

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



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: September 17, 2013

SUBJECT: Fiscal Impact Statement – “Living Wage Tax Credit Emergency Act of 2013”

REFERENCE: Draft Bill shared with the Office of Revenue Analysis on September 16, 2013

Conclusion

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. The bill will have no costs in FY 2014 or FY 2015, but will cost \$1.2 million over the four year financial plan period. The bill’s implementation is subject to its inclusion in an approved budget and financial plan.

Background

The bill provides a \$1,000 tax credit per employee to any large retailer¹ for each of its employees who have been full-time for one year, are residents of the District, have a salary less than \$50,000 per year and make a living wage. The bill defines living wage for the purposes of the tax credit as \$12.50 per hour.²

The tax credit is non-refundable and can be used against corporate and unincorporated business income taxes. Additionally, no existing retailers with employees who make the business eligible for the tax credit can take advantage of the credit until tax year 2017.

¹ Large retailers are defined in the bill as those whose parent companies generate \$1 billion in gross revenues annually and whose District based retail operation is 75,000 square feet or larger.

² D.C. law currently defines the living wage as \$11.75 (Way to Work Amendment Act of 2006). The Council recently proposed raising the living wage to \$12.50 for large retailers, but that bill was vetoed by the Mayor on September 12, 2013 (Large Retailer Accountability Act of 2013). This proposed wage can include the value associated with fringe benefits such as health, retirement, disability, or other paid leave and must be raised annually by the Consumer Price Index.

Financial Plan Impact

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. Implementation of the bill will have no costs in FY 2014 or FY 2015, but will cost \$1.2 million over the four year financial plan period and is subject to its inclusion in an approved budget and financial plan.

The fiscal impact of the bill only applies to any newly established large retailers. The Office of Revenue Analysis is aware of plans for six such establishments which are likely open for business over the next four years. Because the bill requires the employees to be full-time for twelve months prior to receiving the credit, no credits can be requested until FY 2016. The financial impact is also limited because many large retailers are trending toward hiring more part-time and temporary workers³ and the \$1,000 tax credit is not expected to be significant enough to incentivize hiring more District resident workers at the higher wage.⁴

Fiscal Impact of the Living Wage Tax Credit Emergency Act of 2013					
FY 2014 – FY 2017					
	FY 2014	FY 2015	FY 2016	FY 2017	Total
Tax Credits ^a	\$0	\$0	\$401,000	\$801,000	\$1,202,000

Table Notes

^a Of the six planned large retailers, three are expected to open in FY 2014 and three are expected to open in FY 2015.

As the economy continues to recover in the District, it is likely more large retailers will be established and costs could be significant outside of the financial plan period.

³ *Analysis: Obamacare, Tepid U.S. Growth Fuel Part-Time Hiring* (<http://www.reuters.com/article/2013/08/21/us-usa-economy-jobs-analysis-idUSBRE97K05K20130821>).

⁴ A full-time retail employee works roughly 31.5 hours per week and the tax credit may only provide an incentive to increase the salaries of roles that pay between \$11.89 and \$12.50 – roughly 4 percent of expected roles. Additionally, District residents are expected to be 46 percent of total employees.