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

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Linda W. Cropp** **Chairman, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	**December 1, 2003**
SUBJECT:	**Fiscal Impact Statement: "Bonus Depreciation De-Coupling From the Internal Revenue Code Emergency Act of 2003"**
REFERENCE:	**Draft Legislation as Introduced - No Bill Number Available**

Conclusion

The proposed legislation will prevent a decrease of local General Fund revenue. Without the proposed legislation, the potential net loss of revenue would be $3.2 million in FY 2004 through FY 2007. There would be no fiscal impact in FY 2004, but a potential loss of $4 million in FY 2005.

Background

The federal Economic Stimulus Act of 2002 increased first year depreciation by an additional 30 percent for business assets acquired after September 10, 2001 and before September 11, 2004. Last year Council action prevented this change in the Federal tax law from reducing the revenue of the District.

The proposed legislation will amend D.C. Code Title 47 § 1803.03(a)(7) which has a temporary provision to disallow this increase in depreciation for District tax purposes. Recently the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 extended the provisions of the 2002 Economic Stimulus Act from September 11, 2004 to January 1, 2005. The proposed legislation will continue to disallow this increase in depreciation in local law for the same period.

Financial Plan Impact

The proposed legislation will prevent a decrease of local General Fund revenue. In the absence of the proposed legislation, there would be a potential loss of $4 million in FY 2005 and a net loss of revenue would be $3.2 million in FY 2004 through FY 2007. The table in Figure 1 presents the potential revenue impact over the life of the current financial plan.

Figure 1.

Impact to the Financial Plan ($ in 000s)				
FY 2004	**FY 2005**	**FY 2006**	**FY 2007**	**4 - Year Total**
$0	($4,000)	$400	$400	**($3,200)**

The positive effects on revenue arise from the fact that the depreciation deducted in 2005 reduces the basis for depreciation that the companies use on the declared property. Depreciation deductions taken in subsequent years are consequently reduced. These figures assume a 10-year average depreciation period and the use of the straight-line method.