

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



Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

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

FROM: Jeffrey S. DeWitt
Chief Financial Officer

DATE: May 14, 2019

SUBJECT: Fiscal Impact Statement –Amendment to the Fiscal Year 2020 Budget
Support Act of 2019 “Downloading Lost Revenues Amendment Act of 2019”

REFERENCE: Draft amendment as shared with the Office of Revenue Analysis on May 14, 2019

Conclusion

The amendment increases the revenue incorporated into the Mayor’s proposed fiscal year 2020 budget by \$15.8 million and by a total of \$77 million in the fiscal year 2020 through fiscal year 2023 financial plan. The amendment dedicates the revenue for several spending purposes. The Office of Tax and Revenue will have administrative costs to implement the amendment that will need to be incorporated into the proposed fiscal year 2020 budget, but any such costs can be funded through the increased revenues.

Background

The bill repeals or alters several tax incentives offered to Qualified High Technology Companies (QHTC). A high-technology company is considered “qualified” if it (1) has two or more qualified employees in the District, and (2) derives at least 51 percent of gross revenues earned in the District from technology-related goods and services.

Currently, a QHTC is allowed a credit against its business tax liability equal to 10 percent of the wages paid during the first 24 months of employment to a qualified employee hired after December 31, 2000. The credit for each qualified employee may not exceed \$5,000 per taxable year. If the credit

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FIS: "Downloading Lost Revenues Amendment Act of 2019" as shared with the Office of Revenue Analysis

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exceeds the amount of tax otherwise due to a high-technology company, the unused amount of the credit may be carried forward for 10 years. The amendment reduces the credit for each qualified employee hired after December 31, 2019 to 5 percent of wages not exceeding \$3,000 per taxable year and eliminates the carry-forward period for such employee credits.

Also, QHTC's are eligible for a credit equal to an exemption of business franchise taxes for five years and thereafter reduces the rate to 6 percent. The amendment limits the reduced rate of income tax to 6% for no more than five years, provided that the total amount of credit a QHTC may receive does not exceed \$250,000 in a taxable year.

QHTC's also currently benefit from sales tax exemptions. Gross receipts of high-technology companies who make sales of certain eligible products and services within the District of Columbia are exempt from sales tax. Further, certain high-technology purchases are also exempt from sales tax when purchased for use in connection with the operation of the Qualified High Technology Company. The amendment repeals these exemptions.

Financial Plan Impact

The amendment increases the revenue incorporated into the Mayor's proposed fiscal year 2020 budget and fiscal year 2020 through fiscal year 2023 financial plan.

The Office of Revenue Analysis estimates that revenue will increase by a total of \$15.865 million in FY2020 and \$77.075 million through fiscal year 2023. The Office of Tax and Revenue has not yet reviewed the amendment for administrative costs, but similar updates to the tax code in the past have not exceeded \$100,000.

Fiscal Impact - Downloading Lost Revenue Amendment Act of 2019					
\$ in thousands	FY20	FY21	FY22	FY23	Total
Changes to wage credits for new hires	1,606	3,328	5,050	6,772	16,756
Changes to QHTC corporate franchise tax credits	3,801	3,915	4,032	4,153	15,901
Repeal of sales tax exemptions	10,458	10,897	11,311	11,752	44,418
	15,865	18,140	20,393	22,677	77,075
Implementation Costs for OTR	(100)				(100)
Net additional revenue	15,765	18,140	20,393	22,677	76,975

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The bill dedicates the additional revenues in fiscal year 2020 as follows:

Dedications of revenue (\$ in thousands)	
Income Tax	
OSSE - Birth to Three	2,400
Lead service line replacement	<u>2,907</u>
	5,307
Sales tax	
DHS - New Heights Program	375
DHS - Homeless Street Outreach	1,400
DOES - IT training	300
DBH - school-based mental health	3,000
Remainder - supportive housing services	<u>5,383</u>
	10,458