Written Testimony of Andrea Rosen
for the Tax Revision Commission
Sales & Excise Tax Revision
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Thank you for the opportunity to submit written testimony; I regret that I am unable to appear before you to deliver it in person.

As is well documented, the lowest 20 percent of non-elderly income earners (with incomes below $22,000; average: $12,600) in the District of Columbia bear a heavier household tax burden than the top 1 percent of earners (with incomes $1.453 million and up; average: $2.36 million). The lowest quintile pays 6.3 percent of household income in taxes, while the top 1 percent pays 6.2 percent of household income in taxes.[1]

Because the lowest-income group's personal income tax burden falls in the negative column (-2.7 percent of income), due to the earned income tax credit, the group's property taxes, averaging 2.5 percent of income (which also proportionally fall heaviest on this group), are effectively zeroed out.

This leaves the sales and excise taxes--the most regressive types of taxes—as the lowest quintile's effective tax bill. As the Institute on Taxation and Economic Policy states in *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* (Fourth edition; dated January 2013), "the sales tax applies only to a portion of income that is spent — and exempts income that is saved. Since high earners are able to save a much larger share of their incomes than middle-income families — and since the poor can rarely save at all — the tax is inherently regressive." Remarkably, at 6.4 percent, the sales and excise taxes liability for this lowest-income group is 10 times greater proportionally than it is for the top 1 percent of earners (0.6 percent).

The second and middle quintiles in D.C.—the moderate-income taxpayers earning between $22,000 and $62,000 (average: $28,800-$50,200)—carry the heaviest total tax burden, paying 9.5 percent and 10.8 percent of income, respectively, in taxes. Not surprisingly, sales and excise taxes fall more heavily on them than they do on the higher income brackets, at 5.3 percent for the second quintile and 4.6 percent for the middle quintile. As incomes further rise, taxes as a share of income continues to lighten up all the way to the top.

I stand with the D.C. Fiscal Policy Institute in believing that "the Commission's top priority should be to rebalance D.C.'s tax system so that taxes do not fall most heavily on D.C.'s low and moderate income residents."

For that reason I would like to propose that the Tax Revision Commission implement a sales tax credit for the first two quintiles of households: those with family incomes up to $38,000. D.C. has other tax credit refunds in the tax code, so the city has experience administering such a refund.

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[1] Data comes from ITEP's "District of Columbia Taxes," *Who Pays?* (2012 data)

The Tax Commission has received testimony that the District needs to broaden its tax base, which has been narrowing as consumers find other modalities for shopping, and exemptions have been granted for certain goods and services. According to expert testimony by William F. Fox (*Sales Taxes in the District of Columbia*), "The broad base permits a low rate for any given amount of revenue to be raised. Low rates reduce the incentives to purchase currently untaxed goods and services and to find ways to purchase items outside the District to evade tax. A broad base spreads the tax burden more evenly across all consumption making the tax liability fairer across taxpayers. But, the District cannot impose a consumption tax in a vacuum. Taxing some goods and services that are not taxed by neighbors or that can be easily purchased over the Internet can harm the DC economy as people purchase from other states or remotely."

The proposal that D.C. reinstitute a tax on groceries is untenable. Again, per *Who Pays?* the "single most important factor affecting the fairness of different state sales taxes is the treatment of groceries. Taxing food is a particularly regressive strategy because poor families spend most of their income on groceries and other necessities." Similarly, over-the-counter medications and other health-related items should be off the table for sales tax. A low-income family's need for, just to cite two examples, OTC Prilosec (the nonprescription version of a major medication to treat gastro-esophageal reflux disease) and bacitracin (a topical antibiotic ointment to prevent and treat wound infection) is no less essential than it would be for medical aids attained by a doctor's prescription.

I would urge you to consider broadening the sales tax base first by endorsing and joining jurisdictions pressing for taxing purchases made on the Internet. According to ITEP (*Who Pays?* January 2013), a dozen states, including Virginia, have reached an agreement with online merchant Amazon to collect and remit sales taxes in their states.

Beyond that, please consider extending sales taxes to goods and services that would reasonably be considered purchases made with disposable income. That would include such services: as mini-storage/storage of household goods; barber and beautician services; health clubs and tanning salons; carwashes; bowling alleys and billiard parlors. While it may not be politically expedient, taxing services provided by lawyers and accountants would not be out of line with building a fairer tax system.

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