

COUNCIL OF THE DISTRICT OF COLUMBIA  
COMMITTEE OF THE WHOLE  
1350 Pennsylvania Avenue, NW  
Washington, DC 20004

MEMORANDUM

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TO: Public and Witnesses

FROM: Blaine Stum, Deputy Committee Director

DATE: September 15, 2026

RE: **Tax Resiliency for the District Amendment Act (Draft Business Activity Tax Proposal)**

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**Background**

In the District, there are currently two business income taxes: the corporate franchise tax and the unincorporated business franchise tax. The corporate franchise tax is paid by what are known as C Corporations and S Corporations that are engaged in a trade or business in the District.<sup>1</sup> Meanwhile, the unincorporated business franchise tax is paid by individuals, limited liability companies (LLCs), certain partnerships, societies or associations, or estates that are engaged in a trade or business in the District. Businesses subject to these taxes must pay a tax rate of 8.25% on net income (i.e., business profits), or a minimum tax, depending on the amount of profits in question.

| Tax                                   | Minimum Tax                                               | Tax Rate |
|---------------------------------------|-----------------------------------------------------------|----------|
| Corporate Franchise Tax               | \$250 if DC gross receipts are \$1 million or less        | 8.25%    |
|                                       | \$1,000 if DC gross receipts are greater than \$1 million |          |
| Unincorporated Business Franchise Tax | \$250 if DC gross receipts are \$1 million or less        | 8.25%    |
|                                       | \$1,000 if DC gross receipts are greater than \$1 million |          |

While these taxes were originally designed to be broad, the legal form of business organizations has shifted over time. The number of C corporations, which were once the dominant corporate legal form until the early 1990s, has declined. Meanwhile, the number of partnerships, sole proprietorships, and S corporations has increased significantly.<sup>2</sup> Additionally, in the District, most unincorporated professional service firms are partnerships that are exempt from either the

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<sup>1</sup> A C corporation is an independent legal entity owned by its shareholders. Under a C corporation, profit is taxed twice: as business income and as individual income at the shareholder level when distributed as dividends or realized as capital gains. An S Corporation is a business entity that elects to pass business income and losses to its shareholders, making the shareholders responsive for paying individual income taxes on this income.

<sup>2</sup> See, for example, William McBride, “America’s Shrinking Corporate Sector,” The Tax Foundation, January 6, 2015 (<https://taxfoundation.org/research/all/federal/america-s-shrinking-corporate-sector/>).

corporate franchise tax or the unincorporated business franchise tax.<sup>3</sup> As well, businesses without a taxable net income do not pay the corporate franchise tax or the unincorporated business franchise tax, and nonprofit entities are exempt. This means that many entities conducting business in the District are not subject to a business income tax.<sup>4</sup>

In Fiscal Year 2025, the corporate franchise tax and the unincorporated business franchise tax raised approximately \$1.235 billion in revenue for the District, accounting for approximately 11% of the District's gross tax revenue.<sup>5</sup> Most of the tax revenue from these business income taxes is collected from a small number of firms.<sup>6</sup> According to the Chief Financial Officer, revenues from these taxes are expected to decline in Fiscal Year 2026, with growth projected in each year after Fiscal Year 2027.<sup>7</sup>

### **Proposal**

Based on the work of the most recent iteration of the Tax Revision Commission, the attached draft proposal would enact a new, 1.4% business activity tax (BAT) that is a value-added tax on all for-profit businesses conducting business in the District.<sup>8</sup> The BAT would also apply to nonprofit organizations, such as 501(c)(3)s, consistent with the Chairman's revised mark from July 17, 2024.<sup>9</sup> A value-added tax, also known as a goods and services tax or a general consumption tax, is a tax assessed on the value added in each production stage of a good or service.

The proposed BAT would be a subtraction method value-added tax, meaning that a taxpayer's value-added tax base is determined by the following formula:

$$\text{Gross receipts} - (\text{intermediate purchases} + \text{capital purchases} + \text{rent or royalties paid})$$

The BAT would apply to every taxpayer, except certain tax-exempt entities, financial institutions, and insurance companies, with "a substantial nexus" in the District, which is defined as either:

- Having a physical presence in the District and having gross receipts of \$200,000 or more sourced to business activity in the District;
- Actively soliciting sales in the District and having gross receipts of \$200,000 or more sourced to such activity in the District.

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<sup>3</sup> This is, in part, because of a court case which found that the District of Columbia Home Rule Act bars the District from taxing the net incomes of most unincorporated professional services providers if the owners are nonresidents. See *Bishop v. District of Columbia* (D.C. 1980), 411 A.2d 997.

<sup>4</sup> These businesses pay other taxes, however, such as the personal property tax, the District's ballpark fee, the Paid Leave Contribution, or commercial property taxes.

<sup>5</sup> Office of the Chief Financial Officer, June 2026 Revenue Estimates, June 30, 2026, pg. 3.

<sup>6</sup> Data reviewed by most recent Tax Revision Commission suggests that corporations with more than \$10 million in profits, or 0.3% of all corporate franchise tax returns, account for 44% of tax liability for all corporations in the District, while unincorporated business with more than \$1 million profits, or 1.2% of all unincorporated businesses, account for 54.5% of the tax liability for all unincorporated businesses.

<sup>7</sup> *Ibid.*

<sup>8</sup> While this proposal is based on the work of the 2024 Tax Revision Commission, it is worth noting that a prior Tax Revision Commission in 1998 also recommended the implementation of a "broad-based general business activities tax" at a similar rate (1.5%).

<sup>9</sup> See the Tax Revision Commission Recommendations, Revised Chairman's Mark, July 17, 2024 ([https://cdn.prod.website-files.com/63bc270f792ad26d64988e32/669006a0db1d3e13ccdf9506\\_TRC%20-%20Revised%20Chairman%27s%20Mark.July%202024.pdf](https://cdn.prod.website-files.com/63bc270f792ad26d64988e32/669006a0db1d3e13ccdf9506_TRC%20-%20Revised%20Chairman%27s%20Mark.July%202024.pdf)).

For taxpayers operating in multiple jurisdictions, business activity would be apportioned using a single-sales factor based on Article IV of the Model Multistate Tax Compact.

The proposal provides a dollar-for-dollar offset for the BAT against individual or business income taxes levied by the District.

Table 2 provides two examples of how the BAT would impact hypothetical firms.

*Table 2. Hypothetical Corporations and the Proposed BAT*

|                           | <b>Corporation A</b> | <b>Corporation B</b> |
|---------------------------|----------------------|----------------------|
| Gross receipts            | \$950,000            | \$56,700,000         |
| Minus purchases           | (\$300,000)          | (\$15,750,000)       |
| Minus rent                | (\$150,000)          | (\$4,000,000)        |
| Minus first \$200,000     | (\$200,000)          | (\$200,000)          |
| Taxable Business Activity | \$300,000            | \$36,750,000         |
| BAT Rate                  | 1.4%                 | 1.4%                 |
| Tax Liability             | \$4,200              | \$514,500            |

The attached Tax Revision Commission memorandum provides other examples.

It is worth noting that the July 17, 2024 revised Chairman’s mark for the Tax Revision Commission explicitly recommended that revenue from the BAT be used to eliminate or reduce other taxes incurred by businesses in the District, such as the personal property tax, the Paid Family Contribution, and the District’s business income taxes.<sup>10</sup> This mirrors the recommendation of a prior Tax Revision Commission in 1998 to implement a “broad-based general business activities tax” and use the revenue to repeal the four existing business taxes (corporate franchise tax, unincorporated business franchise tax, personal property tax, and license fees).<sup>11</sup> As such, witnesses and commenters should discuss to what extent revenue from the BAT should be used to reduce or eliminate other taxes that impact businesses in the District.

<sup>10</sup> *Ibid.*

<sup>11</sup> See Taxing Simply, Taxing Fairly. (1998). The District of Columbia Tax Revision Commission. ([https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/ocfo\\_part\\_i\\_summary\\_report.pdf](https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/ocfo_part_i_summary_report.pdf)).

# DC Tax Revision Commission



January 5, 2024

**To:** DC Tax Revision Commissioners

**From:** Staff

**Re:** Business Activity Tax chairman's mark and possible amendments

The Chairman's Mark for discussion on January 8 includes a proposal for a new Business Activity Tax (BAT). The BAT would be a value-added tax on the business activity of for-profit firms with economic presence in the District. This memorandum explains the proposal in more detail, including revenue implications and how it might affect some hypothetical firms. It also provides information on possible alternative versions of the BAT that may be introduced as amendments to the mark.

## **Why Enact a BAT?**

A BAT would broaden the base of business taxation in the District. In other words, it would distribute tax obligations more widely across the full range of DC business entities and activities, thereby allowing other business tax rates to be reduced.

Under current law, the District's primary business tax is a Business Franchise Tax levied on corporations (including S corporations) and on certain unincorporated businesses. The tax is calculated as 8.25 percent of net income, i.e. business profits. The tax is applied to corporations a bit differently than to unincorporated businesses; corporations file form D-20 and unincorporated businesses file form D-30. That's why the "Business Franchise Tax" is often referred to as two separate taxes: the Corporate Franchise Tax (CFT) and the Unincorporated Business Franchise Tax (UBT). The CFT and UBT are the District's major taxes on the privilege of doing business in DC, annually raising roughly \$500 million and \$150 million respectively. Much of this revenue is paid by large national corporations who pay tax on their national profits in proportion to their DC sales.

Not all prosperous DC businesses are subject to the franchise tax, however. Unincorporated professional services partnerships are generally exempt from these taxes because the District is not a state and thus its taxing authority is uniquely constrained by Congress and the federal courts. Specifically, a 1980 court case found that [the federal Home Rule Act](#) bars the District from taxing the "net incomes" of most unincorporated professional services

providers if the owners are nonresidents, so the District excludes such entities from entity-level taxation. Given the large presence in DC of unincorporated professional partnerships like law firms, lobbyists, and consultants, this is a significant gap in the DC tax base.

Another group of businesses that do not pay the CFT or UBT is those without taxable net income. This likely includes some large multistate and multinational corporations doing business in the District who have substantial profits but have been able to report their taxable income in such a way that minimizes liability.

DC levies other taxes on businesses.

- Personal Property Tax (PPT) is levied on businesses' tangible property located in DC, such as equipment and furniture. It collects about \$74 million annually. Only about 1,500 businesses pay the tax, but it is an administrative burden for tens of thousands of other businesses.
- Business license fees are flat-rate annual fees that raise about \$13 million, according to a schedule that has been described as antiquated and obsolete.
- DC's "ballpark fee" is a limited gross receipts tax.
- Commercial real property taxes are a major source of revenue and affect many businesses. But they are not a viable tool for broadening the DC business tax base because they are already levied at the highest rates in the metro area and at present are an unstable source of revenue with a questionable future.

The Business Activity Tax proposal in the Chairman's Mark addresses all of these taxes comprehensively (with the exception of the ballpark fee, which is assumed to phase out once the ballpark bonds are paid off).

The Chairman's Mark proposes a new, low-rate Business Activity Tax (BAT) that is a value-added tax on all for-profit businesses conducting business in the District. A value-added tax (VAT) is a tax on the additional economic value created by each business as a good or service moves through the chain of production. The proposed DC BAT would be a "subtraction-method VAT", meaning that the economic value is determined by the simple formula of *[gross receipts] minus [intermediate purchases + capital purchases +*

*rent/royalties paid*].<sup>1</sup> The BAT would equal the amount by which that annual economic value exceeds a threshold of \$200,000, multiplied by a set percentage rate. The \$200,000 threshold means that the very smallest businesses would not owe anything and introduces some progressivity for businesses above the threshold. For businesses that operate in multiple jurisdictions, their business activity would be apportioned to the District using the same formula as the current business franchise tax.

The intent of the BAT is to broaden the base of business taxation in the District, rather than to increase taxes on businesses that already have substantial liability. The DC BAT would essentially be an alternative tax rather than an additional tax for businesses and owners that already pay franchise or income taxes. This would be accomplished by providing as a dollar-for-dollar credit for the BAT against business income taxes.

The Business Activity Tax is not a new concept in the District, nor would it be unique compared with other jurisdictions. Such a tax was proposed by the 1998 Tax Revision Commission but not adopted. New Hampshire levies a value-added tax as a complement to its tax on business profits. Ohio and Texas both levy subtraction-method business activity taxes. Michigan has had a similar tax in the past. DC's Virginia suburbs, like several other states, tax businesses' gross receipts. Gross receipts taxes, unlike the BAT, do not allow subtractions for purchases. Economists generally prefer value-added taxes over gross receipts taxes because they are economically neutral, that is, they treat similar economic activity similarly, without favoring particular organizational structures. Economic neutrality reduces the incentive for businesses to waste resources by rearranging their affairs to minimize tax liability.

### **Options for a Business Activity Tax**

The BAT could be enacted as either a replacement for existing taxes on businesses, or as a complement. In preparing the Chairman's Mark, we considered three options.

- Option 1: Enact a BAT as a complement – not a replacement – for other business taxes. Such a tax would broaden the number of DC business entities who pay at least some tax, and it would finance reductions in existing taxes. It would not repeal existing taxes, but it would allow for some reductions and reforms, and businesses who are already paying substantial amounts of CFT or UB, would be offset by an

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<sup>1</sup> This structure is economically equivalent to an "addition-method VAT" such as the VAT proposed by the 1998 DC Tax Revision Commission and the current New Hampshire Business Enterprise Tax. An addition-method VAT is calculated as the sum of employee compensation, interest payments, and dividends to owners. While these two approaches generally yield the same result, a subtraction-method tax is potentially simpler to administer and may also help to underscore, via statutory form, that this is not a tax on personal income.

equivalent tax credit. By retaining the UB and CFT, preliminary estimates suggest a BAT of 0.5 percent would raise about \$174 million, enough to finance modest reforms to reduce the burdens and complexity of the personal property tax and business license fees, as well as a 7-cent cut in the commercial property tax.

- Option 2: Enact a BAT as a replacement for the UBT, personal property tax, and business license fees, and fund a 10-cent reduction in commercial property taxes, but keep the CFT. For CFT taxpayers, as in Option 1, the BAT would be available as a dollar-for-dollar credit. Preliminary estimates are that these changes would net-out to zero with a BAT rate of 1.4 percent. Compared with Option 1, this larger, bolder option would send a clearer signal that the District aims to create a competitive tax playing field by eliminating three taxes that are widely seen as administratively burdensome and reducing DC's high-rate commercial property tax rate. [Note: this is the proposal that is in the Chair's Mark.]
- Option 3: Set the BAT rate high enough to raise enough revenue to replace the CFT, the UB, the personal property tax, business license fees, and to fund a 10-cent reduction in commercial property taxes. Preliminary estimates are that the rate would be between 2 percent and 3 percent, perhaps around 2.4 percent. Of the three options, this is the boldest, but at the cost of sending a large tax cut to some highly profitable out-of-state corporate franchise taxpayers if their BAT bill turns out to be lower.

Table 1 summarizes the three options.

### **Impact on Hypothetical Firms**

TRC staff analyzed the potential impact of these three different proposals on four different hypothetical firms. The firms were based loosely on hypothetical firms used in the 2020 Office of Revenue Analysis study of corporate income tax burdens and in the 2013 Tax Revision Commission study that compared DC business taxes to other jurisdictions. The firms analyzed were:

- Example A: Small corporation with \$1.5 million in gross receipts, \$120,000 in taxable net income, spending \$100,000 on rent and \$650,000 on other purchases from other firms, and business personal property valued at \$25,000.

| <b>Table 1. Comparison of Business Activity Tax Options</b>                     |                                   |                                       |                                    |
|---------------------------------------------------------------------------------|-----------------------------------|---------------------------------------|------------------------------------|
|                                                                                 | <b>Option 1</b>                   | <b>Option 2<br/>(Chairman's Mark)</b> | <b>Option 3</b>                    |
| Tax rate                                                                        | 0.5 percent                       | 1.4 percent                           | 2.4 percent                        |
| Estimated BAT revenue at that rate                                              | \$174 million                     | \$487 million                         | \$835 million                      |
| Proposal impact on other taxes                                                  |                                   |                                       |                                    |
| Unincorporated Business franchise tax<br>(current revenue = \$156 million)      | Retain w/credit                   | Repeal                                | Repeal                             |
| Corporate franchise tax<br>(current revenue = \$503 million)                    | Retain w/credit                   | Retain w/credit                       | Repeal                             |
| Personal property tax<br>(current revenue = \$74 million)                       | Raise threshold to<br>\$325k      | Repeal                                | Repeal                             |
| Commercial property tax rate<br>(each 1 cent raises \$9.4 million)              | Reduce by 7 cents<br>per \$100 AV | Reduce by 10 cents<br>per \$100 AV    | Reduce by 10 cents<br>per \$100 AV |
| Business license fees<br>(current revenue = \$13 million)                       | Reform/reduce<br>(BEST Act)       | Repeal                                | Repeal                             |
| Clean Hands for occupational/business<br>licenses (reform impact = \$7 million) | Reform                            | Reform                                | Reform                             |
| Revenue neutral based on preliminary<br>estimates?                              | Yes                               | Yes                                   | Yes                                |

- Example B: Larger corporation with \$30 million in gross receipts, \$2.4 million in taxable net income, spending \$2 million on rent and \$13 on other purchases from other firms, and business personal property valued at \$500,000.
- Example C: Small unincorporated business that is subject to UBT but otherwise resembles the small corporation in Example A.
- Example D: Larger non-corporate entity that is not subject to UBT – for example, a professional services partnership – but otherwise resembles the corporation in Example B.

To simplify the analysis, we analyzed the impact of the BAT, franchise taxes, and personal property taxes only, but excluded real property tax, gross receipts tax, or license fees. We also did not measure the impact of taxes on the individual income taxes of the businesses' owners.

The impact of Option 2 on the small corporation (Example A) is shown in Table 2. It shows that the Business Activity Tax would cost the corporation \$2,750 based on taxable business activity of \$550,000, and because the BAT would be claimed as a credit against the BFT, the corporation would not experience a tax increase. The business does not have any current personal property tax liability so would not benefit from that tax's repeal. Note that

after considering business license fee repeal and commercial property tax rate reductions (not shown in this analysis), the corporation likely would experience a net tax cut.

At the end of this memo, please find a more detailed look at each of the three proposals' impact on all four of the hypothetical firms described above. In reviewing these impacts, a few caveats are important.

- The firms shown are purely hypothetical and don't represent all firms. The actual tax changes will depend on each company's mix of receipts, expenditures, and property ownership.
- The analysis does not include individual income taxes. This is significant because Examples C and D are not corporations, which means their owners pay taxes on the businesses' net income via their individual income tax. If the owners are DC residents, the BAT will be available as a credit against their DC income taxes.
- To avoid overcomplicating the analysis, we did not include commercial property taxes, but note that each of the proposals here includes a reduction in the commercial property tax rate. If this reduction in tax rate flows through to the businesses shown here in the form lower rents, it would reduce their costs. We also excluded business license fees, which are reduced by Proposals B and C.

The analysis shows that:

- The combined BAT and franchise tax for the small corporate business (Example A) would be about the same under either Option 1 or 2 as under current law and slightly higher under Option 3. Depending on the impact of the commercial property tax cuts and user fees, the business might see a tax cut.

**Table 2. Impact of Chairman's Mark Proposal for Business Taxation on a Hypothetical Small Corporation (Example A)**

|                                                                                                                                    | Current law     | Proposal        |
|------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Business Activity Tax (BAT) calculation</b>                                                                                     |                 |                 |
| Gross receipts                                                                                                                     | n/a             | \$ 1,500,000    |
| Minus purchases                                                                                                                    |                 | \$ (650,000)    |
| Minus rent                                                                                                                         |                 | \$ (100,000)    |
| Minus \$200,000 exemption                                                                                                          |                 | \$ (200,000)    |
| Taxable business activity                                                                                                          |                 | \$ 550,000      |
| Tax rate                                                                                                                           |                 | 0.5%            |
| BAT                                                                                                                                |                 | \$ 2,750        |
| <b>Corporate Franchise Tax calculation</b>                                                                                         |                 |                 |
| Taxable net income                                                                                                                 | \$ 120,000      | \$ 120,000      |
| Franchise tax rate                                                                                                                 | 8.25%           | 8.25%           |
| Franchise tax                                                                                                                      | \$ 9,900        | \$ 9,900        |
| Minus BAT credit                                                                                                                   | n/a             | \$ (2,750)      |
| Net franchise tax                                                                                                                  | \$ 9,900        | \$ 7,150        |
| <b>Total BAT + franchise tax</b>                                                                                                   | <b>\$ 9,900</b> | <b>\$ 9,900</b> |
| <i>Tax as % of gross receipts</i>                                                                                                  | <i>0.7%</i>     | <i>0.7%</i>     |
| Note: Does not include impact of repealing business license fees or reducing commercial property tax. See below for more examples. |                 |                 |
| Source: TRC staff analysis                                                                                                         |                 |                 |

- The larger corporate business (Example B) would pay less in total franchise, personal property, and BAT tax under Option 1 than under current law, about the same amount under Option 2, and more under Option 3. Again, reductions in the commercial property tax rate or user fees might offset any tax increases.
- The small unincorporated business (Example C) would pay less in total franchise, personal property, and BAT tax under Option 1 than under current law, slightly more under Option 2, and still more under Option 3. Again, reductions in the commercial property tax rate or user fees might offset any tax increases, but this business would still pay less in taxes as a share of its revenue than similar corporate businesses. In addition, if the business is owned by a DC resident, tax increases would likely be offset by reduced individual income tax payments via a tax credit.
- The larger unincorporated firm (Example D) that now pays neither CFT nor UB would see a substantial increase under any proposal, with the largest increase under Option 3. Under any proposal, its taxes would be comparable to its corporate counterpart. And DC resident owners of such a firm would benefit from the new tax credit against their individual tax.

## **Implementation**

As a new tax, the Business Activity Tax would not be enacted and implemented overnight. Regulations would need to be developed, forms would need to be designed, and an education program to inform taxpayers of their new obligations would need to be implemented. More detailed fiscal analysis would need to be conducted to ensure budget neutrality and, if necessary, adjust tax rates up or down. It may make sense for DC to begin with a transition year in which tax filers don't pay the BAT but submit information showing how much they would owe; this would help OTR calibrate fiscal estimates and help identify ways to make the rules clearer.

| Option 1: Impact on hypothetical firms of enacting a 0.5% percent Business Activity Tax, increasing PPT exemption                         |                                |              |                                    |                 |                                                                                                                                     |              |                                                  |                 |  |
|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------|------------------------------------|-----------------|-------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------------------------------------|-----------------|--|
|                                                                                                                                           | Example A: Small Corporation   |              | Example B: Large Corporation       |                 | Example C: Small unincorporated business filing D-30                                                                                |              | Example C: Large partnership/LLC not filing D-30 |                 |  |
| Assumptions                                                                                                                               | Gross receipts = \$1.5 million |              | Gross receipts = \$30 million      |                 | Gross receipts = \$1.5 million                                                                                                      |              | Gross receipts = \$30 million                    |                 |  |
|                                                                                                                                           | Rent = \$100,000               |              | Rent = \$2 million                 |                 | Rent = \$100,000                                                                                                                    |              | Rent = \$2 million                               |                 |  |
|                                                                                                                                           | Purchases = \$650,000          |              | Purchases = \$13 million           |                 | Purchases = \$650,000                                                                                                               |              | Purchases = \$13 million                         |                 |  |
|                                                                                                                                           | Taxable net income = \$120,000 |              | Taxable net income = \$2.4 million |                 | Taxable net income = \$120,000                                                                                                      |              | Taxable net income = \$2.4 million               |                 |  |
|                                                                                                                                           | Personal property =\$25,000    |              | Personal property =\$500,000       |                 | Personal property =\$25,000                                                                                                         |              | Personal property =\$500,000                     |                 |  |
|                                                                                                                                           | Current law                    | Proposal     | Current law                        | Proposal        | Current law                                                                                                                         | Proposal     | Current law                                      | Proposal        |  |
| Business Activity Tax (BAT) calculation                                                                                                   |                                |              |                                    |                 |                                                                                                                                     |              |                                                  |                 |  |
| Gross receipts                                                                                                                            | n/a                            | \$ 1,500,000 | n/a                                | \$ 30,000,000   | n/a                                                                                                                                 | \$ 1,500,000 | n/a                                              | \$ 30,000,000   |  |
| Minus purchases                                                                                                                           |                                | \$ (650,000) |                                    | \$ (13,000,000) |                                                                                                                                     | \$ (650,000) |                                                  | \$ (13,000,000) |  |
| Minus rent                                                                                                                                |                                | \$ (100,000) |                                    | \$ (2,000,000)  |                                                                                                                                     | \$ (100,000) |                                                  | \$ (2,000,000)  |  |
| Minus \$200,000 exemption                                                                                                                 |                                | \$ (200,000) |                                    | \$ (200,000)    |                                                                                                                                     | \$ (200,000) |                                                  | \$ (200,000)    |  |
| Taxable business activity                                                                                                                 |                                | \$ 550,000   |                                    | \$ 14,800,000   |                                                                                                                                     | \$ 550,000   |                                                  | \$ 14,800,000   |  |
| Tax rate                                                                                                                                  |                                | 0.5%         |                                    | 0.5%            |                                                                                                                                     | 0.5%         |                                                  | 0.5%            |  |
| BAT                                                                                                                                       |                                | \$ 2,750     |                                    | \$ 74,000       |                                                                                                                                     | \$ 2,750     |                                                  | \$ 74,000       |  |
| Business Franchise Tax calculation                                                                                                        |                                |              |                                    |                 |                                                                                                                                     |              |                                                  |                 |  |
| Taxable net income                                                                                                                        | \$ 120,000                     | \$ 120,000   | \$ 2,400,000                       | \$ 2,400,000    | \$ 120,000                                                                                                                          | \$ 120,000   | n/a                                              | n/a             |  |
| Minus UB exemption & allowance                                                                                                            | n/a                            | n/a          | n/a                                | n/a             | \$ (41,000)                                                                                                                         | \$ (41,000)  |                                                  |                 |  |
| Franchise tax rate                                                                                                                        | 8.25%                          | 8.25%        | 8.25%                              | 8.25%           | 8.25%                                                                                                                               | 8.25%        |                                                  |                 |  |
| Franchise tax                                                                                                                             | \$ 9,900                       | \$ 9,900     | \$ 198,000                         | \$ 198,000      | \$ 6,518                                                                                                                            | \$ 6,518     |                                                  |                 |  |
| Minus BAT credit                                                                                                                          | 0                              | (\$ 2,750)   | 0                                  | (\$ 74,000)     | 0                                                                                                                                   | (\$ 2,750)   |                                                  |                 |  |
| Net franchise tax                                                                                                                         | \$ 9,900                       | \$ 7,150     | \$ 198,000                         | \$ 124,000      | \$ 6,518                                                                                                                            | \$ 3,768     |                                                  |                 |  |
| Personal property tax calculation                                                                                                         |                                |              |                                    |                 |                                                                                                                                     |              |                                                  |                 |  |
| Personal property                                                                                                                         | \$ 25,000                      | \$ 25,000    | \$ 500,000                         | \$ 500,000      | \$ 25,000                                                                                                                           | \$ 25,000    | \$ 500,000                                       | \$ 500,000      |  |
| Minus exemption                                                                                                                           | \$ (225,000)                   | \$ (325,000) | \$ (225,000)                       | \$ (325,000)    | \$ (225,000)                                                                                                                        | \$ (325,000) | \$ (225,000)                                     | \$ (325,000)    |  |
| Taxable amount                                                                                                                            | \$ -                           | \$ -         | \$ 275,000                         | \$ 175,000      | \$ -                                                                                                                                | \$ -         | \$ 275,000                                       | \$ 175,000      |  |
| Tax rate                                                                                                                                  | 3.40%                          | 3.40%        | 3.40%                              | 3.40%           | 3.40%                                                                                                                               | 3.40%        | 3.40%                                            | 3.40%           |  |
| Personal property tax                                                                                                                     | \$ -                           | \$ -         | \$ 9,350                           | \$ 5,950        | \$ -                                                                                                                                | \$ -         | \$ 9,350                                         | \$ 5,950        |  |
| Total tax (CFT, BAT, & personal property)                                                                                                 | \$ 9,900                       | \$ 9,900     | \$ 207,350                         | \$ 203,950      | \$ 6,518                                                                                                                            | \$ 6,518     | \$ 9,350                                         | \$ 79,950       |  |
| Tax as share of gross receipts                                                                                                            | 0.7%                           | 0.7%         | 0.7%                               | 0.7%            | 0.4%                                                                                                                                | 0.4%         | 0.0%                                             | 0.3%            |  |
|                                                                                                                                           |                                |              |                                    |                 | Note: In addition to the impacts shown here, both the current UB tax and the proposed BAT reduce owners' DC income tax liabilities. |              |                                                  |                 |  |
| Notes:                                                                                                                                    |                                |              |                                    |                 |                                                                                                                                     |              |                                                  |                 |  |
| "Purchases" includes inventory, all other operating purchases from other firms, and capital investments.                                  |                                |              |                                    |                 |                                                                                                                                     |              |                                                  |                 |  |
| Calculations do not reflect other proposed changes to business taxes, eg commercial property tax cut                                      |                                |              |                                    |                 |                                                                                                                                     |              |                                                  |                 |  |
| Owners of non-corporate entities typically pay tax on business net income in the state where they reside. Those taxes are not shown here. |                                |              |                                    |                 |                                                                                                                                     |              |                                                  |                 |  |

Source: TRC staff analysis

| Option 2: Impact on hypothetical firms of replacing the UBT and Personal Property Tax with a 1.4 percent Business Activity Tax                                 |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
|                                                                                                                                                                | Example A: Small Corporation                                                                                                                  |                 | Example B: Large Corporation                                                                                                                           |                   | Example C: Small unincorporated business filing D-30                                                                                          |                 | Example C: Large partnership/LLC not filing D-30                                                                                                       |                   |
| <b>Assumptions</b>                                                                                                                                             | Gross receipts = \$1.5 million<br>Rent = \$100,000<br>Purchases = \$650,000<br>Taxable net income = \$120,000<br>Personal property = \$25,000 |                 | Gross receipts = \$30 million<br>Rent = \$2 million<br>Purchases = \$13 million<br>Taxable net income = \$2.4 million<br>Personal property = \$500,000 |                   | Gross receipts = \$1.5 million<br>Rent = \$100,000<br>Purchases = \$650,000<br>Taxable net income = \$120,000<br>Personal property = \$25,000 |                 | Gross receipts = \$30 million<br>Rent = \$2 million<br>Purchases = \$13 million<br>Taxable net income = \$2.4 million<br>Personal property = \$500,000 |                   |
|                                                                                                                                                                | Current law                                                                                                                                   | Proposal        | Current law                                                                                                                                            | Proposal          | Current law                                                                                                                                   | Proposal        | Current law                                                                                                                                            | Proposal          |
| <b>Business Activity Tax (BAT) calculation</b>                                                                                                                 |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |
| Gross receipts                                                                                                                                                 | n/a                                                                                                                                           | \$ 1,500,000    | n/a                                                                                                                                                    | \$ 30,000,000     | n/a                                                                                                                                           | \$ 1,500,000    | n/a                                                                                                                                                    | \$ 30,000,000     |
| Minus purchases                                                                                                                                                |                                                                                                                                               | \$ (650,000)    |                                                                                                                                                        | \$ (13,000,000)   |                                                                                                                                               | \$ (650,000)    |                                                                                                                                                        | \$ (13,000,000)   |
| Minus rent                                                                                                                                                     |                                                                                                                                               | \$ (100,000)    |                                                                                                                                                        | \$ (2,000,000)    |                                                                                                                                               | \$ (100,000)    |                                                                                                                                                        | \$ (2,000,000)    |
| Minus \$200,000 exemption                                                                                                                                      |                                                                                                                                               | \$ (200,000)    |                                                                                                                                                        | \$ (200,000)      |                                                                                                                                               | \$ (200,000)    |                                                                                                                                                        | \$ (200,000)      |
| Taxable business activity                                                                                                                                      |                                                                                                                                               | \$ 550,000      |                                                                                                                                                        | \$ 14,800,000     |                                                                                                                                               | \$ 550,000      |                                                                                                                                                        | \$ 14,800,000     |
| Tax rate                                                                                                                                                       |                                                                                                                                               | 1.4%            |                                                                                                                                                        | 1.4%              |                                                                                                                                               | 1.4%            |                                                                                                                                                        | 1.4%              |
| BAT                                                                                                                                                            |                                                                                                                                               | \$ 7,700        |                                                                                                                                                        | \$ 207,200        |                                                                                                                                               | \$ 7,700        |                                                                                                                                                        | \$ 207,200        |
| <b>Business Franchise Tax calculation</b>                                                                                                                      |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |
| Taxable net income                                                                                                                                             | \$ 120,000                                                                                                                                    | \$ 120,000      | \$ 2,400,000                                                                                                                                           | \$ 2,400,000      | \$ 120,000                                                                                                                                    | n/a             | n/a                                                                                                                                                    | n/a               |
| Minus UB exemption & allowance                                                                                                                                 | n/a                                                                                                                                           | n/a             | n/a                                                                                                                                                    | n/a               | \$ (41,000)                                                                                                                                   |                 |                                                                                                                                                        |                   |
| Franchise tax rate                                                                                                                                             | 8.25%                                                                                                                                         | 8.25%           | 8.25%                                                                                                                                                  | 8.25%             | 8.25%                                                                                                                                         |                 |                                                                                                                                                        |                   |
| Franchise tax                                                                                                                                                  | \$ 9,900                                                                                                                                      | \$ 9,900        | \$ 198,000                                                                                                                                             | \$ 198,000        | \$ 6,518                                                                                                                                      |                 |                                                                                                                                                        |                   |
| Minus BAT credit                                                                                                                                               | 0                                                                                                                                             | \$ (7,700)      | 0                                                                                                                                                      | \$ (207,200)      | 0                                                                                                                                             |                 |                                                                                                                                                        |                   |
| Net franchise tax                                                                                                                                              | \$ 9,900                                                                                                                                      | \$ 2,200        | \$ 198,000                                                                                                                                             | \$ -              | \$ 6,518                                                                                                                                      |                 |                                                                                                                                                        |                   |
| <b>Personal property tax calculation</b>                                                                                                                       |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |
| Personal property                                                                                                                                              | \$ 25,000                                                                                                                                     |                 | \$ 500,000                                                                                                                                             |                   | \$ 25,000                                                                                                                                     |                 | \$ 500,000                                                                                                                                             |                   |
| Minus exemption                                                                                                                                                | \$ (225,000)                                                                                                                                  |                 | \$ (225,000)                                                                                                                                           |                   | \$ (225,000)                                                                                                                                  |                 | \$ (225,000)                                                                                                                                           |                   |
| Taxable amount                                                                                                                                                 | \$ -                                                                                                                                          |                 | \$ 275,000                                                                                                                                             |                   | \$ -                                                                                                                                          |                 | \$ 275,000                                                                                                                                             |                   |
| Tax rate                                                                                                                                                       | 3.40%                                                                                                                                         |                 | 3.40%                                                                                                                                                  |                   | 3.40%                                                                                                                                         |                 | 3.40%                                                                                                                                                  |                   |
| Personal property tax                                                                                                                                          | \$ -                                                                                                                                          |                 | \$ 9,350                                                                                                                                               |                   | \$ -                                                                                                                                          |                 | \$ 9,350                                                                                                                                               |                   |
| <b>Total tax (CFT, BAT, &amp; personal property)</b>                                                                                                           | <b>\$ 9,900</b>                                                                                                                               | <b>\$ 9,900</b> | <b>\$ 207,350</b>                                                                                                                                      | <b>\$ 207,200</b> | <b>\$ 6,518</b>                                                                                                                               | <b>\$ 7,700</b> | <b>\$ 9,350</b>                                                                                                                                        | <b>\$ 207,200</b> |
| <i>Tax as share of gross receipts</i>                                                                                                                          | 0.7%                                                                                                                                          | 0.7%            | 0.7%                                                                                                                                                   | 0.7%              | 0.4%                                                                                                                                          | 0.5%            | 0.03%                                                                                                                                                  | 0.7%              |
| Note: In addition to the impacts shown here, both the current UB tax and the proposed BAT reduce owners' DC income tax liabilities.                            |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |
| Notes:                                                                                                                                                         |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |
| Assumptions are based on examples in 2013 Tax Revision Commission study of business taxes and 2020 Office of Revenue Analysis report on corporate tax burdens. |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |
| "Purchases" includes inventory, all other operating purchases from other firms, and capital investments.                                                       |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |
| Calculations do not reflect other proposed changes to business taxes, eg commercial property tax cut                                                           |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |
| Owners of non-corporate entities typically pay tax on business net income in the state where they reside. Those taxes are not shown here.                      |                                                                                                                                               |                 |                                                                                                                                                        |                   |                                                                                                                                               |                 |                                                                                                                                                        |                   |

Source: TRC staff analysis

| <b>Option 3: Impact on hypothetical firms of replacing the UB and Personal Property Tax with a 2.4 percent Business Activity Tax</b>       |                                       |                  |                                           |                   |                                                             |                  |                                                         |                   |  |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|------------------|-------------------------------------------|-------------------|-------------------------------------------------------------|------------------|---------------------------------------------------------|-------------------|--|
|                                                                                                                                            | <b>Example A: Small Corporation</b>   |                  | <b>Example B: Large Corporation</b>       |                   | <b>Example C: Small unincorporated business filing D-30</b> |                  | <b>Example C: Large partnership/LLC not filing D-30</b> |                   |  |
| <b>Assumptions</b>                                                                                                                         | <i>Gross receipts = \$1.5 million</i> |                  | <i>Gross receipts = \$30 million</i>      |                   | <i>Gross receipts = \$1.5 million</i>                       |                  | <i>Gross receipts = \$30 million</i>                    |                   |  |
|                                                                                                                                            | <i>Rent = \$100,000</i>               |                  | <i>Rent = \$2 million</i>                 |                   | <i>Rent = \$100,000</i>                                     |                  | <i>Rent = \$2 million</i>                               |                   |  |
|                                                                                                                                            | <i>Purchases = \$650,000</i>          |                  | <i>Purchases = \$13 million</i>           |                   | <i>Purchases = \$650,000</i>                                |                  | <i>Purchases = \$13 million</i>                         |                   |  |
|                                                                                                                                            | <i>Taxable net income = \$120,000</i> |                  | <i>Taxable net income = \$2.4 million</i> |                   | <i>Taxable net income = \$120,000</i>                       |                  | <i>Taxable net income = \$2.4 million</i>               |                   |  |
|                                                                                                                                            | <i>Personal property = \$25,000</i>   |                  | <i>Personal property = \$500,000</i>      |                   | <i>Personal property = \$25,000</i>                         |                  | <i>Personal property = \$500,000</i>                    |                   |  |
|                                                                                                                                            | <b>Current law</b>                    | <b>Proposal</b>  | <b>Current law</b>                        | <b>Proposal</b>   | <b>Current law</b>                                          | <b>Proposal</b>  | <b>Current law</b>                                      | <b>Proposal</b>   |  |
| <b>Business Activity Tax (BAT) calculation</b>                                                                                             |                                       |                  |                                           |                   |                                                             |                  |                                                         |                   |  |
| Gross receipts                                                                                                                             | n/a                                   | \$ 1,500,000     | n/a                                       | \$ 30,000,000     | n/a                                                         | \$ 1,500,000     | n/a                                                     | \$ 30,000,000     |  |
| Minus purchases                                                                                                                            |                                       | \$ (650,000)     |                                           | \$ (13,000,000)   |                                                             | \$ (650,000)     |                                                         | \$ (13,000,000)   |  |
| Minus rent                                                                                                                                 |                                       | \$ (100,000)     |                                           | \$ (2,000,000)    |                                                             | \$ (100,000)     |                                                         | \$ (2,000,000)    |  |
| Minus \$200,000 exemption                                                                                                                  |                                       | \$ (200,000)     |                                           | \$ (200,000)      |                                                             | \$ (200,000)     |                                                         | \$ (200,000)      |  |
| Taxable business activity                                                                                                                  |                                       | \$ 550,000       |                                           | \$ 14,800,000     |                                                             | \$ 550,000       |                                                         | \$ 14,800,000     |  |
| Tax rate                                                                                                                                   |                                       | 2.4%             |                                           | 2.4%              |                                                             | 2.4%             |                                                         | 2.4%              |  |
| BAT                                                                                                                                        |                                       | \$ 13,200        |                                           | \$ 355,200        |                                                             | \$ 13,200        |                                                         | \$ 355,200        |  |
| <b>Business Franchise Tax calculation</b>                                                                                                  |                                       |                  |                                           |                   |                                                             |                  |                                                         |                   |  |
| Taxable net income                                                                                                                         | \$ 120,000                            | n/a              | \$ 2,400,000                              | n/a               | \$ 120,000                                                  | n/a              | n/a                                                     | n/a               |  |
| Minus UB exemption & allowance                                                                                                             |                                       | n/a              |                                           | n/a               |                                                             | \$ (41,000)      |                                                         |                   |  |
| Franchise tax rate                                                                                                                         | 8.25%                                 |                  | 8.25%                                     |                   | 8.25%                                                       |                  |                                                         |                   |  |
| Franchise tax                                                                                                                              | \$ 9,900                              |                  | \$ 198,000                                |                   | \$ 6,518                                                    |                  |                                                         |                   |  |
| Minus BAT credit                                                                                                                           | 0                                     |                  | 0                                         |                   | 0                                                           |                  |                                                         |                   |  |
| Net franchise tax                                                                                                                          | \$ 9,900                              |                  | \$ 198,000                                |                   | \$ 6,518                                                    |                  |                                                         |                   |  |
| <b>Personal property tax calculation</b>                                                                                                   |                                       |                  |                                           |                   |                                                             |                  |                                                         |                   |  |
| Personal property                                                                                                                          | \$ 25,000                             |                  | \$ 500,000                                |                   | \$ 25,000                                                   |                  | \$ 500,000                                              |                   |  |
| Minus exemption                                                                                                                            | \$ (225,000)                          |                  | \$ (225,000)                              |                   | \$ (225,000)                                                |                  | \$ (225,000)                                            |                   |  |
| Taxable amount                                                                                                                             | \$ -                                  |                  | \$ 275,000                                |                   | \$ -                                                        |                  | \$ 275,000                                              |                   |  |
| Tax rate                                                                                                                                   | 3.40%                                 |                  | 3.40%                                     |                   | 3.40%                                                       |                  | 3.40%                                                   |                   |  |
| Personal property tax                                                                                                                      | \$ -                                  |                  | \$ 9,350                                  |                   | \$ -                                                        |                  | \$ 9,350                                                |                   |  |
| <b>Total tax (CFT, BAT, &amp; personal property)</b>                                                                                       | <b>\$ 9,900</b>                       | <b>\$ 13,200</b> | <b>\$ 207,350</b>                         | <b>\$ 355,200</b> | <b>\$ 6,518</b>                                             | <b>\$ 13,200</b> | <b>\$ 9,350</b>                                         | <b>\$ 355,200</b> |  |
| <i>Tax as share of gross receipts</i>                                                                                                      | <i>0.7%</i>                           | <i>0.9%</i>      | <i>0.7%</i>                               | <i>1.2%</i>       | <i>0.4%</i>                                                 | <i>0.9%</i>      | <i>0.0%</i>                                             | <i>1.2%</i>       |  |
| <i>Note: In addition to the impacts shown here, both the current UB tax and the proposed BAT reduce owners' DC income tax liabilities.</i> |                                       |                  |                                           |                   |                                                             |                  |                                                         |                   |  |
| Notes:                                                                                                                                     |                                       |                  |                                           |                   |                                                             |                  |                                                         |                   |  |
| "Purchases" includes inventory, all other operating purchases from other firms, and capital investments.                                   |                                       |                  |                                           |                   |                                                             |                  |                                                         |                   |  |
| Calculations do not reflect other proposed changes to business taxes, eg commercial property tax cut                                       |                                       |                  |                                           |                   |                                                             |                  |                                                         |                   |  |
| Owners of non-corporate entities typically pay tax on business net income in the state where they reside. Those taxes are not shown here.  |                                       |                  |                                           |                   |                                                             |                  |                                                         |                   |  |

Source: TRC staff analysis

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10  
11 To amend Title 47 of the District of Columbia official code to impose a business activity tax on  
12 the value added tax base of every taxpayer with a substantial nexus in the District for the  
13 privilege of doing business; and to make conforming amendments to Chapter 18.  
14

15 BE IT ENACTED BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this  
16 act may be cited as the “Tax Resiliency for the District Amendment Act of 202X”.

17 Sec. 2. Title 47 of the District of Columbia Official Code is amended as follows:

18 (a) The table of contents is amended by adding a new chapter designation to “Chapter  
19 18A. Business Activity Tax.” after the chapter designation “Chapter 18. Income and Franchise  
20 Taxes.”.

21 (b) A new Chapter 18A is added to read as follows:

22 “Chapter 18A. Business Activity Tax.

23 “§ 47-1850.01. Definitions.

24 “§ 47.1850.02. Imposition of tax.

25 “§ 47-1850.03. Allocation and apportionment.

26 “§ 47-1850.04. Estimated return and payment.

27 “§ 47-1850.05. Computation of tax for portion of year.

28 “§ 47-1850.06. Annual or final return.

29 “§ 47-1850.07. Unitary business group; filing.

30 “§ 47-1850.08. Credits.

“§ 47-1850.01. Definitions.

“For purposes of this chapter, the term:

“(1) “Business activity” means a transfer of legal or equitable title to or rental of property, whether real, personal, or mixed, tangible or intangible, or the performance of services, or combination thereof, made or engaged in, or caused to be made or engaged in, whether in intrastate, interstate, or foreign commerce, with the object to gain, benefit, or advantage, whether direct or indirect, to the taxpayer or to others, but does not include the services rendered by an employee to his or her employer or services as a director of a corporation.

“(2) “Business income tax base” means a taxpayer’s business income before allocation or apportionment.

“(3) “Corporation” means:

“(A) Any corporation as defined by the laws of the District or organization of any kind treated as a corporation for tax purposes under the laws of the District; and

“(B) A joint-stock company, trust, association and S corporation as defined in section 1361(a) of the Internal Revenue Code of 1986, or other organization that is taxable as a corporation under federal income tax law.

“(4) “Employee” means an employee as defined in section 3401(c) of the Internal Revenue Code of 1986. A person from whom an employer is required to withhold for federal income tax purposes is prima facie considered an employee.

“(5) “Employer” means an employer as defined in section 3401(d) of the Internal Revenue Code of 1986. A person required to withhold for federal income tax purposes is prima facie considered an employer.

53 “(6) “Federal taxable income” means taxable income as defined in section 63 of the  
54 Internal Revenue Code of 1986.

55 “(7) Gross receipts” means the entire amount received by the taxpayer from any activity  
56 whether in intrastate, interstate, or foreign commerce carried on for direct or indirect gain,  
57 benefit, or advantage to the taxpayer or to others except for the following:

58 “(A) Proceeds from sales by a principal that the taxpayer collects in an agency  
59 capacity solely on behalf of the principal and delivers to the principal;

60 “(B) Amounts received by the taxpayer as an agent solely on behalf of the  
61 principal that are expended by the taxpayer for any of the following:

62 “(C) The performance of a service by a third party for the benefit of the principal  
63 that is required by law to be performed by a licensed person.

64 “(D) The performance of a service by a third party for the benefit of the principal  
65 that the taxpayer has not undertaken a contractual duty to perform.

66 “(E) Principal and interest under a mortgage loan or land contract, lease or rental  
67 payments, or taxes, utilities, or insurance premiums relating to real or personal property owned  
68 or leased by the principal.

69 “(F) Property that is purchased by the taxpayer on behalf of the principal and that  
70 the taxpayer does not take title to or use in the course of performing its contractual business  
71 activities.

72 “(G) Fees, taxes, assessments, levies, fines, penalties, or other payments  
73 established by law that are paid to a governmental entity and that are the legal obligation of the  
74 principal.

75 “(H) Amounts that are excluded from gross income of a foreign corporation  
76 engaged in the international operation of aircraft under section 883(a) of the Internal Revenue  
77 Code of 1986.

78 “(I) Amounts received by an advertising agency or broker used to acquire  
79 advertising media time, space, production, or talent on behalf of another person.

80 “(J) Notwithstanding any other provision of this paragraph, amounts received by a  
81 taxpayer that manages real property owned by a third party that are deposited into a separate  
82 account kept in the name of that third party and that are not reimbursements to the taxpayer and  
83 are not indirect payments for management services that the taxpayer provides to that third party.

84 “(K) Proceeds from the taxpayer’s transfer of an account receivable if the sale that  
85 generated the account receivable was included in gross receipts for federal income tax purposes.  
86 This paragraph does not apply to a taxpayer that during the tax year both buys and sells any  
87 receivables.

88 “(L) Proceeds from any of the following:

89 “(i) The original issue of stock or equity instruments.

90 “(ii) The original issue of debt instruments.

91 “(iii) Refunds from returned merchandise.

92 “(iv) Cash and in-kind discounts.

93 “(v) Repayment of the principal portion of loans.

94 “(vi) The proceeds from a policy of insurance, a settlement of a claim, or a  
95 judgment in a civil action less any proceeds under this subdivision that are included in federal  
96 taxable income.

“ (vii) For a professional employer organization, any amount charged by a professional employer organization that represents the actual cost of wages and salaries, benefits, workers’ compensation, payroll taxes, withholding, or other assessments paid to or on behalf of a covered employee by the professional employer organization under a professional employer arrangement.

“(8) “Internal Revenue Code of 1986” means the Internal Revenue Code of 1986, approved October 22, 1986 (100 Stat. 2085; 26 U.S.C. § 1 *et seq.*); which provisions shall apply on the same dates that they are effective for federal tax purposes.

“(9)(A) “Inventory” means, except as provided in subparagraph (B) of this paragraph, all of the following:

“(i) The stock of goods held for resale in the regular course of trade of a retail or wholesale business, including electricity or natural gas purchased for resale.

“(ii) Finished goods, goods in process, and raw materials of a manufacturing business purchased from another person.

“(iii) For a person who is a motor vehicle dealer with an active vehicular services license issued pursuant to § 47-2851.03, the floor plan interest expenses for new motor vehicles. For purposes of this subparagraph, “floor plan interest” means interest paid that finances any part of the person’s purchase of new motor vehicle inventory from a manufacturer, distributor, or supplier. However, amounts attributable to any invoiced items used to provide more favorable floor plan assistance to a person subject to the tax imposed under this act than to a person not subject to this tax is considered interest paid by a manufacturer, distributor, or supplier.

“(B) The term “inventory” does not include:

120 “(i) Personal property under lease or principally intended for lease rather  
121 than sale.

122 “(ii) Property allowed a deduction or allowance for depreciation or  
123 depletion under the Internal Revenue Code of 1986.

124 “(10) “Office” means the Office of the Chief Financial Officer.

125 “(11) “Officer” means, with respect to a corporation that is not an S Corporation as  
126 defined in section 1361 of the Internal Revenue Code of 1986:

127 “(A) The Chairperson of the board;

128 “(B) The president, vice president, secretary, or treasurer of the corporation or  
129 board; and

130 “(C) Persons performing similar duties and responsibilities to persons described in  
131 subdivisions (A) and (B) that include, at a minimum, major decision making.

132 “(12) “Person” means an individual, firm, partnership, society, club, association, joint-  
133 stock company, corporation (domestic or foreign), estate, receiver, trustee, assignee, referee, and  
134 a fiduciary or other representative, whether or not appointed by a court, and any combination of  
135 individuals acting as a unit.

136 “(13) “Professional employer organization” means an organization that provides the  
137 management and administration of the human resources of another entity by contractually  
138 assuming substantial employer rights and responsibilities through a professional employer  
139 agreement that establishes an employer relationship with the leased officers or employees  
140 assigned to the other entity by:

141 “(A) Maintaining a right of direction and control of employees’ work;

142                   “(B) Paying wages and employment taxes of the employees out of its own  
143   accounts;  
144                   “(C) Reporting, collecting, and depositing state and federal employment taxes for  
145   the employees; and  
146                   “(D) Retaining a right to hire and fire employees.  
147           “(14) “Purchases from other firms” means all of the following:  
148                   “(A) Inventory acquired during the tax year, including freight, shipping, delivery,  
149   or engineering charges included in the original contract price for that inventory.  
150                   “(B) Assets, including the costs of fabrication and installation, acquired during the  
151   tax year of a type that are, or under the Internal Revenue Code of 1986 will become, eligible for  
152   depreciation, amortization, or accelerated capital cost recovery for federal income tax purposes.  
153                   “(C) To the extent not included in inventory or depreciable property, materials and  
154   supplies, including repair parts and fuel.  
155                   “(D) For a person included in sector 23 under the North American Industry  
156   Classification System, payments to subcontractors for a construction project under a contract  
157   specific to that project.  
158                   “(E) Services purchased for a business purpose but not including services  
159   provided by an employee or officer of the taxpayer to the taxpayer, services purchased or  
160   received from an insurance company or financial institution, or services purchased from a  
161   professional employer organization that represent the actual cost of wages and salaries, benefits,  
162   worker’s compensation, payroll taxes, withholding, or other assessments paid to or on behalf of a  
163   covered employee by the professional employer organization under a professional employer  
164   arrangement.

“ (15) “Sale” or “sales” means, except as provided in subparagraph (D) of this paragraph, amounts received by a taxpayer as consideration from the following:

“(A) The transfer of title to, or possession of, property that is stock in trade or other property of a kind that would properly be included in the inventory of the taxpayer if on hand at the close of the tax period or property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer’s trade or business. For intangible property, the amounts received shall be limited to any gain received from the disposition of that property.

“(B) The performance of services that constitute business activities; or

“(C) The rental, leasing, licensing, or use of tangible or intangible property, including interest, that constitutes business activity.

“(D) For taxpayers not engaged in any other business activities, sales include interest, dividends, and other income from investment assets and activities and from trading assets and activities.

“(16) “State” means a state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, or a Territory or Possession of or administered by the United States.

“(17) “Tangible personal property” means corporeal personal property.

“(18) “Tax” means the tax imposed by this chapter.

“(19) “Tax-exempt entity” means an organization that is exempt from federal income tax under section 501(a) of the Internal Revenue Code of 1986, and a partnership, limited liability company, joint venture, unincorporated association, or other group or combination of organizations acting as a unit if all such organizations are exempt from federal income tax under section 501(a) of the Internal Revenue Code of 1986 and all activities of the unit are exclusively

related to the charitable, educational, or other purposes or functions that are the basis for the exemption of such organizations from federal income tax; provided, that the term “tax-exempt entity” shall not include:

“(A) An organization exempt under section 501(c)(3) or (12) or (16) of the internal revenue code.

“(B) An organization exempt under section 501(c)(4) of the internal revenue code that would be exempt under section 501(c)(12) of the internal revenue code but for its failure to meet the requirement in section 501(c)(12) that 85% or more of its income must consist of amounts collected from members.

“(20) “Tax year” means the calendar year.

“(21) “Taxpayer” means any person required by this chapter to make returns or to pay the tax imposed by the chapter.

“(22) “Unitary business group” means a group of the United States persons, one of which owns or controls, directly or indirectly, more than 50% of the ownership interest with voting rights or ownership interests that confer comparable rights to voting rights of the other United States persons, and that has business activities or operations which result in a flow of value between or among persons included in the unitary business group or has business activities or operations that are integrated with, are dependent upon, or contribute to each other.

“(23) “United States persons” shall have the same meaning as section 7701(a)(30) of the Internal Revenue Code of 1986.

“(24) “Value added tax base” means a taxpayer’s gross receipts less purchases from other firms before allocation or apportionment; provided, that for a unitary business group, the value

added tax base means the sum of each person's value added tax base less any value added tax base arising from transactions between persons included in the unitary business group.

“§ 47.18502. Imposition of tax.

“(a)(1) Except as otherwise provided in subsection (b) of this section, a business activity tax is imposed on the value added tax base of every taxpayer with a substantial nexus in the District for the privilege of doing business. The rate of such tax, after allocation or apportionment to the District, shall be 1.4% beginning on December 31, 202X.

“(2) For purposes of this subsection:

“(A) A taxpayer has a substantial nexus in the District if:

“(i) The taxpayer has a physical presence in the District for a period of more than one day during the tax year and has gross receipts of \$200,000 or more sourced to business activity in the District; or

“(ii) The taxpayer actively solicits sales in the District and has gross receipts of \$200,000 or more sourced to such activity in the District.

“(b) The following persons are exempt from the tax imposed pursuant to subsection (a) of this section:

“(1) The United States, a state or any of its political subdivisions;

“(2) Tax-exempt entities;

“(3) Financial institutions. For purposes of this subsection, the term “financial institution” shall have the same meaning as § 28-551.02(18).

“(4) Insurance companies licensed pursuant to Chapter 26 of Title 47 of the District of Columbia Official Code.

“§ 47-1850.03. Allocation and apportionment.

233 “(a) A taxpayer engaged in business activity wholly within the District shall, for purposes  
234 of this chapter, allocate and apportion his or her value added tax base to the District. A taxpayer  
235 engaged in business activities that are taxable both within and without the District shall allocate  
236 and apportion his or her value added tax base as provided in this section.

237 “(b) For purposes of allocation and apportionment of income under this section, a  
238 taxpayer is taxable in another state if:

239 “(1) In that State, the taxpayer is subject to a net income tax, a franchise tax  
240 measured by net income, a franchise tax for the privilege of doing business, or a corporate stock  
241 tax; or

242 “(2) That State has jurisdiction to subject the taxpayer to a net income tax  
243 regardless of whether, in fact, the State does or does not do so.

244 “(c) Receipts factor. –

245 “(1)(A) Except as otherwise provided under sub-subparagraph (i) of this  
246 paragraph, the receipts factor is a fraction, the numerator of which is the total sales of the  
247 taxpayer in the District during the tax period, and the denominator of which is the total sales of  
248 the taxpayer everywhere during the tax period.

249 “(i) For a taxpayer who is a unitary business group, sales include  
250 sales in the District of every person included in the unitary business group without regard to  
251 whether the person has a nexus in the District. Sales between persons included in a unitary  
252 business group shall be eliminated when calculating the receipts factor.

253 “(B) Receipts from the sale of tangible personal property are in the District  
254 if the property is delivered or shipped to a purchaser within the District regardless of the f.o.b.  
255 point or other conditions of the sale;

“(C) The property is shipped from an office, store, warehouse, factory, or other place of storage in the District and (i) the purchaser is the United States government, or (ii) the taxpayer is not taxable in the State of the purchaser.

“(3)(A) For tax years beginning after December 31, 202X, receipts from sales, other than sales of tangible personal property, are in the District if the taxpayer’s market for sales is in the District. The taxpayer’s market for sales is in the District:

“(i) In the case of receipts from the sale, lease, rental, or licensing of real property, if and to the extent the property is located in the District;

“(ii) In the case of receipts from the rental, lease, or license of tangible personal property, if and to the extent the property is located in the District;

“(iii) In the case of receipts from the sale of a service, if and to the extent the service is delivered to a location in the District; and

“(iv) In the case of intangible property:

“(I) That is rented, leased, or licensed, if and to the extent the property is used in the District; provided, that intangible property utilized in marketing a good or service to a consumer is used in the District if that good or service is purchased by a consumer who is in the District; and

“(II) That is sold, if and to the extent the property is used in the District; provided, that:

“(aa) A contract right, government license, or similar intangible property that authorizes the holder to conduct a business activity in a specific geographic area is used in the District if the geographic area includes all or part of the District;

“(bb) Receipts from intangible property sales that are contingent on the productivity, use, or disposition of the intangible property shall be treated as receipts from the rental, lease, or licensing of such intangible property under sub-sub-paragraph (I) of this sub-subparagraph; and

“(cc) All other receipts from a sale of intangible property shall be excluded from the numerator and denominator of the sales factor.

“(B) If the State or states of assignment under subparagraph (A) of this paragraph cannot be determined, the State or States of assignment shall be reasonably approximated.

“(C) If the taxpayer is not taxable in a state in which a sale is assigned under subparagraph (A) or (B) of this paragraph, or if a state of assignment cannot be determined under subparagraph (A) of this paragraph or reasonably approximated under subparagraph (B) of this paragraph, the sale shall be excluded from the denominator of the sales factor.

“(4) If the apportionment provisions of this section do not fairly represent the extent of a taxpayer’s business activity in the District, the taxpayer may petition for, or the Office may require, in respect to all or any part of the taxpayer’s business activity, if reasonable:

“(A) Separate accounting;

“(B) The inclusion of one or more additional factors which will fairly represent the taxpayer’s business activity in the District; or

“(C) The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer’s value added tax base.

“(D) The apportionment provisions of this act shall be rebuttably presumed to fairly represent the business activity attributed to the taxpayer in the District, taken

as a whole and without a separate examination of the specific elements of the value added tax base unless it can be demonstrated that the business activity attributed to the taxpayer in the District is out of all appropriate proportion to the actual business activity transacted in the District and leads to a grossly distorted result or would operate unconstitutionally to tax the extraterritorial activity of the taxpayer.

“(F) The filing of a return or an amended return is not considered a petition for the purposes of this paragraph.

“(d) The Chief Financial Officer may issue rules to implement the provisions of this subsection.

“§ 47-1850.04. Estimated return and payment.

“(a) Beginning tax year 202X, a taxpayer who reasonably expects liability for the tax year to exceed \$800.00 shall file an estimated return and pay an estimated tax for each quarter of the taxpayer’s tax year.

“(b) For taxpayers on a calendar year basis, the quarterly returns and estimated payments shall be made by April 15, July 15, October 15, and January 15. Taxpayers not on a calendar year basis shall file quarterly returns and make estimated payments on the appropriate due date which in the taxpayer’s fiscal year corresponds to the calendar year.

“(c) The estimated payment made with each quarterly return of each tax year shall be for the estimated value added tax base for the quarter or 25% of the estimated annual liability. The second, third, and fourth estimated payments in each tax year shall include adjustments, if necessary, to correct underpayments or overpayments from previous quarterly payments in the tax year to a revised estimate of the annual tax liability.

“(d) In the case of an underpayment of estimated tax by a taxpayer, there shall be added to the tax imposed under this chapter an amount determined by applying the underpayment rate set forth in § 47-4201 to the amount of the underpayment for the period of the underpayment.

“(e) Notwithstanding subsection (d) of this section, interest on underpayments shall not be imposed on a taxpayer if any of the following occur:

“(1) If the sum of the estimated payments equals at least 85% of the liability and the amount of each estimated payment reasonably approximates the tax liability incurred during the quarter for which the estimated payment was made.

“(2) For tax year 202X and each subsequent tax year, if the preceding year’s tax liability under this Chapter was \$20,000.00 or less and if the taxpayer submitted 4 equal installments the sum of which equals the immediately preceding tax year’s tax liability.

“(f) Each estimated return shall be made on a form prescribed by the Office and shall include an estimate of the annual tax liability and other information required by the Office. The form prescribed under this subsection may be combined with any other tax reporting form prescribed by the Office.

“(g) With respect to a taxpayer filing an estimated tax return for the taxpayer’s first tax year of less than 12 months, the amounts paid with each return shall be proportional to the number of payments made in the first tax year.

“(h) Payments made under this section shall be a credit against the payment required with the annual tax return required pursuant to § 47-1850.06.

“(i) If the Office considers it necessary to ensure payment of the tax or to provide a more efficient administration of the tax, the Office may require filing of the returns and payment of the tax for other than quarterly or annual periods.

“(j) A taxpayer who elects under the Internal Revenue Code of 1986 to file an annual federal income tax return by March 1 in the year following the taxpayer’s tax year and does not make a quarterly estimate or payment, or does not make a quarterly estimate or payment and files a tentative annual return with a tentative payment by January 15 in the year following the taxpayer’s tax year and a final return by April 15 in the year following the taxpayer’s tax year, has the same option in filing the estimated and annual returns required by this act.

“§ 47-1850.05. Computation of tax for portion of year.

“(a) If a taxpayer’s tax year to which this act applies ends before December 31, 202X or if a taxpayer’s first tax year is less than 12 months then a taxpayer subject to this chapter may elect to compute the tax imposed by this chapter for the portion of that tax year to which this chapter applies or that first tax year in accordance with one of the following methods:

“(b) The tax may be computed as if this chapter were effective on the first day of the taxpayer’s annual accounting period and the amount computed shall be multiplied by a fraction, the numerator of which is the number of months in the taxpayer’s first tax year and the denominator of which is 12.

“(c) The tax may be computed by determining the business income tax base and value added tax base in the first tax year in accordance with an accounting method satisfactory to the Office that reflects the actual business income tax base and value added tax base attributable to the period.

“§ 47-1850.06. Annual or final return.

“(a) An annual or final return shall be filed with the Office in the form and content prescribed by the Office by the last day of the fourth month after the end of the taxpayer’s tax year. Any final liability shall be remitted with this return.

“ (b) If a taxpayer has apportioned or allocated gross receipts for a tax year of less than 12 months, the amount in subsection (a) shall be multiplied by a fraction, the numerator of which is the number of months in the tax year and the denominator of which is 12.

“ (c) The Office may, upon application of the taxpayer and for good cause shown, extend the date for filing the annual return. Interest at the rates provided pursuant to § 47-4201 shall be added to the amount of the tax unpaid for the period of the extension. The Office shall require with the application payment of the estimated tax liability unpaid for the tax period covered by the extension.

“§ 47-1850.07. Unitary business group; filing.

“ (a) A unitary business group shall file a combined return that includes each United States person that is included in the unitary business group. Each United States person included in a unitary business group or included in a combined return shall be treated as a single person, and all transactions between those persons included in the unitary business group shall be eliminated from the value added tax base, and the apportionment formula under § 47-1850.03.

“§ 47-1850.08. Credits.

“ (a) Beginning after December 31, 202X, the following credits are allowed against the tax imposed by this subchapter:

“ (1) Taxes paid pursuant to § 47-1806.03;

“ (2) Taxes paid pursuant to § 47-1807.02; and

“ (3) Taxes paid pursuant to § 47-1808.03.”.

Sec. 3. Conforming amendments.

(a) Title 47 of the District of Columbia Official Code is amended as follows:

(1) Section 47-1806.04 is amended by adding a new subsection (h) to read as follows:

“(h) For taxable years beginning after December 31, 202X, there shall be allowed a credit against the tax imposed by this chapter equal to the taxes paid pursuant to Chapter 18A of this title. Any unused portion of the credit allowed pursuant to this subsection shall not be refundable but may be carried forward and allowed against the tax imposed by this chapter for up to ten tax years from the tax year in which the tax was paid.”.

(2) A new section 47-1807.16 is added to read as follows:

“§ 47-1807.16. Tax on corporations and financial institutions – Credits – Business activity tax.

“For taxable years beginning after December 31, 202X, there shall be allowed a credit against the tax imposed by this subchapter equal to the taxes paid pursuant to Chapter 18A of this title. Any unused portion of the credit allowed pursuant to this subsection shall not be refundable but may be carried forward and allowed against the tax imposed by this chapter for up to ten tax years from the tax year in which the tax was paid.”.

(3) A new section 47-1808.16 is added to read as follows:

“§ 47-1808.16. Tax on unincorporated businesses – Credits – Business activity tax.

“For taxable years beginning after December 31, 202X, there shall be allowed a credit against the tax imposed by this subchapter equal to the taxes paid pursuant to Chapter 18A of this title. Any unused portion of the credit allowed pursuant to this section shall not be refundable but may be carried forward and allowed against the tax imposed by this chapter for up to ten tax years from the tax year in which the tax was paid.”.

Sec. 4. Fiscal impact statement.

414           The Council adopts the fiscal impact statement in the committee report as the fiscal  
415   impact statement required by section 4a of the General Legislative Procedures Act of 1975,  
416   approved October 16, 2006 (120 Stat. 2038; D.C. Official Code § 1-301.47a).

417           Sec. 5. Effective date.

418           This act shall take effect following approval by the Mayor (or in the event of veto by the  
419   Mayor, action by the Council to override the veto), a 30-day period of congressional review as  
420   provided in section 602(c)(1) of the District of Columbia Home Rule Act, approved December  
421   24, 1973 (87 Stat. 813; D.C. Official Code § 1-206.02(c)(1)), and publication in the District of  
422   Columbia Register.