

Modeling Corporate Franchise Tax after Decade of Changes

Norton Francis

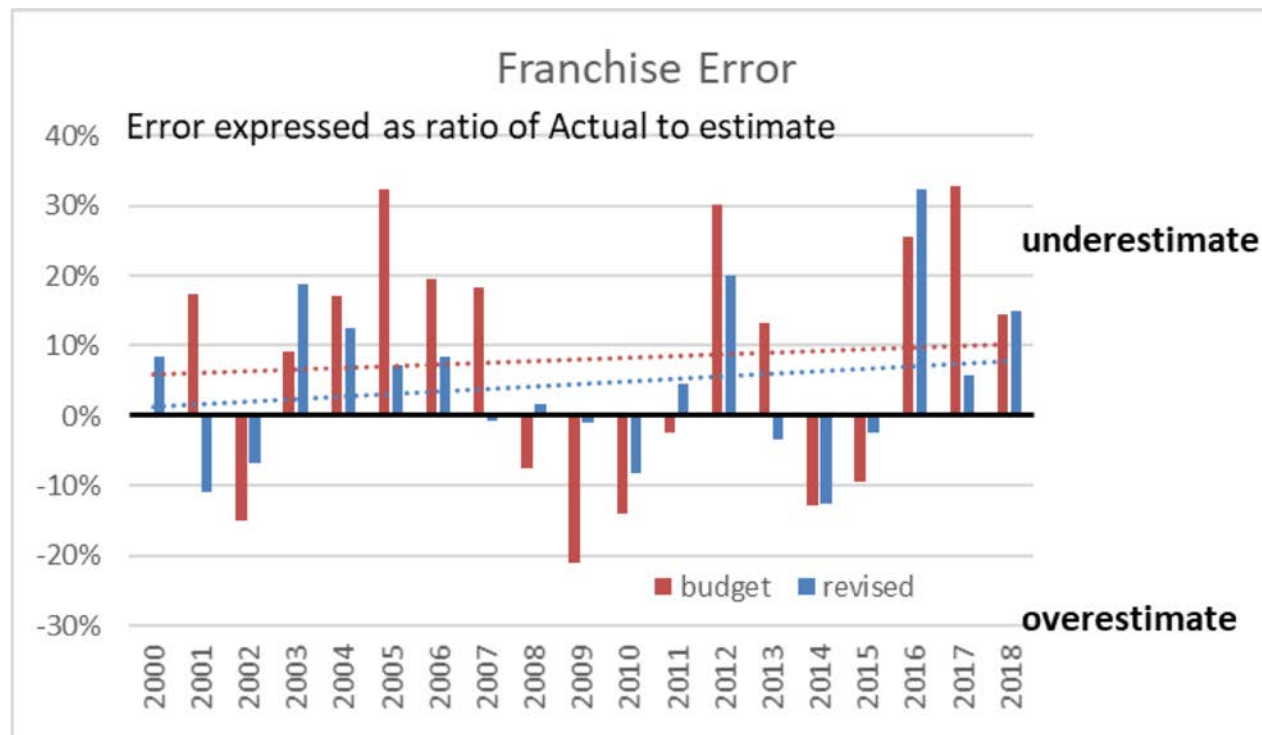
Office of Revenue Analysis

D.C. Office of Chief Financial Officer

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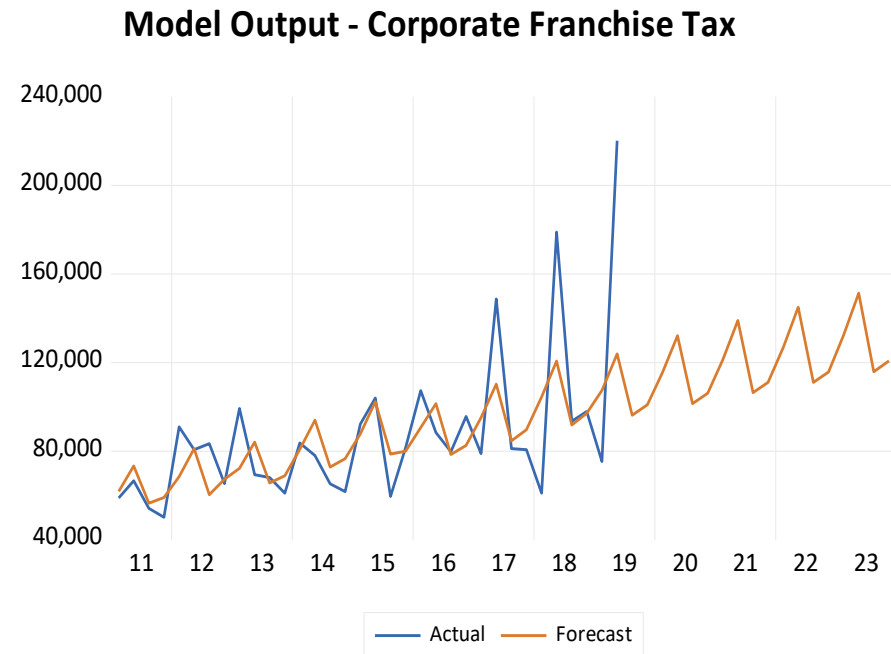
FTA Revenue Estimation and Tax Research Conference
9/24/2019

Comparison of forecasts and actual

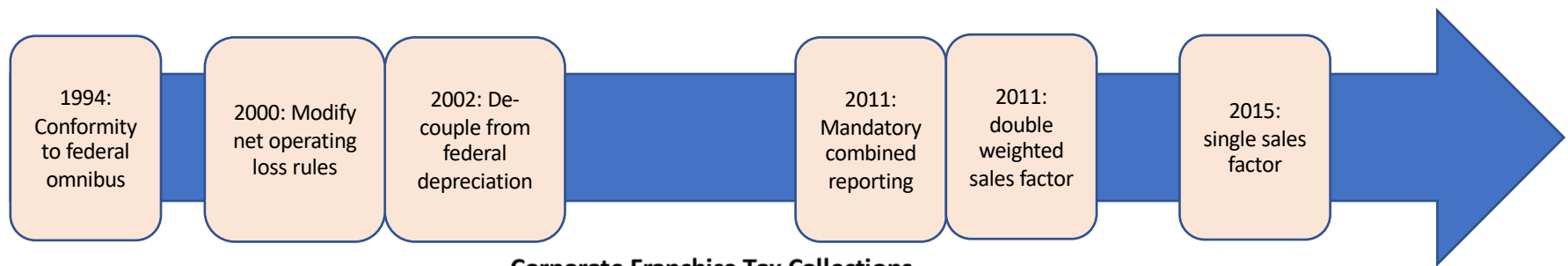


Model not great but serviceable

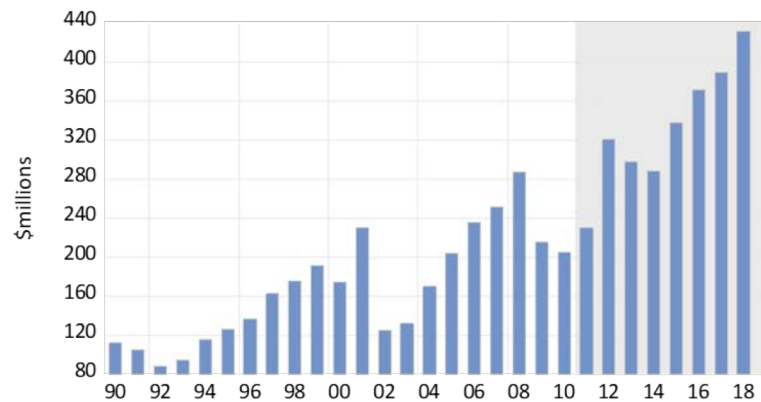
- $corp_net = f(DC, dividends/interest, tax\ rate, seasonal)$
 - Best of various models
- Performance suffered more beginning in 2017



Timeline of DC tax code changes



Corporate Franchise Tax Collections

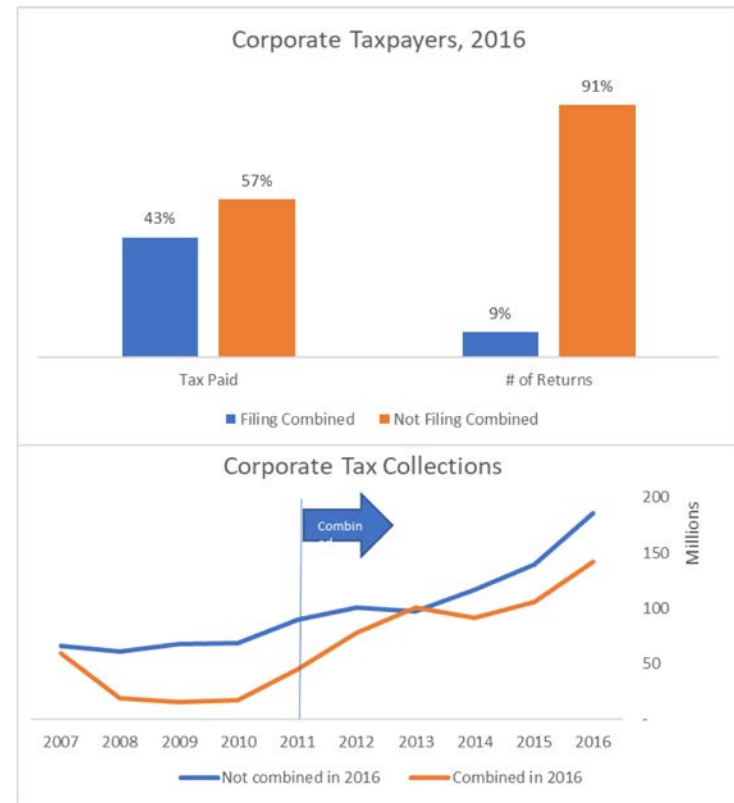


Shaded area for mandatory combined reporting
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Combined reporting may have changed tax dynamics

- Largest companies file combined reports
- Small share of returns but almost half of tax revenue
- Top 10 companies make up over 1/3rd of group tax
- Apportionment is about 1 percent (single sales factor)
- Combined reporters have significantly more dividend income and capital gains
- **Don't file every year**

TOP 10 TAXPAYERS IN 2016		
	Filing Combined	Not filing combined
Tax Paid	49,607,620	27,756,807
Share of Combined	35%	16%
Share of Total	16%	9%
Avg Apportionment Factor	1%	57%
Avg # of returns filed in last 10yrs	5.8	8.4



Challenges

- Tax liability not necessarily related to economic activity
 - Largest taxpayers: top 10 combined filers account for 16% of liability
 - Avg apportionment factor 9% for all combined but 1% for top 10.
- Behavior doesn't match time period
 - Amended returns
 - Shifting of income to reduce liability (federal and/or state)
 - Legal settlements
- State tax law changes
 - Switch from 3 factor apportionment to double-weighted sales (same time as adoption of combined reporting) and then to single sales factor in 2015
 - Phased-in tax law in forecast period
- Significant federal changes: TCJA
 - Unclear how combined reporting is affecting DC taxes after TCJA
 - Base broadening may be having a magnified effect on apportioned taxable income
- Data is not always reliable
 - Entered from returns but doesn't update to reflect amendments
 - Earlier data more likely to be hand-keyed.