PUBLIC HEARING

ON

Bill 19-747, "THE TECHNOLOGY SECTOR ENHANCEMENT ACT OF 2012"

Before the

Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

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Testimony of
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Good morning, Chairman Evans and Members of the Committee on Finance and Revenue. My name is John Ross, Senior Advisor and Director of Economic Development Finance for the Office of the Chief Financial Officer (OCFO). I am pleased to testify for the OCFO on Bill 19-747, the Technology Sector Enhancement Act of 2012.

The proposed legislation amends the New E-Conomy Transformation Act of 2000 to provide additional benefits to Qualified High Technology Companies (QHTCs) and their investors. As discussed in the Tax Abatement Financial Analysis, the bill makes changes to the DC tax code that eliminate the high technology development zones, adjust the time frame for QHTCs to be exempt from corporate franchise taxes, and create a new 3 percent capital gains tax rate for certain QHTC investors.

It is my understanding that the intent of the legislation is to encourage high tech companies to set up their headquarters or other operations in the District. However, research indicates that tax incentives are generally not a critical factor in corporate locational decisions. The proposed legislation would be applicable to a large number of companies. Without fully understanding the locational criteria for each company, the OCFO cannot fully assess the effectiveness of the additional subsidies.

In FY 2010, there were 127 certified QHTCs in the District. Of these, 82 claimed a QHTC corporate franchise tax benefit – 45 within high technology development zones and 37 outside those zones. The total value of the benefit claimed in FY 2010 was $13.8 million.

Based on QHTC data from 2007 through 2010, the OCFO estimates that the average QHTC not otherwise in a high technology development zone would see an increased tax benefit of approximately $47,000 per year. The value of the proposed change to delay the start of the five-year corporate franchise tax exemption will depend on the success of the QHTC, but could be extremely valuable to a QHTC that takes several years to ramp up operations.

With regard to the capital gains provision of the proposed legislation, there is no direct value to the QHTC itself of the preferential capital gains rate; instead, this benefit is realized by individual investors. Therefore, the OCFO expects this change will have virtually no impact on the locational decisions of companies. Rather, the provision will give a tax subsidy to QHTC investors who reside in the District. Some of this tax benefit may be anticipated by investors and some may be unexpected.

Under certain circumstances, this incentive could result in a significant subsidy to an individual investor or group of investors. For example, if an investor has held a QHTC stock for two years or more, and subsequently realizes a substantial one-time gain as a result of an Initial Public Offering (IPO) or other corporate action, the value of the QHTC capital gain tax break could be considerable

Thank you for the opportunity to testify. This concludes my testimony and I am happy to answer any questions you have at this time.