D.C. Tax Revision Commission

Dec. 3, 2013

Commissioners,

After 24 public meetings and over a year of deliberations, the D.C. Tax Revision Commission will submit its recommendations to Mayor Vincent Gray and the D.C. Council in December 2013. Our process has required an incredible amount of time, effort and thought from each of you. On behalf of the District of Columbia, I want to thank you for your service.

To advance our efforts, I have compiled two sets of recommendations, which are based on our collective deliberations and the revenue estimates prepared by D.C.'s Office of Revenue Analysis. The first set of recommendations requires an investment of future revenues, which I believe would be worthwhile. The second set is revenue neutral, including the $18 million allocated by the D.C. Council. I believe either of these approaches would achieve the Commission's stated goals of fairness, broadening the tax base, making D.C. more competitive, encouraging business growth and simplifying the tax code.

These two packages address the most pressing problems of the District's current tax system, including:

1. **Providing effective tax relief to low- and middle-income families**. While D.C.'s tax system is one of the most progressive in the country, we have learned from both tax experts and members of the public that our city's low- and middle-income families pay a relatively large share of their income in D.C. taxes. By raising the standard deduction and personal exemption and reforming D.C.'s tax brackets, among other changes, we can both lower the burden on these taxpayers and make the individual income tax simpler for D.C. taxpayers.

2. **Making D.C.'s business taxes more competitive**. Primarily because of federal restraints, D.C. relies heavily on business taxes. Lowering the business and unincorporated business franchise tax rates and exempting investment vehicles from these taxes would increase D.C.'s attractiveness to businesses and could spark economic growth and create new opportunities for our residents.

3. **Transitioning to a more efficient tax system**. Broadening the sales tax base allows us to invest in lower income, estate and business taxes.

4. **Creating a simpler tax system.** Simpler income tax, estate tax and business tax policies will make our system easier to understand and administer.

I welcome your feedback and look forward to completing a final package that reflects all of the hard work of this Commission.

Sincerely,
Anthony A. Williams, Chairman

Draft Chairman's Mark of Major Tax Changes

Recommended Options (# from Options List)	Revenue[1]	
	Investing a Surplus	Neutral Path
Sales Tax		
1. Expand the sales tax to services selected by Professor Fox (1)	$28.2 million	$28.2 million
2. Add use tax line to personal income tax return (4)	$1 million	$1 million
3. Unify taxation of tobacco products (5)	$7 million	$7 million
4. Increase the general sales tax rate to 6% (6)	$22 million	$22 million
Individual Income Tax		
5a) Conform to Federal filing status; introduce two sets of brackets including: $40,001-$80,000 taxed at 6.5% for married, $40,001-$60,000 for single, 8.95% rate begins at $200,000 for singles. Expand childless EITC. Eliminate: DC government employee home credit, deduction for long-term care insurance, deduction government pensions, low-income credit (7, 12, 19-21)[2]	-$30.5 million	-$30.5 million
5b) Raise standard deduction to Fed levels (10)	-$34.1 million	-$34.1 million
5c) Phase out itemized deduction using DC rules at 7.5% rate	N/A	$9.5 million
5d) Raise personal exemption to Fed level w/ Fed phase outs (10)	-$62.3 million	-$62.3 million
5e) Phase out personal exemption starting at $150,000 at 5% rate	N/A	$15.7 million
→[5]. Subcommittee Package (w/ top rate of 8.95% in 2015)	**[-$126.9 million]**	**[-$101.7 million]**
6a) Make the 8.95% rate permanent in 2017+	N/A	$31 million
→[6]. Net Revenue in 2017+ (w/ top rate of 8.95% rate)	**[-$126.9 million]**	**[-$70.7 million]**
Estate Tax		
7. Raise threshold to $5.25 million—conform to Feds (25)	-$15.8 million	-$15.8 million
Business Taxes		
8. Reduce BFT/UBFT rate from 9.975% to 7.75% (28)	-$74 million	-$74 million
9. Exempt passive investment vehicles from UBFT (29)	TBD	TBD
10. Apportion using single weighted sales formula (33)	$20 million	$20 million
11. Lower commercial property tax rates to $1.55 and $1.80 (39)	-$39.5 million	N/A
12. Levy a local services fee on employers: $25/employee-quarter (36)[3]	[$45 million→dedicated][4]	$45 million
13. Miscellaneous policy/administration recommendations	N/A	N/A
Total Revenue Increase (all black numbers)	**$78.2 million**	**$179.4 million**
Total Revenue Decrease (all red numbers, except [5] & [6])	**-$256.2 million**	**-$216.7 million**
TOTAL PACKAGE	**-$178 million**	**-$37.3 million**

[1] Revenue estimates are the estimated change during the first full year of implementation.
[2] The current D.C. individual income tax brackets: $0-$10,000=4%; $10,001-$40,000=6%; $40,001-$350,000=8.5%; $350,001=8.95%.
[3] The local services fee exempts businesses with four or fewer employees.
[4] In the "Investing Surplus" package, revenue from the local services fee is dedicated to infrastructure spending, and is not reflected in the cost of the "Total Package." In the "Neutral Path" package, revenue from the local services fee is directed to the general fund (and is reflected in the cost of the "Total Package").