

Georgetown Patch: Encourage DC small business creation, don't overburden it

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DC provides economic incentives to large businesses, but it discourages small ones from opening here with onerous license and tax requirements. Two new initiatives could make DC a friendlier place for small businesses.

Today, someone who wants to start a business in DC must set aside hundreds of dollars for regulatory and tax payments. These upfront and ongoing fees are a drop in the bucket for national companies or established businesses, but they can be prohibitively expensive for small or in-home businesses. To pay them, owners may have to sacrifice other critical needs, such as computers or advertising, that could help their business grow.

DC has numerous tax incentives in place, but it's unclear how effective they are. Some of these are intended to encourage specific types of business activities and even individual development projects, but there's nothing to reduce fees that could discourage small businesses from opening here.

Regulations burden small businesses with fees

For example, let's say someone wants to start a web design business in their home. The company would need to obtain a Basic Business License with a General Business License endorsement. For this kind of business, license fees total \$324.50 and are renewable every two years.

A home-based business would also need to obtain a Home Occupancy Permit (HOP) prior to receiving a business license, which costs \$72.60 and is a one-time fee. Businesses must have a HOP unless they're located in an office building already covered by a suitable Certificate of Occupancy.

If the aspiring entrepreneur decides to organize as a corporation for liability or other valid business reasons, there are even more fees. DCRA requires a \$220 corporate registration fee registration fee which must be paid every 2 years. Selecting a trade name costs \$55.

On top of that, DC imposes a \$250 minimum tax on corporate filers, increased from \$100 in tax year 2011. It was probably intended to collect revenue from companies that report tax losses on large revenues. This tax hits all corporations reporting modest or negative taxable income, whether it's a small neighborhood business or a large company.

Including taxes incurred for the first year of operation, a small business will have owed \$922.10 in filing fees and taxes. Most of these costs are relatively new, and were applied to businesses like our fictional web design company only within the past 5 years. In 2008, the DC Council extended business licensing

requirements to general business categories. Previously, only certain professions and business activities required a license.

These fees can create some difficult question for a small business owner. Should I open a business in DC? Should I operate without required licensing and tax registration? Should I open a business at all?

New initiatives aim to make opening a business easier

Two current initiatives intend to make DC more a more attractive place to start and run a business. On the regulatory side, the Business Regulatory Reform Task Force identifies existing laws and regulations that hold business back. And the DC Tax Revision Commission advocates for tax fairness, a broader tax base, competitiveness with surrounding jurisdictions, business growth and tax simplification.

The Business Regulatory Reform Task Force, co-chaired by DCRA Director Nicholas Majett and David Goldblatt representing the DC Chamber of Commerce, operates with a nine-month mandate to streamline DC's regulatory processes. Currently, 13 meetings are scheduled between April 2013 and January 2014. Last month's meeting looked at expediting the building permitting process and broad regulatory reform necessary to "making DC the most business-friendly city in the nation."

The DC Tax Revision Commission, led by former DC Mayor Anthony Williams, is undertaking an in-depth review of topics relating to DC's background conditions and tax framework followed by a study of individual types of taxes. As a follow-up to a similar commission in 1988, the group's next meeting on June 24, 2013 will solicit public input on the Commission's work to date. According to the current meeting schedule, interested parties can testify in person or submit comments by email. The Commission expects to issue its final report in the fourth quarter of 2013.

It's unfair that small businesses should pay the same corporate and licensing fees and minimum taxes as their larger counterparts. DC's tax incentives should go beyond large development projects and remove barriers to small, neighborhood business creation as well.

The city should waive or reduce regulatory and filing fees for legitimate small businesses at least during their first few years of operation. The minimum tax payment could be eliminated for specifically defined types of small businesses, or even targeted according to geographic areas with chronically high unemployment.

Opening a small business in DC can be difficult and intimidating. The Business Regulatory Reform Task Force and DC Tax Revision Commission should consider reducing the costs and barriers in place for starting small businesses, especially those in knowledge-based professions that DC wants to attract.

Link: <http://georgetown.patch.com/groups/mitch-wanders-blog/p/encourage-dc-small-business-creation-dont-overburden-it>