MEMORANDUM

Proposal: Expand the definition of nexus from physical to economic presence
Tax Type: Business
Origin: Norton Francis
Commission Goal: Broaden tax base

Current Law

Businesses that have a physical presence in D.C. generally are subject to the business franchise tax (BFT) or unincorporated business franchise tax (UBFT).

Proposed Change

Expand the nexus for taxation to economic presence.

D.C. could adopt the nexus standard from Oregon, which provides that substantial nexus exists where a taxpayer regularly takes advantage of Oregon’s economy to produce income for the taxpayer and may be established through the significant economic presence of a taxpayer in the state.

Reason for Change

Changing from physical to economic presence would broaden the business income tax base by subjecting more businesses to D.C. taxation.

Pros

- Having only a physical presence nexus prevents D.C. from taxing companies that profit from D.C.’s economy.
- Expanding nexus to economic presence could raise new tax revenue.

Cons

- Expanding nexus to economic presence might increase uncertainty on the scope of D.C.’s business taxes.
- Making more businesses subject to D.C. business taxes could make D.C. less competitive in attracting and retaining firms looking to locate in the area.

Revenue Impact

The Office of Revenue Analysis did not perform an official estimate for this policy option. The complexity and lack of data involved makes such an estimate difficult. Given similar changes in other states, however, the change likely would be positive.