

D.C. Tax Revision Commission Policy Options
**Policy Option #35: Provide Certified Business Enterprises a
Property Tax Credit**

MEMORANDUM

Proposal: Provide certified business enterprises (CBEs) a property tax credit

Tax Type: Business

Origin: Mayor Vince Gray

Commission Goal: Competition and business growth

Current Law

A certified business enterprise (CBE) is a business certified by the D.C. Department of Small and Local Business Development (DSLBD). To be certified, a business' principal office must be physically located within D.C. and its highest level managerial staff must be operating from this location. In addition, one of the following must be true: greater than 50% of the assets or revenues of the business are derived from within the District, or greater than 50% of employees or owners are residents of the District. Certified firms receive beneficial procurement and contracting treatment but no tax preferences. Currently, there are approximately 1,200 CBEs.

Proposed Change

Provide CBEs with a \$3,500 property tax credit (or, alternatively, a \$3,500 income tax credit).

Reason for Change

The CBE program was created to provide preferences for D.C.-based businesses and therefore make them more competitive in the regional economy. Providing these D.C.-based businesses with a property or income tax credit would further assist CBEs and possibly encourage new businesses to locate in D.C. and register as CBEs.

Pros

- Could make D.C. businesses more competitive with those located in other jurisdictions.
- Would provide tax relief to local business that could lead to growth and job creation.

Cons

- May not induce any beneficial behavior. New CBEs could manipulate their status (rather than shift locations) to gain preferential tax treatment and current CBEs could collect tax relief without making changes to their business (location or employment).
- Any kind of business with any level of income can qualify as a CBE. Eligibility requirements for tax relief (such as employment quotas) could be added, but would cause administration problems, including both certification and monitoring.
- Would reduce tax revenue.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation a property tax credit for CBEs would cost at minimum \$4,200,000 in tax revenue. This revenue cost could grow substantially, however, if the number of CBEs increases. Currently, only businesses that contract with the D.C. government apply for CBE status.