District of Columbia

Reviewing DC's
Tax Incentives for Economic Development

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FTA Revenue Estimating Conference

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Tax Expenditure Review Requirement

D.C. Law 20-155,

- "FY15 Budget Support Act of 2014," requires CFO review of all local tax preferences (abatements, credits, and exemptions) on a five-year cycle

October 2015: 1st report released

- *"District of Columbia Housing Tax Expenditure Review"*

January 2017: 2nd report released

- *"District of Columbia 2016 Tax Expenditure Review; Environment, Public Safety, Transportation, and Tax Administration & Equity Provisions"*

October 2018: 3rd report to be released:

- *"District of Columbia Economic Development Tax Expenditure Review"*

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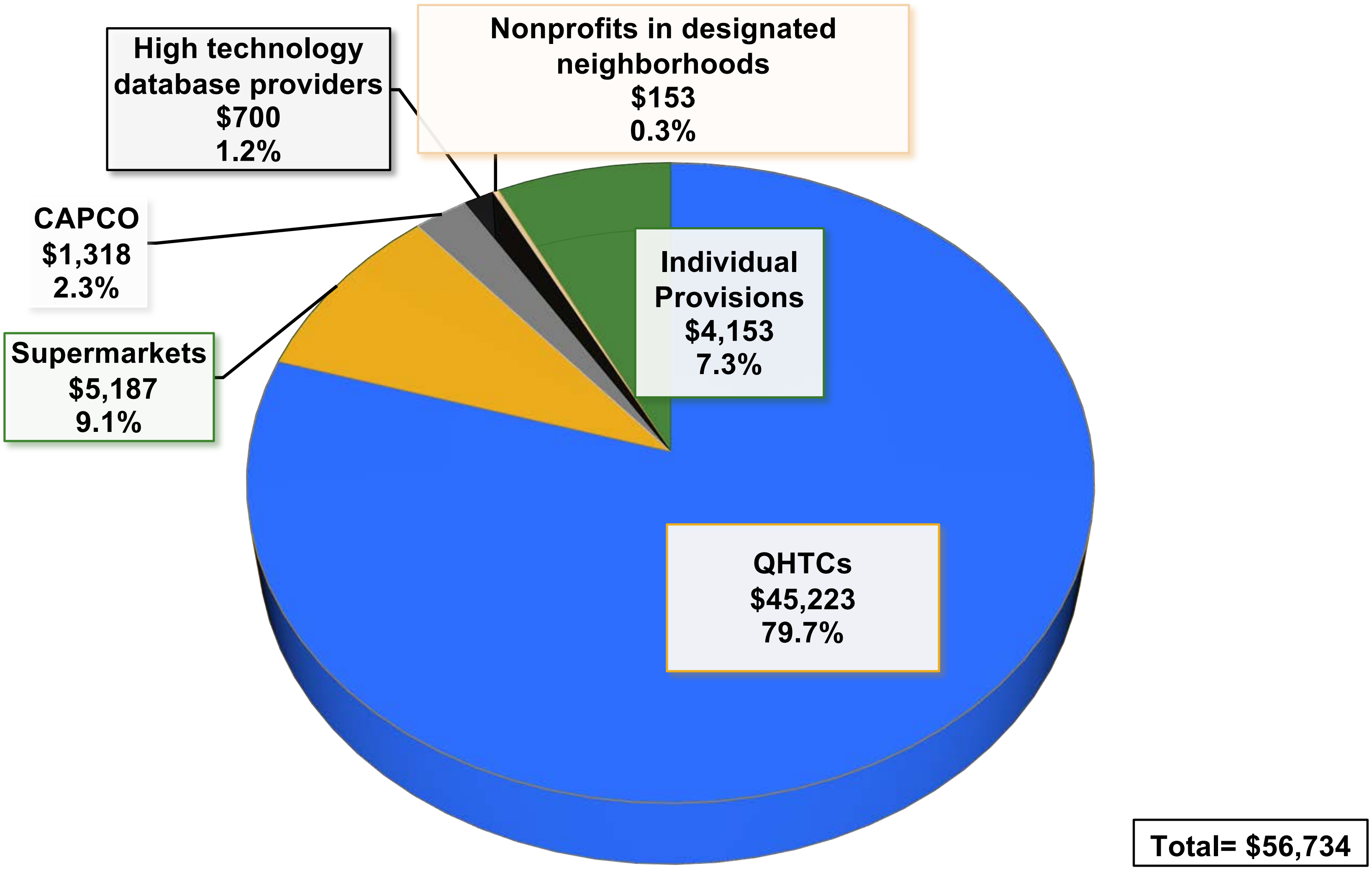
FY2017 Economic Development Tax Expenditures, in $000



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Qualified High Technology Companies

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Overview of QHTC Tax Incentives

1. **Stated goals: "to encourage high-technology firms to locate, expand, and stay in the District of Columbia, thereby strengthening the employment and economic base."**

2. **<u>QHTC:</u> A high-technology company is considered "qualified" if it (1) has two or more employees in the District, and (2) derives at least 51 percent of gross revenues earned in the District from technology-related goods and services**

3. **QHTC provisions include:**
   - Franchise (corporate income) tax exemption for 5 years, and subsequent tax rate reduction to 6%
   - 3 franchise tax credits (employee relocation; wages for qualified employees; disadvantaged workers)
   - a 5-year real property tax assessment freeze
   - a 10-year personal property tax exemption
   - and a sales tax exemption (for sales by a QHTC as well as an exemption for certain technology purchases made by a QHTC)

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Qualified High Technology Credit Findings

Benefits:

1. No Evidence QHTC Incentives Induced Companies to Move to, or Stay in DC
2. Gains in Some QHTC Payrolls and DC's High Tech Sector Cannot Be Attributed to QHTC Incentives Due to Lack of Data

Costs:

3. QHTCs Represent Large Costs to the District in Foregone Revenue
4. Several Large QHTCs Receive Most of the Credits
5. QHTC Structural Issues Include Lack of Claw Backs, Fiscal Caps and Sunset Provisions

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Possible QHTC Benefits

Growth of Number of Workers Employed by a Tech Industry Firm, by Location

	2001	2016	Compound Annual Growth Rate
DC	32,472	37,914	1.04%
MD	178,872	182,585	0.14%
VA	288,801	290,648	0.04%
US	7,049,456	6,824,602	-0.22%

Source: ORA analysis of data gathered and compiled by CompTIA from the Bureau of Labor Statistics (QCEW) for *Cyberstates* publications.

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Qualified High Technology Credit Findings, Continued

Costs

3. QHTCs Represent Large Costs to the District in Foregone Revenue
   - From 2001 to 2015: $184 million in QHTC franchise tax credits were claimed
   - As of 2015, companies were carrying forward $50 million in unused franchise tax credits.

4. Several Large QHTCs Receive Most of the Credits

5. QHTC Structural Issues Include Lack of Claw Backs, Fiscal Caps and Sunset Provisions

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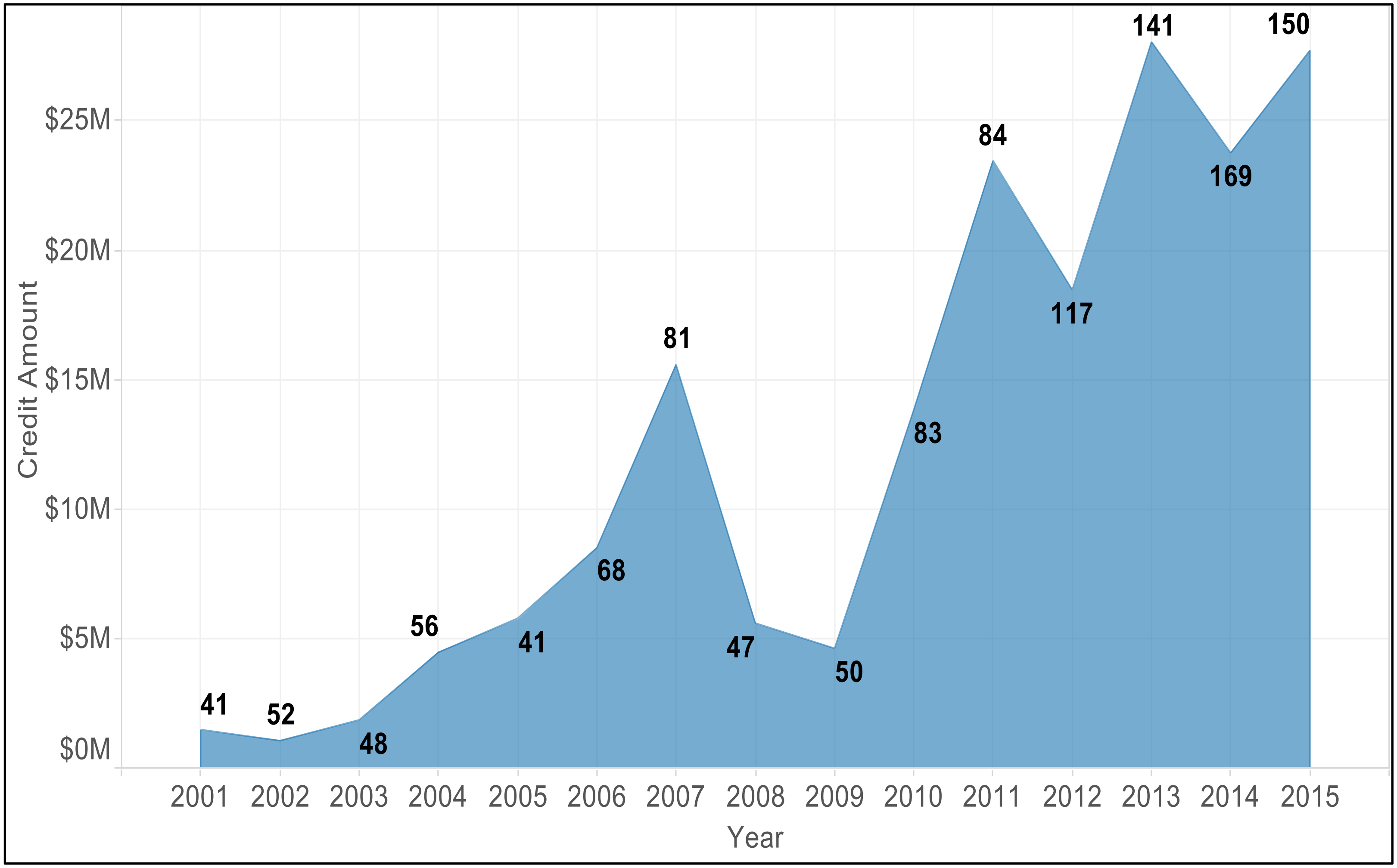
Total QHTC Franchise Tax Credit Amounts and Number of Claimants 2001 to 2015



Source: ORA analysis of D.C. Corporate Business Franchise Tax Data. Includes franchise tax exemption, rate, reduction and credits. Numbers labeled in the area chart represent number of firms claiming that year.

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Qualified High Technology Credit Findings, Continued

Costs

4. **Several Large QHTCs Receive Most of the Credits**
   - **In 2015, eight QHTCs claimed 56% of franchise tax credits that year.**

5. **QHTC Structural Issues Include Lack of Claw Backs, Fiscal Caps and Sunset Provisions**

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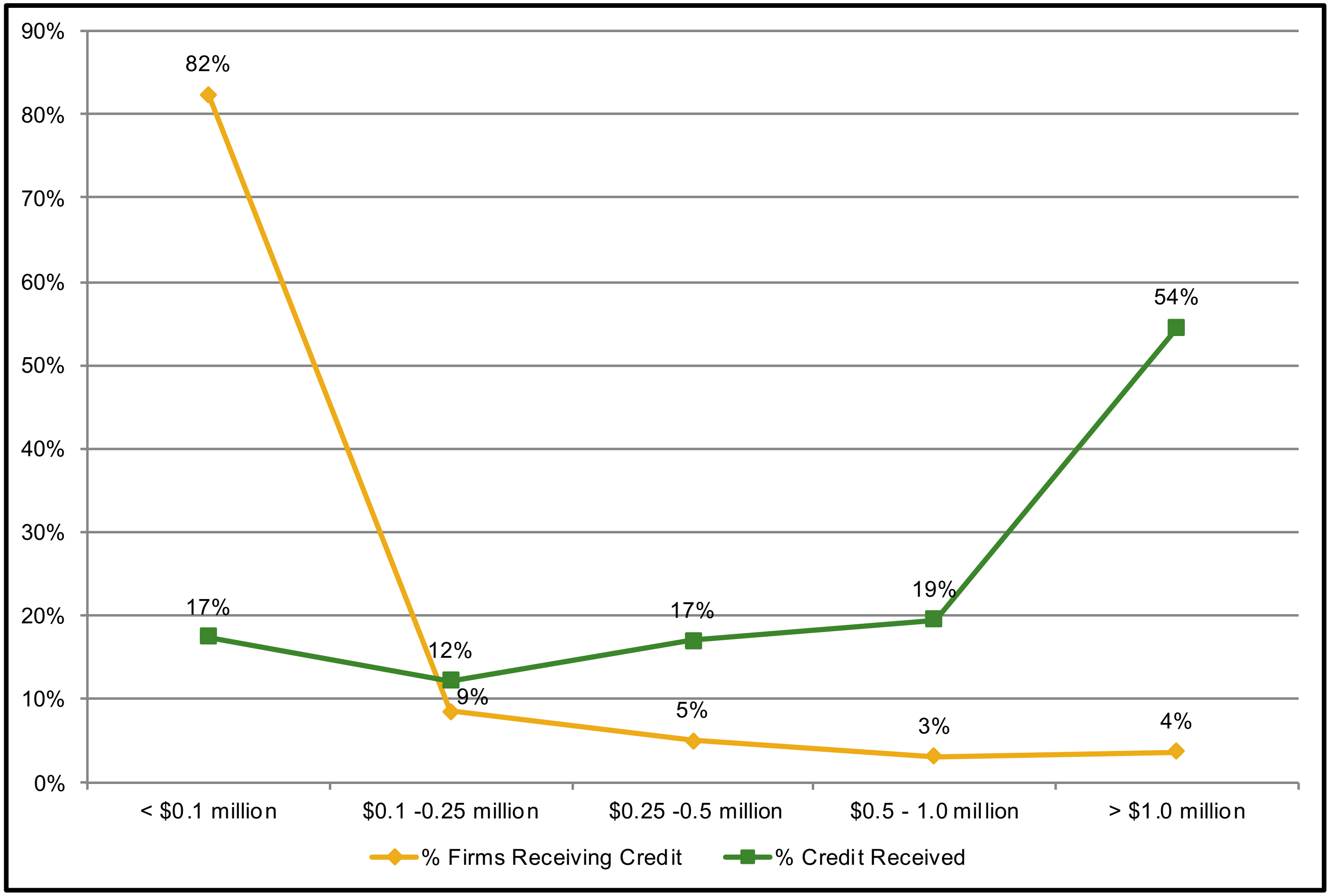
Credit Distribution by # of Firms Taking, and $ Amount of Franchise Tax Credit Received, Average from 2001 - 2015



Source: ORA Analysis of D.C. Franchise tax data.

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Qualified High Technology Credit Findings, Continued

Costs

5. **QHTC Structural Issues Include Lack of Claw Backs, Fiscal Caps and Sunset Provisions**
   - Definition of "high technology"
   - Definition of "qualified employees"
   - Eligibility threshold and self-certification
   - Lack of agency ownership
   - Data collection issues (Improvements in progress)
   - Transparency

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QHTC Recommendations

1. Revisit the definition of a high technology company and confirm the QHTC law as written in 2001 adequately takes changes in technology into account and continues to meet the economic development and tax policy goals of the District.

2. Develop a verifiable standard to use for determining a company's QHTC eligibility.

3. Cap the total amount of tax benefits that may be granted, or that a single company may receive. Consider placing limits that preclude very large companies from continuing to take disproportionate QHTC benefits.

4. Implement a claw back provision that would require a firm to pay back some credits received if it leaves the District within a certain number of years.

5. Better target incentives. This could include requiring that more than 51 percent of firm's DC activities constitute QHTC activities, or only allowing tax credits to apply to income derived from QHTC activities.

6. Continue to support OTR auditing and data collection improvement efforts that are underway.

7. Improve the transparency of the incentives by allowing company names and credit amounts received to be publicly released.

Qualified Supermarkets

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Overview of Supermarket Tax Incentives

1. **Stated goals: "Supermarket tax incentives were first introduced in 1988 to encourage supermarkets to locate in underserved areas".**

2. **The Supermarket Tax Exemption Act of 2000 modified the original legislation to include:**

   - **10-year Real property tax exemption; 10-year Business license fee exemption; 10-year Personal property tax exemption; and Sales and use tax exemption on building materials necessary for construction**

3. **FEED-DC Act of 2010: expended supermarket incentive zone to include census tracts where more than half of the households have incomes below 60 percent AMI, as determined by HUD.**

4. **FEED-DC Amendment Act of 2016: the incentive zone was expanded further to incentivize supermarkets to locate or remain in food deserts and provide fresh food options to District residents**

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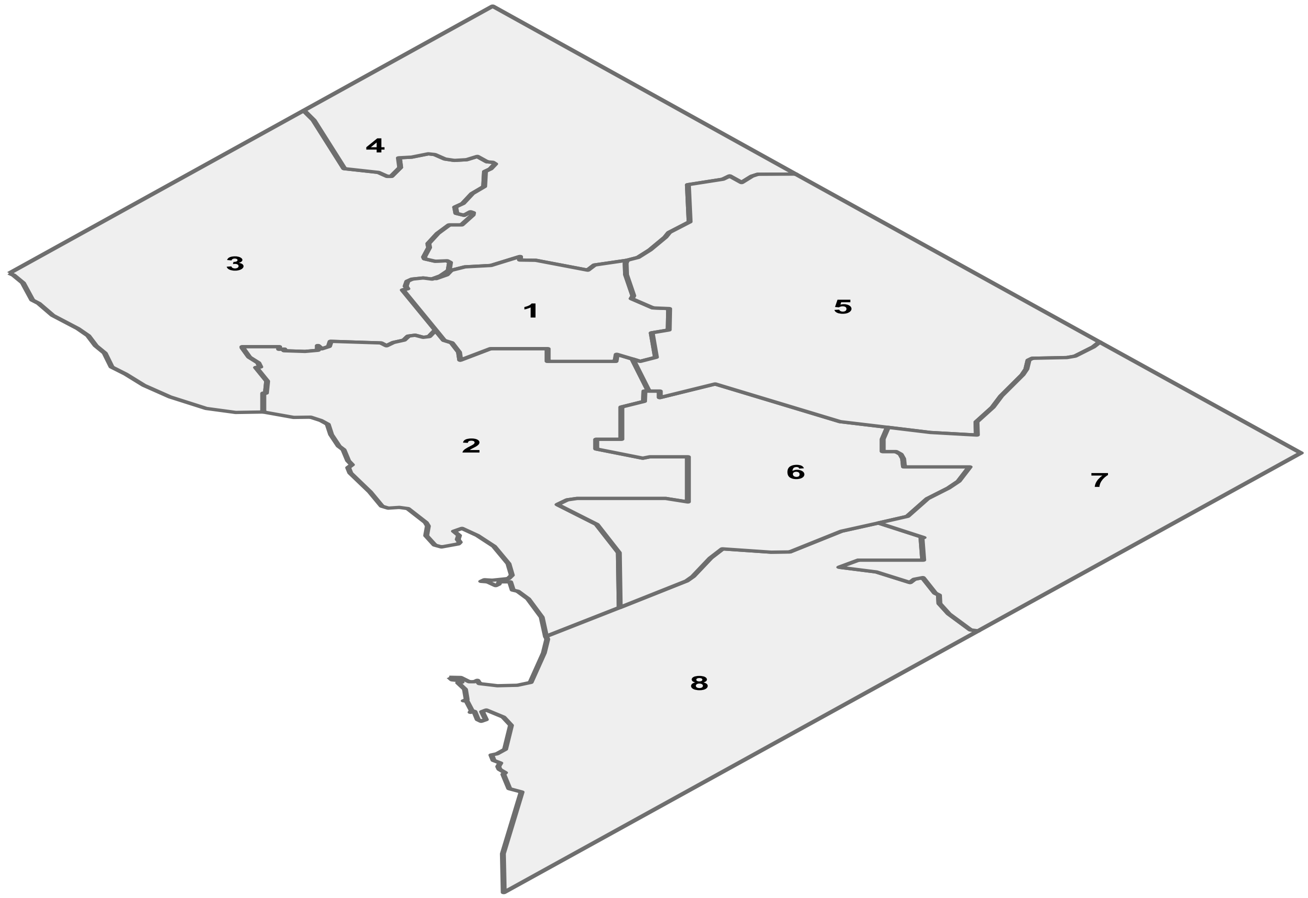
Overview: 2005 D.C. Federal Adjusted Gross Income by Census Tract and Ward



Legend

FAGI_MEDIAN_2005

- $5,018.50 - $21,625.00
- $21,625.01 - $30,117.00
- $30,117.01 - $41,013.00
- $41,013.01 - $55,101.00
- $55,101.01 - $76,215.00
- $76,215.01 - $114,048.50

Source: ORA Analysis of Unified Economic Development Reports and Tax Expenditure Reports.

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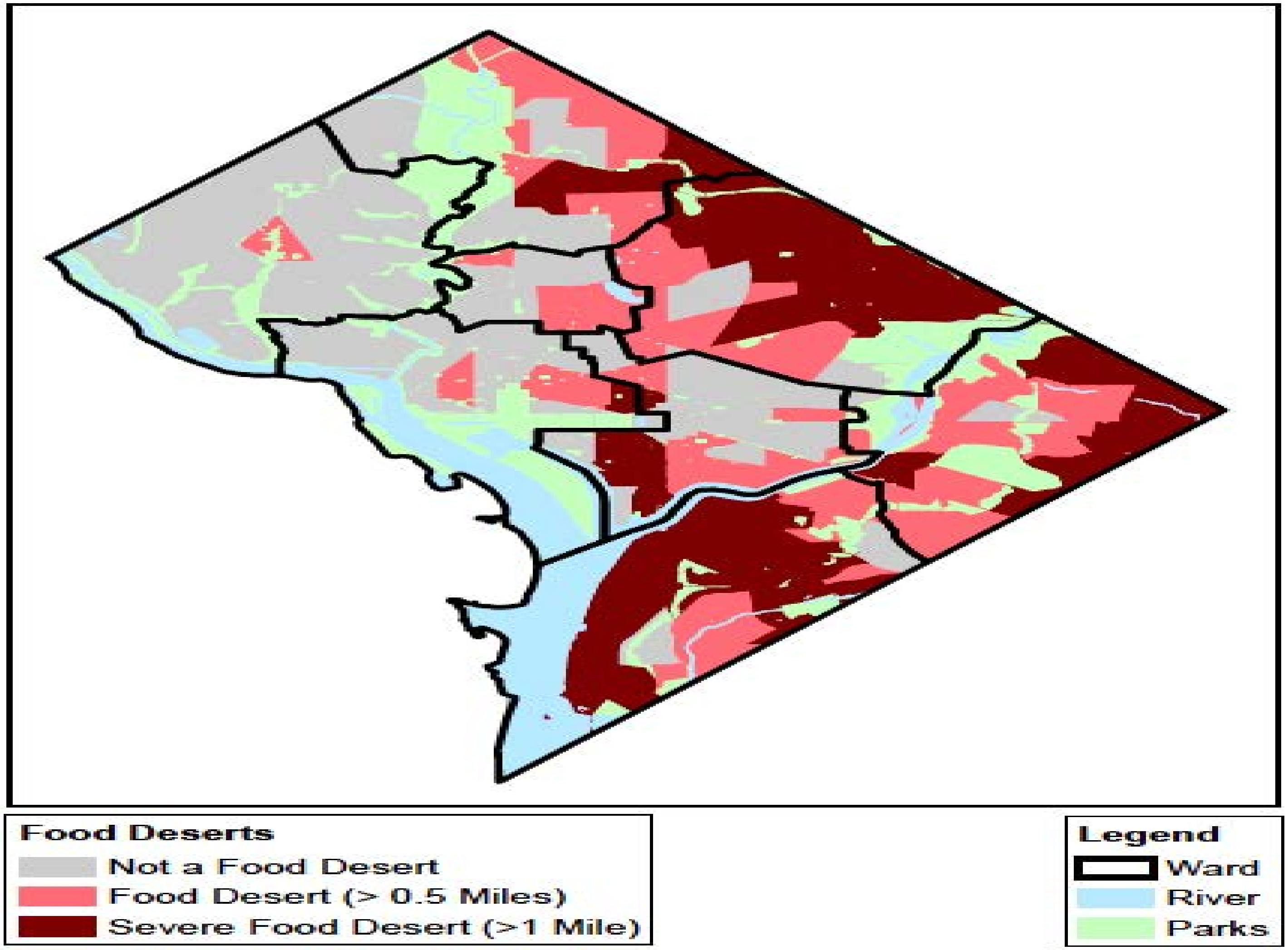
Food Desert Areas in D.C by Ward in 2000



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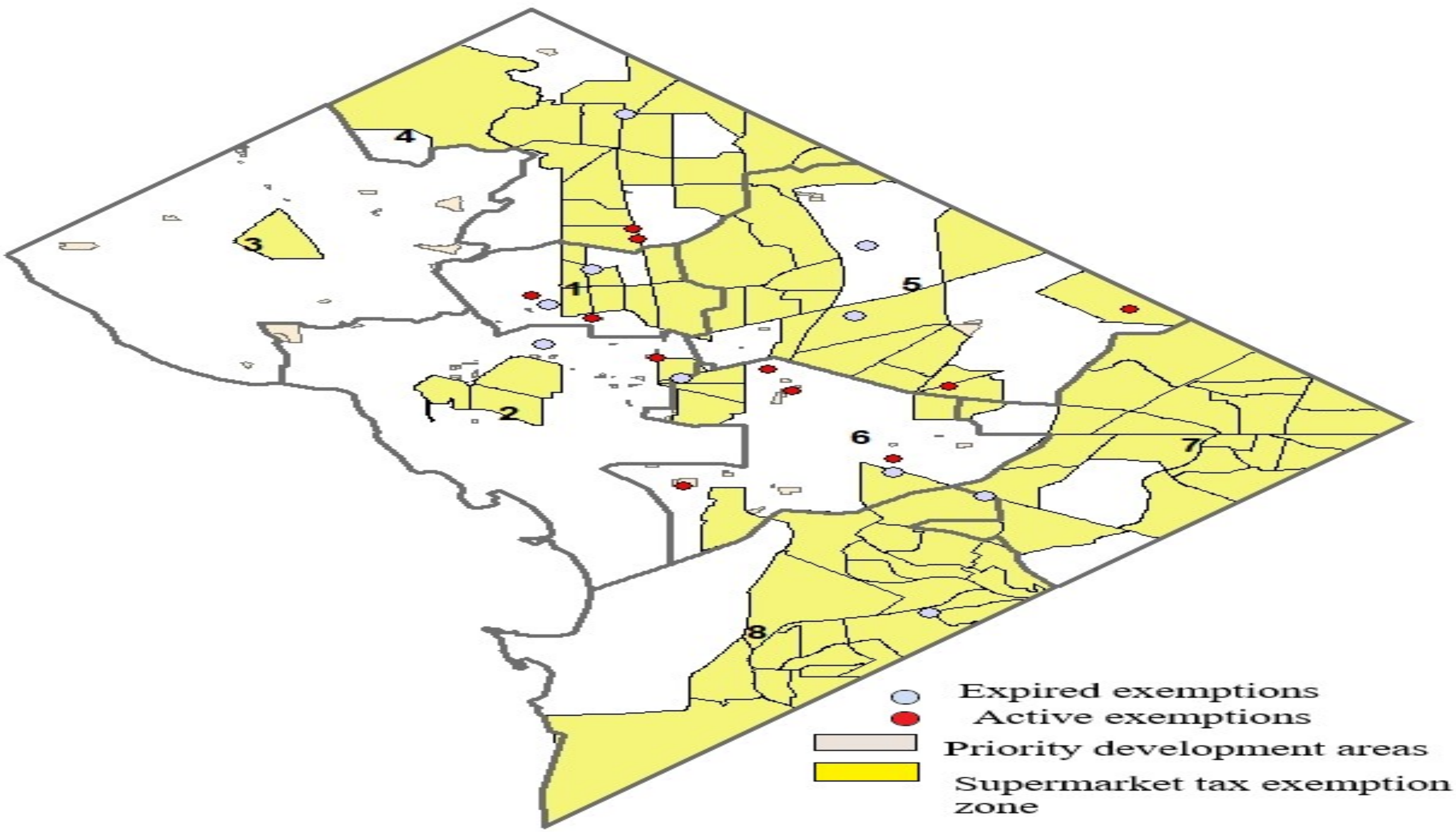
Location of Supermarkets Receiving Incentives and Current Eligible Area



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Cost: Total Supermarket Tax Incentives, By Tax Type and Year, 2010 to 2017

Year	Number of Supermarkets	Real Property Tax Exemptions Received $	Estimated Sales tax exemptions for building materials $	Estimated Personal Property tax exemptions $	Total (by Year) $
2010	5	1,314,414	118,000	488,000	1,920,414
2011	7	1,481,354	121,000	490,000	2,092,354
2012	10	2,141,682	530,000	304,000	2,975,682
2013	15	2,196,426	528,000	307,000	3,031,426
2014	18	3,415,089	817,000	312,000	4,544,089
2015	17	3,489,979	845,000	316,000	4,650,979
2016	15	3,260,861	992,000	319,000	4,571,861
2017	14	3,831,227	1,034,000	322,000	5,187,227
TOTAL		**21,131,032**	**4,985,000**	**2,858,000**	**$28,974,032**

Source: ORA Analysis of Unified Economic Development Reports and Tax Expenditure Reports.

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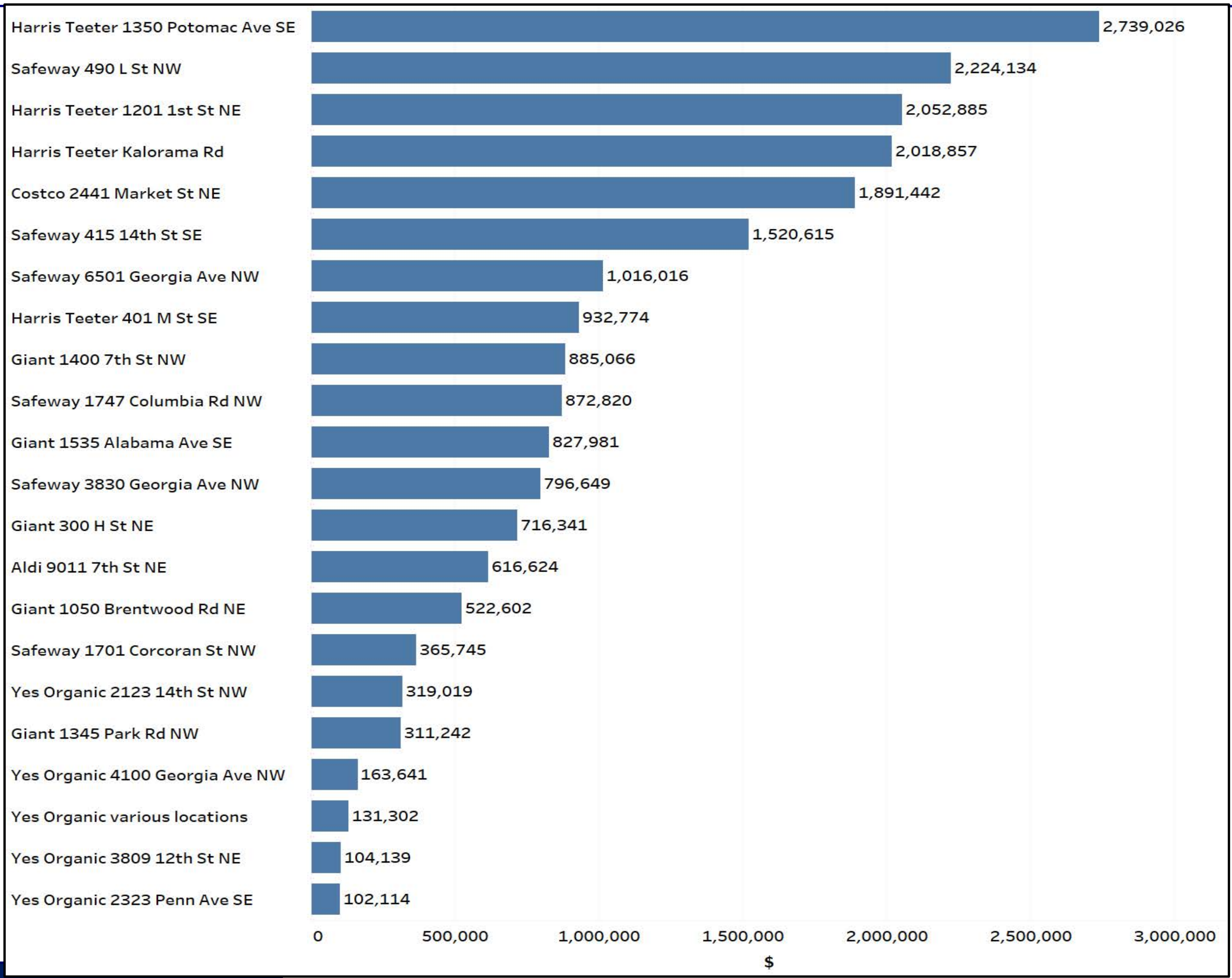
Costs: Supermarket Real Property Tax Exemptions Received, by Supermarket, 2010 – 2017



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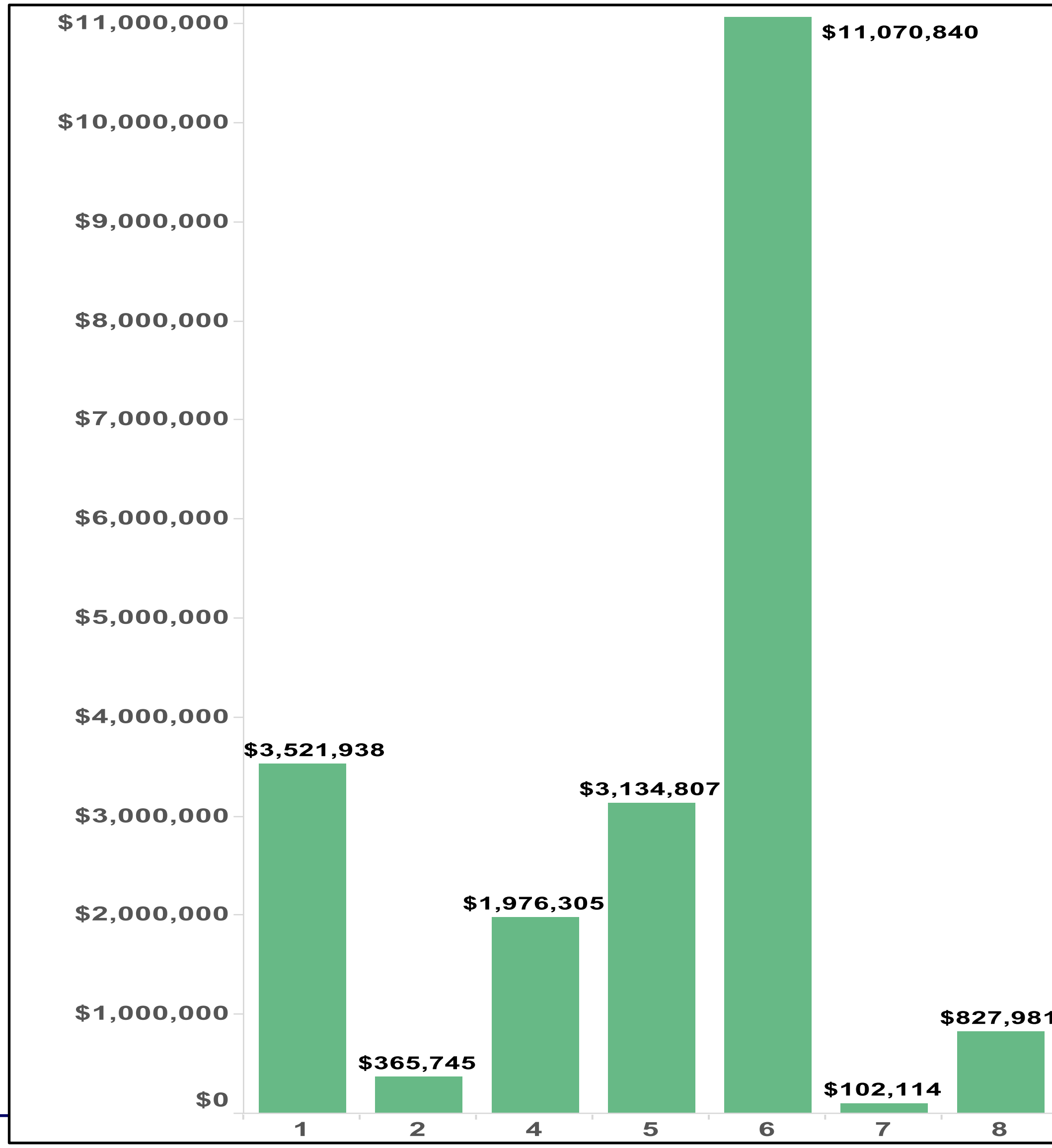
Cost: Supermarket Real Property Tax Exemptions Received, by Ward, 2010 – 2017



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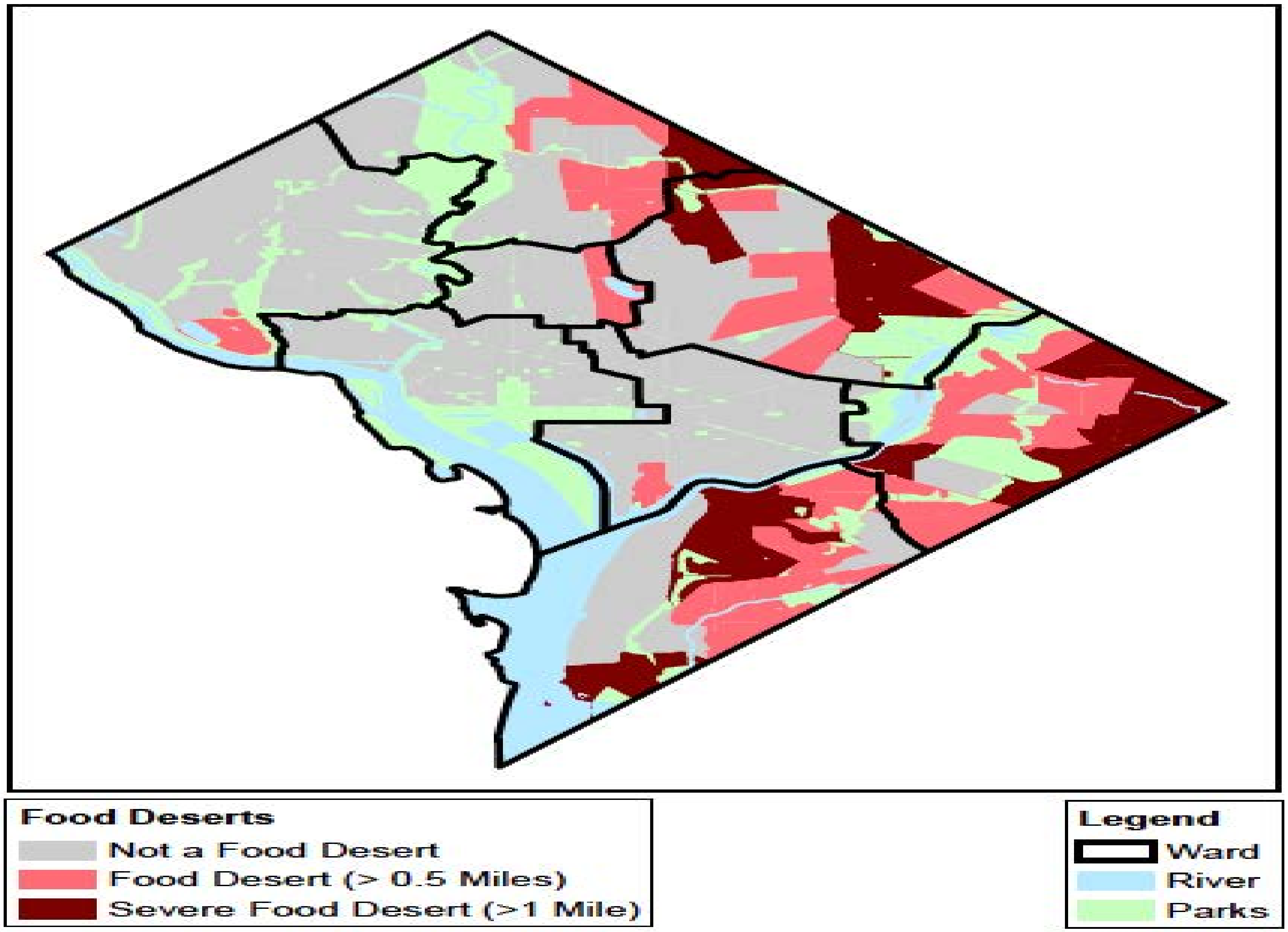
Benefits: Food Desert Areas in D.C by Ward in 2014



Source: ORA Analysis of Unified Economic Development Reports and Tax Expenditure Reports.

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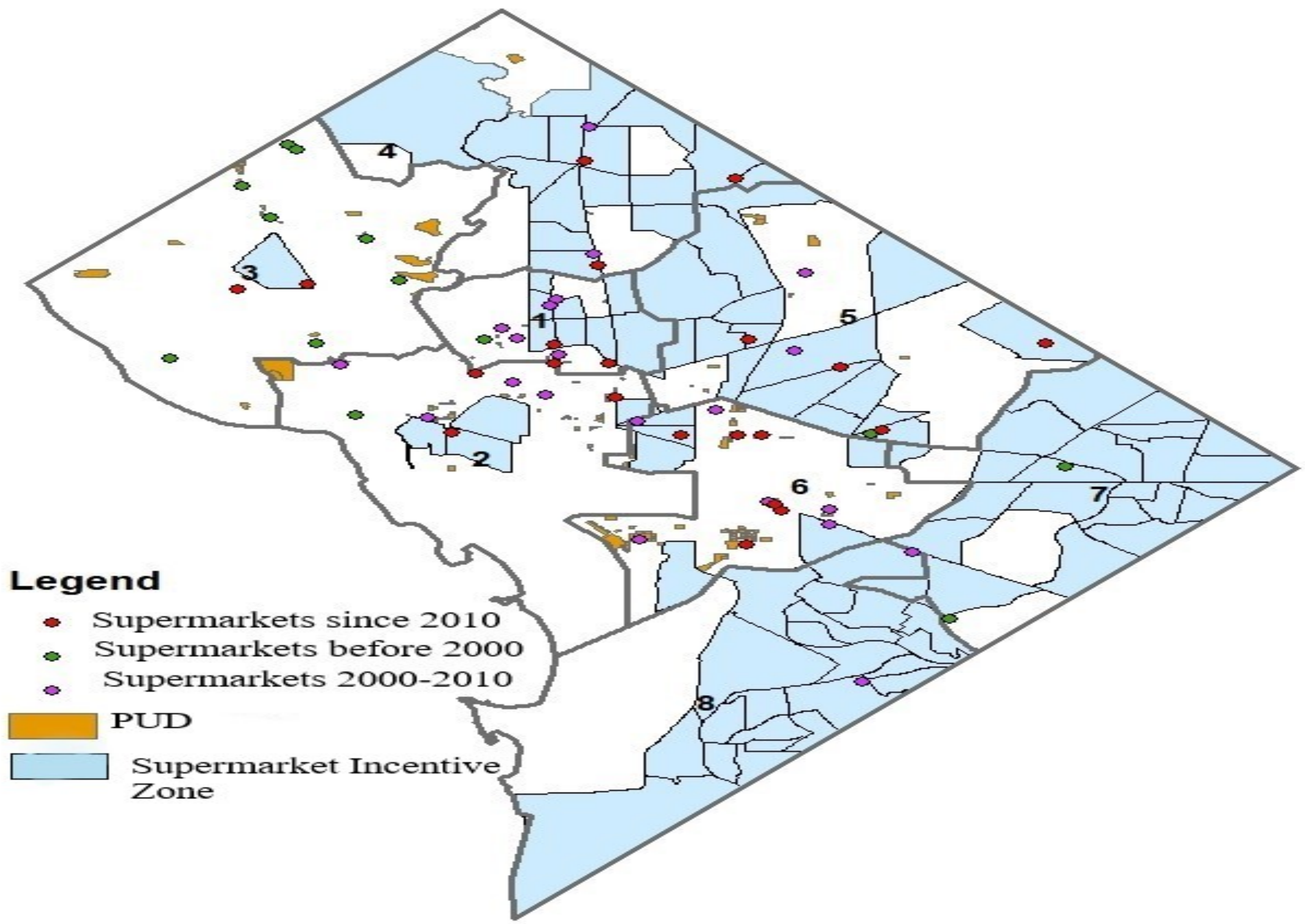
Benefits: Location of Supermarkets in D.C., by Opening Date



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Supermarkets: Findings and recommendations

1. **New DC supermarkets have been concentrated in transitioning and higher income neighborhoods and many opened without help of tax incentives.**

2. **Only two supermarkets receiving incentives located into Wards 7 and 8 from 2000 to 2015, and one closed after two years. The continuing shortage of supermarkets in food deserts, especially in Wards 7 and 8 means that many lower income families still lack access to healthy food and a full-service grocery store**

3. **The supermarket tax incentives should to better target supermarkets that would not otherwise locate in an area of highest need.**
   a. **Such targeting would also prevent windfalls of taxpayer dollars from going to supermarkets that would have located in eligible areas regardless of the incentives.**
   b. **The East End Grocery and Retail Incentive Program Tax Abatement Act of 2017 takes steps to create greater access to grocery stores in Wards 7 and 8 by encouraging the development of a new anchor grocery store, which would serve as a catalyst for additional business development in the neighborhoods.**

Individual Tax Incentive Provisions

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Overview of Individual Provisions

1. Individual tax provisions are idiosyncratic, differing goals to foster economic development.

2. Individual economic development provisions provide tax exemptions, abatements, credits or refunds to specific projects for the redevelopment and revitalization of the District, either by bringing in new companies, keeping existing companies and organizations from leaving the District, or through providing services not readily available to residents.

3. Individual tax provisions make up ~ 7% of total tax revenue forgone in the local economic development policy area.
   a. FY 2017 revenue foregone almost $4.2 million

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Individual Tax Expenditure Provisions

Name of Development	Type of Provision	Year Enacted	FY2017 Revenue Loss Estimate ($000)
The Advisory Board Company	**Property Tax Abatement**	**2015**	**N/A**
Adams Morgan Hotel (The Line D.C.)	**Property Tax Abatement**	**2011**	**$0**
Constitution Square development project	Property Tax Abatement	2008	N/A
Gateway Market Center and Residences	Property Tax Abatement; Sales Tax Exemption	2009	$0
Third & H Streets, N.E. Development Project	Property Tax Abatement; Deed and Recordation Tax Exemption; Sales Tax Exemption	2010	$302
Jenkins Row Development Project	Property Tax Abatement; Deed and Recordation Tax; and Sales Tax Exemptions	2005	N/A
View 14 Project	Property Tax Abatement and Sales Tax Exemption	2009	$824
Soccer Stadium Development Project	**Property Tax Abatement and Deed Recordation and Transfer Tax Abatement**	**2015**	**$3,027**
Total			$4,153

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Characteristics of Good Tax Incentive Programs

- **EFFICIENT**. A good incentive will provide a well-defined *return on investment* to the [jurisdiction].
- **TRANSPARENT**. Incentives should be *transparent* so that benefits to taxpayers and costs to the state are clear.
- **CERTAIN**. Policy *certainty* is important in terms of the magnitude and timing of tax relief for business taxpayers and the realization of tax losses that impact the state budget.
- **PROSPECTIVE**. The state should avoid *retroactive policy changes* that may penalize firms for previous investment decisions.
- **SIMPLE**. Incentives should be *easy to administer and easy to comply with*.
- **TARGETED**. Incentives should be *targeted* and provided on a *discretionary* basis in order to promote economic activity that might not otherwise take place.
- **PROTECT PUBLIC FUNDS**. *Fiscal exposure* to the state should be minimized through such constraints as annual financial caps or time limits on the use of credits.
- **LEVERAGE**. Some incentives produce a *leveraging* effect, drawing in additional resources from local government resources, private sector resources, or federal resources.
- **ACCOUNTABILITY**. *Performance-based incentives* should be built into the program.
- **EVALUATION**. Incentives should include a built-in framework for *evaluation*, which should seek to identify the extent to which incentives induced new economic activity rather than rewarding existing economic activity.
- **OWNERSHIP**. A state agency or agency partnership must *own* the incentive program to ensure proper administration and to conduct or support a thorough program evaluation.

Source: Murray, Matthew N, and Bruce, Donald J. "Evaluation of Alabama's CAPCO Credit and Historic Rehabilitation Tax Credit." 2017. Prepared for the Alabama Department of Revenue. P. 5. Retrieved on April 23, 2018 from: https://revenue.alabama.gov/wp-content/uploads/2017/05/TaxIncentives_CAPCO_201701.pdf.

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Overall Recommendations

1. **Be assigned an administering agency** from the beginning, with authority and the mandate to track, monitor, and report on incentives.

2. Contain a **clear structure for data collection, reporting and monitoring/evaluation** from the beginning of the incentives.

3. Be **simple to understand and administer** for both taxpayers and tax administrators.

4. Be more **transparent** and publicly reported.

5. Be **better targeted,** and not given to companies or entities to do what they were already doing, rather new activity should be undertaken to receive the incentive.

6. Include **financial limits or caps** to protect the District's fiscal resources.

7. Contain **claw back provisions** so that if a company receiving tax incentives does not comply with the terms of its tax benefits or leaves the District within a certain amount of time, it will have to repay the District what it received.

Questions?