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

Jeff DeWitt
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Phil Mendelson** **Chairman, Council of the District of Columbia**
FROM:	**Jeff DeWitt** **Chief Financial Officer**
DATE:	**November 13, 2014**
SUBJECT:	**Fiscal Impact Statement – "Promoting Economic Growth and Job Creation through Technology Act of 2014"**
REFERENCE:	**Bill 20-945, Committee Draft Shared with the Office of Revenue Analysis on October 10, 2014**

Conclusion

Funds are sufficient in the FY 2015 through FY 2018 budget and financial plan to implement the bill.

The tax rate reduction on certain capital gains approved by the bill will not be in effect until FY 2019. Once in effect, these reductions could reduce individual income tax revenue by up to $13 million annually.

Background

The bill limits the tax on capital gains from the sale of an investment in a District of Columbia Qualified High Technology Company (QHTC) to 3 percent for tax years beginning after December 31, 2018. The lowered tax rate would be applicable if the investment is made after the bill is enacted and is effective; the investment is entirely in the stock of a QHTC, and the investor held it for at least twenty-four continuous months; and at the time of the investment, the QHTC was not publicly traded company. Under current law, capital gains from the sale or exchange of stocks in a QHTC, whether individual income or business income is taxed at the statuary rate.

Financial Plan Impact

Funds are sufficient in the FY 2015 through FY 2018 budget and financial plan to implement the bill.

The first year individuals can claim this tax credit is in FY 2019, which is outside of the financial plan. Beginning this year, the tax rate reduction approved by the legislation will reduce individual income tax collections. The bill limits the lower tax rate to investments in companies that were not publicly traded at the time of the investment. While this requirement narrows down the universe of the eligible investors, the amounts could be substantial. QHTCs are a growing part of District's economic base. District's corporate tax database shows that while only 1.2 percent of corporations in the District are registered as QHTC's, these companies account for 7 percent of the gross income in the city. As a result, for DC residents (mostly employees in these firms and angel investors) the capital gains from their investments could be substantial. The Office of Revenue Analysis estimates that the foregone revenue could be up to $13 million period.