



# INVEST IN DC

## DC'S \$100 MINIMUM CORPORATE INCOME TAX SHOULD BE INCREASED

Two out of every three businesses in the District pay just \$100 a year in corporate income taxes — which is DC's minimum tax level. Although the city's corporate income tax rate is set at 9.975% of taxable profits, most corporations pay just the minimum tax because they qualify for a variety of exemptions, deductions, and credits. Moreover, DC's minimum corporate tax has not been adjusted for 27 years, meaning that it has lost significant ground to inflation.

Increasing DC's \$100 minimum business income tax should be considered as part of efforts to help balance the DC budget and preserve important services.

A number of states have minimum corporate income taxes that are higher than in the District or that have been increased in recent years. Most recently, Oregon raised its tax floor to \$150 for small businesses and up to \$100,000 for businesses with more than \$100 million in sales.

The District should consider such an increase as well. Simply adjusting the minimum corporate for inflation since it was set at \$100 in 1983, the new threshold would be roughly \$215.

The District could modify its corporate minimum tax in two ways:

- **Set the minimum at \$250 for all businesses.** This would effectively adjust the tax floor for inflation since it was last raised in 1983. California, Connecticut, Massachusetts, New Jersey, Rhode Island, and Vermont have corporate minimum taxes of \$250 or more. This would raise roughly \$3 million in revenue
- **Set higher rates for larger businesses.** The District could set the corporate income tax minimum at a percentage of total sales in the District for businesses above a certain size. The recently adopted changes in Oregon set the corporate minimum tax at roughly 0.1 percent of in-state sales.

Increasing the tax floor helps ensure that all businesses pay at least some tax for the privilege of operating in the city, even if they are able to use tax subsidies, deductions or exemptions to reduce their tax liability to zero. The increase from \$100 to \$250 is likely to be modest as a share of total expenses for most businesses. Setting a minimum tax threshold of just 0.1 percent of sales for larger businesses would raise additional revenue while keeping the business taxes at a small share of a business's total volume — just 1/1000 of sales volume.