

The District Opens for Business

2000-10-09

A watershed event will occur in the District on Thursday, October 12th--the D.C. Council will markup the "New E-Conomy Transformation Act of 2000." The Act represents the District's commitment to become a significant player in the technology economy. Among other things, it provides:

Employment incentives by creating tax credits against the D.C. franchise tax for qualified high technology companies that relocate, hire and retrain employees;

Real estate incentives by providing lease guarantees for facilities occupied by a qualified company, redeploying vacant properties and underutilized school space to qualified companies, and freezing real estate tax assessments on improvements needed to upgrade certain D.C. properties; and

Other tax incentives, such as providing personal property tax exemptions equal to 75% for the first five years and 50% for the next five years; exempting from sales tax certain purchases and sales; reducing the corporate franchise tax to 6% for qualified companies; eliminating the corporate franchise tax for qualified companies in designated high technology empowerment zones for five years; and increasing permitted expense deductions for qualifying personal property expenditures to \$40,000.

As in the case of the federal income tax code, a constantly evolving body of law, the Act should be the first of several D.C. tax initiatives focused on enabling D.C. to more fully participate in the New E-conomy and expand economic opportunities to all sectors of the city.

Future tax legislation might specifically address how qualified companies can effectively utilize deductions and credits created by the Act. Many startup and emerging companies incur losses for many years before they become taxpaying entities. If these types of businesses are the primary beneficiaries of the Act, the incentives should not significantly reduce D.C.'s tax receipts. On the other hand, since these entities may not be able to apply the deductions or credits against taxable income for many years into the future, the real value, and therefore incentive effect, may be limited. An approach which D.C. might consider in future legislation is to permit startup and emerging companies to sell net operating losses created by these deductions and credits so that more capital actually flows to qualifying companies.

Future tax legislation might also minimize the burden on the executive branch of the D.C.

government in implementing the Act. Given the size of the District and the myriad of issues already being addressed, imposing certification or similar processes to enable a taxpayer to benefit from tax incentives is costly and reduces the likelihood of success.

Additional real estate tax incentives could address the shortage of space alternatives for high technology companies. During the 1980's, at the height of federal real estate tax incentives, there was more than one billion square feet of empty space nationwide, confirmation of the ability of real estate developers to learn about and utilize tax incentives.

Future tax legislation might also expand incentives for industries other than the high technology sector. If quality of life is a major issue for technology companies and their employees, attracting more retail and residential development through additional D.C. tax incentives, to truly make D.C. a living downtown, would help.

Finally, conforming the D.C. tax provisions to the Internal Revenue Code (to the extent possible) would streamline interpretation and auditing processes for D.C. An easy fix would be for D.C. to recognize S corporations as have most jurisdictions nationwide.

In summary, the Act widens the highway for a technology sector that is already moving in the direction of D.C.

The renaissance of the District of Columbia is already well underway. Young technology and professional employees, who desire a real urban experience, are focused on living and working downtown. Internet use, domain registrations and the number of Ph.D.s per capita are higher in the District than anywhere in the nation. Washington has the most museums in the world. And, perhaps most importantly, Metro's multibillion dollar transportation infrastructure should enable D.C. to complete what Peter Hall, Professor of Planning at University College London, recently described as the "virtuous circle," the ability to attract high quality people because the quality of life in the city is perceived as higher.

Shortly after taking office, Mayor Williams announced that the District is open for business. The Act demonstrates that the District is also listening to business.