

Testimony before DC Tax Revision Commission, Nov. 12, 2013, by G. Lee Aikin

First let me thank you for all your hard work on this complex topic. The **middle class** is in serious trouble, you are in a position to help. People hate taxes and ignore them if possible. Therefore serious inequities creep into DC and the Federal tax codes with little public notice. Often by **failure to index**, as is true of several DC tax problems. I am most familiar with the D-40 and D-30 forms, but urge that others be examined carefully. Three minutes allows little time to present other concerns--Class 2, 3, and 4 taxes; the \$1500 Fee in Lieu of Taxes for street vendors; the Basic Business License; Homestead property tax deductions; and hardship exemptions--so I hope you will read my entire testimony and attachments. These inequities and other factors locally and nationally have seriously **diminished the middle and lower middle class**. Without much possibility of achieving middle class status, the lower classes can lose hope and respect for the **Social Contract**. This can have dangerous results.

Most distressing is failure to preserve the equality of Deductions and Exemptions when Home Rule was achieved in 1973-4, and they were comparable to the Federal rates. Federal rates have annual COLAs. DC changes had to be voted annually, but were not. By 1991 taxpayers had lost 50% of this benefit. In 2004 my DC taxes had doubled relative to Federal taxes, I discovered **NO** added change had been made in 13 years. David Catania agreed it made sense to "couple" our D&E's with the Federal rate. But, no Council actions took effect until 2006 and 2008. Since then nothing.

In 2012, a family of 4 would typically subtract \$10,700 in D&E's from Adjusted Gross Income (AGI) on the D-40 form. If our D&E's were coupled with the Federal rate, they could have subtracted \$27,100 in D&E's from AGI. This is a difference of \$16,400. Thus, the family would have paid \$786 on D-40 Taxable Income of \$16,400. Using the Federal D&E's they would have paid ZERO. A similar family with \$56,400 income would pay \$1,394 less in D-40 taxes. Others have testified about serious inequities with Schedule H, used to help low income renters and homeowners.

The D-30 needs major overhaul. Instructions are opaque [i.e. DC Apportionment Factor: "Multiply the total income by a fraction. The numerator is the property factor plus the payroll factor plus the sales factor. The denominator is three, reduced by the number of factors without a denominator.] I'm told this is a tax attorney make work project. To change that, examples should be given as they are in the Federal 1040 instructions. Many very small Unincorporated Businesses only have a little rental income, or sell a few things. If all income is DC earned, why not allow inclusion of the Federal Schedule C and/or E, and skip filling out redundant facts in D-30 Schedules A, C, E, and G, not to mention most of the rest of the form. In 1986 the D-30 became required of all **Gross** Income above \$12,000 with a \$100 fee even if there was a NET LOSS. Now a \$250 fee is required. To be fair, the Gross Income should rise to at least \$30,000. [A \$5,000 deduction is allowed, and up to 30% for personal labor to operate the business, so an adjustment could be made in the D-40 to allow these benefits with an increase to \$30,000.]

The idea that D-40 should add "**taxed Social Security**" to income is unconscionable. SS, first taxed in 1983 under Reagan, had a tax calculator "benefits worksheet" allowing singles a \$25,000 deduction, and couples \$32,000. This is **unchanged** in 30 years. According to the CPI calculator, the 2013 figures should be \$58,427 and \$74,787. Unadjusted a person with \$20,000 SS and \$40,000 AGI will pay tax on almost **half** their SS; \$50,000 AGI and above, on **85%** of their SS, another assault on the **middle class**. DC's current D-40 deduction for Federally taxed SS helps rectify this gross unfairness.

The Class 2 Business Property tax and Class 3 and 4 Vacant Property taxes need serious changes. Reducing the \$1.85 Class 2 rate to \$1.65 for property assessed under \$3 million is a help, but really

does not fix business in blighted areas. Businesses in Anacostia and upper Georgia Ave. often minimally improve their property. Taxes in PG Co. are much lower, and Montgomery Co. has variable rates. Why can't DC have variable rates or considerably smaller rates on low assessed properties? The Vacant Property tax rates are outrageous, far greater than any in the US, and violate at least the spirit of DC Code 47-817 Comparison of rates and burdens, "...it is the intention of Congress, that the tax burdens in the District be reasonably comparable to those in the surrounding jurisdictions..." [See attachment] The **one month vacancy** registration rule is way outside the **one year vacancy norm** elsewhere. [In addition, as soon as you register, your tax is immediately jumped 6 or 12 times the old rate. One 60+ person I know lost her row house because she didn't realize she should file for an exemption and thus received a \$105,000 tax bill.]

The \$1500 Fee in Lieu of Taxes is an outrage against street and truck vendors. It is far above the tax small part time neighborhood vendors might pay on sales. And some highly successful truck vendors are probably not paying their fair share. A half day of **tax training** upon licensing should solve this problem and be much fairer. This would be similar to the kind of training certification provided for food handlers in restaurants and on food trucks. In the late 1980s one could get a vending license for \$35 dollars and pay actual income taxes and 6% on sales. The \$1500 has to be paid even when one has almost no income such as in January, February and March. There is also a **moratorium** on renewing a dropped license. Here too, poor and middle class entrepreneurs are being harmed and disincentivized.

Another unfair and counterproductive tax related matter is the Basic Business License. Requiring licensing of **all** businesses is another serious disincentive to business formation by our younger and poorer potential entrepreneurs. The BBL should not be required below a certain gross income level, such as \$100,000.. A rule could be made that businesses below that would also take a half day of tax training on how to prepare their business taxes including the Federal Schedules C and E that pertain to business income. A simple registration fee of \$25 could cover this cost. This could exempt them from the BBL and improve tax collection. In addition, the "**clean hands self-certification**" that says one does not owe the city \$100 or more in taxes or fines is big problem. I know people who in 2010 used the Tax Amnesty to clean up their tax situations, and then the following year received OTR bills in the \$undreds and even \$thousands saying they owed taxes which in fact had been resolved. Sometimes it takes months to clear up these OTR errors, to **finally** allowing the BBL to be granted.

Regarding the Deductions and Exemptions issue I would like to add the following. As pointed out above, with "coupled" rates a family of 4 would pay taxes on \$16,400 less income. Thus no tax would be paid unless the Adjusted Gross Income was above \$27,100. [\$27,100 IRS1040 D&E - \$10,700 D-40 D&E's = \$16,400] Without this \$16,400 reduction, the 2012 tax is **\$786**. A family of 4 with Taxable Income of \$26,400 or \$36,400 would save **\$984** with coupling. At \$46,400 the saving is **\$1,144**. At \$56,400 and above the savings are **\$1,394**.

An educated guess suggests that around \$100,000,000 might remain in the pockets of taxpayers with coupling. Imagine what this would do to our local economy where it could be spent on food, housing, clothing and other merchandise. These "**high velocity dollars**" would then generate additional sales and income taxes for the city, considerably lowering the initial loss. Moreover, with recent tax income surpluses ranging near \$300 to \$500 million we can afford to do this. A small increase of top tax rates could rectify any revenue problems created. Has this inequity and tax neglect been a significant factor in driving lower **middle class families** out of the city to PG County? This should be studied and analyzed.

Another concern involving COLA's is Homeowner exemptions. While there have been increases in the **Homestead Exemption** amounts over the years, this too seems not to have kept up with inflation. Analyzing several cases known to me, it appears that the Homestead Exemption percent is only about 2/3rds what it was years ago. The 50% Property Tax reduction allowed for senior citizens is now threatened by the maximum allowed Household Income. A \$100,000 maximum was established in 1962. For 2013, the CPI calculator shows \$166,892. However, The Age-in-Place and Equitable Senior Citizen Real Property Act of 2011 only increased it to \$125,000. If children with good incomes come to live and care for Mom and Dad in their failing years, they are seriously penalized if they still have to maintain their original home. Once again, the **middle class** is being hurt.

Another concern, also related to D&E's is the Exemption for "over 65" or "blind." After caring years for my husband who died of Alzheimers, I can tell you blind care would have been much easier. Let us lead the nation by allowing an exemption for anyone who is medically certified as being at least as handicapped as a blind person, i.e., wheelchair bound, dementia, etc.

While studying posts by the TRC, I was thoroughly puzzled by inclusion of Figure II-h showing "Current Law and Changes Recommended by the D.C. Tax revision Commission as Shares of 1998 Family income for all Taxpayers" and 3 more related Figures. This seemed to be part of a recent report of TRC recommendations, and I wondered why you did not use the 1-30-13 ITEP Table 1 which is also attached. If the 1998 Recommended total taxes is what I saw, then it is clear it recommended that the middle 89% should pay the most, ranging from 10.1% to 11.3%, while the richest 1% would pay 9.4% and the poorest 20% pay 8.9%. If this is actually the current thinking that is even worse. The Institution for Taxation & Economic Policy (ITEP) uses 2010 income levels which shows (after a Federal deduction offset) that the middle 20% paid the most—11%. On either side 9.8% and 9.4% was paid. Thus the **middle class** again paid the most. The poorest 20% paid 6.6%, but the **richest 1% was the winner**, paying only 6.3%. Surely this Commission can do better.

In sum, I strongly urge you to do your best to **reverse national and local efforts** causing the systematic evisceration of **Middle Class prosperity** and hope for those even farther behind economically.

\* \* \* \* \*

I have covered a number of these issues in detail in blog articles at: [gleeaikin.blogspot.com](http://gleeaikin.blogspot.com). See the Sept. 3, 2013 post: **INDEX of all Posts, Recent to Oldest, Dates, Titles**

Articles related to taxes are dated in red, and the articles in early 2012 are related to **DC taxes**. There is an October 21, 2012 post on saving Social Security, which also is oriented toward **saving the Middle Class**.

G. Lee Aikin, 6-24-13, [gleeaikin@yahoo.com](mailto:gleeaikin@yahoo.com)  
Att: Letter from Ted Walker to Councilmember Muriel Bowser

See other side for two charts.



Figure II-h

**Current Law and Changes Recommended by the D.C.  
Tax Revision Commission as Shares of 1998 Family Income for All Taxpayers**

Income group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Average income in group	\$9,800	\$22,100	\$31,700	\$48,300	\$89,300	\$232,000	\$965,000
Income range	Less than \$16,000	\$16,000-\$27,000	\$27,000-\$38,000	\$38,000-\$61,000	\$61,000-\$147,000	\$147,000-\$415,000	Over \$415,000
<b>CURRENT LAW</b>							
Sales, excise, and gross receipts taxes	6.5%	5.4%	4.3%	3.5%	2.6%	1.8%	1.0%
General sales tax, individuals	2.1	1.9	1.6	1.4	1.1	0.8	0.4
Excise and gross receipts taxes, individuals	2.1	1.6	1.3	0.9	0.7	0.5	0.2
Sales, excise, and gross receipts taxes, businesses	2.3	1.9	1.5	1.2	0.8	0.6	0.3
Property taxes	1.9	2.5	2.1	1.8	1.9	2.1	1.7
Property taxes on families	1.3	2.0	1.6	1.3	1.5	1.5	0.8
Property taxes on businesses	0.7	0.5	0.5	0.4	0.4	0.6	0.9
Income taxes	2.4	3.8	4.3	5.9	6.3	6.3	6.6
Personal income tax	2.4	3.8	4.2	5.9	6.3	6.2	6.4
Corporate income tax	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Current total taxes	10.8%	11.7%	10.7%	11.2%	10.8%	10.2%	9.3%
<b>CHANGES RECOMMENDED BY COMMISSION</b>							
Property taxes on families	-1.2%	-0.8%	-0.6%	-0.1%	+0.2%	+0.2%	+0.1%
Business property taxes	-0.2	0.1	0.1	0.1	-0.1	-0.2	-0.3
Personal income tax	-1.0	-0.6	-0.2	0.0	+0.2	+0.2	+0.2
Business activities tax (new)	+0.4	+0.4	+0.4	+0.4	+0.5	+0.4	+0.3
Tax change recommended	-1.9%	-1.1%	-0.6%	+0.1%	+0.7%	+0.5%	0.0%
Recommended total taxes	8.9%	10.6%	10.1%	11.3%	11.5%	10.7%	9.4%

Note: Totals may not add due to rounding.

APPENDIX II-B DISTRIBUTIONAL ANALYSIS Ertlinger

577

1-30-13-ITEP-Release-Blog-Table1.jpg (450x387)

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Income Range	Less than \$22,000	\$22,000 - \$38,000	\$38,000 - \$62,000	\$62,000 - \$105,000	\$105,000 - \$250,000	\$250,000 - \$1,453,000	\$1,453,000 or more
Average Income in Group	\$12,600	\$28,800	\$50,200	\$80,200	\$150,100	\$460,400	\$2,359,500
Sales & Excise Taxes	6.6%	5.5%	4.7%	3.4%	2.5%	1.4%	0.8%
General Sales—Individuals	2.0%	2.4%	2.2%	1.7%	1.3%	0.8%	0.3%
Other Sales & Excise—Ind.	1.0%	0.8%	0.7%	0.4%	0.3%	0.1%	0.0%
Sales & Excise on Business	2.7%	2.2%	1.8%	1.3%	0.9%	0.5%	0.3%
Property Taxes	2.7%	2.1%	2.4%	2.2%	2.2%	1.8%	1.5%
Property Taxes on Families	1.5%	1.3%	1.6%	1.7%	1.6%	1.2%	0.6%
Other Property Taxes	1.2%	0.8%	0.7%	0.5%	0.4%	0.6%	0.8%
Income Taxes	2.7%	2.5%	4.1%	4.7%	5.2%	5.1%	6.1%
Personal Income Tax	-2.7%	2.3%	4.1%	4.7%	5.2%	5.0%	6.0%
Corporate Income Tax	0.0%	-0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Total Taxes	6.6%	6.3%	11.1%	10.3%	9.9%	8.4%	9.3%
Federal Deduction Offset	—	-0.1%	-0.1%	-1.0%	-1.4%	-1.1%	-2.1%
<b>OVERALL TOTAL</b>	<b>6.6%</b>	<b>6.2%</b>	<b>11.0%</b>	<b>9.4%</b>	<b>8.5%</b>	<b>7.3%</b>	<b>6.3%</b>

Table courtesy of the Institute for Taxation & Economic Policy ([www.itep.org](http://www.itep.org))

Note: Figures show tax law in the District of Columbia enacted through January 2, 2013 at 2010 income levels. The temporary 6.95 percent top personal income tax bracket, set to expire at the end of 2015, is included.

Theodore L Walker  
1301 Seventh St., NW, #908  
Washington, DC 20001

December 6, 2010

Councilmember Muriel Bowser  
Council of the District of Columbia  
1350 Pennsylvania Ave., NW, Suite 110  
Washington, DC 20004

Dear Ms. Bowser:

It has come to my attention, that the entire Vacant Property section with regard to increased tax rates for Unblighted and Blighted Vacant Property might not be valid or legal. We would respectfully request that your office review the entire matter of Class 3 & 4 legislation. Our research of the DC Code has raised a question as to the compatibility of the Class 3 & 4 taxes relative to already existing DC Code language. Here are the Paragraphs of the DC Code to which I refer:

§ 47-817. Comparison of rates and burdens.

In establishing a real property tax rate or rates, the Council shall make a comparison of tax rates and burdens applicable to residential and nonresidential property in the District with those such rates applicable to such property in jurisdictions in the vicinity of the District. The comparison shall include other major taxes in addition to the tax on real property. Without in any way limiting the authority of the Council, it is the intention of Congress, that the tax burdens in the District be reasonably comparable to those in the surrounding jurisdictions of the Washington metropolitan area.

Most recent (enacted Apr. 9, 1997, D.C. Law 11-254, § 2, 44 DCR 1575.)

§ 47-818.01. Adoption of enumerated reports as comparison [Formerly § 47-818.1]

Pursuant to § 47-817, the Council of the District of Columbia ("Council") adopts the following reports as the Council's comparison of tax rates and burdens applicable to residential and nonresidential real property in the District of Columbia ("District") with the rates on property in jurisdictions in the vicinity of the District and as the Council's comparison of other major taxes:

(1) "Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison" (Government of the District of Columbia, June 1997); and

(2) "A Comparison of Tax Rates and Burdens in the Washington Metropolitan Area" (Government of the District of Columbia, June 1997).

Most recent (June 10, 1998, D.C. Law 12-122, P 2(b), 45 DCR 2300.)

§ 47-819. Compilation and publication of comparisons.

The Mayor shall, by June 30<sup>th</sup> of each year, compile and publish information regarding the relative amount of tax for all major taxes in the District compared with those in surrounding jurisdictions in the Washington metropolitan area and with those in other cities. The information shall include the rate or rates of the property tax levied on residential and nonresidential property, and the effect of major taxes levied on families of different income levels and on businesses.

Most recent (enacted, Apr. 9, 1997, D.C. Law 11-254, P 2, 44 DCR 1575.)

As you can see the most recent revisions of these Paragraphs were made in 1997 and 1998. Two reports of The DC Government in June 1997 were adopted for tax comparison purposes. The most recent document we have found prepared by the DC Government for § 47-818.01, (2) was prepared in 2008. Page 35 shows quite clearly that the Class 3 tax rate of \$5/\$100 is far outside the area norm. See link:

[http://cfo.dc.gov/cfo/lib/cfo/ora/093009\\_2008\\_tax\\_rates\\_and\\_burdens.pdf](http://cfo.dc.gov/cfo/lib/cfo/ora/093009_2008_tax_rates_and_burdens.pdf)

When you examine this page you will see that the highest area Real Estate Tax Rates listed are for Loudoun Co., Charles Co., and PG Co., at \$1.140, \$1.094, and \$1.072 respectively. Even the DC Class 2 rate of \$1.85, which is much lower than the Class 3 rate, is well above the norm for the area. Perhaps that also needs to be revised downward? When you consider the 2011 revised rate with Class 4 at \$10/\$100, we are even more grossly outside the intent of Congress as stated in § 47-817.

In addition, according to § 47-819, the Mayor was charged with compiling and publishing information regarding comparative taxation "by June 30th of each year." We have been unable to find this document. Do you know if any of these reports have been prepared and published during the past 4 years and can you provide us with the link?

In our effort to work cooperatively with you, it would be extremely helpful for us to be able to see all those documents so that any working recommendations we prepare will meet the stated intention of Congress indicated in § 47-817. We do not wish to make recommendations that are either too strong or too weak, but without all the required comparative information it will be difficult to meet this objective. Thank you again for providing this opportunity to work cooperatively with you.

Sincerely,

Theodore L. Walker  
VP Tax Fairness Group