PUBLIC HEARING ON

B 16-37, "GEORGIA AVENUE INVESTMENT NOW (GAIN) AMENDMENT ACT OF 2005"

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

The Honorable Jack Evans, Chairman

March 14, 2005, 10:30 a.m.
Council Chamber, John A. Wilson Building

Testimony of
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Good morning, Mr. Chairman and members of the committee. I am Julia Friedman, Deputy Chief Financial Officer for the Office of Revenue Analysis. I am pleased to testify today on Bill 16-37, the "Georgia Avenue Investment Now (GAIN) Amendment Act of 2005."

The proposed legislation would establish a special tax-exempt district on a corridor of property and businesses along Georgia Avenue from Florida Avenue to the Maryland state line. The width of the tax exempt zone would be one block east, and one block west of Georgia Avenue.

Businesses located in the zone would be exempt from tax on personal property purchased after January 1, 2004, income tax on incorporated and unincorporated businesses, and sales tax for a period of 10 years. Businesses also would receive a property tax abatement for real property tax increases attributable to capital improvements made after January 1, 2006.

The preliminary revenue impact estimates we have developed for the proposed tax-exempt district are based on the existing geographic distribution of businesses within the corridor. Over the 10-year period of the tax benefits, other District businesses might relocate into the GAIN area because of: (1) customer preference for stores exempt from the sales tax; and (2) business preference for locations with income tax exemptions and property tax exclusions. Such relocations would enlarge the revenue losses. These losses would be reduced in the long run to the extent that businesses are attracted from outside the District into the GAIN area and remain after the GAIN exemptions and exclusions expire.

Based on data currently available, we estimate that the proposed legislation would result in reductions in tax revenue of about $17 million beginning in FY 2007 and increasing to $25 million in FY 2009, for a total of $66 million for fiscal years 2007 through 2009. In addition, the Office of Tax and Revenue estimates that approximately $100,000 would be required for implementation.

These estimates are based on the assumption that the GAIN area accounts for a fraction of all affected tax receipts (personal and real property, franchise, and sales) equal to the fraction of District sales attributed to businesses located in the GAIN area. For the purposes of the estimates, the "1 block east and 1 block west" language was interpreted literally. For the property taxes, special assumptions about current rates of capital improvements to real property and about replacement rates for business personal property were applied. The tax exemptions and exclusions provided in Bill 16-73 could give the Georgia Avenue corridor a distinct tax advantage in the District.

Because of the number of administrative and legal implementation issues that would need to be addressed, we would be glad to work with the committee to clarify the bill. Examples include establishing rules for the allocation and apportionment of income received by multi-establishment businesses within the District; resolving "nexus" issues surrounding the expressions "conducting business in," "operating" and "occupied by"; and defining the precise geographic boundaries of the district.

Thank you for this opportunity to comment. I would be glad to answer any questions you or members may have.