



# PRESERVING SMALL BUSINESSES: REAL PROPERTY TAX REFORM

## ISSUE

Concerns about rapid gentrification in DC that leads to involuntary displacement impacts not only DC residents but also small businesses. Facing challenges from e-commerce and changing consumer preferences, small businesses are especially vulnerable. The increase in real estate speculation drives escalations in assessed property valuations, not just for residential but also for commercial sites. In DC we are seeing that commercial property owners are passing down increases in tax burdens to their tenants through triple net lease obligations. Although DC requires property owners to submit Income and Expense Forms, it does not appear that OTR is considering demonstrated drops in profitability as assessments continued to rise this year. If assessments are based on the potential of a property to generate revenue and not on the realities of what the current tenants and owners are realistically able to earn, DC will continue to see the loss of treasured small businesses across the District. If assessments are based on air-rights and potential market-rate development, it will erase the stores that make up our current landscape, and do nothing to protect us from the current vacancies we see along ground floor retail space. If we determine assessed value based on what the international real estate market can afford, we lose our locally owned and operated businesses that stuck with us during the hard times but now feel as if they are disposable.

## OPPORTUNITY

The COVID-19 pandemic has revealed the vulnerabilities of DC's small businesses. Some small businesses were forced to layoff staff and some closed permanently within weeks of the mandated shutdown. Across the board, rent obligations are a leading fixed cost for small businesses, including property taxes that are passed down to tenants. DC Policy makers are seeking strategies to prevent more small business losses, with special attention to disparate impacts on legacy businesses and socially disadvantaged business owners. Prior to the pandemic, property tax reductions were not under consideration. However, providing targeted relief in the short term would quickly and efficiently reduce a significant cost for embattled small businesses. Further, DC is slated to receive \$2.5 billion in federal relief, which will help to offset budget impacts of a revenue decrease. In the long term, the proposed Tax Reform Commission can review DC's property tax system more broadly.

## DISTRICT BRIDGES RESPONSE

In 2019, the hearings on B23-0075 legislation that provided property tax abatement for 2714 Georgia Avenue NW (owned by small business Mypheduh Films, better known as Sankofa Bookstore) drew attention to the impacts of the current system. Recognizing that Sankofa was only one example of a larger problem, the DC Council convened a stakeholder group (including District Bridges) to develop strategies for preserving legacy businesses in the District, including options for property tax relief. Building on these early efforts, District Bridges proposes the following actions:

- **Temporary Property Tax Relief:** To address the immediate crisis, District Bridges will work with the DC Council, DMPED and other stakeholder groups to advocate for partial tax rebates for 2020 and reductions for 2021 based on revenue drops demonstrated in Income and Expense forms.
- **Small Business Tenancy Tax Incentives:** To meet the policy goal of preserving small businesses across the District, District Bridges will work to develop incentives for properties owned by small businesses or with small business tenants in the form of lowered property tax rate.

DC Tax Revision Commission: B 23-0316 Tax Revision Commission Reestablishment Amendment Act of 2020 was enacted at the end of 2020, calling for the formation of DC's fifth Commission (the most recent Commission released its final report in 2014). The DC Council on Racial Equity (CORE) has emphasized tax reform must also take into account impacts on racial equity. District Bridges will engage with this reform process to seek long-term reform measures to address adverse impacts of rapidly increasing property tax burden on the small business community.