Revenue-Raising Proposals
July 2009

Require online travel companies (OTC) to charge sales tax on full room charges for hotel rooms booked through them.
Estimated Impact: $5-$7 million
When someone books a DC hotel room online through a company like Expedia, part of the room charge is passed on to the hotel and part is kept by the OTC. For example, if a room is reserved at a hotel for $200, the hotel may get $150 and the OTC will keep $50. Currently, the OTC applies the hotel tax to the $150, not the full $200 room charge. A number of states, most recently New York, have changed laws to clarify that the tax should be levied on the full room charge paid by the consumer.

Set a $25 Fee on parking spaces in private buildings
Estimated impact: Unclear
A bill introduced this year by Council members Graham and Wells would impose a fee on private parking spaces as an incentive to encourage public transit use.

Scale Back the FY 2009 Commercial Property Tax Cut
Estimated Impact: Up to $21 million
The FY 2009 budget includes $21 million in commercial property tax cuts, on top of $11 million implemented in FY 2008. In the face of a significant budget shortfall, the District could take several steps to modify this tax cut: eliminate it, postpone it, and/or delay it.

Eliminate Hybrid Car Sales Tax Exemption
Estimated Impact: Unclear
The District offers a 100% excise tax exemption on the purchase of some hybrid cars. With a 6% excise tax, this can amount to $1,500 on a $25,000 car. While at one point it may have made sense to create incentives to buy a hybrid car, hybrids are now an accepted part of the car market, and high gas prices offer substantial incentives for new car buyers to consider a hybrid.

Eliminate Tax Exemption for Reimbursed employee parking expenses
Cost estimate: $900,000
The federal government allows companies to set aside tax-free expense accounts for their employee transportation costs. Employees have a portion of their paycheck set aside, which can later be used to reimburse them for parking expenses they incur (or for public transit costs). These accounts are set aside pre-tax, meaning that employees do not pay federal income tax on the earnings set aside for this purpose. DC also provides a DC income tax exemption for these accounts, but it is not required to. This tax incentive can be seen as encouraging people to drive to work. Eliminating it may encourage public transit use.

Eliminate High-Technology Tax Incentives
Estimated Impact: $900,000
In 2000, the District adopted the E-Conomy Transformation Act that offers multi-year income and property tax breaks to qualified high-technology businesses. Since its adoption, however, high-tech employment has grown more slowly in DC than overall employment. Moreover, DC's share of the region's high-tech employment has declined. This does not appear to be an effective set of tax incentives

The proposal would be to eliminate access to tax incentives for newly qualified businesses. For those businesses that have already qualified, they should be allowed to maintain their tax incentives until they expire.

Eliminate Grocery Store Tax Preferences for New Stores
Estimated Impact: Won't create new revenues but may stem future revenue losses
Years ago, the District created incentives to build grocery stores, including sales, property, and income taxes. With the recent boom in grocery stores in DC, it is not clear this still is needed. Also, the incentives have not greatly affected creation of stores in low-income areas. A new high-end organic grocer at DC USA, just a block from a Giant store, is getting these tax breaks.

Take Steps to Impose Sales Tax on Sales by More On-Line Retailers
Estimated Impact: Unclear
New York just adopted a sales tax law change aimed at chipping-away at the problem of untaxed Internet sales made by a select group of Internet retailers, including Amazon.com. A pair of old Supreme Court decisions decree that a state cannot require an out-of-state company to charge sales tax to residents of the state) unless the company has a "physical presence" (e.g., employees and/or property) within the state's borders. However, two other Supreme Court decisions indicate that this physical presence requirement can be satisfied if there are independent third parties in that state who work to help that out-of-state retailer facilitate establish a market within the state.

Many Internet companies, Amazon most prominently, have so-called "affiliate programs." Under these programs, web sites provide links to the retailer's web site and receive a small commission if someone follows such a link and makes a purchase there. The new New York law says that any Internet retailer with affiliates located in New York has "nexus" in the state for sales tax collection purposes if it had in excess of $10,000 in sales resulting from affiliate programs in the preceding 4 calendar quarters.

The District could adopt a similar provision.