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**TESTIMONY OF ED LAZERE, EXECUTIVE DIRECTOR,
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**On Bill 17-141, "The New E-Conomy Transformation Act of 2007"
District of Columbia Committee on Finance and Revenue
October 10, 2007**

Chairman Evans, other members of the Committee, thank you for the opportunity to submit this written testimony. My name is Ed Lazere, and I am the executive director of the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents. Thank you for the opportunity to testify on this important issue.

The New E-Conomy Act Transformation of 2007 would expand a set of tax benefits adopted in 2000 in the original E-Conomy Act. That law was intended to encourage high-technology businesses to locate in the District. It established numerous tax incentives, including five-year abatements of property tax increases for all qualified high technology companies that move to the District. For businesses in designated "high-technology zones" it also set a five-year 100-percent franchise tax exemption. Bill 17-141 would extend both of those tax benefits to 10 years.

Tax incentives like those in the E-Conomy Act are often referred to as "tax expenditures." This recognizes the fact that government services and programs can be delivered through provisions of the tax code, in addition to programs appropriated in a budget. The term "tax expenditure" also makes clear that tax programs have a fiscal effect — by reducing revenues available for other purposes — just as on-budget programs do. The E-Conomy Act is a tax expenditure program intended to increase the number of high-tech businesses in the District. The Earned Income Tax Credit— a tax benefit intended to boost the incomes of low-wage workers — is another example of a tax expenditure.

Tax expenditure programs like the E-Conomy Act should receive the same level of scrutiny as on-budget programs, particularly to assess whether they meet their intended effects in a cost-effective manner. Yet there is little evidence that this kind of scrutiny has been applied to the current E-Conomy Act — or to indicate that the proposed doubling of some of that law's tax benefits is warranted. Of particular concern is the fact that the new bill would provide expanded tax benefits to businesses that already have located in the District; this does not make sense if the goal of the E-Conomy Act is to encourage firms to move to DC.

- **The original E-Conomy Act has not been evaluated for effectiveness.** The fact that some businesses claim these tax benefits is not proof that they have worked. Instead, an evaluation is needed to determine whether more high-technology businesses are located here than would have been expected without the E-Conomy Act incentives. Such an evaluation has not been done.

- **There is no evidence that expanding the E-Conomy Act tax incentives from five years to 10 years would attract and retain more businesses than the current five-year breaks.** Without this evidence, *expanding* the tax incentives cannot be justified.
- **The New E-Conomy Act inappropriately extends benefits to 10 years for businesses already in the District.** The initial E-Conomy Act was intended to create incentives for businesses to locate in the District. Yet the New E-Conomy Transformation Act would provide an additional five years of tax reductions (extending tax breaks from five years to 10 years) to businesses that already have located in DC under the initial Act's terms. There is no evidence to suggest that these businesses will not remain here unless they get these additional tax benefits. And it raises the question of whether the District will continue to extend the length of these tax benefits – effectively creating permanent tax benefits for high-technology businesses. This is unprecedented in the realm of business tax incentives, which generally are time limited. It also would establish a significant inequity in the District's tax system, in that some businesses would pay far less in taxes than other businesses (not in high tech) with similar profiles. Any new 10-year tax breaks, if adopted, should be applied only to new businesses and not to existing businesses.

Finally, the CFO has determined that this bill will reduce DC tax revenues by \$15 million over four years, or nearly \$4 million each year. While that is not a huge sum in the District's budget, those funds could be better used to meet other pressing needs. Earlier this year, the District found only \$3 million to expand DC's TANF benefits for families with children, even though those benefits are less than one-third the poverty line and are far lower than in many states with similarly high costs of living. Alternatively, \$4 million could help DC schools hire as many as 50 teachers — which could help many schools that have lost librarians or music teachers — or it could fund as many as 400 units of housing under the local rent supplement program.

The CFO has indicated that this bill would have no fiscal impact, because the revenue gain that would occur from existing tax subsidies that will expire under the five-year term. Yet in the absence of this new bill, the tax benefits would expire for those businesses currently receiving them, and District tax revenues would increase. This bill thus would result in less tax revenue for the city than if the current law were maintained. We have asked the CFO to revise their fiscal impact statement.

Thanks again for this opportunity to submit written testimony.