely at making the District's business taxes competitive with the

[4] District of Columbia Tax Comparisons, Richard Auxier, April 2013 draft. Page 8.
[5] Id.
[6] Id. at 4. Reston has a total commercial tax rate of $1.487/$100 of assessed value compared to $1.882/$100 in the District for commercial property valued above $3 million.
[7] "An important matter for the future: balancing (1) the use of the tax system to help attract people and jobs with (2) paying for the services needed to help attract and retain those people and jobs." Swaim at 4.

region so that the District can stop using the federal government and commuter tax as excuses for high business taxes.

To complement our request for the District to shift to a private sector economy, we look forward to seeing your comprehensive analysis on each revenue stream. It is unacceptable that over the last few budget cycles, that instead of looking into its own spending, the city's leaders have increased taxes and fees to fund the city's ever-increasing budget. Our leaders need to be able to see the frivolous path they have recently taken by imposing "revenue enhancements" to fill unrealized budget gaps and refusing to rein-in those enhancements once they proved unnecessary.

Again, I thank you for your time and consideration of such an important issue as tax reform in the District. Please keep in mind that the taxes of the District cannot be considered in a vacuum and your recommendations will become part of a total package. Businesses look at the cost of real estate, prevailing wages and proximity of an employable workforce before locating. In order to improve the quality of life for all District residents, increase the tax base, and reduce dependence on human services, the District must have an inviting tax regime that encourages private industry to become to economic driver of our City.

Thank you for the opportunity to testify I am available to answer any questions at this time.