



On Point Memo

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High taxes impede D.C.'s growth, prosperity

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WASHINGTON, D.C. – One of the major roadblocks to future economic growth in our nation's capital is the outrageously high tax burden facing taxpayers in the District. For starters, DC's 8.5 percent income tax on wages is one of the highest in the nation and this certainly does not bode well for future economic growth and development.

Overall, the non-partisan Tax Foundation estimates the District's 2008 tax burden eats up 10.3 percent of its citizens' income, compared to a national average of 9.7 percent. Only seven states in the nation have higher tax burdens than the residents of our nation's capital. This year, the average local tax bill paid by DC residents will exceed \$7,300.

Currently, DC is facing a budget deficit projected at \$96 million, and is coming dangerously close to hitting its credit limit. However, it is naive to think that increasing taxes will ever solve the fundamental problem of overspending here in our nation's capital. The truth of the matter is that the District certainly doesn't have a lack of taxes – but it most certainly has a spending problem.

Despite having the dubious distinction of having one of the highest income taxes in the nation, along with high property taxes and predatory tourism taxes, DC still finds itself with a budget deficit. If simply spending money was the solution to all of government's problems, we wouldn't have a problem left in DC.

Just across the Potomac, thousands of DC's workers live and take advantage of the lower tax burdens, lower regulation and a friendlier business climate in the Old Dominion. In fact, Virginia has one of the economically competitive states in America.

Recently, the non-partisan American Legislative Exchange Council, (ALEC) released a groundbreaking study to analyze the economic outlook of the states. The "Rich States, Poor States" study shows Virginia has one of the brightest economic outlooks in the nation, ranking 6th best nationally.

With competitors like these sitting just across the border, it should make every policymaker in Washington very aware that changes to policy are not created in a

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vacuum. Every time a jurisdiction changes its economic policies, it directly and immediately influences their competitive position for personal and business investment.

The historical evidence is clear: Jurisdictions that keep spending, taxes and regulation low exhibit the best economic results, while those that follow the tax-and-spend path lag far behind.

One major misconception among elected officials is that DC's tax burden should fall as much as possible on tourists, commuters and other nonresidents. This "tax exporting" -- through atrociously high hotel, rental car and restaurant taxes -- historically leads to overspending by government officials, who are unaccountable to those paying the tax. These tax-thy-neighbor strategies may swell DC's coffers, but they also invite retaliation and further congressional regulation.

A favorite strategy of the left is to attack big business by embracing a "soak the evil rich" mentality. Just how out of the mainstream is DC's corporate tax policy? Just consider this: If DC were a nation, it would have the highest corporate taxes in the world!

When you add DC's top corporate tax rate of 9.9 percent to the 35 percent U.S. corporate rate, a business looking to invest in the District will face the prospect of paying a combined tax rate that is truly uncompetitive by international standards.

In fact, corporations looking to locate in Washington would face a higher business taxes here than in the unabashed socialist nations of France and Sweden!

No state or locality has ever taxed its way to prosperity and our leaders in DC shouldn't try to be the first. Only if DC shakes off the reputation of being high tax and hostile to business will it be able to fully reach its full potential. Only then will DC compete with the likes of Virginia and other states that are making a concerted effort to remain economically competitive in the 21st century.

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DC Progress's vision is the transformation of DC into one of the most commercially vibrant cities in the United States. We will do this by providing independent, nonpartisan, and objective policy proposals on ways to improve DC's business environment.

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