

Government of the
District of Columbia



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Interim Chief Financial Officer

A Comparison of State and Local Corporate Taxes in the DC Metro Area

Washington, DC	Fairfax County, VA
Alexandria, VA	Montgomery County, MD
Arlington, VA	Prince George's County, MD

May 2021

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Acknowledgments

The Office of Revenue Analysis (ORA) annually publishes two Tax Burden Studies focusing on the major taxes applicable to hypothetical families at five different income levels in the District and analyzing what their tax burdens would be if the families lived in the surrounding metro area jurisdictions, as well as the largest city in each state.

Building on that work and on previous business tax burden reports prepared for the District by consultants, this report marks the first time that ORA has published a report analyzing and comparing corporate business tax burdens across the DC metro area. Producing this report required careful consideration and analysis of many aspects of state and local business taxes and many ORA colleagues generously shared their time and expertise to shape the report. The primary authors are Lori Metcalf and Farhad Niami. The authors would like to thank Steve Swaim, Daniel Muhammad, Susan Steward, Jeffrey Wilkins, Peter Johansson, Yi Geng, Deborah Freis, Jamie Lantinen, Kelly Dinkins, Bob Zuraski, Charlotte Otabor, Kevin Hundelt, and Masoomah Khandan for their contributions.

I would like to thank ORA's contacts from the local metro area governments who contributed to this report by sending tax rates and related information about their jurisdictions when requested.

We welcome feedback on the report. Please contact Lori Metcalf with questions or comments at (202) 727-7775, or ora@dc.gov.

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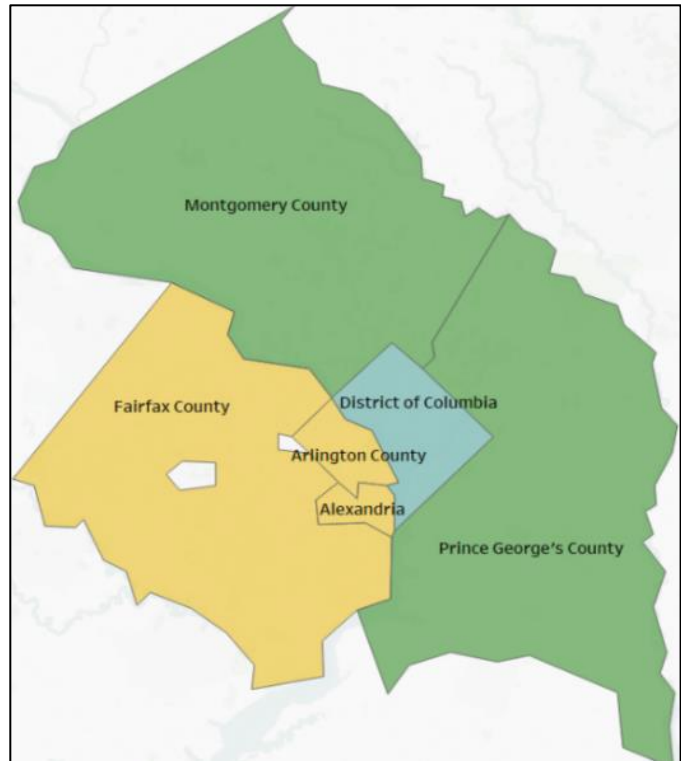
Executive Summary

Businesses consider many factors when selecting a location, such as having access to customers and the ability to attract talent. Many businesses also choose to locate in urban centers despite higher costs and legal requirements because cities offer an array of amenities.¹ This report focuses on one aspect of business costs, that of tax liability, and does not consider the differing services funded by the taxes applied in each location. Evidence is mixed on whether and how much taxes affect business location decisions.² However, the proximity of the District of Columbia to its metro area neighbors and the ease with which certain businesses can move between jurisdictions makes regional tax differences more visible.

This analysis provides a comparison of tax burdens for two hypothetical firms as if each were based in DC; Alexandria, Arlington, and Fairfax Counties in Virginia; and Montgomery and Prince George's Counties in Maryland. Nominal state and local tax rates for five major business taxes³ are applied to consistent levels of gross receipts (revenues), taxable income, and employment levels to estimate what the same firm's tax liability would be in each jurisdiction. By using consistent business scenarios to calculate hypothetical tax burdens, this study provides a valuable tool for comparing general business taxes in Washington, DC, to those of its metro area neighbors.

Comparing tax burdens in a way that captures true differences in the costs faced by business in each jurisdiction requires careful consideration.

For example, in comparing metro area real property tax burdens, applying nominal tax rates to a consistent market value across each jurisdiction would significantly underestimate a DC firm's actual tax burdens, relative to its neighbors, because land values are significantly higher in the District. To account for this difference, we employ a method that captures differences in market rental rates of property, as well as nominal property tax rates, to reflect the higher market value of District property, capturing the property taxes that would apply to an equivalent office space if it were located in any of the jurisdictions.



¹ "Trading Places: Why Firms Locate Where They Do." Centre for Cities. August 25, 2016. <https://www.centreforcities.org/reader/trading-places/businesses-locate-agglomeration/>.

² Bogart and Anderson (2005) summarize that factors such as labor costs and access to markets have been found to dominate firms' 'intermetropolitan or interregional level' decisions, yet intergovernmental differences (local tax policies) can play a significant role once a metropolitan area is selected. However, if businesses pass on the costs of taxes to consumers, then nominal differences matter less.

³ The Commercial Real and Personal Property Tax, Corporate Income Tax, Gross Receipts Tax, and the Unemployment Insurance Tax.

In other areas making a like comparison is more difficult, such as with the treatment of paid family leave benefits for employees. A new payroll tax on DC businesses to fund employees' future paid family leave benefits would increase the DC firms' tax liabilities. However, many private firms—particularly the type of professional services firms represented here—voluntarily provide this benefit and thus incur similar costs that would not be visible in a tax burden comparison. Further, all firms in Montgomery County, Maryland, are required by law to provide a minimum amount paid parental leave.⁴ While Montgomery County requires a more modest benefit than does DC, the required provision of this benefit outside of the tax system illustrates the conceptual difficulty of providing a like comparison if DC's paid leave tax were included. Doing so would reflect costs for DC firms and not for Maryland or Virginia firms, even though paid leave is a benefit paid for by many of the firms across Maryland and Virginia (and required in Montgomery County). Further information and charts on how including paid family leave would change the DC firm's tax burdens are provided in Appendix C.

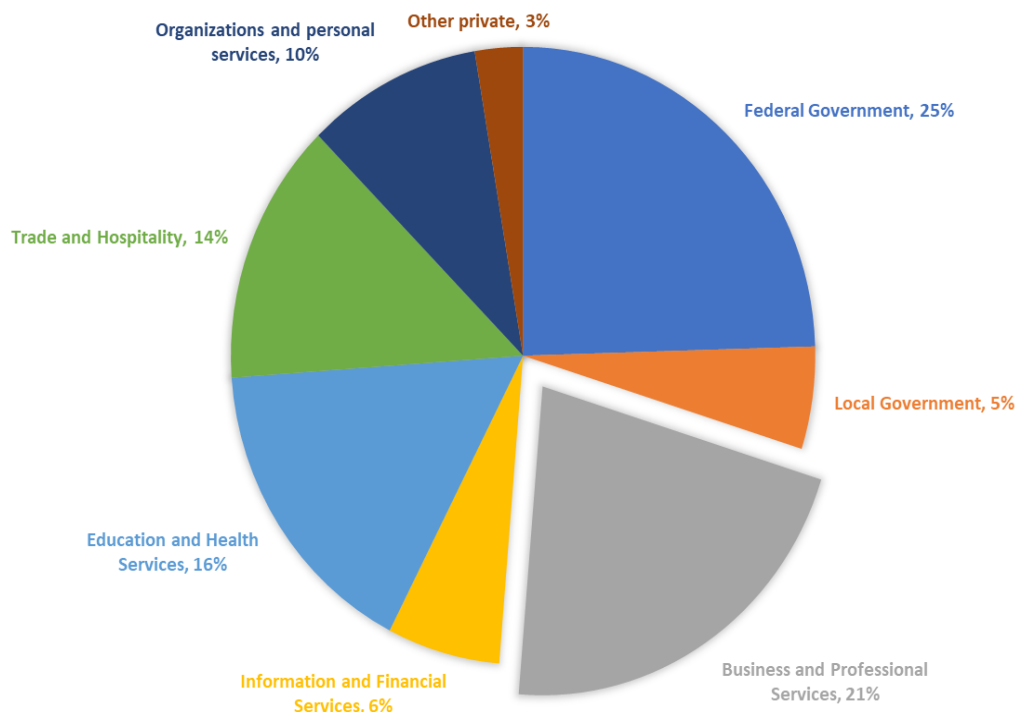
There are other features of business taxation not included in the study. Both firms are assumed to be corporations, thus tax burdens for unincorporated pass-through entities are not considered even though DC taxes the income of these firms differently than Maryland and Virginia. The type of businesses represented here may not be subject to the sales tax, but if they were, the sales tax rate is the same (6 percent) in all the jurisdictions and is excluded to simplify the analysis. However, each jurisdiction's sales tax base differs, and DC may tax more of the services that businesses are likely to use which would affect the sales tax burdens a firm would face in each of the jurisdictions. Deed transfer and recordation taxes that apply when real property is sold are not included. Further, this report does not consider the effects of combined reporting, which DC requires of all multinational companies with subsidiaries, while Maryland and Virginia do not. A full listing of assumptions and limitations is provided at the end of the report.

Selection of Business Scenarios

The selection of business scenarios to analyze is a central component of a tax burden comparison as the results depend on the set of choices for a given scenario. Using two independent analyses of District tax burdens as a starting point and analyzing recent DC corporate franchise tax data guided the process of selecting firms that are representative of the District's corporate tax base in two ways. A smaller firm with \$1.5 million in gross receipts represents the median gross receipts of all DC corporate tax filers, while a larger firm with \$30 million in gross receipts is selected to represent firms paying the majority of the District's corporate tax revenue. Levels of taxable income, operating expenses and the value of personal property are calculated as a portion of gross receipts and applied consistently across firms.

⁴"Memorandum on Bill 32-16 Earned Sick and Safe Leave – Use of Earned Sick and Safe Leave – Parental Leave." October 13, 2016. Source: https://www.montgomerycountymd.gov/council/resources/files/lms/bill/2016/Committee/pdf/2464_1035_Committee_05182017.pdf, accessed 11/19/2019.

Chart 1: Composition of DC's Employment Base



Source: District of Columbia Economic and Revenue Trends: Feb-Mar 2020, p. 5.

Nearly a third of DC's employment base is made up of the federal and local District government. The largest non-government sector in DC is the professional services industry, comprising 21 percent of employment, 27 percent of wages, and 25 percent of all establishments. As such the businesses in the study are assumed to be professional services firms.

(More detail on the selection process and assumptions made are provided on page 13 of the report.)

Business Scenarios				
	<u>Firm Type</u>	<u># of Employees</u>	<u>Annual Gross Receipts</u>	<u>Annual Taxable Income</u>
Firm #1	Small Professional Service Corporation	8	\$1,500,000	\$120,000
Firm #2	Large Professional Service Corporation	160	\$30,000,000	\$2,400,000
Business Taxes Included:		Jurisdictions Included:		
Commercial Real Property Tax		Washington, DC		
Corporate Income Tax		Montgomery County, MD		
Gross Receipts Tax		Prince George's County, MD		
Unemployment Insurance Tax		Alexandria, VA		
Personal Property Tax		Arlington County, VA		
		Fairfax County, VA		

Summary of Main Findings

- ❖ Overall, combining the total tax burdens of the five business taxes and averaging them across both business scenarios ranges from a low of 1.03 percent of gross receipts in Montgomery County, to a high of 1.56 percent of gross receipts in DC.⁵
- ❖ While DC appears to be on par with neighboring jurisdictions for the general level of business taxes presented in this report, higher property values combined with higher property tax rates cause the firms in DC to have the highest taxes in both scenarios.
- ❖ DC has the highest real property taxes for both firms. The Maryland jurisdictions have the highest corporate income taxes, followed by DC, and then the Virginia jurisdictions. Virginia firms have the highest gross receipts and personal property taxes. Unemployment taxes are highest in DC, followed by Maryland, and then Virginia.
- ❖ These findings of tax differences do not provide a full picture of DC's competitiveness. DC has a vibrant business climate with a diverse commercial sector. Businesses locate in urban centers like DC despite higher costs for various reasons, such as access to talent and customer bases, among many other amenities that cities offer. Data on DC's business sector growth provides evidence of this; for example, the total number of business establishments in DC increased by 13.8 percent from 2007 to 2017.

Summary Charts

Chart 2: Total Tax of Firm #1, Small Corporation

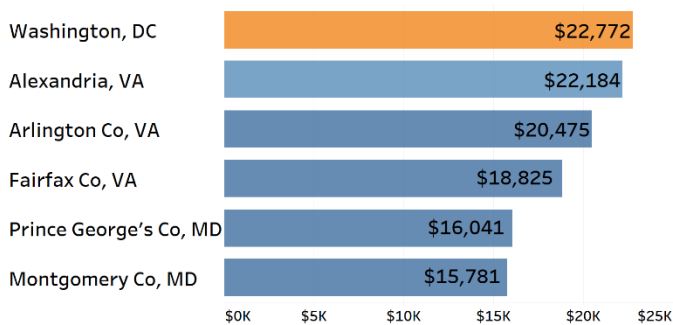
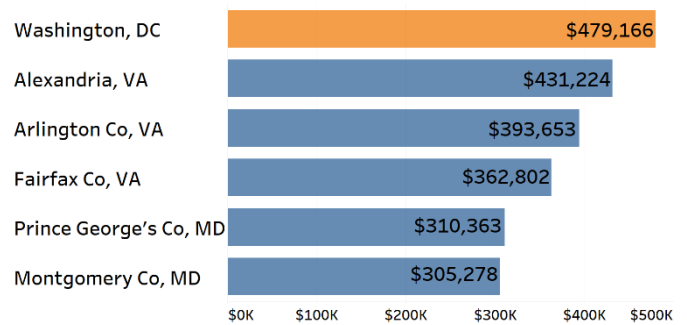


Chart 3: Total Tax of Firm #2, Large Corporation



Note: Charts do not include DC's paid family leave payroll tax.

In the report that follows, an introduction describes the scope of the report and an overview of DC businesses and business taxes to provide context for the discussion of selected business scenarios that follow. Charts summarizing the combined tax burdens of all five taxes are presented for each business scenario. Next, a table of the full findings is presented, followed by detailed charts showing the composition of the tax burden by tax type for each business scenario as well as metro area maps illustrating the tax burden differences. In closing, there is a section discussing the taxes included and main assumptions used, some limitations of the analysis, and a conclusion.

Appendices A-G present tax rates included in the study, the real property tax calculations, information on DC's paid family leave payroll tax and the unemployment insurance tax, a history of DC business tax rates, as well as a list of recent major DC tax changes affecting businesses.

⁵ The DC firms' average would increase to 1.95 percent if the paid family leave tax were included.

Introduction

Businesses consider many factors when selecting a location, such as having access to customers and the ability to attract talent. Many businesses also choose to locate in urban centers despite higher costs and legal requirements because cities offer an array of amenities, including concentration of certain economic activities, access to supply chains, infrastructure, knowledge sharing, and more.⁶ This may be even more salient in a city like Washington, DC, because of the proximity to the federal government and federal policy makers. This report focuses on one aspect of business costs, that of tax liability, and does not consider the differing services funded by the taxes applied in each location. Evidence is mixed on whether and how much taxes affect business location decisions.⁷ However, the proximity of the District of Columbia to its metro area neighbors and the ease with which certain businesses can move between jurisdictions makes regional tax differences more visible.

Comparing nominal tax rates alone provides an incomplete picture of how each jurisdiction's tax system impacts businesses, given that exclusions often apply that affect the tax base in each location. There are various ways to compare tax systems and measure tax liabilities, or tax burdens, each requiring different assumptions and methodological choices. This analysis provides a comparison of tax burdens for two hypothetical firm scenarios as if each were based in DC; Alexandria, Arlington, and Fairfax Counties in Virginia; and Montgomery and Prince George's Counties in Maryland. Nominal state and local tax rates for five major business taxes are applied to consistent levels of gross receipts, taxable income, and employment levels to estimate what identical firms' tax burdens would be in each jurisdiction. The five taxes included are the commercial real property tax, corporate income tax, gross receipts tax, personal property tax, and the unemployment insurance (UI) tax, representing most of the tax burden facing a corporation. (The five taxes and assumptions used in the calculations are described on pages 21-22 of the report).

By limiting the scope of this report to comparing the costs of major business taxes, other costs businesses face are necessarily excluded, such as government fees for services provided like utilities, parking, licenses, as well as deed recordation and transfer taxes, which apply only when a commercial building is sold.⁸ However, even focusing only on the costs of major business taxes, providing meaningful tax burden comparisons that capture true differences in a firm's costs in each jurisdiction requires careful consideration. For example, in comparing metro area real property tax burdens, applying nominal tax rates to a consistent market value across each jurisdiction would significantly underestimate the DC firm's actual tax burdens relative to its neighbors because land values are significantly higher in the district. To account for this difference, we employ a method that captures differences in market rental rates of property, as well as nominal property tax rates, to reflect the higher market value of District property, capturing the property taxes that would apply to an equivalent office space if it were located in any of the jurisdictions.

⁶ "Trading Places: Why Firms Locate Where They Do." Centre for Cities. August 25, 2016. <https://www.centreforcities.org/reader/trading-places/businesses-locate-agglomeration/>.

⁷ Bogart and Anderson (2005) summarize that factors such as labor costs and access to markets have been found to dominate firms' 'intermetropolitan or interregional level' decisions, yet intergovernmental differences (local tax policies) can play a significant role once a metropolitan area is selected. However, if businesses pass on the costs of taxes to consumers, then nominal differences matter less.

⁸ Most businesses do not incur deed and recordation taxes and thus they are not included. See Appendix for a listing of deed and recordation tax rates.

In other areas, comparison is more difficult, such as with the treatment of paid family leave benefits for employees. A new payroll tax on DC businesses to fund employees' future paid family leave benefits would increase the DC firms' tax liabilities. However, many private firms—particularly the type of professional services firms represented here—voluntarily provide this benefit and thus incur similar costs that would not be visible in a tax burden comparison. Further, all firms in Montgomery County, Maryland, are required by law to provide a minimum amount of “sick and safe” leave which can be used as paid parental leave.⁹ While Montgomery County requires a more modest benefit than does DC, the required provision of this benefit outside of the tax system illustrates the conceptual difficulty of providing a like comparison if DC's paid leave tax were included. Doing so would reflect costs for DC firms and not for Maryland or Virginia firms, even though paid leave is a benefit paid for by many of the firms across Maryland and Virginia (and required in Montgomery County). Further information and charts on how including paid family leave would change the DC firm's tax burdens are provided in Appendix C.

Beyond the conceptual challenges discussed, calculating corporate tax liabilities is a complex exercise which depends on the characteristics of each firm. However, by using consistent business scenarios to estimate hypothetical tax burdens while also accounting for differences in land values, this study provides a valuable tool for comparing general business taxes in Washington, DC, to those of its metro area neighbors.¹⁰ In presenting these descriptive findings, the study does not make an assessment of the appropriate level or mix of taxes in each jurisdiction.

⁹“Memorandum on Bill 32-16 Earned Sick and Safe Leave – Use of Earned Sick and Safe Leave – Parental Leave.” October 13, 2016. Source: https://www.montgomerycountymd.gov/council/resources/files/lms/bill/2016/Committee/pdf/2464_1035_Committee_05182017.pdf, accessed 11/19/2019.

¹⁰ Various assumptions have been made and are outlined in the sections that follow; a more in-depth study could include additional types of businesses, based on their size, type of ownership and corporate structure, employment levels, and other relevant variables.

Overview of District of Columbia Businesses

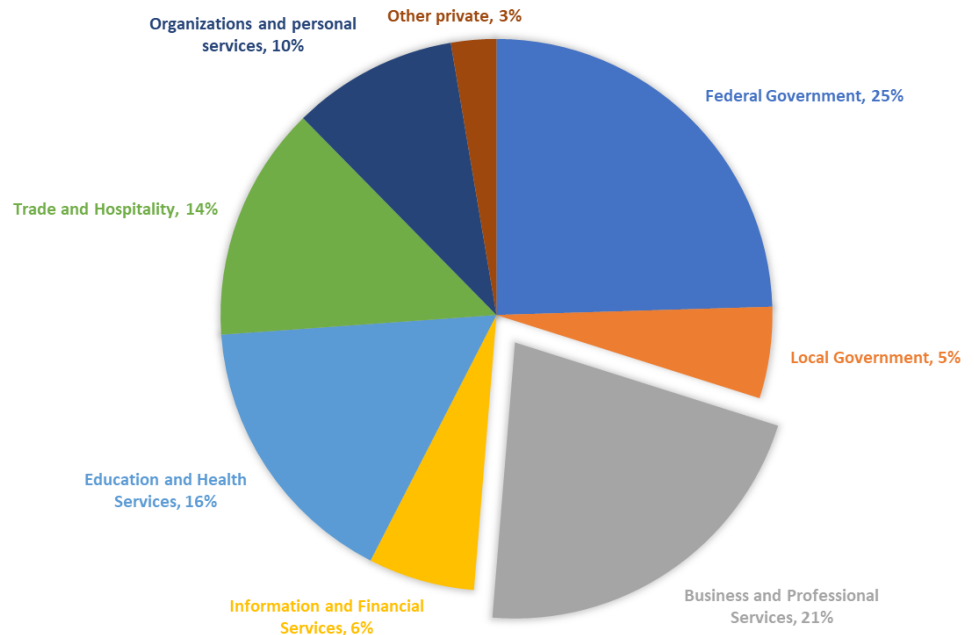
The following sections offer a snapshot of the District’s business activity using several metrics of DC businesses and business taxes. Describing a city’s employment and wage bases, array of business types, measures of businesses size, and overview of business revenues presents a high level view of the economic activity in the city while also offering context for the report and informing the selection of business scenarios that follows.

Employment and Wage Base

In the District of Columbia, the federal and local governments represent 30 percent of the employment base, providing 238,509 jobs as of December 2019. The private sector comprises 70 percent of total employment, representing about 559,808 jobs as of December 2019.¹¹ Of this employment base, the largest private sector employer is the business and professional services industry, making up 21 percent of total employment and almost 27 percent of wages paid,¹² and 25 percent of all establishments.¹³ This sector, which includes consulting and research, legal services, accounting, architecture, and design and administrative services, also represented the largest source of wage growth in DC over the last year.¹⁴

As a share of total employment, the education and health sector is the second largest, employing 16 percent of District workers and providing 10 percent of wages paid. However, many of these organizations—such as universities and hospitals—are exempt from most District taxes (as are the Federal and District governments). The third largest private sector employer in the District is the trade and hospitality sector, comprising 14 percent of total District employment, and six percent of wages as of December 2019.¹⁵

Chart 4: Composition of DC's Employment Base



Source: District of Columbia Economic and Revenue Trends: Feb-Mar 2020, p. 5.

¹¹ “Feb-March 2020 Economic and Revenue Trends.” Office of Revenue Analysis, Office of the Chief Financial Officer, District of Columbia Government. Page 5. Jobs data presented are 12-month averages ending December 2019.

¹² Ibid.

¹³ U.S. Census Bureau, 2018 County Business Patterns, Washington, DC. Released June 2020. Includes count of Professional, Scientific, and Technical Services, and Management of Companies and Enterprises.

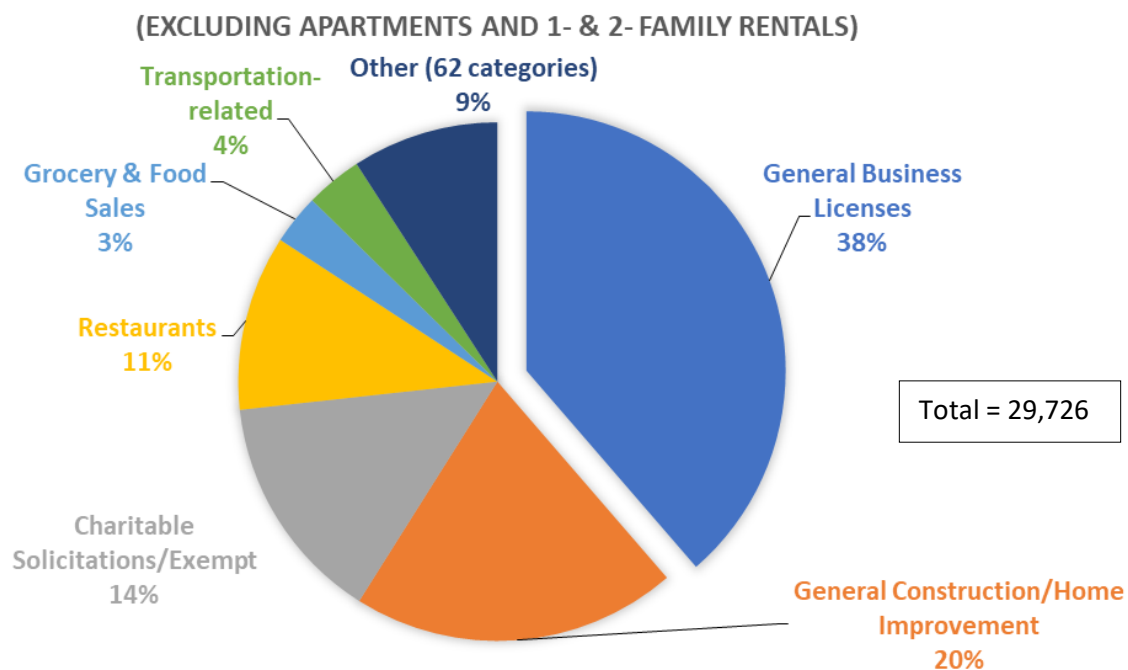
¹⁴ “Feb-March 2020 Economic and Revenue Trends.” Office of Revenue Analysis, Office of the Chief Financial Officer, District of Columbia Government. Page 5. Wage data presented are 4-quarter moving averages ending December 2019.

¹⁵ Ibid.

Business Types

Analyzing business license registrations provides an overview of the major types of businesses in the city. Of the 56,221 active registrations,¹⁶ almost half were for apartments or one- and two-family rentals. The pie chart below excludes those businesses. Of the non-rental housing portion of licenses, general business licenses made up about 38 percent of the total (the hypothetical firms in this analysis would be in this slice of the pie chart). General construction/home improvement contractors comprised about 20 percent; charitable solicitations represented 14 percent; restaurants/deli/caterers comprised 11 percent; and transportation-related businesses (parking, auto sales, and repair) represented four percent and grocery and food sales represented three percent. The remaining 10 percent of licenses included 62 business categories such as hotels, pools, barbers/salons, dry cleaners, and funeral homes.

Chart 5: Active DC Business License Registrations



Source: ORA analysis of Department of Consumer and Regulatory Affairs [Basic Business License data](#), accessed on March 11, 2021. Note: There are registrations for 26,495 apartments and 1- and 2-family rentals. The pie chart represents 53% of total registrations.

¹⁶ ORA analysis of DC business license data from Open Data DC: <https://opendata.dc.gov/datasets/basic-business-licenses>, accessed 03/11/2021. A company operating multiple locations in the city may have one active general business license, while having multiple licenses for each location, as well as multiple licenses that cover different aspects of their business. For example, a grocery store may have one general business license for all stores, and one store may also have multiple licenses for different services offered, such a deli, a parking garage, elevator, etc.

Business Size

There is no single definition of a small business, but by various metrics DC has many of them. According to the US Small Business Administration, 98.2 percent of businesses in DC are small businesses and those firms employ nearly half of the District's employees.¹⁷ Census data show that 67 percent of all establishments in the District in 2018 had nine or fewer employees.¹⁸ Using DC corporate franchise tax data to assess District firm size, 64 percent of firms reported less than \$5 million in gross receipts in 2018, and 46 percent of all firms reported less than \$1 million in gross receipts that same year.¹⁹

Business Tax Revenue

In Washington, DC, in tax year 2019, commercial property, primarily office buildings, accounted for roughly 65 percent of the real property tax revenue collected,²⁰ and 22 percent of total income tax revenues collected was from the franchise tax on incorporated and unincorporated businesses.²¹ This doesn't count the portion of business income that is reported and taxed through the individual income tax (such as for pass-through entities), or gross receipts and other taxes levied on certain businesses. Further, firms pay taxes on business transactions subject to the sales tax or deed recordation and transfer taxes. In the past several years, some changes to the District's tax structure have eased business tax burdens, while others have increased business tax burdens. (See Appendix E for historical tax rates and Appendix G for a listing of recent tax changes.)

While small businesses are the most prevalent type of business in the District, most of DC's corporate franchise tax revenue comes from a small number of large businesses. In 2018 (the latest year for which corporate franchise tax data are available), firms with gross receipts over \$25 million accounted for 20 percent of filers and 61 percent of the net corporate franchise tax paid.²²

Selection of Business Scenarios

The selection of business scenarios to analyze is a central component of a tax burden comparison as the the final results depend on the set of choices for each scenario. As a starting point for determining the hypothetical firm's financial portfolios, we gathered various assumptions of firm's gross receipts (revenues) in two prior consultants' studies of District business tax burdens.²³ In the more recent tax burden comparison (Aceituno and Yingst, 2013), all the business cases were large firms with \$30 million in gross receipts. In an earlier business tax comparison (Burgos/PriceWaterhouseCoopers, 2002), three smaller firms were selected, two with gross receipts of \$1.5 million, and a third firm with gross receipts of \$5 million. Analyzing the latest available DC corporate franchise tax data pointed to both the higher

¹⁷ "2020 Small Business Profile, District of Columbia." U.S. Small Business Administration Office of Advocacy. <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/06/04143006/2020-Small-Business-Economic-Profile-DC.pdf>, accessed 3/11/21. SBA's definition of a "small business" depends on the specific industry, as well as the level of gross revenues or number of employees of each firm.

¹⁸ U.S. Census Bureau, 2018 County Business Patterns, Washington, DC. Released June 2020.

¹⁹ ORA Analysis of 2018 DC corporate franchise tax data (N = 26,393).

²⁰ This figure only includes taxes paid on commercial property and does not include apartments or nonowner-occupied residences. For reference, total real property tax revenue in FY19, gross of transfers to TIF and PILOTs, was \$2.7 billion (roughly 28% of own-source general fund revenue).

²¹ "Tax Facts 2020." Office of Revenue Analysis, Office of the Chief Financial Officer, District of Columbia Government; page 1. Other business-specific taxes include the baseball gross receipts fee, toll telecommunications, insurance premiums, health-related taxes, and public utilities. For reference, total income tax revenue (individual + franchise tax) in FY19 was \$2.9 billion.

²² ORA analysis of the District's 2018 corporate franchise tax data.

²³ Burgos/PriceWaterhouseCoopers (2002); and Aceituno, Robert and Karen Yingst (2013).

and lower of these assumptions as appropriately representative of the District’s corporate tax base in two distinct ways.

First, for all firms in the District’s 2018 corporate franchise tax data, the median gross receipts was \$1.5 million.²⁴ Second, in 2018 firms with gross receipts over \$30 million (18 percent of filers) accounted for 57 percent of the net tax owed.²⁵ Thus, the lower assumption of \$1.5 million in gross receipts is selected to represent the median DC corporate tax filer, while the higher assumption of \$30 million in gross receipts is selected to represent firms paying the majority of DC’s corporate tax revenue. For this reason, we include a firm of each size in the current study to compare the median firm and a large corporation across jurisdictions.

To determine the level of taxable income (or profit before taxes) for the firms, Aceituno and Yingst (2013) assumed taxable income to be roughly eight percent of gross receipts.²⁶ Profit margins vary widely by firm and across industries so the use of an average will necessarily not represent all firms. The key for a tax burden comparison is that the same assumption is applied consistently across all firms and jurisdictions.

In addition to making assumptions about financial characteristics, estimating a firm’s tax liabilities requires knowing what type of business it is.²⁷ Based on the overview of District businesses presented in the previous section, the businesses in the study are assumed to be professional services firms. In addition to being the largest private sector in the city, professional services firms are the District’s “manufacturers” and therefore may have more options for locating elsewhere in the metro area while still providing the same level of goods and services.

The two firm scenarios chosen are representative of the District’s predominant private sector (the professional service industry), corporate tax filers in general, as well as the firms that make up a significant share of DC’s corporate tax base.

With these key scenario selections made, a few other characteristics need to be determined. Aceituno and Yingst (2013) assume all firms are large firms with gross receipts of \$30 million and analyze two different incorporated firms (a single state C-corporation and a multi-state C-corporation), as well as three forms of pass-through entities to highlight differing tax impacts based on a firm’s structure. For the current study, we include both a small and a large firm as well as additional taxes not considered in the Aceituno and Yingst analysis. To limit the scope of the analysis, both firms in the present study are assumed to be corporations. Levels of operating expenses and the value of personal property are calculated as a portion of gross receipts and relevant percentages are taken from Aceituno and Yingst (2013). These assumptions are further discussed in the ‘Taxes Included’ section below.

²⁴ ORA analysis of the District’s 2018 corporate franchise tax data. Latest available year of data.

²⁵ Ibid.

²⁶ A database of profit margins by industry, “[Margins by Sector](#),” compiled and updated by a corporate finance professor at the Stern School of Business at NYU shows that as of January 2019 the industry-wide (pre-tax) average was 8.89 percent, as of January 2020 the average was 7.71 percent, and as of January 2021 the average was 9.62 percent, supporting the continued use of the assumption of eight percent of gross receipts to represent taxable income. Accessed 11/19/2019, 01/15/2020, and 03/14/2021.

²⁷ For example, Virginia’s gross receipts (BPOL) tax rate varies by jurisdiction and depends on the type of firm. The rate for professional services firms is the highest in each jurisdiction.

Finally, to estimate property tax burdens and unemployment insurance tax burdens, an assumption of the number of employees is needed for each firm. Recently released Census data show that Professional Services establishments in DC with nine or fewer employees made up 73 percent of the businesses in the sector in 2018.²⁸ Further, the average wage for Professional and Business Services at the end of 2018 was \$120,680 and \$121,440 at the end of 2019.²⁹ Using these two data points, and the assumptions of gross receipts and taxable income for the firms as parameters, an assumption of eight employees was selected for the small firms. If the smaller firms employ eight persons at \$120,000 average annual salary, the share of payroll to gross receipts for the smaller firms is 64 percent. For consistency across the comparisons, this percentage is then applied to the larger firms to arrive at an assumption of 160 employees. In summary, the business scenarios below are analyzed to provide a high-level comparison of major DC metro area tax burdens. As previously noted, the assumptions for the smaller firm #1 may be more representative of a typical DC corporation, while the larger firm represented in #2 may be more representative of the largest taxpayers.

Firm Assumptions

	Firm Type¹	Annual Gross Receipts (GR)	Annual Taxable Income (8% of GR)	Operating Expenses (OE) (92% of GR)	Personal Property (1.67% of GR)	# of Employees	Wages per employee
#1	Small Corporation	\$1,500,000	\$120,000	\$1,380,000	\$25,000	8	\$120,000
#2	Large Corporation	\$30,000,000	\$2,400,000	\$27,600,000	\$500,000	160	\$120,000
¹ All firms are professional services firms.							
Business Taxes Included: Commercial Real Property Tax Corporate Income Tax Gross Receipts Tax Unemployment Insurance Tax Personal Property Tax				Jurisdictions Included: Washington, DC Montgomery County, MD Prince George's County, MD Alexandria, VA Arlington County, VA Fairfax County, VA			

²⁸ 2018 County Business Patterns, U.S. Census Bureau, Washington, DC.

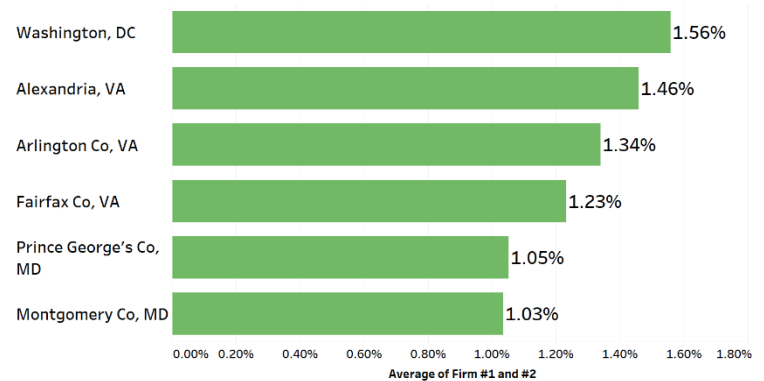
²⁹ IHS Markit, February 2021 data release, data for Quarter 4 of 2018 and Quarter 4 of 2019.

Main Findings

Overall, the combined tax burdens for the five main business taxes averaged across both firms sizes range from just over one percent (1.03%) of gross receipts in Montgomery County, Maryland, to just over one and a half percent (1.56%) of gross receipts in DC. In other words, a business would pay \$1.03 on taxable income of \$100 in Montgomery County and \$1.56 on that \$100 in DC.

For the small firms, the tax burdens range from 1.05 percent of gross receipts in Montgomery County to 1.52 percent in DC; for the large firms the tax burdens range from 1.02 percent of gross receipts in Montgomery County to 1.60 percent in DC. Chart 6 presents the average of total tax liabilities across both firm scenarios as a percent of gross receipts (revenues) for each jurisdiction.³⁰

Chart 6: Total Taxes as a % of Gross Receipts Averaged Across Both Firm Scenarios



While DC appears to be on par with neighboring jurisdictions for the general level of business taxes presented in this report, the combined tax burdens faced by both businesses are highest in DC. Liabilities under the real property tax, corporate income tax, gross receipts tax, and personal property taxes vary across each jurisdiction depending on the type of firm and applicable tax rates. Of the taxes reviewed, the real property taxes are the largest of the taxes for the DC firms, and the District's estimated real property tax burdens exceed those of its neighbors for each scenario. This is expected given DC's higher commercial property tax rates,³¹ coupled with the higher property values in the District compared with the other jurisdictions included. The Virginia jurisdictions tend to have the highest gross receipts and personal property taxes of each of the jurisdictions. For the DC firms, the corporate income taxes are the second largest tax. For the Maryland jurisdictions, the corporate income tax liabilities are the highest followed by the real property taxes.

The corporate income taxes levied by the Maryland jurisdictions are the highest overall, with Montgomery County's being slightly higher than Prince George's County for each firm, followed by the District, then Fairfax County, Arlington County, and Alexandria, in Virginia. Overall, gross receipts taxes are largest in all of the Virginia jurisdictions and in Alexandria, Virginia, gross receipts taxes are higher than corporate income taxes for both firms. Unemployment insurance (UI) taxes and personal property taxes generally are the smallest of the taxes analyzed here. UI taxes are highest in DC, followed by Maryland, and then Virginia (UI tax rates do not vary by county in this analysis). Personal property taxes are highest in Virginia, with Alexandria's being highest, followed by Arlington and Fairfax Counties.

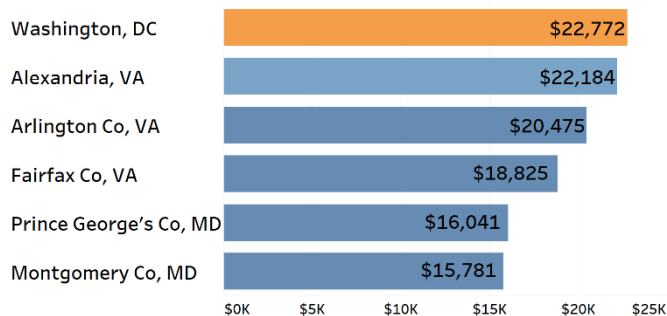
³⁰ Including the paid family leave payroll tax in DC would increase the average tax for DC firms to 1.95 percent of gross receipts.

³¹ DC's commercial property tax rates are higher than residential property tax rates, and a commercial property tax rate increase went into effect in Fiscal Year 2019.

Total Tax Burdens

The charts and descriptions below provide an overall summary of the combined taxes estimated for each firm after adding the results of each tax together.

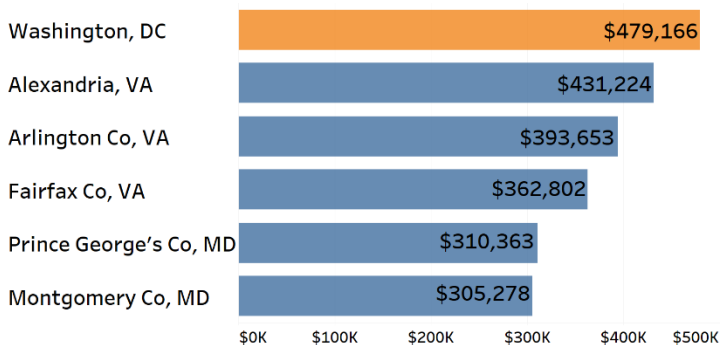
Chart 7: Total Tax of Firm #1, Small



Firm #1: For a small firm employing eight workers with \$1.5 million in gross receipts, the tax burden is nearly the same in DC and Alexandria, Virginia. The District's total tax burden is the highest at \$22,772, followed by Alexandria's at \$22,184. Arlington and Fairfax Counties in Virginia follow with total tax burdens of \$20,475 and \$18,825, respectively. Lastly Montgomery and Prince George's Counties in Maryland have the lowest total tax burdens at \$16,041 and \$15,781.

Firm #2: The larger firm with 160 employees and gross receipts of \$30 million also has the highest total tax burden in DC, at \$479,166. The high real property tax for the firm in DC reflects high property values coupled with higher property tax rates on District commercial buildings. The second highest tax for this firm is in Alexandria at \$431,224. Arlington has the third highest total tax burden at \$393,653, followed by Fairfax County at \$362,802, then Prince George's County at \$310,363 and Montgomery County at \$305,278.

Chart 8: Total Tax of Firm #2, Large Corporation



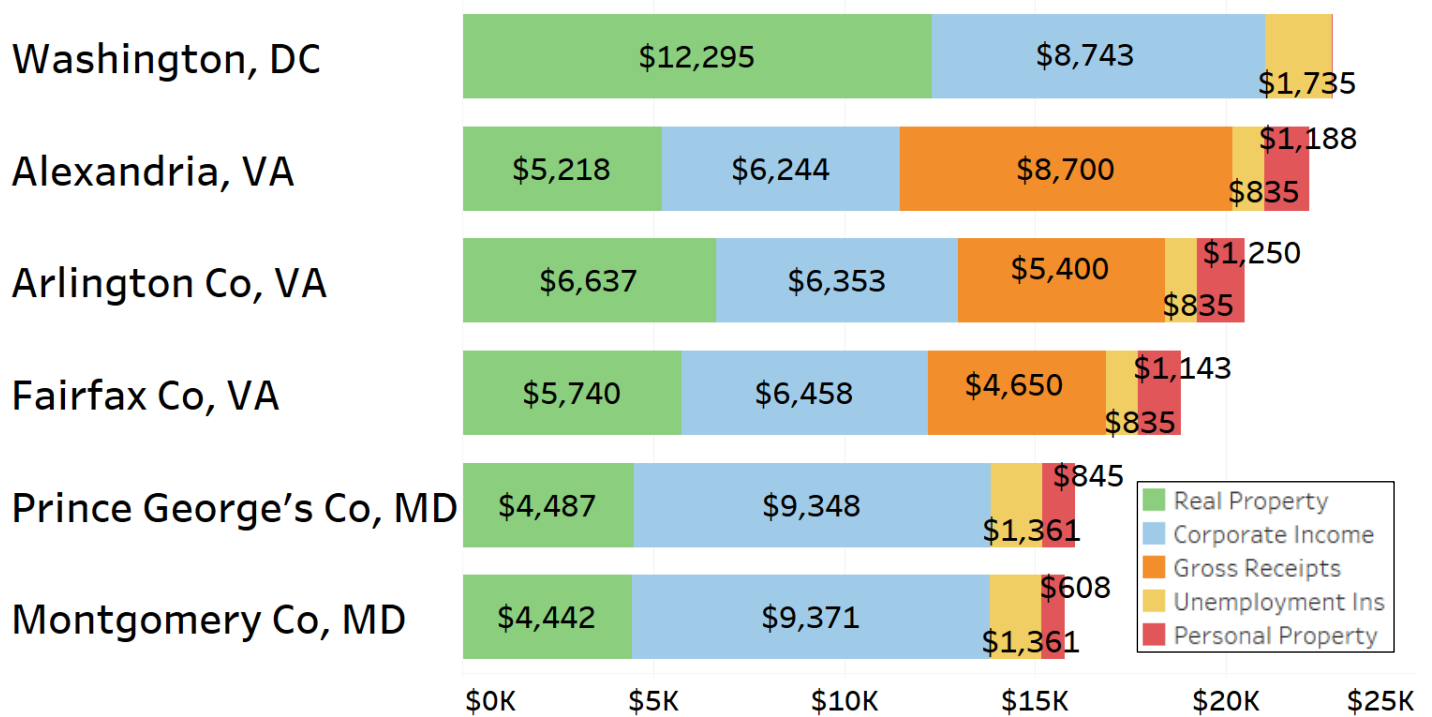
The summary table on the following page presents the estimated tax burdens by type of tax for each jurisdiction. Next, charts detailing the composition of each total tax burden by type of tax are presented for each firm, accompanied by maps illustrating the geographic distribution of total tax burdens.

Table 1: Summary of 2020 Tax Burdens, in \$

	District of Columbia	Montgomery County	Prince George's County	City of Alexandria	Arlington County	Fairfax County
	DC	MD	MD	VA	VA	VA
#1 Small Corporation (GR=\$1.5m; Taxable Inc=\$120k, 8 emp)						
Real Property	12,295	4,442	4,487	5,218	6,637	5,740
Corporate Income	8,743	9,371	9,348	6,244	6,353	6,458
Gross Receipts	0	0	0	8,700	5,400	4,650
Unemployment Insurance	1,735	1,361	1,361	835	835	835
Personal Property	0	608	845	1,188	1,250	1,143
Total Tax	22,772	15,781	16,041	22,184	20,475	18,825
Tax as a % of Revenue	1.52%	1.05%	1.07%	1.48%	1.36%	1.26%
#2 Large Corporation (GR=\$30m; Taxable Inc=\$2.4m, 160 emp)						
Real Property	245,894	77,558	78,351	91,104	115,885	100,214
Corporate Income	172,718	188,354	187,896	125,667	128,065	130,034
Gross Receipts	16,500	0	0	174,000	108,000	93,000
Unemployment Insurance	34,704	27,216	27,216	16,704	16,704	16,704
Personal Property	9,350	12,150	16,900	23,750	25,000	22,850
Total Tax	479,166	305,278	310,363	431,224	393,653	362,802
Tax as a % of Revenue	1.60%	1.02%	1.03%	1.44%	1.31%	1.21%

Source: Office of Revenue Analysis.

Chart 9: Composition of 2020 Tax Burden of Firm #1 - Small Corporation



Map 1: Firm #1 Total 2020 Tax Burden

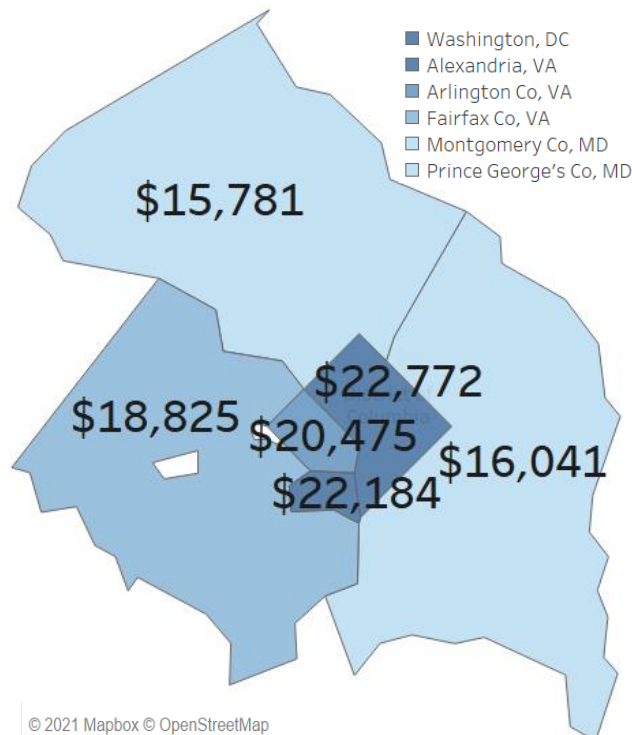
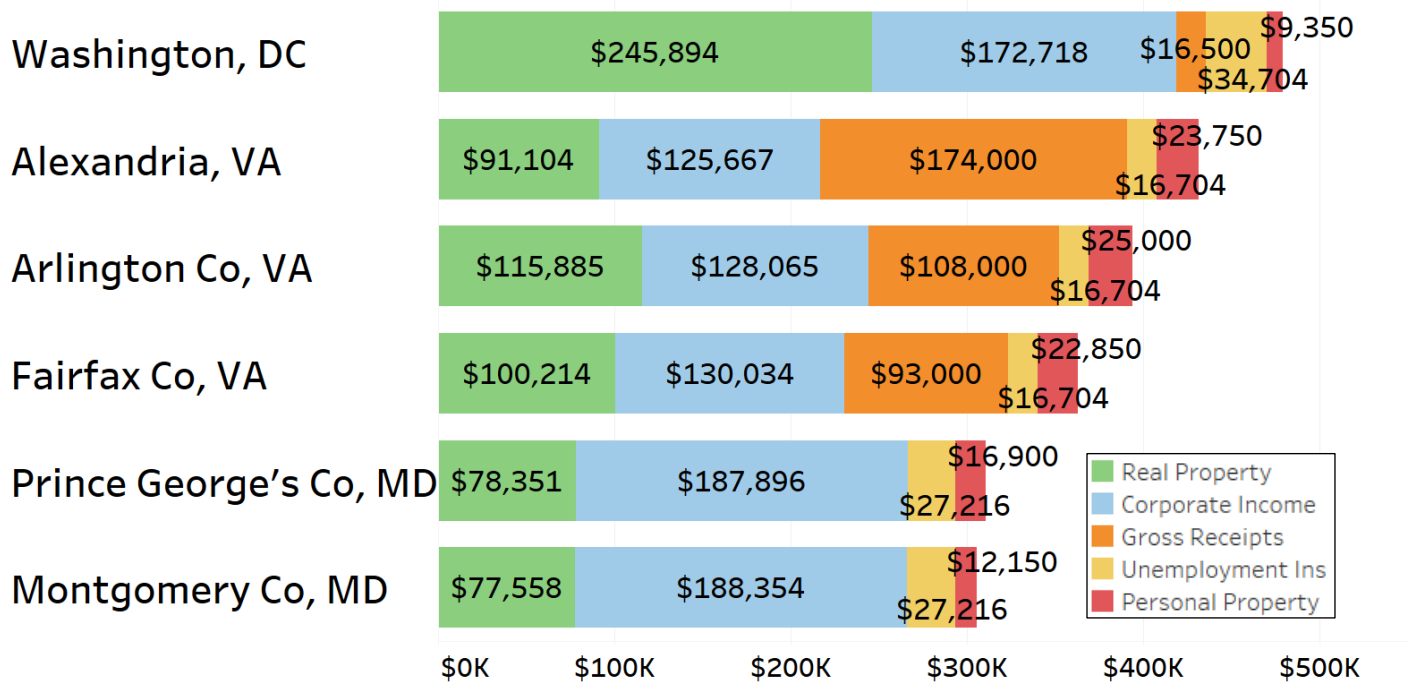
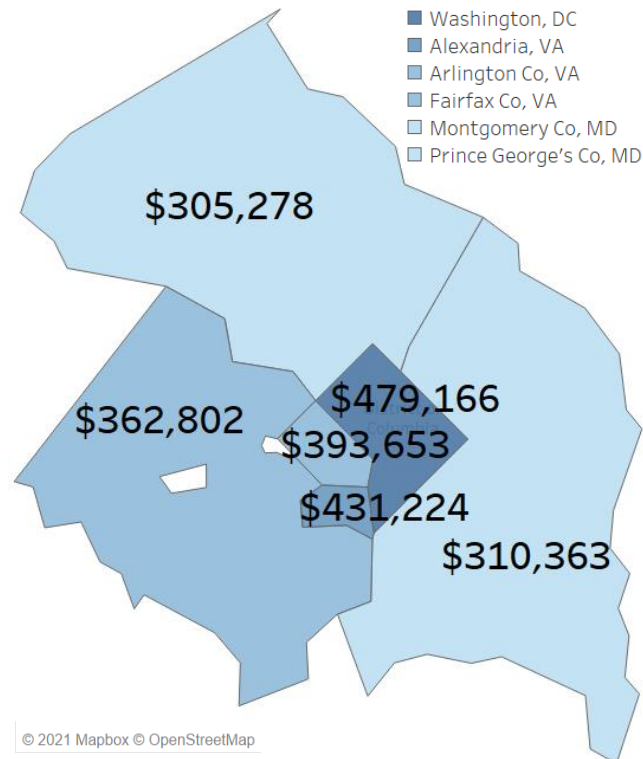


Chart 10: Composition of 2020 Tax Burden of Firm 2 - Large Corporation



Map 2: Firm #2 Total 2020 Tax Burden



Taxes Included, Assumptions Used, and Limitations

Taxes and Assumptions

This analysis includes five major taxes applicable to businesses in DC, and the corresponding taxes in Virginia and Maryland (see Appendix A for a table of tax rates included), as of January 1, 2020 (and the average UI tax rate for 2019). **Commercial property tax** rates set by local governments will be paid in some form by businesses whether they own or rent their space, and market values in each jurisdiction drive rental rates which impact property taxes owed.

To estimate property tax burdens, first the DC property tax burdens were calculated using data on total commercial property tax liabilities of offices³² from DC Real Property Tax data and total office square footage in the District to arrive at property tax per square foot.³³ This tax per square foot was then multiplied by a standard square footage for each firm, which is assumed to be 200 square feet per employee.³⁴ Since DC's property tax and rental rates are the highest in the study, the DC property tax per square foot was then scaled twice, first by the ratio of each jurisdiction's commercial real property tax rates to DC's commercial real property tax rate, and then by the ratio of each jurisdiction's office rental rates to DC's office rental rate.³⁵ Simply put, this method captures the property taxes that would apply to an equivalent office space if it were located in any of the jurisdictions.

This method considers both the property tax differential and differences in the assessed value of property (using rental rates as a proxy) across the jurisdictions and is applied consistently to each jurisdiction in the study. As a check of the methodology, data on commercial office assessments, property tax liabilities, and office square footage from Arlington and Alexandria, Virginia were used to estimate those jurisdiction's property tax burdens. The results were very close to those arrived at using the scaling methodology, adding credibility to the method. (See Appendix B for a presentation of the property tax calculations).

The District's **corporate franchise tax** applies to taxable income (profit) and there is a similar corporate income tax in both Virginia and Maryland. Taxable income is assumed to be the same amount across all firms (eight percent of GR), and depreciation is assumed to be included in the firms' operating expenses (and therefore the same across jurisdictions). The non-income taxes calculated for this report are deducted from each firm's taxable income before calculating the income tax liabilities.

In DC, a baseball park fee (**gross receipts tax**) applies to firms with gross receipts over \$5 million. Virginia has a Business, Professional, and Occupational License (BPOL) tax that applies if a firm's gross receipts exceed \$100,000, with tax rates depending on the type of business. Virginia BPOL tax rates for professional services firms apply and these are the highest rates in each jurisdiction. Maryland's gross receipts tax does not apply to general businesses and therefore is not included.

³² In measuring total office tax liabilities, we excluded some buildings that are mixed-use with both office space and condos and apartments.

³³ Total commercial office assessment data from DC's Real Property Tax data and office square footage data from Costar.

³⁴ "Why Space Matters: Density." Cushman and Wakefield blog post. June 12, 2018. <http://blog.cushwake.com/americas/why-space-matters-density.html>, accessed 11/19/2019.

³⁵ Rental rates for all classes of buildings for the fourth quarter of 2019 were retrieved from Costar.

Businesses in each jurisdiction are required to pay **unemployment insurance taxes** on a portion of employee wages. Unemployment insurance (UI) is a joint federal-state program that provides unemployment benefits to eligible workers who become unemployed through no fault of their own. Federal law establishes the guidelines that the states and DC must follow while administering a payroll tax to fund benefits.³⁶ The District, Maryland, and Virginia have comparable programs, though the District's tax on new employers, average tax rate, and minimum tax rate, as well as the base salary taxed are each slightly higher than in both Maryland or Virginia.

Comparing UI taxes poses some challenges as the tax rate businesses pay is largely determined by their employment history and how often a firm's workers are laid off and then draw unemployment compensation from the fund. Each state has 'new tax rates' for firms that have yet to establish an employment history. For the purposes of this study, each jurisdiction's average tax rate for 2019 (rather than the higher tax rate for new firms) is used to calculate unemployment insurance tax burdens consistently across jurisdictions. However, using the average tax rate may overstate the UI tax costs for firms with lower layoff history, and may also understate the additional burden of locating in the District because DC's minimum tax rates are higher than in Maryland or Virginia. See Appendix D for selected UI statistics, including minimum and maximum rates, and maximum weekly benefits by jurisdiction.

To calculate the **personal property tax** liabilities, values of tangible personal property are taken from the assumption used for a DC firm in Aceituno and Yingst (2013), where the value of personal property in the year of analysis (after being depreciated over 10 years) was roughly \$500,000, or about 1.67 percent of gross revenues. This same percentage was applied to the smaller firms for consistency, making their personal property valuation \$25,000. A review of 2016 DC personal property tax data and corporate income tax data for a sample of 500 firms with median gross receipts between \$1 million and \$2 million showed that the median claim for the value of personal property in that year was just under \$15,000. The value of personal property assets varies by industry as well as across firms based on where a particular asset is in its depreciation cycle. For the purposes of this analysis consistent assumptions are made across firm types and jurisdictions. Further, depreciation schedules vary across jurisdictions, and those differences are not considered here.

To arrive at the calculated business tax burdens, nominal state and local rates for each major tax were applied to the standard assumptions of a firm's gross receipts, taxable income, and number of employees.

Limitations

As previously noted, providing meaningful tax burden comparisons that capture true differences in a firm's costs in each jurisdiction requires careful consideration, and as such the new payroll tax on DC businesses that funds employees' future paid family leave benefits is not included in the main presentation of tax burdens. Many private firms—particularly the type of professional services firms represented here—voluntarily provide this benefit and thus incur the costs, yet they would not be visible in a tax burden comparison. Further, all firms in Montgomery County, Maryland, are required by law to

³⁶ https://oui.doleta.gov/unemploy/docs/factsheet/UI_Program_FactSheet.pdf

provide a minimum amount of “sick and safe” leave which can be used as paid parental leave.³⁷ While Montgomery County requires a more modest benefit than does DC, the required provision of this benefit outside of the tax system illustrates the conceptual difficulty of providing a like comparison if DC’s paid leave tax were included. Doing so would reflect costs for DC firms and not for Maryland or Virginia firms, even though paid leave is a benefit paid for by many of the firms across Maryland and Virginia (and required in Montgomery County). Further information and charts on how including paid family leave would change the DC firm’s tax burdens are provided in Appendix C.

As previously noted, the study focuses on the professional services sector and therefore does not consider different tax impacts across industries, or other businesses such as restaurants. The professional services sector, in addition to being the largest private sector, contains the “manufacturers” of the District, and therefore may have more options for locating elsewhere in the metro area while still providing the same level of goods and services, unlike restaurants which have to locate where the diners are, for example. Nevertheless, in the District the same tax rates will apply to incorporated restaurants or retailers as apply to the firms in the study. The main differences among tax burdens for those businesses will be the assumption of square feet used for calculating the property tax, which is based on the number of employees; and further, the number of employees and their salaries would impact the Unemployment Insurance tax. Any small retailers trying to determine their tax liability and how it might compare also should consider their eligibility for the Small Retailer Property Tax Relief Credit.³⁸

Further, by only including C-corporations in the analysis, this study does not analyze how tax burdens would differ for businesses organized as pass-through entities, such as limited liability companies and partnerships, which would pay taxes through the individual income tax in the jurisdiction where the owner(s) lives. For these firms, each jurisdiction’s state and local individual income taxes will be a significant factor in determining the tax burden (top individual income tax rates for each location are presented in Appendix A).

Another factor impacting business income taxes not considered here is that DC requires combined reporting for multinational companies with subsidiaries, while Maryland and Virginia do not. The effect of combined reporting on a firms’ tax liability in a jurisdiction depends on the operations of that firm across all the states.³⁹ Similarly, this study does not consider the treatment of foreign source income and how such income may be taxed under a jurisdiction’s corporate income tax.

Further, the type of firms represented here may not be subject to sales taxes as producers, but if they were, the sales tax rate is the same across all the jurisdictions in the report and therefore is not included in the analysis. However, firms may be subject to sales and use tax as consumers: recent survey data collected by the Federation of Tax Administrators from tax agencies illustrate that the sales tax base of

³⁷“Memorandum on Bill 32-16 Earned Sick and Safe Leave – Use of Earned Sick and Safe Leave – Parental Leave.” October 13, 2016. Source: https://www.montgomerycountymd.gov/council/resources/files/lms/bill/2016/Committee/pdf/2464_1035_Committee_05182017.pdf, accessed 11/19/2019.

³⁸ See “Small Retailer Property Tax Credit Frequently Asked Questions” at: <https://otr.cfo.dc.gov/page/small-retailer-property-tax-relief-credit-frequently-asked-questions-faqs>.

³⁹ “Competitiveness of State and Local Business Taxes on New Investment.” Ernst & Young and the Council on State Taxation. April 2011. <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/competitiveness-of-state-and-local-business-taxes.pdf>, page 6.

services differs among the three jurisdictions.⁴⁰ A review of 38 of the services that businesses may use found that Virginia taxed two of the services, Maryland taxed 13, and the District taxed 24 of the services. This means that while the general sales tax rates are the same in all three jurisdictions, a firm's sales tax burden could be higher in DC and somewhat higher in Maryland than in Virginia, depending on the mix and level of services the business consumes.

⁴⁰ ORA analysis of survey data from Federation of Tax Administrators. 2017 State Services Taxation Survey. <https://www.statetaxissues.org/services/2017/services.php>.

Conclusion

The total tax burdens of the five business taxes combined range from a low of 1.02 percent of gross receipts for a large firm in Montgomery County, Maryland, to a high of 1.60 percent of gross receipts for the large firm in DC. The combined tax burdens faced by each of the businesses in DC were higher than those in the other jurisdictions for both business scenarios, and the District's commercial property tax burdens were the highest taxes for both firm scenarios. This is expected given the higher commercial property tax rates and higher property values in DC compared to its neighbors. Both Maryland jurisdictions' corporate tax burdens are higher than DC's for the two firms; Virginia jurisdictions tend to have the highest gross receipts and personal property taxes. UI taxes are highest for DC firms, followed by Maryland, and then Virginia firms.

Despite the tax differences presented here, these findings do not provide the full picture of DC's competitiveness. DC has a vibrant business climate with a diverse commercial sector, indicating that taxes are not the only consideration when businesses choose a location. Data on DC's business sector growth provides evidence of this; for example, the total number of business establishments in DC increased by 13.8 percent from 2007 to 2017.

As previously noted, businesses consider many factors when selecting a location, such as having access to customers and the ability to attract talent. Many businesses also choose to locate in urban centers despite higher costs and legal requirements because cities offer an array of amenities. This report focuses on one aspect of business costs, that of tax liability, and does not consider the differing services funded by the taxes applied in each location.

While data on the District's growing business sector show that the tax differences identified in this study do not provide the full picture of what makes DC attractive to businesses, neither does this study cover all taxes that apply to District businesses. We do not include DC's recently enacted paid family leave payroll tax, given that many firms across the metro area voluntarily provide and thus pay for these benefits, yet these costs would not show up in a comparison of tax burdens. Additionally, the analysis does not examine tax burdens for unincorporated businesses, nor does it include an assessment of sales tax burdens, which may differ due to the different bases of services that are subject to tax in each jurisdiction. Further, the effects of combined reporting are not considered.

Notwithstanding these limitations, this study provides a valuable tool for comparing general business taxes in Washington, DC, to those of its metro area neighbors by using consistent business scenarios to estimate hypothetical tax burdens.

Appendices

Appendix A: Metro Area State and Local Tax Rates

Rates as of January 1, 2020, unless noted	District of Columbia	Montgomery County	Prince George's County	City of Alexandria	Arlington County	Fairfax County
	DC	MD	MD	VA	VA	VA
Commercial Real Property Tax (<i>per \$100 of Assessed value</i>) ^{1/}	\$1.65/1.89	\$1.091	\$1.465	\$1.13	\$1.151	\$1.308
Corporate Income Tax	8.25%	8.25%	8.25%	6.0%	6.0%	6.0%
Gross Receipts (GR) Tax (VA rates listed are for professional services firms)	Max \$16,500 on GR > \$5,000,000	N/A	N/A	\$0.58/\$100 of GR > \$100,000	\$0.36/\$100 of GR > \$100,000	\$0.31/\$100 of GR > \$100,000
Unemployment Insurance Taxes ^{2/} (<i>Average rate</i>)	2.41% of first \$9,000/employee	1.89% of first \$8,500/employee	1.89% of first \$8,500/employee	1.16% of first \$8,000/employee	1.16% of first \$8,000/employee	1.16% of first \$8,000/employee
Personal Property Tax (<i>per \$100 of Assessed value</i>)	\$3.40 (\$225,000 exempt)	\$2.43	\$3.38	\$4.75	\$5.00	\$4.57
<i>The taxes below are not included in the tax burden comparison</i>						
Sales Tax	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Individual Income Tax (<i>top marginal rate</i>)	8.95%	8.95% ^{5/}	8.95% ^{3/}	5.75%	5.75%	5.75%
Paid Family Leave Tax (effect July 1, 2019)	0.62% of wages					
Transfer Tax (<i>State + local rates presented as a %</i>)	2.5%	1.5%	1.90%	0.25%	0.25%	0.25%
Deed & Recordation Tax (<i>State + local rates presented as a percentage</i>)	1.45% on value > \$400,000/ 2.5% on value > \$2mil	2.17% on value > \$500,000	1.37%	0.333%	0.333%	0.333%

^{1/} DC Commercial property tax rates: \$1.65/\$100 of AV for property <\$5mil; \$1.77 for property \$5-10mil; \$1.89 for property >\$10mil. Rates for Montgomery and Prince George's Counties include multiple applicable local tax rates and the MD state rate of \$0.112. Arlington rate includes stormwater fee and capital transportation fee. Fairfax County rate includes base rate plus commercial transportation district tax (additional commercial property taxes would apply in certain districts, such as near Dulles, Route 29, Reston, or Tysons).

^{2/} Average rates for 2019 were used for the analysis, from the Department of Labor. Source: <https://oui.doleta.gov/unemploy/docs/aetr-2019.pdf>, accessed 3/15/21.

Average rates for 2020 are: DC: 2.40%, MD: 1.82%, and VA: 1.37%, <https://oui.doleta.gov/unemploy/docs/aetr-2020.pdf>.

^{3/} This includes the Maryland state rate of 5.75% and county rate of 3.2%.

Appendix B: Calculation of Commercial Property Tax Burdens

Assumptions:		
DC Office Real Property Tax Liabilities ⁴¹	\$1,235,576,291	
Total DC Office Square Footage ⁴²	160,794,534 sq ft	
DC Real Property Tax/ Square Foot	\$7.68 per sq ft	
Square Feet/Employee ⁴³	200 sq ft	
	Firm #1	Firm #2
Square Footage for Small and Large Company	1,600 sq ft	32,000 sq ft
DC Property Tax Calculated	\$12,295	\$245,894

Scaling DC's Property Tax Burden to Arrive at a Real Property Tax Burden for Each Jurisdiction

	DC	Montgomery Co MD	PG Co MD	Alexandria VA	Arlington Co VA	Fairfax Co VA
Local + State Real Property Tax Rates	\$1.65/\$1.89 ^{1/}	\$1.091	\$1.465	\$1.130	\$1.151	\$1.308
<i>As a % of DC's Rate:</i>	<i>Firm 1</i>	0.66	0.89	0.68	0.70	0.79
(DC as base)	<i>Firm 2</i>	0.61	0.81	0.63	0.64	0.73
Market Rent Rates^{2/}	\$53.64	\$29.32	\$22.05	\$33.24	\$41.51	\$31.60
<i>As % of DC's Rate:</i>		0.55	0.41	0.62	0.77	0.59
Property tax/Sq Ft						
Small Buildings	\$7.68	\$2.78	\$2.80	\$3.26	\$4.15	\$3.59
Large Buildings	\$7.68	\$2.42	\$2.45	\$2.85	\$3.62	\$3.13
Property Tax Burden						
Small Buildings	\$12,295	\$4,452	\$4,487	\$5,218	\$6,637	\$5,740
Large Buildings	\$245,894	\$77,558	\$78,351	\$91,104	\$115,885	\$100,214

Note: The scaled rates presented here are rounded to the nearest hundredth. Using the rounded rates leads to final property tax burdens that differ slightly from the tax burdens in the final two rows. The tax burdens presented here and in Table 1 of the report are based on the full numbers for each input.

1/ The lower rate of \$1.65 applies for Firm #1, while the higher rate of \$1.89 is applied for Firm #2, based on the assumption the small firm is in a building valued at less than \$5 million, and the large firm is in a building valued over \$10 million.

2/ Costar, all classes of office buildings for 4th Quarter of 2019.

⁴¹ ORA Analysis of tax year 2019 Real Property Tax data for DC. Includes large and small office buildings.

⁴² Costar, all DC existing office space for the 4th Quarter of 2019.

⁴³ "Why Space Matters: Density." Cushman and Wakefield blog post. June 12, 2008. <http://blog.cushwake.com/americas/why-space-matters-density.html>.

Appendix C: DC's Paid Family Leave Payroll Tax

On April 7, 2017, The Universal Paid Leave Amendment Act of 2016 (B21-0415; Law L21-0264) went into effect in the District. The law enacted a payroll tax to be paid by employers at the rate of 0.62 percent of employee wages to fund a paid leave system for employees of District firms.⁴⁴ Qualifying individuals⁴⁵ may receive a benefit of up to eight weeks for family or medical leave, and up to \$1,000 of weekly pay, depending on their current wages.⁴⁶

As noted in the report, the District's paid leave payroll tax is not included in the tax burden comparison given that paid leave is often provided by businesses in Maryland and Virginia jurisdictions—either due to a requirement, as in Montgomery County, Maryland, or voluntarily. Great effort has been taken to compare tax burdens in a meaningful way that captures true differences between the jurisdictions. While a similar tax is not levied on Virginia or Maryland businesses, many businesses in both states, particularly professional services firms, pay for paid leave benefits. They do so either because they are required to—as in Montgomery County, Maryland—or voluntarily as a part of their employee benefits packages to stay competitive with their peers. For example, Montgomery County, Maryland, requires that firms provide a minimum amount of “sick and safe” leave and employees are allowed to use accrued sick leave for parental leave.⁴⁷ This requirement places a cost on those firms, but it does not increase their tax liabilities.

Evidence shows that many private professional firms are voluntarily providing paid leave benefits. Of 108 national law firms whose benefits are reviewed and tracked annually, 106 firms provided paid parental leave.⁴⁸ Paid leave is also becoming more standard among larger tech companies in recent years, putting pressure on smaller firms to offer similar benefits.⁴⁹ Federal data show that in 2018, non-government employees in management and professional occupations had the highest rate of access to paid leave, with almost 10 percent higher coverage than the rest of private industry.⁵⁰ As such, businesses in Maryland or Virginia that offer paid family leave, either voluntarily or due to a non-tax requirement, must pay for those benefits, though the costs would not show up as a tax burden for these businesses in the current analysis.

In this way the District paid family leave payroll tax changes the cost profile of District businesses relative to Maryland and Virginia counterparts, theoretically reducing DC firms' costs but increasing their tax

⁴⁴ <http://lims.dccouncil.us/Legislation/B21-0415>.

⁴⁵ Federal or District government employees are not covered by this program.

⁴⁶ <http://lims.dccouncil.us/Download/34613/B21-0415-SignedAct.pdf>; p. 7. after Oct. 1, 2021, the maximum weekly benefit will be adjusted based on the CPI.

⁴⁷ “Memorandum on Bill 32-16 Earned Sick and Safe Leave – Use of Earned Sick and Safe Leave – Parental Leave.” October 13, 2016. https://www.montgomerycountymd.gov/council/resources/files/lims/bill/2016/Committee/pdf/2464_1035_Committee_05182017.pdf, accessed 11/19/2019.

⁴⁸ Chambers Associate is a US legal career guide that annually tracks law firms' benefits. Source: <https://www.chambers-associate.com/law-firms/worklife-and-benefits>, accessed January 7, 2020.

⁴⁹ <https://www.geekwire.com/2019/tech-companies-doubling-family-leave-improve-recruiting-diversity/>.

⁵⁰ In March 2018, BLS notes that 27 percent of all employees in management and professional occupations had access to paid family leave, as compared to 18 percent of the total private industry (non-government workforce). Source: <https://www.bls.gov/ncs/ebs/factsheet/family-leave-benefits-fact-sheet.htm>.

liability. It is assumed that District employers will no longer provide leave benefits (since the employees are now eligible for benefits through the DC government). If this is the case the tax the firm pays would be offset by reduced costs to firms, which could be shifted into higher employee compensation or higher profits, among other things. However, if firms already providing leave do not change their paid leave offerings for employees and do not decrease wages, but instead pay the tax out of their taxable income, or alternatively increase costs to customers, then their corporate income tax payment may be different than is represented here. It is yet to be seen how firms will respond to the tax and thus difficult to make assumptions about the incidence of the tax.

If the District's paid leave payroll tax were considered in the mix of business taxes that apply to the DC business sector, then total DC tax burdens would increase. Using the business scenarios in the study, the payroll tax for paid family leave would add the following levels of taxes for the District firms.

Firm:	# of Employees	DC Paid Leave Payroll Tax	Additional Tax Burden as a Share of Gross Receipts
Firm #1, Small Corporation	8	\$ 5,952	0.40%
Firm #2, Large Corporation	160	\$ 119,040	0.40%

Source: ORA calculations based on employees of each firm earning \$120,000 per year.

Appendix D: Selected Unemployment Insurance Statistics, 2019

	DC	Maryland	Virginia
Initial New Employer Tax Rate	2.70%	2.60%	2.50%
Minimum Tax Rate (of current tax table)	1.6%	0.3%	0.10%
Maximum Tax Rate (of current tax table)	7.0%	7.5%	6.0%
Average Tax Rate in 2019	2.41%	1.89%	1.16%
Maximum annual taxable wage base/employee	\$9,000	\$8,500	\$8,000
Maximum Weekly Benefit	\$444	\$430	\$378

Source for rows 1-3; 5: State Unemployment Insurance Tax Measures Report 2019. US Department of Labor Office of Unemployment Insurance Division of Fiscal and Actuarial Services. March 2019, pages 18, 30, 57, and 66. Available at: <https://oui.doleta.gov/unemploy/pdf/sigmeasures/sigmeasuitaxsys19.pdf>.

Source for Average Tax Rate in 2019: <https://oui.doleta.gov/unemploy/docs/aetr-2019.pdf>.

Source for maximum weekly benefit: DC:

https://does.dc.gov/sites/default/files/dc/sites/does/publication/attachments/Accessing%20Unemployment%20Quick%20Guide_r5.pdf;

MD: <https://www.dlir.state.md.us/employment/claimfaq.shtml>; VA: <http://www.vec.virginia.gov/faqs/general-unemployment-insurance-questions>.

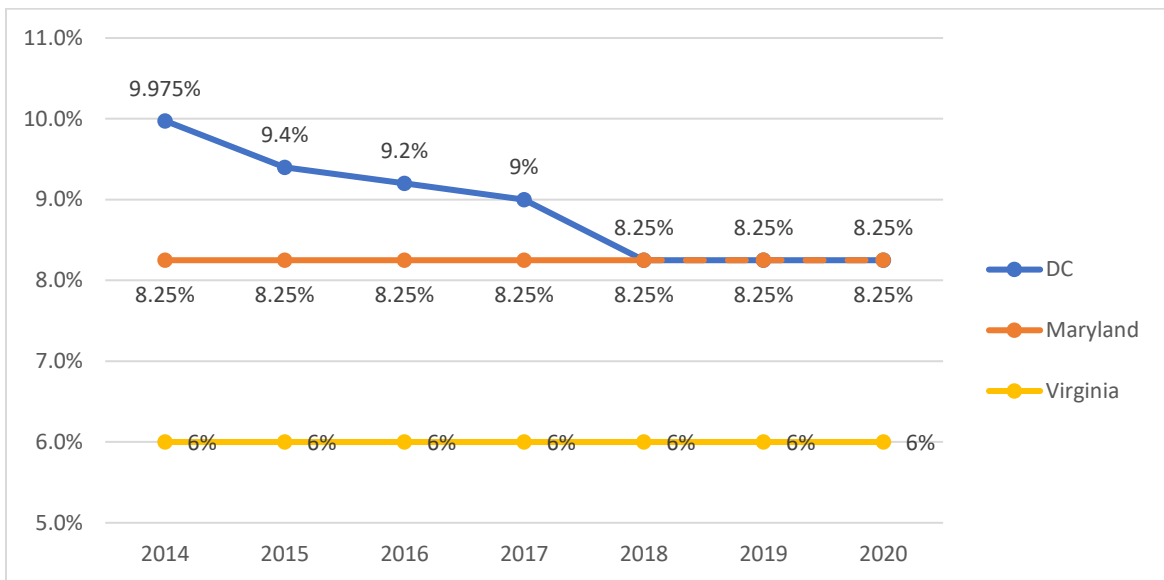
Note: Average rates for 2020 are: DC: 2.40%, MD: 1.82%, and VA: 1.37%, <https://oui.doleta.gov/unemploy/docs/aetr-2020.pdf>.

Appendix E: History of Selected Business Tax Rates in DC 2014 – 2020

<i>(Rates in effect on January 1 each year, unless noted)</i>	2014	2015	2016	2017	2018	2019	2020
Commercial Real Property Tax (per \$100 of Assessed value)	Property Value (PV): <\$3M: \$1.65 >\$3M: \$1.85	PV: <\$3M: \$1.65 >\$3M: \$1.85	PV: <\$3M: \$1.65 >\$3M: \$1.85	PV: <\$3M: \$1.65 >\$3M: \$1.85	PV: <\$3M: \$1.65 >\$3M: \$1.85	PV: <\$5m: \$1.65 \$5-10m: \$1.77 >\$10m: \$1.89 ^{1/}	PV: <\$5m: \$1.65 \$5-10m: \$1.77 >\$10m: \$1.89
Corp Income Tax	9.975%	9.4%	9.2%	9.0%	8.25%	8.25%	8.25%
QHTC years 1-5	0%	0%	0%	0%	0%	0%	
QHTC years 6+	6%	6%	6%	6%	6%	6% ^{3/}	
(Baseball) Gross Receipts Tax	Max of \$16,500 on GR > \$5,000,000	Max of \$16,500 on GR > \$5,000,000	Max of \$16,500 on GR > \$5,000,000	Max of \$16,500 on GR > \$5,000,000	Max of \$16,500 on GR > \$5,000,000	Max of \$16,500 on GR > \$5,000,000	Max of \$16,500 on GR > \$5,000,000
Personal Property Tax (per \$100 of Assessed value)	\$3.40 (\$225,000 exempt)	\$3.40 (\$225,000 exempt)	\$3.40 (\$225,000 exempt)	\$3.40 (\$225,000 exempt)	\$3.40 (\$225,000 exempt)	\$3.40 (\$225,000 exempt)	\$3.40 (\$225,000 exempt)
Unemployment Insurance Average Tax Rate	2.80%	2.78%	2.67%	2.50%	2.47%	2.41%	2.40%
Sales Tax*	5.75%	5.75%	5.75%	5.75%	5.75%	6.0%	6.0%
Paid Family Leave Payroll Tax*						0.62% of wages ^{5/}	0.62% of wages
^{1/} Effective October 1, 2018, the 1st \$5 million in assessed value is taxed at \$1.65 per \$100; at \$1.77 per \$100 for assessed value between \$5 million and \$10 million; and assessed value more than \$10 million would be taxed at \$1.89 per \$100 of assessed value. ^{2/} Effective January 1, 2020, QHTCs will no longer have a reduced rate. ^{3/} Effective October 1, 2019, the corporate franchise tax rate for QHTCs returns to the normal franchise tax rate after 5 years of the reduced 6 percent rate. Effective Jan. 1, 2020, rate reduction for QHTCs repealed. ^{4/} The sales tax increased to 6 percent on October 1, 2018. ^{5/} The District began collecting the Paid Family Leave Payroll tax on July 1, 2019. * This tax is not included in the analysis.							

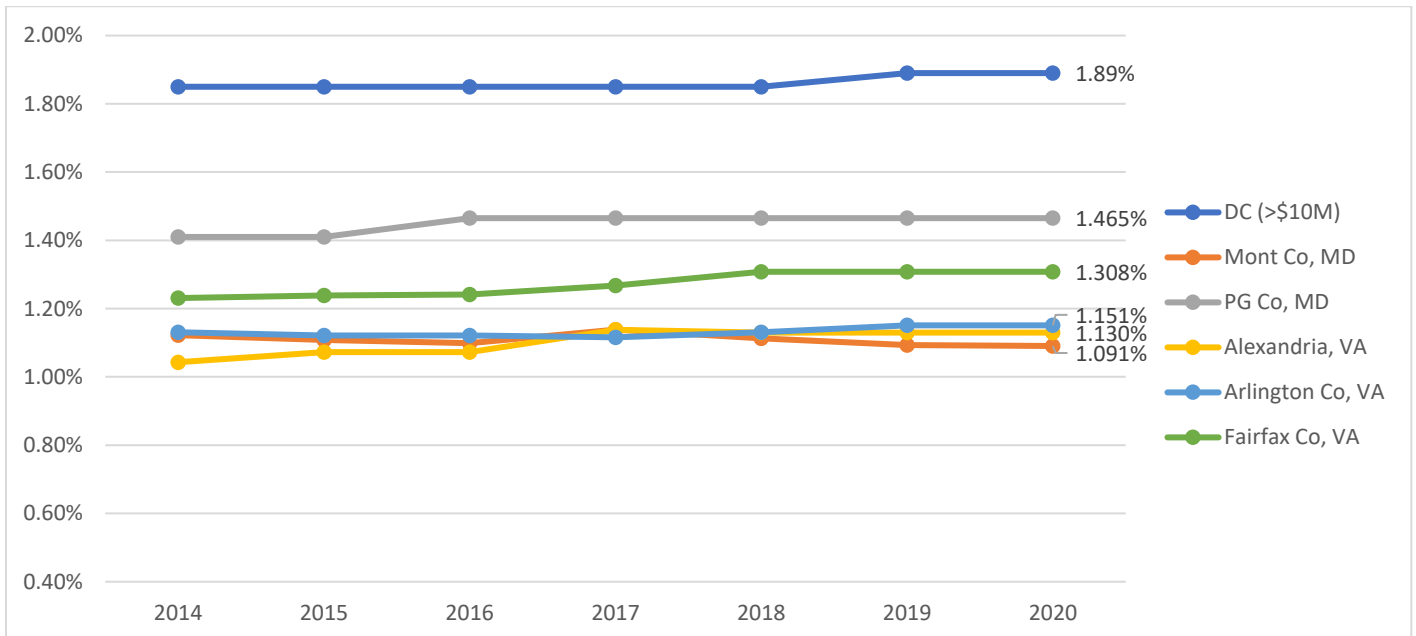
Appendix F: Historical Comparison of Selected Metro Area Tax Rates

Metro Area Corporate Income Tax Rates, 2014 – 2020



Source: ORA compilation.

Metro Area Commercial Property Tax Rates, FY14 – FY20

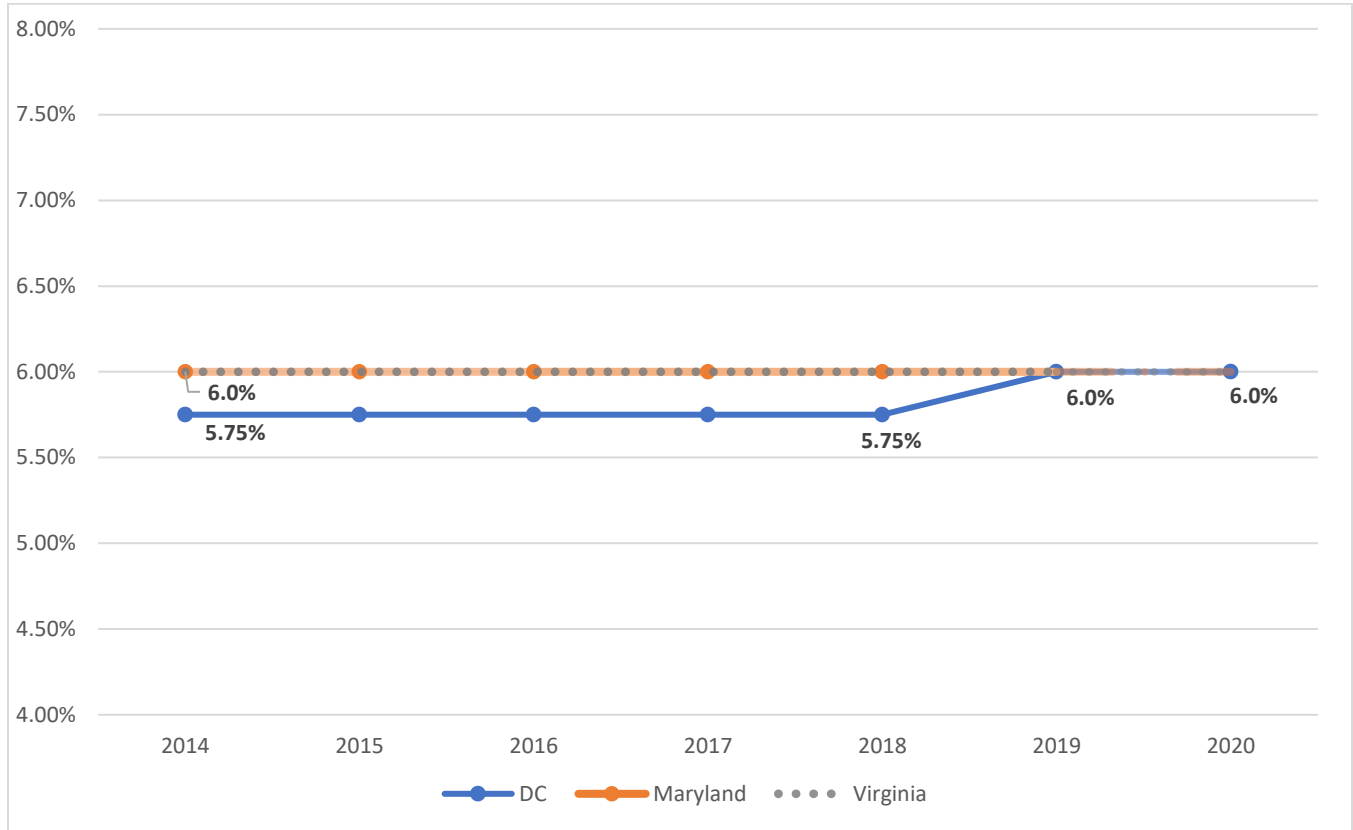


Source: ORA compilation from various tax and budget publications for each jurisdiction, and surveys of metro contacts.

Note: DC Commercial property tax rates: \$1.65/\$100 of AV for property <\$5mil; \$1.77 for property \$5-10mil; \$1.89 for property >\$10mil. Rates for Montgomery and Prince George's Counties include multiple applicable local tax rates and the MD state rate of \$0.112. Arlington rate includes stormwater fee and capital transportation fee. Fairfax County rate includes base rate plus commercial transportation district tax (additional commercial property taxes would apply in certain districts, such as near Dulles, Route 29, Reston, or Tysons).

Appendix F, Continued

Metro Area Sales Tax Rates, FY14 – FY20



Source: ORA compilation; Virginia rate is total sales tax rate for northern Virginia jurisdictions.

Appendix G: Recent Major DC Business Tax Changes

- Between 2014 to 2019 the **corporate and unincorporated franchise tax** rates gradually decreased from 9.975 percent to 8.25 percent.
 - Effective fiscal year 2019, a new refundable Small Retailer Property Tax Relief Credit was targeted at small retailers with gross receipts less than \$2.5 million per year. Regardless of whether a business has taxable income or leases or owns its property, a qualified small retailer may receive up to \$5,000 in corporate franchise tax credits to offset the amount of commercial property taxes or rent paid on a retail establishment.
 - Effective on Jan. 1, 2020 the preferential corporate franchise tax rate of 0 percent (for the 1st 5 years) Qualified High Technology Companies is repealed.
- Effective fiscal year 2019, the **commercial real property tax** rate on properties with assessed values greater than \$10 million increased to \$1.89 per \$100 of assessed value. Before fiscal year 2019, the tax rate was \$1.65 per \$100 on the first \$3 million of assessed value and \$1.85 per \$100 on assessed value above \$3 million. In other words, properties assessed at \$10 million would be taxed at the \$1.65 rate on the first \$3 million in value, and at the \$1.85 rate on the remaining \$7 million in value. After fiscal year 19, the rates are no longer marginal, thus the full value of a property assessed over \$10 million is taxed at \$1.89 per \$100 of assessed value.
- Effective fiscal year 2020, new rates of 2.5 percent for **deed recordation and deed transfer taxes** were added for commercial properties sold for more than \$2 million (an increase from 1.45 percent which was applicable to properties sold for more than \$400,000; similarly, the **economic interest tax** increased from 2.9 percent to 5.0 percent for commercial and mixed-use property greater than \$2 million.
- Effective fiscal year 2020, certain QHTCs sales and high technology purchases are no longer exempt from the **sales tax**.
- Beginning July 1, 2019, a new **payroll tax** of 0.62 percent on wages was applied to DC employers to fund future paid family and medical leave benefit for employees.

Additional References

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