

D.C. Tax Revision Commission Policy Options
Policy Option #54: Improve Criteria to Grant Tax Abatements

MEMORANDUM

Proposal: Improve the criteria necessary to grant a property tax abatement

Tax Type: Property

Origin: Mike Bell

Commission Goal: Transparency

Current Law

Tax abatements reduce property tax liability for businesses. The abatement typically relieves the businesses of a percentage of their tax payment or exempts the business from property taxes for a negotiated period of time. Abatements are often used to attract businesses to D.C. or a particular neighborhood in order to foster job creation and economic growth. Examples of D.C. property tax abatements include programs for high-technology companies and for residential development projects in the “NoMA” neighborhood.

The Office of Chief Financial Officer (OFCO) conducts a “but for” analysis (but for this abatement these jobs would or would not be created) for the D.C. Council.

Proposed Change

Expand and specify the qualifications necessary for granting property tax abatements. Under the new guidelines a business must satisfy the following four criteria before receiving a tax abatement:

1. Has a high probability of locating elsewhere;
2. Could be more profitable in an alternative location;
3. Would generate more tax revenue than the cost of expenditures needed to support it ; and
4. The costs generated by the firm would be offset by its tangible benefits (e.g. jobs or neighborhood revitalization).

Reason for Change

Requiring businesses to meet explicit standards before receiving a property tax abatement will improve transparency and possibly curtail future tax abatements.

Pros

- Would make the tax abatement process more transparent.
- Could prevent the creation or continuation of tax abatements and therefore raise (or prevent the loss of) tax revenue.

Cons

- Could make the tax abatement system more complex.
- Requiring firms to meet new and more detailed standards could make D.C. less competitive in attracting business.

Revenue Impact

There is no revenue estimate for this option.