

Written Testimony of Kesh Ladduwahetty
for the Tax Revision Commission
November 12, 2013

Good evening, commissioners. My name is Kesh Ladduwahetty and I live in Ward 3.

I am heartened that the first stated purpose of the commission is to provide for fairness in the tax code. You are all well aware that when taking into account the total tax rate of sales, property and income taxes, middle-income families pay the highest tax rates, and the poor pay a higher rate than the richest one percent. I urge you to go beyond the modest steps proposed to date and recommend making our tax code truly fair, not simply less unfair than it is today.

I believe that the main reason our tax code is regressive is that it pays insufficient attention to actual income distribution. One of the biggest culprits in this regressivity is the income tax, which corrals the vast majority of DC taxpayers into a single bracket ranging from \$40,000 - \$350,000.

The attached chart shows the actual income distribution in terms of quintiles. These quintiles reveal the economic classes of our society: the working poor, low-income families, middle-income families, upper-income families, and the richest families. The richest 20% are broken out further, with the top 1 percent removed; they are so rich that the graph becomes difficult to read.

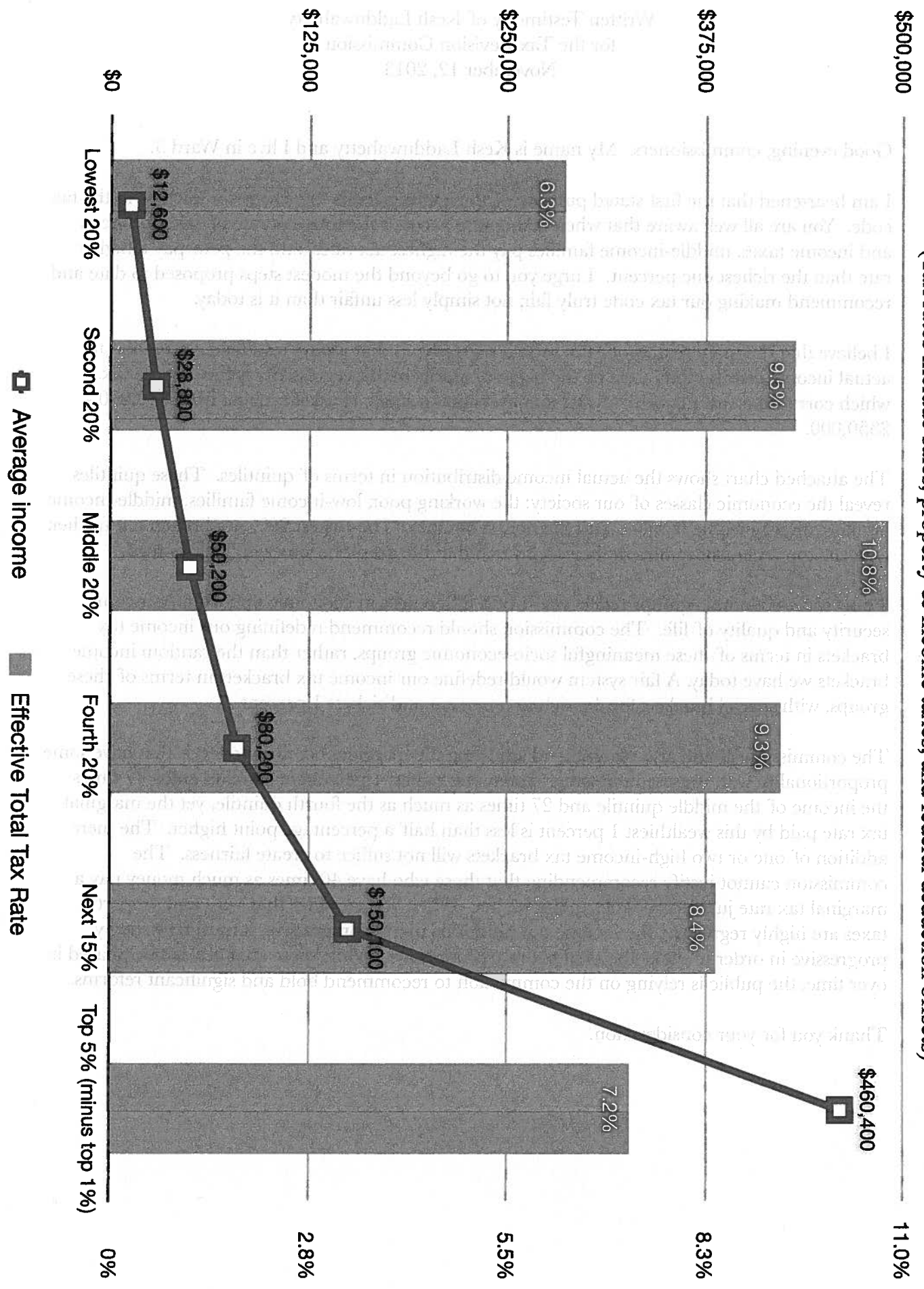
These socio-economic groups reflect real-world differences in economic opportunity, income security and quality of life. The commission should recommend redefining our income tax brackets in terms of these meaningful socio-economic groups, rather than the random income brackets we have today. A fair system would redefine our income tax brackets in terms of these groups, with special brackets for the richest 5 percent and richest 1 percent.

The commission should also recommend adjusting the marginal tax rates to levels that have some proportionality with the rise in income. Today the richest 1 percent of families enjoy 47 times the income of the middle quintile and 27 times as much as the fourth quintile, yet the marginal tax rate paid by this wealthiest 1 percent is less than half a percentage point higher. The mere addition of one or two high-income tax brackets will not suffice to create fairness. The commission cannot justify recommending that those who have 40 times as much money pay a marginal tax rate just 1 percentage point higher. When you consider that sales and property taxes are highly regressive, the income tax cannot be merely progressive, it must be strongly progressive in order to make the total tax rate progressive. While these changes can be phased in over time, the public is relying on the commission to recommend bold and significant reforms.

Thank you for your consideration.

DC Income Distribution and Total Tax Rates by Quintile

(Tax rates include sales, property & income taxes, and federal deduction offsets)



Source: ITEP (2012 data).