

DC Tax Revision Commission



January 5, 2023

Commissioners,

In the coming weeks, the DC Tax Revision Commission will release its comprehensive recommendations to the DC Council and Mayor Muriel Bowser. You all have spent more than a year listening to tax experts, reading research findings, and meeting with the public and various stakeholders. The District of Columbia is incredibly fortunate to have such a dedicated group volunteering to improve the city, and I want to thank each of you for your time, thoughtful input, and service.

If our work together is successful, our revenue-neutral recommendations will create a foundation for the District to thrive in the decade ahead by producing a tax code that:

- Supports residents -- including seniors and families with children, many of them people of color -- who face the greatest economic challenges;
- Encourages families across the economic spectrum to both move to and remain in our city, and allows all of them to see their future here;
- Protects DC's financial position by making the District more competitive with our neighbors and laying the groundwork for job creation and business development, especially among small and Black-owned businesses;
- Reflects and adapts to changes in the DC economy, including changing work patterns, rising wealth concentration, and rising use of digital platforms; and
- Overcomes constraints that DC faces from our unique federal limitations and ensures that nonresidents doing business or consuming services in the District pay their fair share.

As a next step to build consensus and construct a final package of recommendations, I have worked with TRC staff on a Chairman's Mark for your consideration. The Mark reflects the Commission's commitment to data- and research-driven recommendations, input from a wide cross-section of DC residents and businesses, and a collaborative approach among Commissioners. And it meets our statutory obligations and advances the Commission's stated policy objectives: *a broader, resilient tax base for a post-COVID economy; progressivity and racial equity; economic efficiency, competitiveness, and job growth; and simple, open, and fair administrative processes.*

We will use this set of draft recommendations as a starting point for our discussions beginning the afternoon of January 8. At that meeting, TRC staff will provide a briefing on the items in the Chairman's Mark and then invite Commissioners to comment and offer amendments.

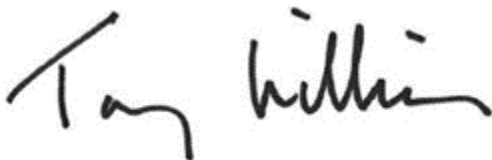
As you review this Chairman's Mark, please bear in mind the following points:

- Consistent with our mandate from the Council, the Chairman's Mark focuses on questions of tax policy and administration. We chose not to take up questions about direct expenditures and about regulations, even though Commissioners recognize their clear connections to tax policy.
- The Chairman's Mark aims for an equal balance of proposals that *raise* new revenue compared with current policy with proposals that *reduce* revenue compared with current policy. In other words, this is a revenue-neutral package relative to current law, reflecting the District's current fiscal challenges as well as diversity of views among Commissioners on the appropriate overall level of revenues that the District should collect and spend.
- The Chairman's Mark is a package of proposals in which the individual elements work together as a coherent whole. It is *not* intended as a menu of discrete ideas to pick and choose from. Policymakers and the public should view these recommendations as a package to be adopted together.
- As comprehensive as this package is, the Chairman's Mark does not address every important question of tax policy. For example, it sets aside the questions of whether or how the District should enact new tax incentives for job creation or of whether or how it should expand taxation of nonprofit entities such as universities. Nor does it directly address many critical revenue and policy questions such as the funding of WMATA. Instead, it seeks to create a sound tax framework in the coming decade on which policy decisions on those and other issues can rest.
- And finally, we face the prevailing issue in our work: uncertainty with a negative bias. In just the last 16 months we have experienced events which further complicate our work and call for conservatism in our estimations and bold-action in our efforts to restore economic growth. Indeed, worsening conditions make any predictions regarding cause-and-effect problematic. The efficacy of our recommendations could be dramatically affected by such factors as a continued elevated crime rate; falling revenues; the fiscal cliff awaiting WMATA; the loss of the Wizards and Caps to NOVA; and remote work — which I believe presents a long-term and existential threat to our tax base.

The following pages provide a list of each recommendation, organized by policy objective, with preliminary revenue estimates.

For more information about individual policy changes, please see <https://www.dctaxrevisioncommission.org/proposals> or reach out to Tax Revision Commission staff. I look forward to our discussions in the days and weeks ahead.

Sincerely,

A handwritten signature in black ink that reads "Tony Williams". The signature is written in a cursive, slightly slanted style.

Anthony A. Williams

Policy Proposals		Revenue Estimate (a)
Advance economic competitiveness, entrepreneurship, and job creation		
<i>Repeal certain business taxes in favor of business activity tax (see Recommendation 25 below)</i>		
1	Repeal personal property tax (tax on business equipment, etc)	-\$77 million
2	Repeal basic business license fees	-\$13 million
3	Repeal unincorporated business franchise tax (cost is net of impact on individual income tax)	-\$84 million
<i>Other competitiveness/job creation tax reductions</i>		
4	Reduce commercial property tax rates by equivalent of 10 cents; move to system of split-rate "land value" taxation when values stabilize	-\$94 million
5	End denial of occupation and business licenses for non-DMV "Clean Hands" debt up to \$2,000	-\$7 million
6	Enact SALT cap workaround (reduces federal tax for some residents but has \$0 DC fiscal impact)	\$0
	Subtotal	-\$275 million
Support families and make the tax system more progressive and racially equitable		
<i>Income tax reductions</i>		
7	Enact \$1,000/child (17 and under) refundable child tax credit for married couples with incomes up to \$200,000 and single parents up to \$150,000, phased out gradually at higher incomes; allow deposits to opportunity savings accounts	-\$77 million
8	Index income tax brackets for inflation beginning 2025 (revenue impact accelerates with inflation in future years, to \$9 million by FY2028)	-\$5 million
9	Double Child and Dependent Care Tax Credit (CDCTC)	-\$4 million
10	Make seniors and young adults eligible for childless worker Earned Income Tax Credit (EITC) benefits	-\$6 million
11	Eliminate EITC marriage penalty for childless workers	-\$1 million
12	Allow all EITC recipients to receive annual lump-sum payments rather than monthly payments	\$0
13	Convert income tax deduction for 529 educational savings plans to a credit	\$0
14	Increase deduction for public school teacher expenses	-\$0.1 million
<i>Property tax and other reductions</i>		
15	Expand the Schedule H circuit breaker: Extend eligibility to homeowners with up to \$100,000 in income and renters up to \$85,000; increase credit amount to \$2,500 for homeowners and \$1,500 for renters; simplify by equalizing credit across age groups; cap senior homestead credit at \$2,500; allow homeowners to claim credit via the property tax	-\$20 million

16	Increase from 30 days to 60 days the period to pay automated traffic enforcement tickets before fines double	-\$26 million (b)
17	Reduce to 0% the deed recordation tax for qualified first-time homebuyers	-\$6 million
18	Enhance property tax deferral program for seniors	minimal
	Subtotal	-\$141 million
Broaden, rebalance, and modernize the tax base		
<i>Modernize and repeal unwarranted loopholes</i>		
19	Tax electric vehicles at same rate as other cars and trucks	\$20 million
20	Limit income tax exemption for muni-bond interest to bonds issued by DC	\$15 million
21	Apply 10 percent assessment cap to all homestead properties regardless of owner's age by eliminating special 2 percent seniors' cap (note: estimated impact increases over time to \$15 million by 2029)	\$5 million
22	Eliminate income tax exclusion for survivor's benefits	\$4 million
23	Decouple from federal capital gains tax break for non-DC "qualified small business stock" payoffs	\$3 million
24	Eliminate tax break for Incomplete Non-Grantor Trusts	\$2 million
<i>Broaden and update taxes on business entities and consumption</i>		
25	Create business activity tax (BAT) - a low-rate, broad base "value-added tax" on gross receipts minus the sum of purchases from other businesses, rent, and capital expenditures. Fully creditable against DC corporate franchise tax and individual income tax. Rate = approximately 1.4%.	\$275 million (c)
26	Update method of applying corporate franchise tax to complex multi-state corporations ("Finnigan rule")	\$17 million
27	Create data excise tax - tax on businesses that are extracting data from over 50,000 DC residents, at rate of \$4/participant/year	\$7 million
<i>Other measures to broaden, rebalance, and modernize tax base</i>		
28	Increase residential property tax on higher-value properties, both single-family and multi-family, by either (a) increasing the residential property tax rate on the portion of property value in excess of \$2 million to \$1.04, or (b) raising rate to \$0.95 on all residential property + raising homestead deduction to \$225,000.	\$42 million
29	Increase income tax floor on itemized deductions to 7.5% of AGI	\$26 million
30	Raise cigarette tax to \$5.50	\$0.1 million
	Subtotal	\$416 million
Simplify the tax system and make it more accountable and responsive to taxpayers		
<i>Simplification & timing changes</i>		
31	Eliminate Schedule L and Schedule N (little-used tax credits)	minimal

32	Move filing deadline for all income tax extensions to November 15; allow automatic extensions for all filers who don't owe taxes	minimal
33	Allow homestead recipients to claim eligibility retroactively up to three years	minimal
34	Adjusted calendar for commercial property assessments to allow for more recent income data	minimal
35	Reclassify commercial-to-residential conversions at time of permitting	minimal

Accountability and responsiveness changes

36	Strengthen Office of the Taxpayer Advocate	minimal
37	Create public-private working group to review commercial property assessment practices	minimal
38	Require economic, small business, and distributional statements for tax legislation	minimal
39	Require additional reporting of data on fines and fees	minimal

TOTAL NET PACKAGE		\$0 million
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Notes:

(a) Estimated revenue impact, relative to current-law baseline, in the first year of implementation (based on implementation date of FY25 in most cases). Estimates are preliminary, reflect current revenue projections which are likely to change, and do not include potential administrative costs.

(b) Revenue estimate is for FY26, the first full year of impact. Impact declines to \$24 million by FY2027.

(c) Revenue estimate incorporates interactions with UB franchise tax repeal shown above. Net impact of replacing personal property tax, UBT, and business license fees with BAT, reducing commercial property tax rates, and Clean Hands changes is \$0.

Appendix: Some items/issues considered by Commission but not included in this Mark

- Spending and regulatory recommendations
- Revenue for WMATA
- Tax nonprofits' property and/or economic activity
- New taxes on financial wealth
- Incentives for new job creation or investment
- Incorporate triggers to implement tax provisions if fiscal circumstances change
- Repeal corporate franchise tax via higher BAT
- Reduce the number of income tax filing statuses
- Limit tax exemption for Social Security income
- Sales tax changes for restaurants or food vendors
- Potential federal action: allow marijuana tax, allow jock tax, allow commuter tax, federally funded incentives