PUBLIC JOINT HEARING

ON

Bill 19-755, "THE SOCIAL E-COMMERCE JOB CREATION TAX INCENTIVE ACT OF 2012"

Before the
Council of the District of Columbia
Committee of the Whole and
Committee on Finance and Revenue

Acting Chair Mary Cheh
Committee of the Whole

Chairman Jack Evans
Committee on Finance and Revenue

June 7, 2012, 10:00 a.m.
John A. Wilson Building, Room 500

Testimony of
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Natwar M. Gandhi
Chief Financial Officer
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Good morning, Chairman Cheh and Chairman Evans and Members of the Council. 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 the Social E-Commerce Job Creation Act of 2012.

The purpose of the proposed legislation is to encourage LivingSocial to locate its headquarters in the District and to hire District residents. The legislation intends to meet this goal by reducing LivingSocial's real property tax and corporate franchise tax liability.

The bill provides a real property tax credit (Property Tax Credit), which is capped at $15 million in total between FY 2016 and FY 2025. In order to use the Property Tax Credit, LivingSocial must occupy at least 200,000 square feet of office space that will be constructed or rehabilitated after June 2012. The bill also provides for a corporate franchise tax credit (Income Tax Credit), which is capped at $17.5 million. The Income Tax Credit may be taken for five years beginning in FY 2016.

In providing these tax credits, the legislation reduces the cost differential of office rental, real estate taxes and corporate income taxes between the District and other jurisdictions in Maryland and Virginia. It is estimated that the combined cost of office rental, real estate taxes and corporate income taxes is between $6.4 million and $9.4 million greater in the District than in surrounding suburban jurisdictions. The legislation

would reduce these costs by $5 million annually on average from 2016 through 2020 and $1.5 million annually from 2021 through 2025.

To be eligible for the maximum benefit of $17.5 million in the Income Tax Credit and $15 million in the Property Tax Credit, LivingSocial would need to hire 750 District residents between FY 2010 and FY 2015 and 125 District residents between FY 2016 and FY 2020. The cost of the proposed subsidies is approximately $37,000 per job created for District residents, assuming that LivingSocial takes advantage of the full $32.5 million of credits offered. However, if LivingSocial does not hire any District residents, the company would remain eligible for $16.5 million in credits, provided that it satisfies other requirements as set forth in the legislation.

Research indicates that tax incentives are generally not a critical factor in corporate locational decisions. Without fully understanding the criteria LivingSocial is using to make its locational decision or knowing which other cities are in contention, the OCFO cannot opine definitively on the necessity or value of the subsidies. However, the $32.5 million in potential subsidies proposed in the legislation may be necessary to induce LivingSocial to locate its new headquarters in the District.

Funds are sufficient in the FY 2012 budget and the proposed FY 2013 through FY 2016 budget and financial plan period to implement the bill. The subsidies provided in the legislation do not begin until FY 2016. The Office of Revenue Analysis estimates that LivingSocial will claim $2.95 million in credits in FY 2016. The legislation requires the OCFO

to reduce the operating margin of the Fiscal Year 2016 financial plan by $2.95 million to fund the fiscal effect of this act. The cost of the subsidies in FY 2017 through FY 2025 will be incorporated into the revenue estimates for those years.

Thank you for the opportunity to testify. I am happy to answer any questions you have at this time.