D.C. Tax Revision Commission

<u>MEETING MINUTES</u>

Subject: D.C. Tax Revision Commission Meeting

Date: Oct. 7, 2013

Time: 3:00 p.m. to 6:00 p.m.

Location: Room W250 1101 4th Street, S.W. Washington, D.C. 20024

Members Present:

Teresa Hinze	Kim Rueben
David Brunori	Ed Lazere
Catherine Collins	Stefan Tucker
Pauline Schneider	Nicola Whiteman
Mark Ein	

Staff:

Gerry Widdicombe	Steven M. Rosenthal
Ashley Lee	Richard C. Auxier
Elisha Gaston	

I. Call to Order (Pauline Schneider)

Ms. Pauline Schneider, member of the D.C. Tax Revision Commission (the "Commission"), announced that she would be sitting in for the Chair of the Commission, Mr. Anthony Williams, because he was out of town on an emergency. She called the meeting to order at 3:12 p.m., and began by thanking the Office of the Chief Financial Officer (OCFO), the Office of Revenue Analysis (ORA) and the Office of Tax and Revenue (OTR) for their continued contributions to the Commission's efforts to develop a range of tax policy options. Ms. Schneider announced that the Commission's next public meeting would be held on Oct. 21, 2013, from 3 p.m. to 6 p.m., in the same room (Room W250 1101 4th Street, S.W., D.C.) and that the focus of that meeting would be the structure of D.C.'s businesses taxes.

II. Approval of Minutes

Ms. Schneider noted that commissioners would vote to approve the minutes from the previous meeting (Sept. 30, 2013) at a future date.

III. Discussion of Commission Schedule and Deliberation Process

Ms. Schneider explained that members would not vote on the proposals during the meeting and that deliberations are intended to generate feedback on a range of tax policy. The Commission would take a more formal recording of members' positions later in the process.

Ms. Schneider then introduced a proposal for creating a subcommittee of approximately four commissioners to focus specifically on low-income tax relief. She credited Mr. Gerry Widdicombe, executive director of the Commission, with the idea of forming a subcommittee. Mr. Widdicombe noted that the subcommittee would help the Commission because many of the individual income tax options are complicated—and more so when viewed in combination than in isolation. Ms. Schneider explained that three members had volunteered to serve on it: Ms. Teresa Hinze, Mr. Ed Lazere and Ms. Kim Rueben. Ms. Schneider then motioned for the Commission to approve the subcommittee, and members approved the motion unanimously.

IV. Deliberations: Individual Income Tax

Ms. Schneider introduced Mr. Steven M. Rosenthal, the Commission's staff director, to lead the group's deliberations. Mr. Rosenthal noted he was joined by Mr. Richard C. Auxier, a research analyst, and Ms. Elisha Gaston, a law clerk, with the Commission. He also acknowledged the assistance provided by Mr. Robert Bushman's report for the Commission, a paper that evaluated the strengths and weaknesses of D.C.'s individual income tax system. He mentioned that Mr. Bushman paper informed his evaluation of the competitiveness of D.C.'s individual income tax, and that Mr. Bushman also provided the Commission with suggestions for potential improvements.

Mr. Rosenthal said that some of the data on migration trends that Dr. Bushman analyzed was old, but nonetheless useful for observing taxpayer's reactions to changes in D.C.'s tax laws. Mr. Rosenthal informed the Commission that D.C. lost ¼ of its population in the period leading up to the prior tax revision, but this trend had been reversed.

Mr. Rosenthal noted that D.C. has experienced an increase in per capita income, and that D.C.'s income growth had outpaced its neighbors since 2010. He said that the income tax is more sensitive to economics than other taxes, and that the individual income tax constitutes a large part of D.C.'s revenue. He also said that the individual income tax is estimated to have generated $1.5 billion in 2012, and was projected to bring in $1.6 billion in 2013.

Mr. Ed Lazere asked Mr. Rosenthal to clarify whether his statement that "the income tax is sensitive to economics," meant that revenue collections decrease when residents experience economic hardship.

Mr. Rosenthal confirmed that Mr. Lazere understood his statement correctly. He also directed the attention of the Commission to two new handouts that were included in their materials. He explained that one handout was a list of the tax policy options that would be presented to the Commission for review at the meeting, and that the other handout was a side-by-side visual comparison of the individual income tax rate structures of D.C., Maryland and Virginia.

Mr. Rosenthal explained that revenue estimates had been generated for each policy option by ORA. He credited ORA for generating the estimates, and thanked ORA for being responsive and helpful to the Commission. Mr. Rosenthal explained that ORA's revenue estimates helped to give the Commission a more accurate sense of the magnitude of gains or losses that would result from implementing particular options, and cautioned that many of the estimates were static; that is, changes in taxpayer behavior were specifically not incorporated into the models.

Mr. Rosenthal said that the Commission deliberated proposals No. 1 to 6, all regarding the sales tax, in the last meeting and explained that the day's deliberations would focus on proposals No. 7 to 23 regarding the income tax. He mentioned that the Commission may wish to discuss what its objectives are for reforming the income tax, and suggested that one of the goals that the Commission might consider, for instance, is to decrease the tax burden on middle-income taxpayers. He explained that he would begin deliberations on specific policy options in groups of related options to make the presentation more cohesive. He started with options No. 7 -10.

Option No. 7: Mitigate the tax burden on middle-income residents

The goal of the first option is to lower the tax burden on middle-income residents. Mr. Rosenthal noted that D.C.'s individual income tax jumps from 4% to 6% to 8.5% at relatively low levels of income, pushing residents with modest levels of income into relatively highly levels of taxation. He described in detail option No. 7 that adds brackets and establishes lowers rates at low and middle levels of income.

Option No. 8: Add more high-income tax brackets

Mr. Rosenthal explained that option No. 8 adds brackets and increase rates at higher levels of income. The proposal's goal is to make D.C.'s income tax more progressive. Income above $350,001 would still be taxed at 8.95% but starting at $500,001 the rate would increase to 9.25% and income above $750,001 would be taxed at 9. 5%.

Option No. 9: Decrease the tax rates on high levels of income

In contrast, Mr. Rosenthal explained that option No. 9 is to reduce tax rates at high income levels. There were two proposals in this option: Both proposals kept the same income brackets (with the top bracket at income above $350,001) but one reduced the top to rates to 8% and 8.5% while the other reduced the rates to 8.25% and 8.75%.

Mr. Auxier added that the proposed rate changes were chosen by ORA based on pre-existing models from earlier studies that were easier to simulate.

Option No. 10: Increase D.C.'s standard deduction and personal exemption to the federal levels

Mr. Rosenthal explained that option No. 10 raises the D.C. standard deduction and personal exemption. He explained that the benefits of this change would go to low-income taxpayers since the data shows that low income taxpayers are most likely to take the standard deduction, while taxpayers with incomes above $70,000 are more likely to itemize their deductions. The raised personal exemption would benefit all taxpayers. Both would lower the amount of taxable income for D.C. residents.

Mr. Stefan Tucker said he would not change the standard deduction and personal exemption. Instead, he offered a new individual income tax structure:

INCOME	RATE
• $0-$10,000:	4%
• $10,001-$40,000:	5%
• $40,001-$80,000:	6%
• $80,001-$200,000	7%
• $200,001-$350,000	8%
• $350,001 and above	9%

Ms. Reuben stated that she wanted to lower the rates on income between $80,000 and $250,000, which she considers to be the modern day range of middle-class income. She said the current rates at these income levels are high compared to other jurisdictions. She broadly agreed with Mr. Tucker's outline of brackets and rates.

Mr. David Brunori said that increasing the number of tax brackets introduces more complexity to the income tax, but that he would also like to lower the rates in the middle. He also broadly agreed with Mr. Tucker's proposal.

Mr. Lazere suggested that the Commission should focus on adjusting the tax rates before it considers lowering the standard deduction. But he cautioned that lowering the rate on income below $350,000 would benefit all taxpayers—both middle-income residents and wealthy residents. He suggested that the Commission think about whose taxes it wants to lower, whose they want to leave unchanged and whose they want to increase before considering the specific options. He recommended the Commission consider a distribution impact before recommending any changes.

Mr. Lazere also suggested a "catch up" rate to raise taxes above a certain amount income to maintain progressivity. He explained that this effectively counteracts the benefit of the tax cuts at lower levels of income for those with high levels of income.

Mr. Brunori disagreed with this suggestion. He said playing with tax rates is a political question and that the Commission's goal should be more concerned simplicity. But he also warned that high rates are problematic, though.

Mr. Stefan Tucker also disagreed with a "catch up" rate. He suggested that instead of raising tax rates on high levels of income to counteract other rate cuts that the Commission could consider other offsets such as a phase out of itemized deductions.

Mr. Lazere noted that the income tax *is* political, and that the Commission should strive to have an impact that is as close to revenue neutrality as possible. He added that cutting taxes for all income brackets would be costly because it would mean less revenue for D.C.

Ms. Schneider asked whether there was a group consensus on reducing the tax burden for middle income residents. When the response was general agreement she said that the Commission should move forward with this as its goal for this group of options.

Mr. Tucker said that the changes in No. 10 (increasing the standard deduction and personal exemption) should be left alone until the impacts of the rate and bracket changes are better understood.

Ms. Schneider asked Mr. Lazere to clarify his position on tax cuts and tax hikes. Mr. Lazere said that there should be tax decreases for income below $100,000 but tax cuts for income above $200,000. He also advocated for raising the standard deduction because unlike the rate changes this would almost exclusively target families earning less than $70,000 in income. He explained that the District imposes high rates and provides low standard deductions for working-poor families, and that although D.C.'s earned income tax credit (EITC) is the highest in the country, D.C. gives families a smaller refund than many jurisdictions because its pre-EITC tax burden is high. Mr. Lazere pointed out that the working poor in D.C. are doing worse than in 15 other states.

Ms. Reuben reframed the question: "At what level of income should you not pay any taxes?"

Mr. Brunori said that many states have low tax thresholds that hurt the poor, and that he is less worried about the top, and more concerned about low-income families. He added that he would raise the standard deduction and personal exemption a lot and introduce a higher tax threshold.

Mr. Widdicombe said that the Commission would test various combinations of options to see their numerical outcomes, so that the Commission could engage in more informed deliberations.

Ms. Hinze asked the Commission to also consider households with no earned income, particularly retired residents. She noted that these households cannot get the EITC. She said that although retired individuals over age 65 get an extra standard deduction, there are many laborers who retire from labor jobs in their 50's. She asked what the Commission planned to do to provide relief to the poorest D.C. residents.

Mr. Lazere passed out copies of a bar chart, and asked the commissioners to examine it. He pointed out, that ignoring the lowest quintile of income earners, the D.C. tax system is regressive. He explained that income inequality is growing in D.C., and that the average income for top earners in D.C. is higher than any other jurisdiction. He recommended that the goal should be to make the entire D.C. tax system more progressive.

Mr. Tucker suggested the information in the chart was misleading as the chart represents all taxes, not income taxes alone.

Ms. Reuben said that the chart was a fair reference, as tax incidence ought to consider all taxes. And the income tax is the best tool for providing targeted tax relief. She proposed that the subcommittee be tasked with discerning the most favored options and examining their costs and benefits.

Mr. Lazere pointed out that the share of income D.C. middle income residents pay in state and local taxes is among the highest percentages in the country.

Mr. Brunori said that the Commission should think first about the big picture, and asked, "should we fix the regressive tax for fairness?" and answered "yes." He asked whether a progressive system or a flat system should be the goal. And the answer would need to emerge in the final package put forward by the Commission.

Ms. Rueben noted that the Commission's discussions highlighted the need for a subcommittee, that piecemeal would not work, and that the Commission should try to get a sense of which moving parts it is interested in playing with.

Ms. Schneider asked if there was consensus on the big picture goals: The Commission should focus on alleviating tax burdens for middle income taxpayers and simplifying the code.

Mr. Widdicombe noted that future deliberation would incorporate the big picture goals developed during the meeting.

Mr. Lazere said that an income tax that made the overall tax flat across income brackets would make D.C. better than most states because most states also have overall tax rates that look regressive.

Mr. Rosenthal then shifted to a discussion of options No. 11-13, all related to the EITC. He explained that the federal government has an EITC and that D.C. provides residents with an additional credit equal to 40% of the federal credit.

He said that the federal EITC is a percentage of earnings that increases with income until the taxpayer reach a maximum income level. As income rises beyond that point it plateaus and eventually phases out. The credit is also based on marital status and the number of children in a household. Mr. Rosenthal added that D.C.'s piggybacking on the federal EITC is working, but that the EITC is largely a working family credit.

Option No. 11: Increase the D.C. Earned Income Tax Credit (EITC) for all low- and moderate-income workers

He then explained that option No. 11 proposed to raise the EITC credit for all workers by raising the percentage of the D.C. credit from 40% to 50% of the federal credit. He noted that D.C.'s EITC was already the highest in the country.

Option No. 12: Increase the D.C. Earned Income Tax Credit (EITC) for childless workers

Mr. Rosenthal pointed out that the EITC provides relatively little for working individuals with no children. He explained that policy option No. 12 proposes decoupling from the federal EITC so that childless workers in D.C. receive benefits at higher income levels and receive a higher maximum benefit. He acknowledged that administrative costs would increase if D.C. decoupled from the federal formula and would lose between $38 million and $45 million in tax revenue, according to ORA's estimates. He added that the $84 million estimate on the handout had been revised by ORA after Mr. Lazere suggested that there were taxpayers wrongly grouped into the analysis. Mr. Rosenthal said that Commission members should feel free to contact the staff and ORA with their concerns about the calculations because some of the estimates are challenging and involve a lot of moving parts. Mr. Rosenthal also credited Mr. Auxier with locating the proposed federal changes that informed option No. 12, which proposes increasing the EITC for childless workers.

Option No. 13: Eliminate D.C.'s non-custodial parent Earned Income Tax Credit (EITC)

Mr. Rosenthal announced that option 13 was to eliminate the non-custodial EITC, a provision that allows eligible workers to claim the child-based EITC even though their children do not live in their household. This change would influence very few D.C. taxpayers because very few have ever applied for the credit.

Ms. Hinze noted that D.C.'s non-custodial EITC was modeled after New York's program, and that New York had made changes after one year because the credit it was largely ineffective. It now has far more beneficiaries. D.C. had not updated its credit, though. Ms. Hinze also said she had concerns about the EITC's interaction with the low income credit (LIC)—a taxpayer can only choose one.

Mr. Auxier expanded on Ms. Hinze's statement, adding that the non-custodial EITC has only been claimed by 10 people in D.C. because there are many limits that make qualifying for it difficult and confusing.

Ms. Rueben said that piggybacking on the federal EITC works well, and that "simple is good." She recommended that the Commission decline to pass options No. 11 and 12, and vote to eliminate the non-custodial parent EITC. She said that there are simpler ways to help low income individual..

Ms. Nicola Whiteman agreed that piggybacking on the federal credit was a good idea.

Mr. Brunori added that complicated changes to the law forces individuals to seek more help with their taxes. He said poor people, who are less educated and less informed, will suffer the consequences even though they are the target of the tax relief.

Mr. Lazere asked whether low-income residents are getting assistance with filing.

Ms. Hinze replied that many people pay to have their taxes done, and that some use software, but adding complications makes it harder for programmers to maintain updated software.

Mr. Widdicombe commented that D.C. is below the national average on electronic filing.

Ms. Schneider added that the federal government now requires electronic filing for those who get assistance with their taxes.

Mr. Lazere said that the federal EITC works well if individuals have children, but is inadequate for childless workers. He added that many people are non-custodial parents who are not adequately benefited by the federal EITC, and that the stand-alone D.C. credit should be kept on the table.

Mr. Brunori commented that the benefit to option No. 13, which proposes eliminating the non-custodial parent EITC, is low.

Ms. Schneider asked if there were any final thoughts on the last three items, and turned the floor over to Mr. Rosenthal for options No. 14-16.

Option No. 14: Conform D.C.'s limitation of itemized deductions to the federal limitation

Mr. Rosenthal explained that option No. 14 proposed conforming D.C.'s itemized deduction limits to federal law. He discussed the history of the federal limitations, and stated that they go back to a proposal by Senator Pease, as a way to increase the burden on high-income earners without raising tax rates. He explained that the federal law cuts back the availability of itemized deductions at an incremental rate as incomes increases. After the federal government repealed their itemized deduction in 2010 D.C. added its own itemized deduction phase out. Mr. Auxier commented that the federal phase out of itemized deductions was reinstated earlier this year and that soon both the federal and D.C. phase out would apply simultaneously.

Mr. Rosenthal added that D.C.'s itemized deduction phase out is much larger than the federal government's. The combined effect of the federal and D.C. phase out would be a double haircut on taxpayers' deductions.

Ms. Rueben commented that the numbers in ORA's estimates appeared high.

Option No. 15: Phase out the D.C.'s personal exemption for high-income taxpayers

Mr. Rosenthal explained that option No. 15 creates a personal exemption phase out for high income taxpayers to make D.C.'s tax more progressive and raise revenue.

Option No. 16: Conform status choices on D.C.'s income tax filing with the federal choices (i.e., reduce from eight to five categories)

Mr. Rosenthal explained that option No. 16 conforms D.C.'s individual income tax filing status options to the federal options. He added that D.C. has eight filing status options, which is more than either Virginia or Maryland, and that conforming to the five federal categories would simplify the system. He said that the domestic partner options were helpful to gay couples before D.C. legalized gay marriage and the repeal of the Defense of Marriage Act (DOMA), but added that many heterosexual couples fall under domestic partner categories as well, and like having these options. He added that having more categories helps alleviate the effects of the marriage penalty.

Mr. Tucker said most states have the option, "married filing separately on different returns," but that D.C. provides the "married filing separately" option on the same return. He recommended that D.C. allow couples to use different returns.

Ms. Hinze said that the second reason for change provided in option 16 was not true, and that couples filing separately on the same return get one standard deduction if there is one income earner.

Mr. Lazere commented that D.C. could solve the marriage penalty issue for "married filing jointly" by creating two tax brackets—for single and married couples. He added that he does not think of the cut back in itemized deductions at the top as a double haircut, and that itemized deductions are highly concentrated among high-income individuals. He said that changing the formula for itemized deductions is not a big issue for high-income taxpayers because they typically pay someone to do their taxes.

Ms. Rueben said that the Commission should think of what the costs are for different tax brackets if the federal cuts on itemized deductions occur before D.C. cuts back, or if alternatively, D.C. applies its cuts before federal cuts are applied.

Mr. Tucker commented that the biggest issue with itemization is state and local taxes.

Mr. Rosenthal said that he was going to discuss options No. 17-23, which were intended to broaden the tax base and eliminate as many special exemptions, deductions and credits as possible. He noted that D.C. was already much better about limiting expenditures than most states.

Option No. 17: Eliminate the low income credit

Mr. Rosenthal explained that option No. 17 eliminates D.C.'s low-income credit (LIC). The LIC attempts to ensure that residents who have not taxable at the federal level also have no taxable D.C. income (the different standard deductions and personal exemptions creates gap). He added that Virginia approaches this issue differently, by adopting a larger tax threshold of $26,000 for filing taxes, and that the low-income credit was a strange way to address the problem.

Option No. 18: Eliminate the survivor's benefit exclusions for D.C. and federal government workers

Mr. Rosenthal explained that option No. 18 eliminates the survivor benefits exclusion from the income tax, which would make D.C.'s tax more equitable since private sector survivor benefits do not receive an exemption.

Option No. 19: Eliminate the D.C. government employee first-time homebuyer credit

Mr. Rosenthal explained that option No. 19 eliminates the D.C. government employee first time homebuyer credit. He added that this benefit could be provided to homebuyers outside of the tax code, and that it was difficult for many homebuyers to qualify.

Option No. 20: Eliminate the $500 deduction for long-term care insurance

Mr. Rosenthal explained that option No. 20 eliminates the deduction for long-term care insurance and that the deduction provides limited value to taxpayers and is seldom used.

Option No. 21: Eliminate the $3,000 exclusion for D.C. and federal government pensions

Mr. Rosenthal explained that option No. 21 eliminates the $3,000 exclusion for government pensions and that this would broaden the tax base and allow for more broad relief measures.

Option No. 22: Eliminate the homeowner/renter property tax credit (Schedule H)

Mr. Rosenthal explained that option No. 22 eliminate D.C.'s homebuyer and renter property tax credit (known as Schedule H). He noted that providing property tax relief via the income tax causes problems for taxpayers who need relief when their property tax is due, not when they file income taxes.

Option No. 23: Eliminate the exemption for out-of-state municipal bonds

Mr. Rosenthal explained that option No. 23 ends the exemption for interest on out-of-state municipal bonds. He added that D.C. was the only jurisdiction that exempts municipal bonds purchased from other states, but that the option was contrary to the direction that the D.C. Council had recently taken on the issue. Mr. Rosenthal added that ORA estimates that $47 million in revenue is associated with out-of-state municipal bonds, although the estimates provided by ORA were static. He noted that the a repeal of the exemption could be grandfathered, so that the exemption would only be eliminated for newly purchased bonds, but would raise less revenue.

Mr. Brunori recommended adopting all of the proposals (No. 17-23), because this would greatly simplify the tax code, D.C.'s exemptions are poorly targeted and the government could better use the money lost on them. He also added that there is no policy justification for exempting municipal bonds from other states as D.C. is essentially subsidizing other jurisdictions construction projects.

Ms. Hinze said that the LIC does not benefit taxpayers with no taxable income. She added that Virginia has a $12,000 age deduction to make up for the fact that it does not have a pension exclusion, and that a disability exemption exists in D.C.'s tax that should probably be eliminated along with the others.

Mr. Lazere said that eliminating the LIC is an attractive option if the standard deduction and personal exemption are raised or other measures are implemented to alleviate any resulting increase in taxes for low-income residents. He noted that most of the exclusions that the proposals would eliminate benefit low-income earners, and that the property tax exclusion was a circuit breaker program that provides important tax relief. Additionally, by using the income tax the program assists renters as well as homeowners.

Mr. Tucker raised a question about whether the survivor benefits that would be subject to tax were earned by residents while they lived in D.C. or other jurisdictions.

Ms. Hinze answered that people who are retired typically move out of D.C.

Mr. Tucker said that eliminating the exemption for municipal bonds could cause people to leave D.C., which could decrease tax revenue. He said that he was afraid that this might also cause D.C. to eliminate private work bonds.

Ms. Whiteman agreed with Mr. Lazere's statements about option No. 22, and added that it is important to consider broad policy directions for the Commission. She said that she was hesitant to eliminate the first-time homebuyer credit given the program's goal. She asked why participation was so low.

Mr. Mark Ein commented that it is not easy to buy a house in D.C., and said that it was a good idea to help all of the groups affected by the exclusions and credits, but that the help could be provided to residents without using the tax code. He asked whether the estimates for added revenues from municipal bonds were static, and said that based on the estimates there are $12 billion to $15 billion of municipal bonds being held by D.C. residents.

Ms. Schneider asked whether, given the amount of municipal bonds being held by D.C. residents, there is an ample supply of tax-free D.C. bonds to replace out of state municipal bonds if option 23 were implemented.

Ms. Rueben asked whether anyone knew the exact value of bonds being held by D.C. residents.

Mr. Lazere responded that 81 households claimed the exemption last year, each with at least $2 million of interest income from tax-exempt bonds. He said that, according to his recollection, Puerto Rico and the Virgin Islands also have exemptions for out of state municipal bonds.

Mr. Rosenthal announced that he would proceed to review options No. 24-27 on the estate tax. He credited Ms. Gaston for her assistance. He explained that the federal government previously gave taxpayers a credit for their state level estate tax, which was a way for the federal government to subsidize the estate taxes for states. He explained that states previously had tied their estate tax to the federal credit, and that all 50 states and the District had active estate taxes as a result.

The federal government began phasing out the credit in 2001and that the credit was permanently replaced by a deduction last year. He said that most states reacted to the federal change by eliminating their estate tax. D.C. and 19 states still have estate taxes. He also noted that D.C.'s estate tax is still linked to the federal credit that was available from the federal government in 2001, that this makes the tax confusing. He said it would be much simpler to have a tax that was a percentage of the federal estate tax instead.

Option No. 24: Eliminate the estate tax

Mr. Rosenthal explained that option No. 24 eliminated the D.C. estate tax. He added that this would assist D.C. in attracting and retaining wealthy residents. Virginia does not have estate tax. Maryland has a tax that is a simple fixed rate.

Option No. 25: Increase the D.C. estate tax threshold from $1 million to $2 million or $5.25 million

Mr. Rosenthal explained that option No. 25 increased the estate tax threshold to $2 million or $5.25 million (the current federal threshold). He added that several other jurisdictions had raised their thresholds, either to the federal level, or to some lower amount.

Option No. 26: Exempt the first $1 million of property in an estate

Mr. Rosenthal explained that option No. 26 eliminated a cliff effect that resulted in the first $1 million of estate value being taxed for some residents with estates valued above a certain "cliff" amount. He acknowledged that his understanding of this issue was limited, and that he had varying opinions from different contributors, on whether the issue is a "cliff" or a "bubble."

Option No. 27: Defer estate taxes until the death of the surviving spouse

Mr. Rosenthal explained that option No. 27 provided portability in D.C. so that the estate tax would be deferred until one's surviving spouse dies. He acknowledged that the issue was complex. Portability addressed a specific issue that many married taxpayers had to deal with, which made their estates subject to tax if they wanted to devise particular assets to named beneficiaries after their spouse's death. He explained that the first spouse to die would have to undertake a complicated process of starting what is called a QTIP trust, so that when the second spouse died, beneficiaries would be able to get two estate tax exemptions (one for each spouse), instead of just one. He added that while some other states have addressed this issue at the state level, D.C. has not, and adopting portability would eliminate the need to form a QTIP trust and undertake these complex transactions. He concluded that a couple's beneficiaries would automatically get the double exemption when the second spouse dies if portability is implemented.

Mr. Tucker said that D.C.'s competition is not Virginia and Maryland, but Florida. That state has no estate tax and no income tax. He added that there are still some states with a relatively low estate tax exemption, and that the federal exemption has been raised each year by inflation. He said conforming to the federal exemption simplifies D.C. taxes, and that any other number is counterproductive. He also said the proposal regarding surviving spouse was not worth pursuing.

Mr. Brunori said that he would repeal the estate tax because affluent residents can plan their way around it now that so many states don't have the tax.

Mr. Lazere said that the estate tax is an important part of the federal and local tax system because it addresses income inequality. He added that the research suggests that people rarely move as a result of the estate tax. And he passed out a line graph of D.C.'s estate tax revenues between 2000 and 2013, and said that there has been no sharp decline despite the changes in other states.

Mr. Brunori said that the study referenced by Mr. Lazere was misleading because it analyzed a time period when all states had an estate tax.

Mr. Lazere answered that the author of the study maintains that people are unlikely to move based on the estate tax even in today's environment.

Mr. Tucker cautioned that he has learned through his law practice that people do move as a result of the estate tax.

Mr. Brunori mentioned that New York hunts down residents who claim Florida as their domiciliary while still living in New York. He did not know if D.C. had the resources to do this, though.

Ms. Reuben expressed concern that some with houses worth just over $1 million might have to sell their homes as a result of the estate tax.

Ms. Collins said that she endorsed Mr. Tucker's recommendations for D.C.'s estate tax. She added that in New York, those claiming Florida as a domiciliary are required to produce train tickets, telephone bills, and more.

Mr. Lazere said that there is research on multiple ways to address the "cliff" and that he would share them at a future meeting.

Mr. Brunori commented that the very rich groups escape the estate tax, and that less wealthy residents end up paying the burden of the tax.

V. Commission Business

Ms. Schneider explained that the next meeting would occur on October 21 in the same room.

VI. Adjournment

Ms. Schneider announced that the meeting was adjourned at 6:07 p.m.