

**Bolstering Early Growth Investment Amendment Act of 2017, Bill
22-355**

Before the

**Committee on Education
Council of the District of Columbia
The Honorable David Grosso, Chair**

And the

**Committee on Health
Council of the District of Columbia
The Honorable Vincent C. Gray, Chair**

And the

**Committee on Finance and Revenue
Council of the District of Columbia
The Honorable Jack Evans, Chair**

**September 27, 2017, 10:00 A.M.
John A. Wilson Building, Room 412**



**Testimony of Elissa F. Borges
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Office of the Chief Financial Officer**

**Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman Grosso, Chairman Gray, Chairman Evans and members of the Committee on Education, Committee on Health and Committee on Finance and Revenue. I am Elissa Borges, Assistant General Counsel for the Office of Tax and Revenue of the District of Columbia. I am pleased to present testimony today on Bill 22-355, the “Bolstering Early Growth Investment Amendment Act of 2017.”

The stated purpose of this bill is to increase the child care subsidy payment rates for providers to align with the cost of care for infants and toddlers and to permit the Mayor to provide property tax, sales tax, license fee, and other financial incentives to qualified child development facilities. My testimony is limited to the tax incentives set forth in Sections 103 through 106 of the bill.

Section 103 of the bill amends D.C. Code § 47-1002 by adding a new real property tax exemption, for up to five years, for a property used as child development facility provided that the property is either owned by the child care provider or is leased to a child development facility at a rent reduced from the fair market rent by an amount equal to or greater than the amount of the real property tax exemption.

Section 104 of the bill amends the definition of District gross income for purposes of income, corporate franchise and unincorporated business franchise taxes as set forth in D.C. Code § 47-1803.02(a)(2). This new provision excludes the grant proceeds received by child care providers pursuant to the Infant and Toddler Facilities Grant Program established under Section 602 of the bill from taxation by the District.

Sections 105 and 106 Section 104 of the bill amend D.C. Code §§ 47-2205 and 47-2206 by adding new sales and use exemptions for materials related to the building or renovation of a qualified development facility.

The Office of the Tax and Revenue can implement these new exemptions but suggests certain technical changes to the bill that would facilitate their administration.

Specifically, as the bill is currently drafted, the real property tax exemption begins to run from the issuance of the certificate of occupancy. This could cause administrative and timing problems because real property tax exemptions typically begin to run from the time the exemption application is filed. With regard to the calculation of the rent reduction, the requirement to tie it to the fair market rent introduces additional complications. A better alternative may simply be to require that the benefit of the tax exemption be passed through to the qualified development facility.

With regard to the sales and use tax exemptions, as the bill is currently drafted, they apply to the “[s]ale of materials *related to* the building or renovation of a qualified development facility.” To bring these proposed exemptions in line with the text for other sales and use tax exemptions for the sale of materials for the construction or improvement of other incentivized projects, the Office of the Chief Financial Officer suggests that the bill be changed to exempt the “[s]ale of material *to be incorporated or consumed in the construction or renovation* of a qualified development facility.”

A mark- up with suggested changes to the bill is attached to my testimony.

Thank you, Chairman Grosso, Chairman Gray and Chairman Evans, for the opportunity to comment on this bill. I would be happy to answer any questions at this time.

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Sec. 103. Section 47-1002 of the District of Columbia Official Code is amended as follows:

(a) Paragraph (30) (B) is amended by striking the phrase “; and” and inserting a semicolon in its place.

(b) Paragraph (31) (C) is amended by striking the period and inserting the phrase “; and” in its place.

(c) A new paragraph (32) is added to read as follows:

“(32)(A) Subject to the provisions of subparagraph (B) of this subsection, a child development facility in a priority area of the District of Columbia, approved pursuant to section 504 of the Bolstering Early Growth Investment Amendment Act of 2017, introduced June 27, 2017, shall be exempt from real property taxes.

“(B) The real property tax exemption granted by subparagraph (A) of this paragraph shall apply only:

“(i) For 5 years beginning with the month that the property becomes eligible for exemption under § 47-1009(b)(2)(A), provided that a final certificate of occupancy has been issued authorizing use of the property as a child development facility;

“(ii) During the time that the real property is used as a child development facility; and

“(iii) In the case of a child development facility on real property not owned by the child development provider, if the child development facility’s rent is reduced by the amount of the real property tax exemption.”.

* * *

Sec. 105. Section 47-2005 of the District of Columbia Official Code is amended as follows:

(a) Paragraph (38) is amended by striking the phrase “; and” and inserting a semicolon in its place.

(b) Paragraph (39) is amended by striking the period and inserting the phrase “; and” in its place.

(c) A new paragraph (40) is added to read as follows:

“(40) Sales of materials to be incorporated in or consumed in the construction or renovation of a qualified development facility.”.

* * *

Sec. 106. Section 47-2206 of the District of Columbia Official Code is amended as follows:

(a) Paragraph (3) is amended by striking the phrase “; and” and inserting a semicolon in its place.

(b) Paragraph (4) is amended by striking the period and inserting the phrase “; and” in its place.

(c) A new paragraph (5) is added to read as follows:

“(5) Sales of materials to be incorporated in or consumed in the construction or renovation of a qualified development facility.”

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Sec. 504. Property and sales tax and license fee incentives for child development facilities established in priority areas.

(a) Any child development facility established in a priority area approved by the Council, after the enactment of this act, shall be eligible for:

(1) A 5-year real property tax exemption pursuant to section 47-1002(32) of the District of Columbia Official Code; and

(2) A sales and use tax exemption on the purchase of all building materials to be incorporated in or consumed in the construction or renovation of qualified child development facilities pursuant to section 47-2005(40) and section 47-2206(5) of the District of Columbia Official Code.

(b) To be eligible for any exemption provided under subsection (a) of this section, an applicant shall file with the Mayor, in a manner and form that the Mayor prescribes, an application requesting certification of eligibility for the exemption.