



D.C. Tax Revision Commission

Staff Review of Commission Sentiment on Policy Options

Nov. 18, 2013

On Sept. 26, 2013, the staff of the D.C. Tax Revision Commission (“the Commission”) posted a list of policy options to be considered during the Commission’s public deliberations. During four public meetings in September and October, as well as a public hearing in November, the Commission deliberated on the 60 options¹ to reform D.C.’s tax system. The staff prepared a policy memo for each option, describing the change in detail, to help guide these discussions. All policy memos provided to commissioners are posted on the Commission’s website: dctaxrevisioncommission.org.

The policy option list has been updated to reflect the staff’s assessment of the Commission’s sentiment. Each policy option discussed during deliberations has been classified by one of the following colors:

- Green: There is a general consensus to pursue the policy option.
- Red: There is a general consensus to not pursue the policy option.
- Yellow: More deliberation is needed.

The updated policy option list is presented below and has been made available to the public. Please note:

- **The policy option list is not final.** The appraisal of Commission sentiment is only that of the staff and has been provided as a resource for the Nov. 18 public meeting. None of the colors should be considered a final assessment. Furthermore, all of the policy changes on this list remain options for considerations and are not the recommendations of the Commission.
- **“Policy Option” descriptions are purposefully brief.** This list was created to succinctly present the range of options available to the Commission. Many ideas are not flushed out in full so that the list can remain on three pages. Several options—such as lowering individual income tax burdens—contain numerous policy changes that cannot be represented on one line of text. For more information on any particular policy option please see the memos posted on the Commission’s website.
- **“Revenue” represents estimates from the Office of Revenue Analysis for specific and isolated options.** The revenue estimate for a single policy options does not reflect other changes that may be taken in tandem that may change the net effect of any policy change.

¹ Both the original list and the updated list have 63 options. Three of the options, related to tax administration, were not addressed during the four deliberations meetings. Experts addressed tax administration at a Nov. 4, 2013 public meeting. The Commission will deliberate further on these issues at a later date.

- **“Notes” are an attempt to briefly summarize Commission sentiment.** These notes are also intentionally brief. If you would like more information on how the Commission treated a particular option during deliberations please see the Commission’s meeting minutes, which are available on the Commission’s website.

The public is strongly encouraged to submit any thoughts or reactions on the options presented here or discussed at the deliberations. Please contact the Commission via our website: dctaxrevisioncommission.org.

The D.C. Council authorized the District of Columbia Tax Revision Commission (“the Commission”) on Sept. 14, 2011 through an amendment to D.C. Code Section 47-460. The Commission is an independent body consisting of 11 members appointed by the Mayor and Chairman of the D.C. Council.

The purpose of the Commission is to comprehensively review the D.C. tax system of and recommend changes to the Mayor and D.C. Council which (1) provide for fairness in apportionment of taxes; (2) broaden the tax base; (3) make the District’s tax policy more competitive with surrounding jurisdictions; (4) encourage business growth and job creation; and (5) modernize, simplify, and increase transparency in the District’s tax code.

D.C. Tax Revision Commission: Staff Review of Commission Sentiment [Nov. 18, 2013]

#	Policy Option	Revenue	Notes
Sales Taxes			
1	Expand sales tax to additional services (construction, storage, etc.)	\$28.2 million	More information will be presented at catch-all meeting
2	Expand tax base on goods: food, snacks or non-prescription drugs	\$28 million	Considered too regressive
3	Assert click-through nexus: online firms w/ DC affiliates collect tax	\$0	Little revenue; admin complex; uncertainty in courts
4	Add use tax line to the personal income tax return	\$1 million	Strong support
5	Unified taxation of tobacco products	\$7 million	Strong support
6	Increase the sales tax rate on parking, hotels, rental cars, restaurants	\$43 to \$61 million	Raising taxes may hurt DC's competitiveness
6*	Increase the general sales tax rate from 5.75% to 6%	\$22 million	Added during sales tax deliberations
Individual Income Taxes			
7	Decrease middle-income burden: create/raise brackets or lower rates	(\$54.8 million)	Strong desire to lower burden; subcommittee exploring
8	Increase progressivity by adding more high-income brackets	\$24.5 million	Some support for more brackets
9	Reduce upper income tax rates	(\$35 to \$74 million)	Little support for reducing rates
10	Raise standard deduction/personal exemption to federal levels	(\$108.5 million)	Support but concerns over cost
11	Increase Earned Income Tax Credit (EITC): all workers (40% to 50%)	(\$15 million)	Little support given DC already has the highest percentage
12	Increase EITC benefits specifically for a childless workers	(\$36.6 million)	Interest; new formula ma be admin difficult
13	Eliminate non-custodial parent EITC (still eligible for childless EITC)	\$3,691	Some desire to fix (ex: NYC) rather than eliminate
14	Conform D.C. itemized deduction phase out with federal phase out	(\$29.7 million)	Favor more conformity but concern over cost
15	Create personal exemption phase out (conform w/ federal limit)	\$2 million	Support
16	Conform D.C. filing statuses w/ federal options (reduce from 8 to 5)	No estimate	Favor but some concern over marriage penalty
17	Eliminate the low-income credit	\$114,114	Only if standard deduction/personal exemption increased
18	Eliminate survivor's benefits exclusion (D.C. and federal government)	\$3.2 million	Few comments
19	Eliminate D.C. employee first-time homebuyer credit	\$97,167	Few comments
20	Eliminate \$500 subtraction for long-term care insurance	\$151,878	Few comments
21	Eliminate \$3,000 exclusion D.C./federal government retiree pensions	\$3.3 million	Few comments
22	Eliminate homeowner/renter property tax credit (Schedule H)	\$7.5 million	Open to reforms but not elimination
23	Eliminate exemption for out-of-state municipal bonds (4-year delay)	\$47.8 million	Support but hesitancy given recent Council action
Estate Tax			
24	Eliminate the estate tax	(\$38 million)	No support for outright elimination
25	Raise threshold to \$5.25 million (federal level)	(\$15.8 million)	Support to conforming w/ federal level
26	Change threshold to a credit -- removing "bubble" problem	TBD	No support
27	Defer estate taxes until the death of the surviving spouse	TBD	No support

Color Codes: Green = general consensus in favor; Red = general consensus in opposition; Yellow = interest with reservations or no consensus

D.C. Tax Revision Commission: Staff Review of Commission Sentiment [Nov. 18, 2013]

#	Policy Option	Revenue	Notes
Business Taxes			
28	Eliminate or reduce BFT/UBFT rate to 8.25% (MD rate)	(\$491 m)/(\$57 m)	No support to eliminate
29	Repeal unincorporated business tax	(\$152 million)	Repeal rejected; interest in exempting financial services
30	Create minimum threshold for BFT (conform w/ UBFT at \$12,000)	(\$2 million)	Few comments
31	Replace BFT & UBFT tax w/ an expanded gross receipts tax	Neutral	Little support given how high rate needs to be (0.71%)
32	Expand nexus from physical to economic presence	No estimate	Rev est. too complex; weary of litigation issues
33	Apportion using single weighted sales formula	\$20 million	Strong support given DC's economy
34	Reduce capital gains tax (income) to 3% for high tech firms	No estimate	Beneficiaries uncertain
35	Create a Certified Business Enterprise tax credit (property or income)	(\$4.2 million)	No support; CBEs too broad
36	Levy a local services fee on employers (\$50/\$75/\$100 employee)	\$25/\$37/\$50 million	Support in lieu of a PILOT program
37	Eliminate DC Water PILOT; replace w/ utility tax on water/sewage	Neutral	Considered too politically challenging
Property Taxes			
38	Reduce rate difference between Class 1 and Class 2	Neutral	No desire to raise residential rate
39	Reduce Class 2 rates: \$1.65 to \$0.90 and \$1.85 to \$1.10	(\$516.2 million)	Interest in lowering rates; concerns over cost
40	Create small business tax credit & eliminate the \$1.65 rate (Class 2)	TBD	Difficult to administer
41	Eliminate or combine Class 3 & Class 4	(\$9.2 million)	Little interest in changing current system
42	Expand circuit breaker relief & tie to property tax (not income tax)	Neutral	Some interest in reform but complicated proposal
43	Eliminate the senior tax credit	\$21 million	No support
44	Eliminate or reduce the homestead deduction	\$55.6 million	No support
45	Legislate equal yield budgeting	TBD	Most prefer lowering rates to new system
46	Split property tax: land and buildings	Neutral	Considered too difficult to implement
Residential Property Tax Credit			
47	Eliminate the assessment limitation	\$15.7 million	No support
48	Reduce assessment limit increase from 10% to 5%	(\$6.3 million)	No support
49	Increase minimum (currently 40%) for taxable assessment	50% = \$145,000	Interest but little revenue gained
Property Tax Expenditures/Exemptions			
50	Eliminate "miscellaneous" exemptions	58.9 million	Too difficult to unravel exemptions
51	Develop Boston-like PILOT program (negotiate revenue)	TBD	Solution is troubling to many

Color Codes: Green = general consensus in favor; Red = general consensus in opposition; Yellow = interest with reservations or no consensus

D.C. Tax Revision Commission: Staff Review of Commission Sentiment [Nov. 18, 2013]

#	Policy Option	Revenue	Notes
52	Establish criteria for legislative tax exemptions	N/A	Support for making recommendations on process
53	Implement systemic review/sunset of legislative expenditures	N/A	Support for making recommendations on process
54	Adopt criteria for granting tax abatements	N/A	Current abatement process deemed acceptable
Deed Recordation & Deed Transfer Taxes			
55	Increase the combined commercial tax rate from 2.9% to 4.9%	\$66.4 million	No desire to change these taxes
56	Eliminate combined tax for all property or reduce to 0.433% (VA rate)	(\$244.4 million)	No desire to change these taxes
57	Eliminate the "bump" at \$400,000 by using marginal rates (residential)	(\$94 million)	Support for eliminating bump but only if revenue neutral
58	Create more progressive brackets w/ marginal rates (residential)	N/A	Little support for additional brackets
59	Raise exemption from 120% of HUD low income to 200% (residential)	(\$1 million)	No support
60	Waive taxes for first-time homebuyers	(\$16.6 million)	No support
Tax Administration/Review			
61	Establish system for evaluating tax incentives for jobs and growth	N/A	Not Discussed
62	Collect/compile tax data at neighborhood level	N/A	Not Discussed
63	Increase tax admin resources for enforcement	N/A	Not Discussed
N/A	Additional options TBD after Nov. 4 meeting on tax administration	N/A	Not Discussed

Color Codes: Green = general consensus in favor; Red = general consensus in opposition; Yellow = interest with reservations or no consensus