D.C. Tax Revision Commission

MEETING MINUTES

Subject: D.C. Tax Revision Commission Meeting  
Date: Dec. 18, 2013  
Time: 3:00 p.m. to 5:00 p.m.  
Location: Room W250 1101 4th Street, S.W. Washington, D.C. 20024

Members Present:

Anthony Williams  
Stefan Tucker  
Kim Rueben  
Mark Ein  
Fitzroy Lee  
Pauline Schneider  
Nicola Whiteman  
Ed Lazere  
Teresa Hinze  
Catherine Collins

Staff:

Gerry Widdicombe  
Steven M. Rosenthal  
Richard C. Auxier  
Ashley Lee  
Elisha Gaston
I. Call to Order (Anthony Williams)

Mr. Anthony Williams, the chair of the D.C. Tax Revision Commission (the “Commission”), called the meeting to order at 3:15 p.m., and thanked commissioners for attending what he expected would be the last meeting of the Commission. He also thanked the Office of the Chief Financial Officer (OCFO), the Office of Revenue Analysis (ORA), and the Office of Tax and Revenue (OTR) for their exceptional contributions to the Commission’s efforts. He announced that electronic copies of the materials for the meeting were available on the Commission’s website, and invited guests to see Ms. Ashley Lee for hard copies.

II. Approval of Minutes for Dec. 9, 2013

Mr. Williams made a motion to approve the Dec. 9, 2013 minutes. This motion was seconded by a commissioner and approved by the full Commission with no objections.

III. Discussion of Deliberation Process

Mr. Williams announced that deliberations would begin with an explanation of the most recent Chairman’s Mark of Major Tax Changes, dated Dec. 18, 2013. He noted that Mr. Steven Rosenthal, the Commission’s staff director, would brief commissioners on the changes that had been made to the Mark since the Dec. 9 meeting.

Before beginning that discussion, Mr. Williams stated that he again wanted to thank everyone for attending the Commission’s 26 public meetings, engaging in spirited but respectful debate, and for working so hard to help improve D.C.’s tax system. Mr. Williams also encouraged commissioners to join him early next year when he presents the Commission’s recommendations formally to the D.C. Council. He also thanked the Commission’s staff for all for their efforts during the process.

Mr. Williams explained that the Commission would discuss and then vote on a final package of recommendations. He said the package represents his best attempt to achieve consensus. He noted that individual commissioners may not agree with all of the recommendations, and that commissioners are welcome to write dissenting opinions, but he hopes that this package can achieve unanimous approval.

Mr. Williams stated that he personally preferred a package with more business tax relief. But he argued that he was proud of the current recommendations and strongly supported them. He also
noted that in contrast to previous D.C. tax changes, the tax increases included in the package were specifically funding targeted tax relief and not merely more government spending.

Finally, Mr. Williams notified the Commission that Mr. David Brunori could not attend the meeting because of a family emergency. He said that Mr. Brunori cannot vote by proxy but that he sent his approval of the final package, without dissent via email.

III. Review of the Chairman’s Mark

Mr. Rosenthal began his explanation of the Chairman’s Mark by noting that the current package only had one set of recommendations—as opposed to the two sets of recommendations in the Dec. 9 Mark.

Mr. Williams said that he was convinced by comments from Commissioners and others that establishing consensus on one set of recommendations would send a more powerful message than providing two sets of recommendations. He wanted the Commission to be unified behind its package of recommendations, and not allow others to pick and choose what they liked and what they disliked.

Mr. Rosenthal noted that most of the changes to this package involved the individual income tax. He explained that the package created a two-bracket system, offering different tax schedules for single filers and married filers. He also noted that this Mark moved the top marginal tax rate to 8.75% in 2016. He said this was a compromise between commissioners who wished to keep the current 8.95% rate and those who wanted the rate to expire and revert to 8.5%.

Mr. Rosenthal also noted a small change to the treatment of personal exemptions. He explained that D.C. currently does not phase out exemptions but that this package recommended phasing them out at 2% per $2,500 beginning at $150,000 of income to conform to the federal phase-out rate for personal exemptions. The Dec. 9 package also included an “accelerated” phase out of personal exemptions at 5% per $2,500, but that is not in this Chairman’s Mark.

On business taxes, Mr. Rosenthal explained that the current recommendation was to reduce the business and unincorporated business franchise tax rate from 9.975% to 8.25% (the current Maryland business tax rate). The previous Mark included two options: a reduction to 8.25% and to 7.75%. He also noted that the current Mark did not include a commercial property tax cut. This had been an option in the two-path Mark.

Finally, Mr. Rosenthal said that the total package results in an estimated revenue loss of $48.8 million. However, after the $18 million authorized by the D.C. Council is included, the package’s
total cost is $30.8 million. He noted that these estimates were tentative, pending finalization by the Office of Revenue Analysis.

Mr. Williams urged the commissioners to approve the package. He said it was the culmination of a lot of hard work from both the commissioners and staff. He again stated that he personally preferred a package that had a top marginal income tax rate of 8.5%, but that he approved of the compromise rate of 8.75%. He also said he preferred a package with more aggressive tax relief, specifically a reduction in the commercial property tax rate. However, he strongly recommended that the Commission to unanimously support the package because it greatly improved D.C. tax system and achieved the Commission’s stated goals. He then opened the floor for discussion.

Ms. Pauline Schneider asked whether there was a distribution table available that showed the effects of the new individual income tax package on different taxpayers. The Commission had been provided distribution tables for an earlier proposal.

Mr. Widdicombe said there had not been enough time to produce a new distribution table for the meeting but that one would be produced promptly.

Ms. Reuben, who helped calculate the original distribution tables, told Ms. Schneider that the new plan would have a very similar distribution effect as the previous package that kept an 8.95% top rate. The key difference is that high-income taxpayers would be slightly better off under the 8.75% rate package. She also stated that the income tax reforms had specifically been crafted so that very few single filers (paying the top rate at $200,000 instead of $350,000) would be negatively affected.

Ms. Nicola Whiteman said she believed an earlier version of recommendations, the package with more aggressive tax relief, was more balanced between individual and business than the current set of recommendations. She also stressed that business tax cuts do more than merely provide relief. She said such tax cuts help grow the economy and create jobs, improving the city for all residents.

Mr. Tucker argued that the recommendation to reduce the business and unincorporated business tax rate from 9.975% to 8.25% is significant and will help produce some of the growth Ms. Whiteman was referencing.

Ms. Whiteman agreed that this reduction was important but said she hoped it is just the first step to more pronounced tax relief in the future.

Ms. Schneider remarked that the package represents a balanced approach—good for both businesses and individuals. She also said its total cost gave it a real chance for implementation. She concluded by saying that compromise had not been easy but that the final product would have a very positive effect on the city.
Mr. Lazere thanked Mr. Williams for guiding the Commission to the current package of recommendations, and noted that he would be voting to support the package without any dissent. He noted that there were some changes in the package that he did not support, but he stressed that it included many critical and beneficial tax policy reforms. Mr. Lazere specifically cited the expansion of the sales tax base and the increase in the standard deduction and personal exemption. He said the package would make D.C.’s tax system fairer for low- and middle-income residents. He thanked the staff for their hard work, and thanked Ms. Reuben for leading the subcommittee on the individual income tax and Mr. Lee and ORA for providing constant assistance.

Mr. Ein also thanked the Commission and its staff for their contributions. He said the package is a compromise, but one that he supports. Mr. Ein added that the report’s messaging will be just as important as its recommendations. He said his hope is that the final report will convey the Commission’s collective knowledge after 16 months of hard work, and that it should guide the city’s tax policy for the next decade. He argued that D.C. must take regional competition seriously if it hopes to create jobs and support those who are currently suffering in the city. He referenced his previous statements on how taxes influence where people choose to live and start a business. Mr. Ein said he hoped that if the Commission had learned anything it’s that taxes matter and are critical to creating a competitive city, not just for business, but for everyone.

Mr. Williams thanked Mr. Ein and Mr. Lazere for their comments and for working toward a compromise package.

Ms. Whiteman thanked the staff and Mr. Lee and his team for their hard work and specifically for responding so quickly to the Commission’s requests for information. She noted that the Commission had undertaken a very valuable exercise. She said that the Commission’s recommendations would help restructure the economy for the next five to 10 years. And, she recommended that the city continue to examine its tax structure every five to ten years in order to respond to changes in its economy.

Mr. Williams offered a motion to approve the Chairman’s Mark.

Ms. Schneider seconded the motion to approve.

The package of recommendations was unanimously approved by the Commission.

Mr. Williams then suggested that one way to reflect all of the commissioners’ perspectives in the final report would be to summarize the debate for every recommendation—presenting each side’s opinion of a recommendation (and options not chosen) and then explain how and why the Commission made its final decision.
Mr. Gerry Widdicombe added that the staff would circulate drafts of the final report to ensure that commissioners’ thoughts are accurately represented.

Mr. Widdicombe then asked the Commission how they wanted to proceed on tax administration. He asked for comments on a draft memorandum to the incoming CFO, Jeff DeWitt, that highlighted critical recommendations presented to the Commission.

Mr. Tucker asked to add two things to the memo. One, ending the disparity between interest rate on over payments and on underpayments. He said the city aggressively punishes residents and business that do not make their full tax payment while providing little restitution to those who have been overtaxed. Two, placing liens on businesses for non-payment of sales taxes more quickly as many businesses use the city as its lender of last resort which leaves the city with a large unpaid sales tax bill a business goes bankrupt. Mr. Tucker was also concerned that business owners could file a bankruptcy with one business that had unpaid sales taxes, but very quickly open a new business in the city.

Mr. Ein seconed the need to address the disparity in interest for under and over payments.

Ms. Reuben said the memo also should note the need for better coordination across different taxes. She said, for example, OTR needs to cross check its information on homestead deductions and income tax payments.

Mr. Ein asked if commissioners could add additional comments about tax administration after the meeting.

Mr. Williams said they could and that any additional comments should be sent to Mr. Widdicombe.

Ms. Whiteman asked for clarification on the memo language about analyzing tax incentives.

Mr. Widdicombe noted that this option was presented to the Commission by the Pew Charitable Trusts. The recommendation would require all tax incentives, not just property abatements as is current policy, be studied before, during and after their implementation.

Ms. Teresa Hinze asked whether in addition to increasing administrative resources and updating the computer systems, the list of recommendations addresses making sure that the information in the system is correct.

Mr. Widdicombe said that this list of recommendations does not address this issue, but that OCFO is well aware of the problem.
Ms. Whiteman noted that many recommendations provided by a previous audit of OCFO are already being implemented. She added an ongoing concern is ensuring that commercial property appraisers have just as much staff resources as residential property appraisers. She suggested the city adopt an apprentice program.

V. Commission Business

Mr. Widdicombe explained that the staff would be keeping the commissioners updated on the progress of drafting the final report. Specifically, staff would report back once ORA had calculated the approved package a final revenue score. Mr. Widdicombe added that he expected the Commission’s recommendations and final report would be published in late January and be brought before a hearing of the D.C. Council in early February.

Ms. Schneider asked how the Commission planned to draft legislation.

Mr. Widdicombe explained that Mr. Rosenthal, who has drafted legislation before, would lead this process and get assistance from OTR.

Mr. Lazere asked about the process for editing the final report.

Mr. Widdicombe assured Mr. Lazere that the process would be transparent and noted that if the issues were material enough the Commission might have to find time to reconvene. He added that the staff would be available to commissioners throughout the process.

VI. Adjournment

Mr. Williams announced that the meeting was adjourned at 4:20 p.m.