



# 2020 DC Metro Area Corporate Tax Burden Study

Lori Metcalf

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Disclaimer: The views presented here are my own and do not represent the OCFO

Office of the Chief Financial Officer  
Government of the District of Columbia

# What is the Report?



- The first Corporate Tax Burden Study compares DC's business tax structure to our neighbors by selecting two hypothetical firms to represent the largest commercial sector in DC – the business and professional services industry.
- Regional tax differences are more visible because many businesses can easily move between jurisdictions in the metro area.
- The Study's methodology incorporates features from two previous independent business tax burden studies done for the District.
- Two hypothetical corporations are used to estimate and compare real and personal property taxes, corporate income taxes, gross receipts taxes, and unemployment insurance taxes.
- The report presents tax burdens for tax rates in effect on January 1, 2020, and does not consider effects of the Covid-19 Pandemic and resulting economic recession.

# Major Assumptions

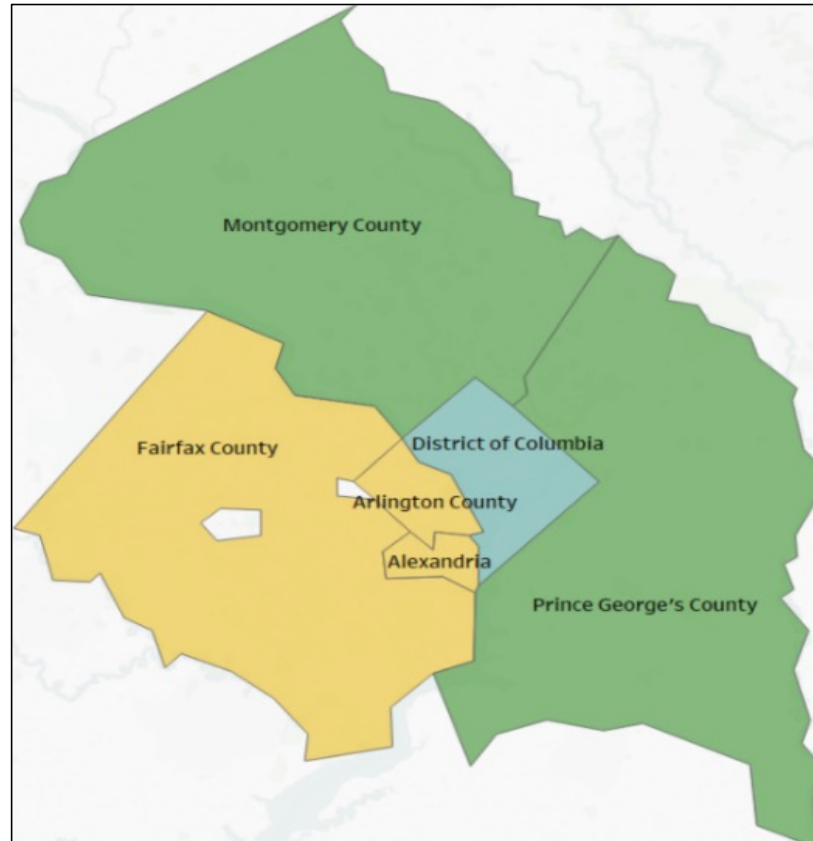


	Firm Type*	Annual Gross Receipts (GR)	Annual Taxable Income (8% of GR)	Operating Expenses (OE) (92% of GR)	Personal Property (1.67% of GR)	# of Employees	Wages per employee
#1	Small Corporation	\$1,500,000	\$120,000	\$1,380,000	\$25,000	8	\$120,000
#2	Large Corporation	\$30,000,000	\$2,400,000	\$27,600,000	\$500,000	160	\$120,000

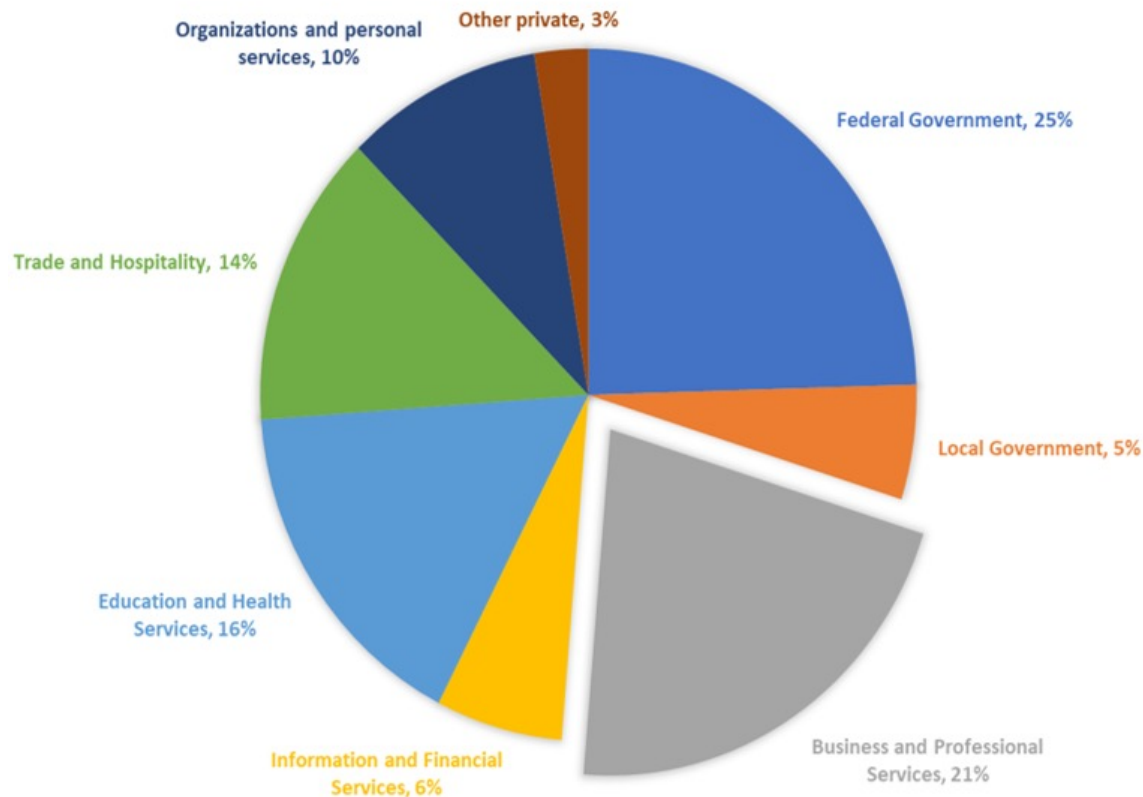
\* Firms are assumed to be professional services firms.

Business Taxes Included:	Jurisdictions Included:
Commercial Real Property Tax	Washington, DC
Corporate Income Tax	Montgomery County, MD
Gross Receipts Tax	Prince George's County, MD
Unemployment Insurance Tax	Alexandria, VA
Personal Property Tax	Arlington County, VA
	Fairfax County, VA

# DC Metro Areas Included



# Composition of DC's Employment Base



Source: District of Columbia Economic and Revenue Trends: Feb-Mar 2020, p. 5.

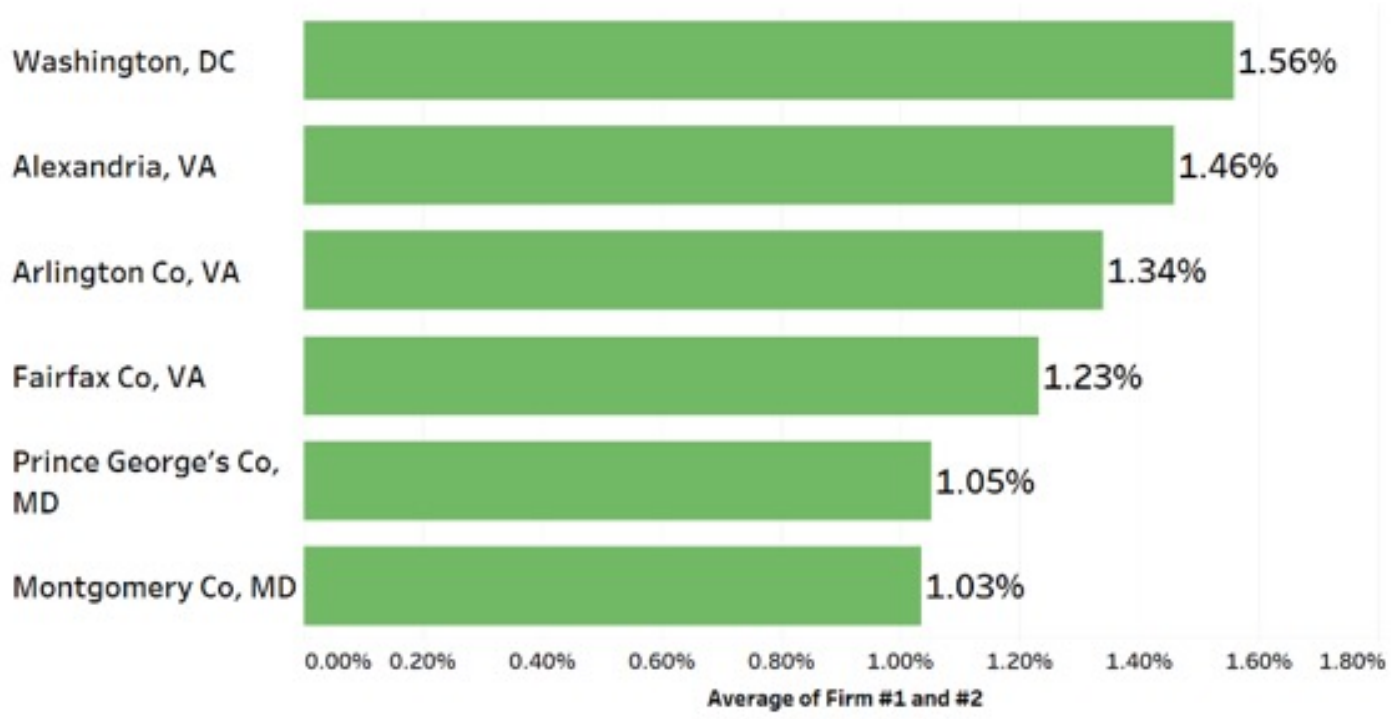
# Calculation of Commercial Property Tax Burdens



Assumptions:		
DC Office Real Property Tax Liabilities <sup>41</sup>	\$1,235,576,291	
Total DC Office Square Footage <sup>42</sup>	160,794,534 sq ft	
DC Real Property Tax/ Square Foot	\$7.68 per sq ft	
Square Feet/Employee <sup>43</sup>	200 sq ft	
	<b>Firm #1</b>	<b>Firm #2</b>
Square Footage for Small and Large Company	1,600 sq ft	32,000 sq ft
DC Property Tax Calculated	<b>\$12,295</b>	<b>\$245,894</b>

	DC	Montgomery Co MD	PG Co MD	Alexandria VA	Arlington Co VA	Fairfax Co VA
<b>Local + State Real Property Tax Rates</b>	\$1.65/\$1.89 <sup>1/</sup>	\$1.091	\$1.465	\$1.130	\$1.151	\$1.308
<i>As a % of DC's Rate:</i>	<i>Firm 1</i>	0.66	0.89	0.68	0.70	0.79
(DC as base)	<i>Firm 2</i>	0.61	0.81	0.63	0.64	0.73
<b>Market Rent Rates<sup>2/</sup></b>	\$53.64	\$29.32	\$22.05	\$33.24	\$41.51	\$31.60
<i>As % of DC's Rate:</i>		0.55	0.41	0.62	0.77	0.59
<b>Property tax/Sq Ft</b>						
Small Buildings	\$7.68	\$2.78	\$2.80	\$3.26	\$4.15	\$3.59
Large Buildings	\$7.68	\$2.42	\$2.45	\$2.85	\$3.62	\$3.13
<b>Property Tax Burden</b>						
Small Buildings	<b>\$12,295</b>	<b>\$4,452</b>	<b>\$4,487</b>	<b>\$5,218</b>	<b>\$6,637</b>	<b>\$5,740</b>
Large Buildings	<b>\$245,894</b>	<b>\$77,558</b>	<b>\$78,351</b>	<b>\$91,104</b>	<b>\$115,885</b>	<b>\$100,214</b>

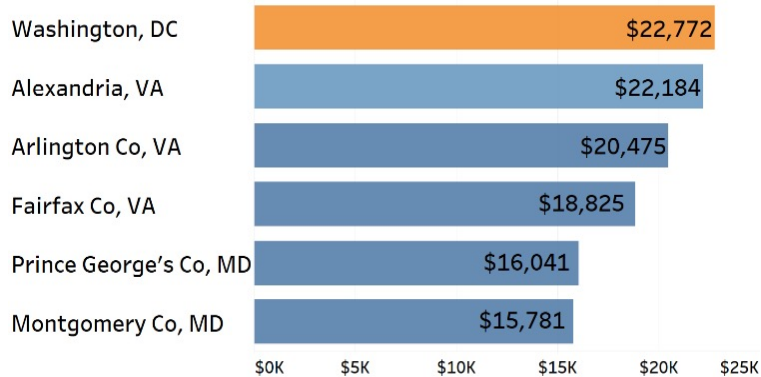
# Total Taxes as a % of Gross Receipts Averaged Across Both Firm Scenarios



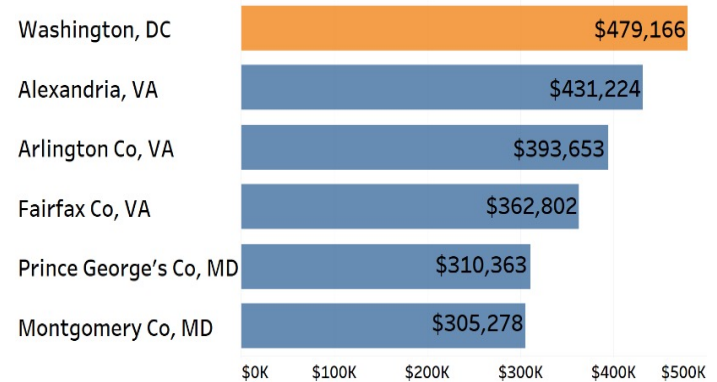
# 2020 Tax Burden Results



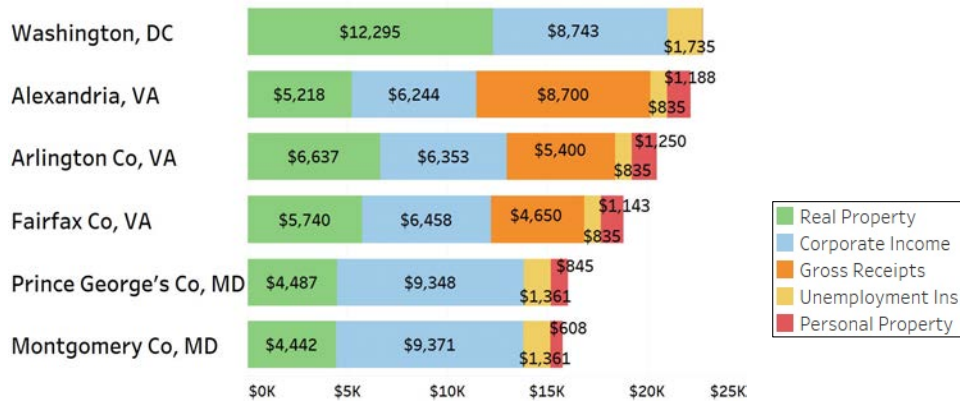
## Total 2020 Tax of Firm #1 - Small Corporation



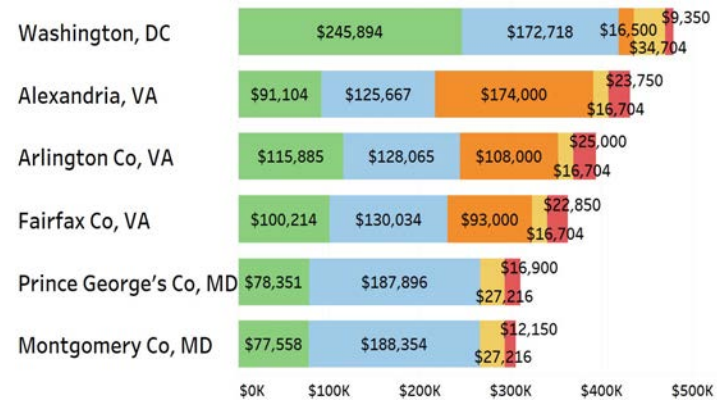
## Total 2020 Tax of Firm #2 - Large Corporation



## Composition of Tax of Firm #1 - Small Corporation



## Composition of Tax of Firm #2 - Large Corporation

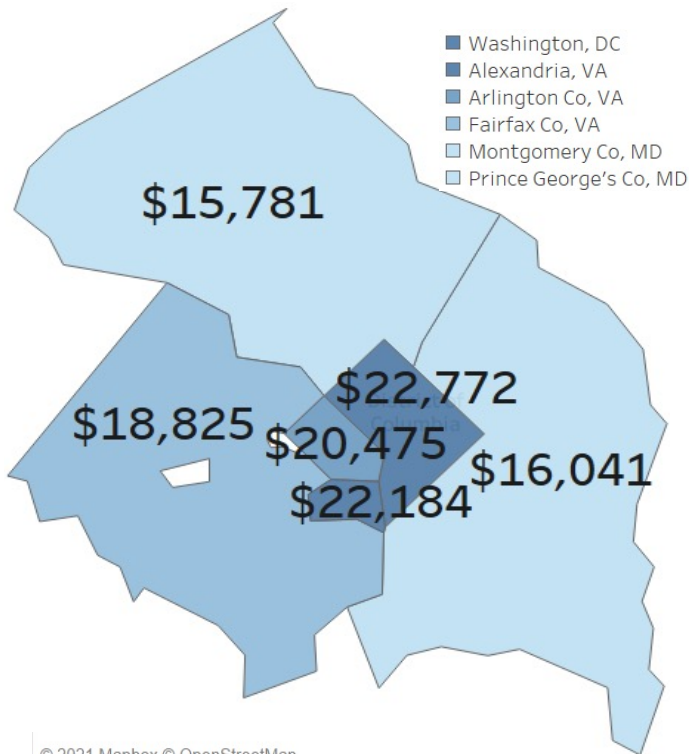




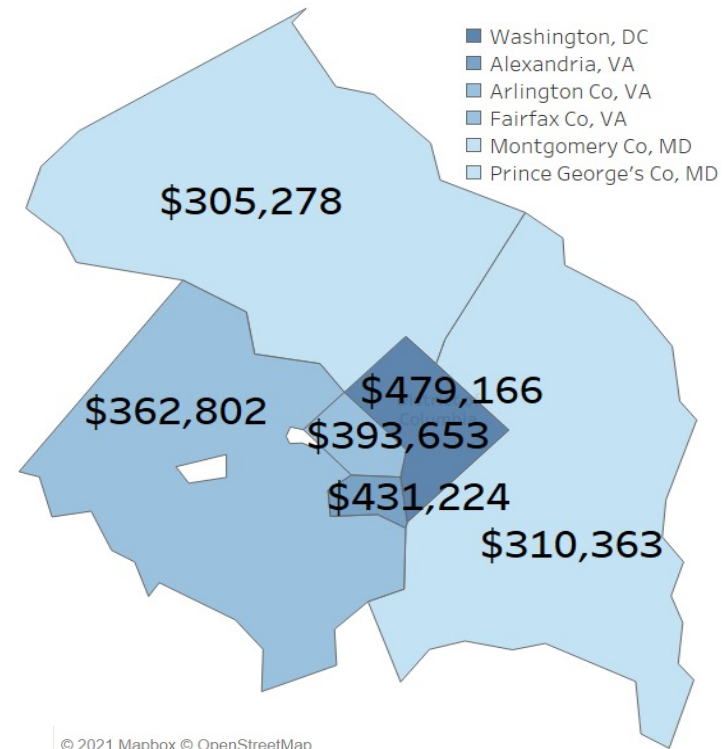
# Maps of 2020 Total Tax Burdens



**Firm #1, Small Corporation**



**Firm #2, Large Corporation**



# Limitations



- Focus on business and professional sector; does not look at other industries
- Focus on C-corporation; does not include other corporate structures such as pass-through entities
- Does not consider the treatment of foreign source income or impact of combined reporting
- Does not include deed recordation taxes or sales taxes
- Does not include paid family leave payroll tax in DC

# Observations



- The taxes included make up a small share – less than 2% – of the firms’ gross receipts.
- Higher District property values combined with higher property tax rates cause the firms in DC to have the highest taxes in both scenarios.
- Despite these tax differences, DC has a vibrant business climate with a diverse commercial sector. Businesses locate in urban cores like DC despite higher costs for various reasons, such as access to talent and customer bases. For example, the total number of business establishments in DC increased by 13.8 percent from 2007 to 2017.



Thank you!  
Questions?



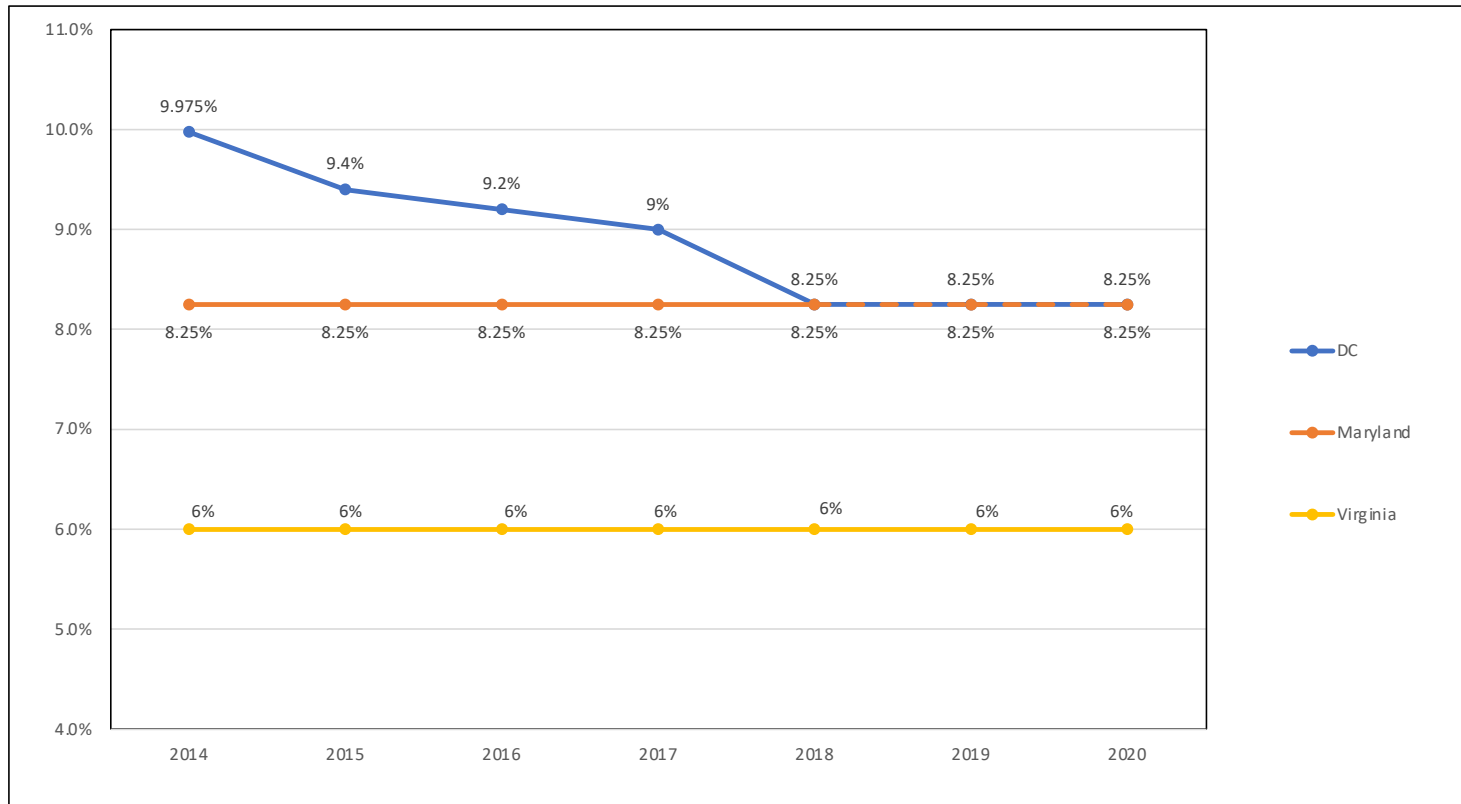
Extra Slides provide a table of tax burden results and information on DC's commercial tax rates in comparison to its metro area neighbors.

# 2020 Tax Burden Results

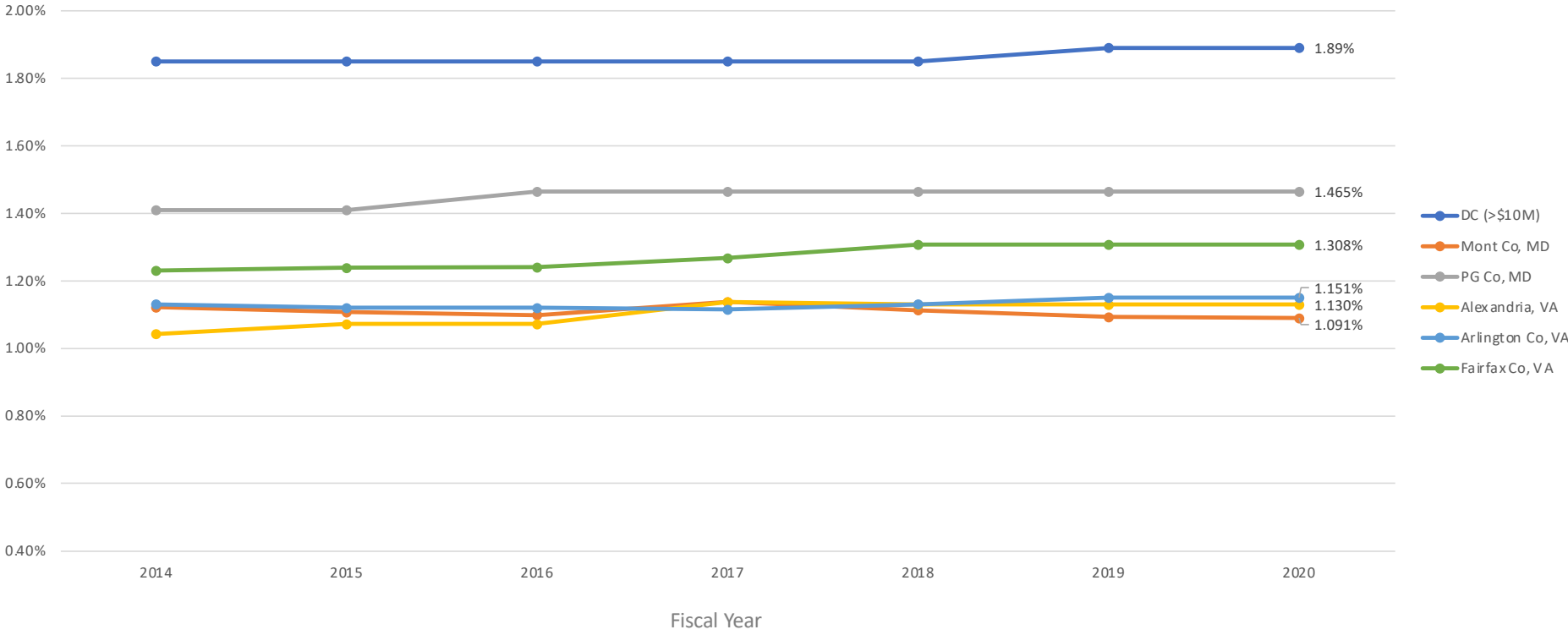


<u>Calculated with Tax Rates As of Jan 1, 2020</u>	District of Columbia	Montgomery County	Prince George's County	City of Alexandria	Arlington County	Fairfax County
	DC	MD	MD	VA	VA	VA
<b>1 Small Business (GR=\$1.5m; Taxable Inc=\$120k, 8 emp)</b>						
Real Property	\$ 12,295	\$ 4,442	\$ 4,487	\$ 5,218	\$ 6,637	\$ 5,740
Corporate Income	8,743	9,371	9,348	6,244	6,353	6,458
Gross Receipts	0	0	0	8,700	5,400	4,650
Unemployment Insurance	1,735	1,361	1,361	835	835	835
Personal Property	0	608	845	1,188	1,250	1,143
<b>Total</b>	<b>22,772</b>	<b>15,781</b>	<b>16,041</b>	<b>22,184</b>	<b>20,475</b>	<b>18,825</b>
<b>Tax as a % of Revenue</b>	<b>1.52%</b>	<b>1.05%</b>	<b>1.07%</b>	<b>1.48%</b>	<b>1.36%</b>	<b>1.26%</b>
<b>2 Large Business (GR=\$30m; Taxable Inc=\$2.4m, 160 emp)</b>						
Real Property	\$ 245,894	\$ 77,558	\$ 78,351	\$ 91,104	\$ 115,885	\$ 100,214
Corporate Income	172,718	188,354	187,896	125,667	128,065	130,034
Gross Receipts	16,500	0	0	174,000	108,000	93,000
Unemployment Insurance	34,704	27,216	27,216	16,704	16,704	16,704
Personal Property	9,350	12,150	16,900	23,750	25,000	22,850
<b>Total</b>	<b>479,166</b>	<b>305,278</b>	<b>310,363</b>	<b>431,224</b>	<b>393,653</b>	<b>362,802</b>
<b>Tax as a % of Revenue</b>	<b>1.60%</b>	<b>1.02%</b>	<b>1.03%</b>	<b>1.44%</b>	<b>1.31%</b>	<b>1.21%</b>

# Metro Area Corporate Income Tax Rates



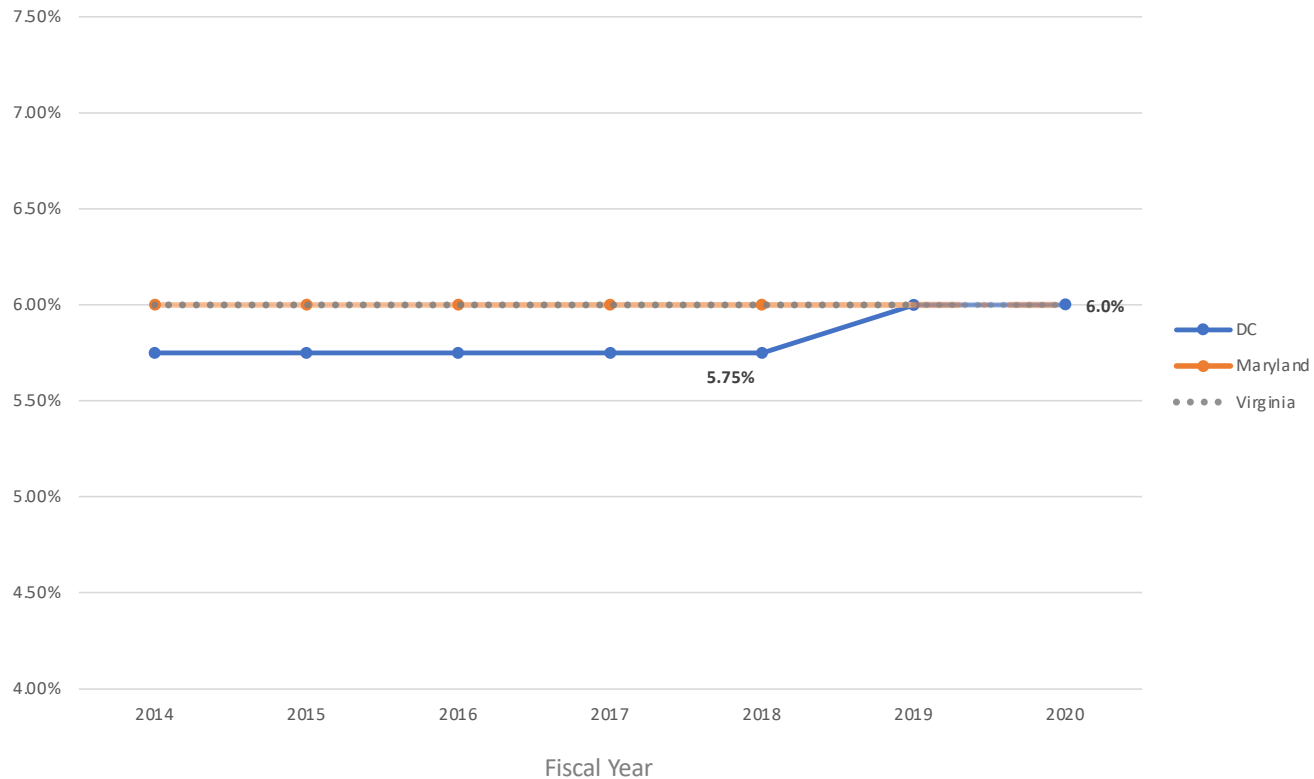
# DC Metro Area Commercial Property Tax Rates



Note: DC tax rate is \$1.65/\$100 of assessed value on assessed values < \$5 million and \$1.77/\$100 of assessed value for assessed values between \$5 to \$10 million.



# DC Metro Area Sales Tax Rates



Note: Sales taxes not included in study.

# Metro Area State and Local Tax Rates Included



Rates as of January 1, 2020, unless noted	District of Columbia	Montgomery County	Prince George's County	City of Alexandria	Arlington County	Fairfax County
	DC	MD	MD	VA	VA	VA
<b>Commercial Real Property Tax (per \$100 of Assessed value)<sup>1/</sup></b>	\$1.65/1.89	\$1.091	\$1.465	\$1.130	\$1.151	\$1.308
<b>Corp Income Tax</b>	8.25%	8.25%	8.25%	6.0%	6.0%	6.0%
<b>Gross Receipts (GR) Tax (VA rates listed are for professional services firms)</b>	Max \$16,500 on GR > \$5,000,000	N/A	N/A	\$0.58/\$100 of GR > \$100,000	\$0.36/\$100 of GR > \$100,000	\$0.31/\$100 of GR > \$100,000
<b>Unemployment Insurance Taxes<sup>2/</sup> (Average 2019 rate)</b>	2.41% of first \$9,000/employee	1.89% of first \$8,500/employee	1.89% of first \$8,500/employee	1.16% of first \$8,000/employee	1.16% of first \$8,000/employee	1.16% of first \$8,000/employee
<b>Personal Property Tax (per \$100 of Assessed value)<sup>3/</sup></b>	\$3.40 (\$225,000 exempt)	\$2.43	\$3.38	\$4.75	\$5.00	\$4.57

<sup>1/</sup> DC Commercial property tax rates: \$1.65/\$100 of assessed value for property assessed <\$5mil; \$1.77 for property assessed between \$5-10mil; and \$1.89 for property assessed >\$10mil. Rates for Montgomery and Prince George's Counties include multiple applicable local tax rates and the MD state rate of \$0.112. Arlington rate includes stormwater fee and capital transportation fee. Fairfax County rate includes base rate plus commercial transportation district tax (additional commercial property taxes would apply in certain districts, such as near Dulles, Route 29, Reston, or Tysons).

<sup>2/</sup> Average rates for 2019 used for Jan. 1, 2020 analysis. Average 2020 rates: DC: 2.40%, MD: 1.82%, and VA: 1.37%.

<sup>3/</sup> Rates for Maryland jurisdictions include local rates for stormwater, WSTC, and MNCPP.