

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Chief Financial Officer**



Natwar M. Gandhi  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Vincent C. Gray  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi  
Chief Financial Officer 

**DATE:** APR 25 2008

**SUBJECT:** Fiscal Impact Statement: "Unincorporated Franchise Tax Filing Threshold Amendment Act of 2007"

**REFERENCE:** Draft – No Bill Number Available

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**Conclusion**

Funds are not sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation would result in reduced revenues of \$102,000 in FY 2008 and a total of \$1.61 million in the FY 2008 through FY 2011 period.

**Background**

The proposed legislation would amend D.C. Official Code § 47-1805.02 to increase the filing threshold for unincorporated businesses required to file tax returns in the District of Columbia. Under current law, an unincorporated business with a gross income of \$12,000 or greater in a given year is required to file an income tax return for that year. The proposed legislation would increase this threshold to \$25,050, increased annually beginning October 1, 2008 (TY 2009). The threshold would be indexed to the Consumer Price Index-All Urban Consumers (CPI) for the Washington-Baltimore Metropolitan Statistical Area (MSA), rounded down to the nearest \$50.

**Financial Plan Impact**

Funds are not sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation would reduce revenues by \$102,000 in FY

2008 and by a total of \$1.61 million in the FY 2008 through FY 2011 period. The proposed legislation would exempt approximately 2,410 unincorporated businesses, or 16% of current unincorporated franchise tax filers, from paying the tax.

<b>Estimated Impact to the Financial Plan of the Unincorporated Franchise Tax Filing Threshold Amendment Act of 2007</b>					
<b>(S in thousands)</b>					
<b>Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>4 - Year Total</b>
<b>Reduced Revenue*</b>	\$102	\$457	\$503	\$552	<b>\$1,614</b>

\* This analysis is based on data from FY 2006, the latest year for which complete data are available. To estimate the revenue loss for FY 2008, the growth rates in collections of unincorporated business franchise taxes from FY 2007 and FY 2008 (15.8% and -2.4%, respectively) were applied to the FY 2006 total estimated loss. Estimated revenue loss for FY 2008 is based on implementation of increased threshold in the fourth quarter only of the fiscal year. Growth in revenue loss in FY 2009 through FY 2011 is based on the estimated changes in unincorporated business tax collections in the OCFO's February 27<sup>th</sup> revised revenue forecasts.