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FINANCIAL INCENTIVES

Summary of Financial Incentive Programs ❖ DC Enterprise Zone Program ❖
New E-conomy Transformation Act (NET 2000)

One of the great advantages of operating your business in the nation's capital is that you can take advantage of the variety of programs designed to provide tax and other financial benefits to businesses through federal and District incentives.

This section gives you an easy reference to some of the most common incentives for small businesses and discusses two of them in greater details—the DC Enterprise Zone program and the New E-conomy Act of 2000. Additional programs listed in the chart are discussed elsewhere in this guide as indicated.

For a complete guide to incentives for DC businesses, please contact the Office of the Deputy Mayor for Planning and Economic Development at **202.727.6365** or **www.dcbiz.dc.gov**. To learn about laws and regulations pertaining to each program and the exact impact of these incentives on your business, you should consult a tax advisor or refer to U.S. IRS publications located at **www.irs.gov**.

The District of Columbia Enterprise Zone Program

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Over 50% of DC has been designated as either a Primary or Secondary Enterprise Zone.

The District of Columbia “Enterprise Zone” (EZ) was established in 1997 by the Federal Government to stimulate economic growth and job development in the nation’s capital. Businesses who qualify for the EZ incentives are entitled to more than \$1.2 billion of federal tax credits, deductions, exemptions and exclusions. Primary Enterprise Zones are defined as 20% of higher poverty rates based on 1990 census dates; Primary Enterprise Zones are eligible for all EZ incentives. Secondary Enterprise Zones are defined as between 10–20% poverty based on census tract. Second tier EZs are only eligible for the federal capital gains tax exemption and personal property tax exemption. This program has been extended to calendar year 2008.

Eligibility for EZ Incentives

To determine if your business is located within an Enterprise Zone, visit the website of the Office of the Deputy Mayor for Planning and Economic Development at www.dcbiz.dc.gov and click on “DC Economic Development Map.” You may also visit the Department of Housing and Urban Development’s Address Locator website at www.hud.gov. If you have questions about a specific address, please contact the DC Revenue Bond-Enterprise Zone Program Office at **202.727.6365**.

To be a qualified Enterprise Zone business, your business will need to meet the following criteria:

- Operates as a corporation, nonprofit, partnership, LLC or individual
- Only trade or business is the active conduct of a “qualified business” (as outlined in IRS Publication 954)
- At least 50% of business income is from the active conduct of a trade or business within the EZ
- A substantial portion of the tangible property and non-tangible property is used in the active conduct of a qualified business
- A substantial portion of the services performed for the business by its employees is performed in the EZ

Incentives Available to EZ Business

A Qualified Enterprise Zone Business (QEZB) may take advantage of the following incentives:

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If you did not take advantage of the EZ incentives for previous years, you may contact the Internal Revenue Service and ask for an amendment to the previous year’s tax filing.

Tax-Exempt Bond Financing

The DC Revenue Bond program provides below market interest rate loans to qualified private businesses that are located in the EZ, as well as nonprofit and manufacturing organizations citywide. Each QEZB is eligible for up to \$15 million of tax-exempt “EZ bonds” (no limit for nonprofit organizations) to finance depreciable tangible property, including buildings, equipment, and furnishings used in the business. “Tax-exempt” bond financing means that the holder of the debt does not have to pay federal income tax on the interest earned from the investment, thereby lending money at lower rates than typical “taxable” securities. You can issue bonds to assist in financing a broad variety of capital projects and eligible EZ bond projects including:

- Construction and renovation of a building
- Equipment acquisition
- Land and building acquisition
- Tenant improvements

Program funds are generated through the issuance and sale of tax-exempt and taxable municipal revenue bonds, notes, or other obligations. Proceeds from the sale of these securities are loaned to borrowers and may be used to finance, refinance and reimburse costs of acquiring, constructing, restoring, rehabilitating, expanding, improving, equipping and furnishing real property and related and subordinate facilities. Because of related costs, revenue bond financing may not be cost effective for businesses seeking less than \$2 million in financing.

Federal Capital Gains Tax Exemption

If your business derives at least 80% (a requirement for this provision only) of its total gross income from business conducted within the EZ, then you are eligible for exclusion of federal capital gains taxes on the sale of stock, partnership interests, or property. The investment must be held for a minimum of five years.

DC Employment Tax Credits

Each QEZB may claim a tax credit of up to \$3,000 for each DC resident employee at the EZ facility. Businesses may claim the littlest of \$3,000 or 20% of the first \$15,000 in qualified wages for each qualified employee during each of the five tax years. The tax credit is applicable to both existing and new employees, as well as full-time and part-time employees.

Increased Expensing Allowance

QEZB may claim an additional \$20,000 expensing allowance if business equipment and depreciable property was purchased.

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All 501(c)(3) organizations are eligible for the tax-exempt revenue bonds regardless of their location in the District. In addition, there is no limit to the amount of bonds that can be issued on behalf of nonprofit borrowers.

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Example

In June 1998, Capital City Investment Club (CCIC) paid \$20,000 in cash for stock in JD Flowers, Inc., a garden and florist shop located in the DC Enterprise Zone at Alabama Avenue and Stanton Road, SE. The funds were used by the company to acquire, equip and furnish the vacant building and a rear lot next door, which more than doubled the size of JD’s operations. In September 2003, CCIC sold its JD stock for \$28,000, which was distributed among its original four members. Since CCIC paid cash for the stock of an enterprise zone business and did not withdraw that investment for five years, the \$2,000 earnings distributed to each member is not subject to federal capital gains taxation.

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If you did not take advantage of the EZ incentives for previous tax years, you may contact the Internal Revenue Service and ask for an amendment to the previous year's tax filing.

Work Opportunity Tax Credits

You may also claim up to \$9,000 in WOTC tax credits over two years for each employee who was previously a “long-term family assistance recipient.” A separate \$2,400 Work Opportunity tax credit is available for qualified employees, including youth living within the Enterprise Zones and recipients of supplemental social security benefits in the first year of employment. These are nationwide tax credits and generally have no employee residency requirements.

To receive certification, Submit Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity, to your State Employment Security Agency (SESA), you must either:

- Receive the certification by the day the individual begins work, or

Both of the following:

- Complete Form 8850 by the day you offer the individual a job, and
- Submit the form to your SESA by the 21st day after the individual begins work

You can find this form online at www.irs.gov or request to receive the forms by mail at **1.800.829.3676**.

New E-economy Transformation Act (NET 2000)

The District offers one of the most attractive incentive packages for high-tech businesses in the country. The New E-economy Transformation Act of 2000 (NET 2000), provides certain credits, exemptions and other benefits for a Qualified High Technology Company (QHTC). A QHTC can leverage the NET 2000 Act to develop their workforce, secure affordable facilities for their business and benefit from reduced real estate, personal property, sales and income taxes.

Claiming NET 2000 Benefits

To qualify as a QHTC, a business will need to attach the following forms to any tax return claiming the benefits of NET 2000. You may obtain these forms online at www.dcbiz.dc.gov or www.otr.cfo.dc.gov, or you may contact the District's Office of Tax and Revenue, Tax Form Center at **202.442.4829**.

Required Forms for NET 2000 Application

Form #	Title
Publication 399	Qualified High Technology Companies: description of & forms for claiming tax benefits
QHTC-CERT 2001	Certification for Qualified High Technology Company Form
D-20CR	Business Tax Credits Form (file with form D-20)
D-30CR	Business Tax Credits Return Form (file with form FP-332)
FP-332	Claim for Refund of Retaining Costs Form
FP-331/337	Claim for Refund of Sales & Use Tax, Exempt Purchase Certificate Forms

NET 2000 Financial Incentives

QHTC can expect a significant tax break with the following tax abatements:

Franchise Tax Reduction or Exemption

- Zero franchise tax on unincorporated technology business
- Five-year elimination of franchise tax on incorporated technology companies located within the High Technology Development Zones
- Reduced franchise tax of 6% for incorporated tech companies located outside of the tech zones but within the District of Columbia

Real Property Tax Abatement

- A five-year abatement of increases in property tax rates attributable to renovations to accommodate technology companies and for certain newly constructed buildings

Personal Property Tax Abatement

- A 10-year exemption of personal property taxes on certain purchases made after December 31, 2000
- An allowance of up to \$40,000 in personal property expense deductions

Sales and Use Tax Exemption

- Elimination of DC sales tax on certain sales to eligible companies
- Sales by eligible companies of certain intangible property or services are not taxable

Capital Gains Tax Exemption

- An exemption from District taxation of certain capital gains from the sale, exchange or rollover of stock, partnership interests and other assets of qualified high tech companies held for a minimum of five years

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High Technology Development Zones

*The District of Columbia's High Technology Development Zones are designated high priority areas in DC. To determine whether a business is located in a high technology zone, you may go to www.dcbiz.dc.gov, click on "Citywide Incentives" and then click "High-Tech Development Zones" or call the Office of Tax and Revenue's Office of the Director at **202.442.6500**.*

It is worth noting that DC's high-tech zones include all of DC's Enterprise Zones (EZ). So if your business is in an EZ, you are also in a high-tech zone and can qualify for both the federal and local business incentives.

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You may use the online Tax Calculator at www.dcbiz.dc.gov to estimate your tax savings and read a hypothetical case study to understand how the new incentives might benefit your business.

5**Workforce Development Credits**

NET 2000 provides credits to the franchise tax for wages paid and certain expenditures made on behalf of employees:

Relocation Expense Reimbursement

For companies that move at least two full-time jobs to DC.

- A credit of \$5,000 per employee for reimbursement of employee moving expenses capped at \$250,000 per company per year
- A credit of \$7,500 per employee for reimbursement of employee moving expenses and payments for the employee's lease or purchase of a primary residence if the employee relocates to DC from outside DC, capped at \$1,000,000 per company per year

Wage Credit

You may claim credit of 10% of wages paid for the first 24 months of employment, up to \$5,000 per employee per year.

Training and Wage Credits

For employees that are recipients of Temporary Aid for Needy Families (TANF) or ex-offenders; also applies to employees for whom the company may claim the Welfare-to-Work Tax Credit or the Work Opportunity Tax Credit (see explanations for those in "Federal Tax Incentives").

- A credit for each employee of up to \$20,000 for costs of approved training during the first 18 months of employment.
- A credit of 50% of wages paid for the first 24 months of employment, up to \$15,000 per employee per year.

NET 2000 Contact

If you have questions about the NET 2000 Act, please contact the Office of Tax and Revenue's Office of the General Counsel at **202.442.6500**, the Office of the Deputy Mayor for Planning and Economic Development at **202.727.6365**, or refer to DC Law 13-256 and related regulations to determine eligibility.



Attention Small Business Owners



FREE Energy Assessment & Electrical Upgrades

The District Department of the Environment/Energy Office (DDOE/EO) is currently operating the Small Business Energy Efficiency Program (SBEELP) that provides a **FREE Energy Assessment and up to \$3,000** to all qualified D.C. for-profit small businesses to install energy efficient measures.

For more information call the District Department of the Environment's Energy Hotline at (202) 673-6750 between 8:30 am – 4:30 pm Monday thru Friday, or apply online: ddoe.dc.gov



Start saving energy and money today!

Summary for Financial Incentive Programs*

Revenue Bond Program

Provides issuance and sale of tax-exempt bonds to finance, refinance; Reimburses costs of capital projects, including property acquisitions, renovations, construction and purchase of machinery and equipment

eligibility

- Borrower must be a qualified 501(c)(3) nonprofit manufacturer within the District of Columbia

Revenue Bond and Enterprise Zone Program

202.727.6365 | www.dcbiz.dc.gov

Enterprise Zone Program (EZ PROGRAM)

Businesses can borrow up to \$15 million of federal tax exempt bonds to finance capital projects; Annual federal employment tax credit of up to \$3,000 for each DC resident employee; Increased federal expensing allowance

eligibility

- Business has primary location within a federally designated EZ
- 50% of business income earned in an EZ
- Substantial portion of business property, services and workers are within an EZ

Revenue Bond & Enterprise Zone Program

202.727.6365 | www.dcbiz.dc.gov

Work Opportunity Tax Credit

A business can receive \$2,400 for each new adult hire; \$1,200 for each new summer youth hire; and \$9,000 for each new long-term family assistance recipient hired over a two-year period

eligibility

- New employees that belong to one of the nine target groups, including: Qualified TAN recipients; qualified ex-felons; qualified veterans; qualified food stamp recipients; qualified SSI recipients; long-term family assistance recipients. For a complete list and more detailed information please visit www.doleta.gov and search for “WOTC”

DC Department of Employment Services

www.does.dc.gov

Customized Training Program

Employers are reimbursed for funds spent to train District residents as skilled employees; Maximum \$500,000 per contract

eligibility

- Must submit funding request to Department of Employment Services and negotiate single source contract

Office of the Deputy Director

Department of Employment Services

202.658.5810 | www.does.dc.gov

DC CAPCO

\$50 million as capital to support small business and start-up business

eligibility

- Capital needs of \$100,000 or more
- Must be headquartered in DC and at least 75% of your employees must work in DC and 25% must live in DC

Department of Insurance, Securities and Banking

202.727.8000

Tax Increment Financing (TIF)

Provides issuance and sale of tax-exempt governmental revenue bonds to finance public infrastructure redevelopment within predetermined geographic areas

eligibility

- Eligible projects must be consistent with statutory criteria (a redevelopment plan) and typically are supported by project feasibility studies, cost/benefit analysis and development agreements

Office of the Deputy Mayor for Planning & Economic Development

202.727.6365 | www.dcbiz.dc.gov

Supermarket Tax Exemption

Ten-year exemption of real estate and personal property taxes and license fees; Exemptions of sales and use taxes on building materials for construction or rehabilitation

eligibility

- Must be a qualified supermarket in a priority development area

Office of the Deputy Mayor for Planning & Economic Development

202.727.6365 | www.dcbiz.dc.gov

CBE Certification Program

(DC GOVERNMENT), **HUBZone, SDB & 8(a) Programs** (FEDERAL GOVERNMENT)

For all government contracting programs including both DC's program and the Federal Government's programs please see the summary chart in Chapter 10: Doing Business with Government.

New E-conomy Transformation Act of 2000 (Net 2000)

Variety of incentives for technology companies:

- Exemption of certain capital gains from the sale, exchange or rollover of stock, partnership interest and other assets for five years
- Credit for each employee of up to \$20,000 for costs of approved training during the first 18 months of employment
- Ten-year exemption of personal property taxes for purchases made after 12/31/2000 and an allowance for up to \$40,000 in personal property expense deduction
- \$5,000 reimbursement of certain moving expenses or up to \$7,500 reimbursement of payments for lease or purchase of employee's primary residence in DC
- Credit of 10% of wages paid for the first 24 months of employment, up to \$5,000 per employee

eligibility

- Must be certified as Qualified High Technology Company (QHTC), meeting following criteria:
 - Individual or for-profit with two or more employees
 - Maintain an office, headquarters or base of operations in DC
 - Derives 51% or more of gross revenues from a high tech business as defined by law
 - Located in Primary Enterprise Zone

To determine eligibility:

Office of Tax & Revenue's

Office of the General Counsel

202.442.6509 | www.otr.cfo.dc.gov

For forms:

Office of Tax & Revenue's Tax Forms Office

202.727.4TAX | www.otr.cfo.dc.gov

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* For Federal tax incentives, you may claim most of the tax benefits by filing the appropriate form with your annual federal tax return.