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New Report: DC Can Raise Revenue By Eliminating Costly and Ineffective Business Tax Incentives

As the DC Council works on the fiscal year (FY) 2020 budget, they should eliminate or scale back ineffective tax incentive programs, and use the savings to better fund urgent priorities such as housing and schools, according to a new report from the DC Fiscal Policy Institute.

The report, *Revenue Revealed: It's Time To Amend DC's Tax Expenditure Programs*, identifies costly and ineffective tax incentive programs that could be eliminated to generate additional resources. Several economic development tax incentives designed to attract companies to do business in the District are failing to produce any more industry growth than would have occurred otherwise, according to a recent report from DC's Chief Financial Officer.[1]

The Qualified High Technology Company (QHTC) incentive provides generous tax subsidies to companies engaged in "high tech" business. Based on a loose definition of "high tech," the program has been poorly monitored and costs the District $40 million annually. Many companies claiming these tax breaks are headquartered in Northern Virginia and maintain just a small DC office, and many were in DC before the tax incentive program was created, calling into question whether the incentives have made any difference at all. Similarly, the District has spent $29 million on Qualified Supermarket incentives, without bringing grocery stores to Wards 7 and 8.

Tax incentives like the QHTC and Qualified Supermarkets often go unmonitored. Until recently, these decades-old DC programs had not undergone any review. That means that companies have been benefitting from tax breaks, without oversight or amendment, for years. More fundamentally, tax expenditures are often written without measurable targets that companies are required to reach; a company can claim QHTC tax breaks indefinitely even if it never grows.

"The District is wasting money on tax subsidies that aren't working," said Amy Lieber, Outreach, Development, and Research Assistant at DCFPI. "Worse yet, no one has been checking to see if they make a difference."

The report recommends a number of steps the District can take to eliminate tax expenditure loopholes and generate revenue for the FY 2020 budget, including eliminating ineffective tax incentives, greatly scaling back and strengthening the QHTC program, and adding "clawback" provisions requiring companies to repay DC when they get tax breaks but fail to deliver on commitments.

"Companies are attracted to places with a thriving economy, skilled workforce, good infrastructure, and good quality of life," said Amy Lieber, Outreach, Development, and Research Assistant at DCFPI. "We should use our resources to invest in these building blocks, instead of expensive corporate tax subsidies that aren't working."

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[1] Office of Revenue Analysis, Review of Economic Development Tax Expenditures, Government of the District of Columbia, November 2018.