



Proposed D.C. Tax Revision Commission
Research Agenda

For Discussion at the September 10, 2012

Meeting of the D.C. Tax Revision Commission

and REVISED for discussion at the October 1, 2012 Meeting

This document outlines a proposed research agenda for the D.C. Tax Revision Commission (“TRC” or “Commission”). The following recommended agenda is rooted in the TRC’s legislative charge. It has been developed based on preliminary conversations with Commissioners about their interests as well as input from the Mayor of the District of Columbia, the Chairman of the D.C. Council, and the D.C. Chief Financial Officer.

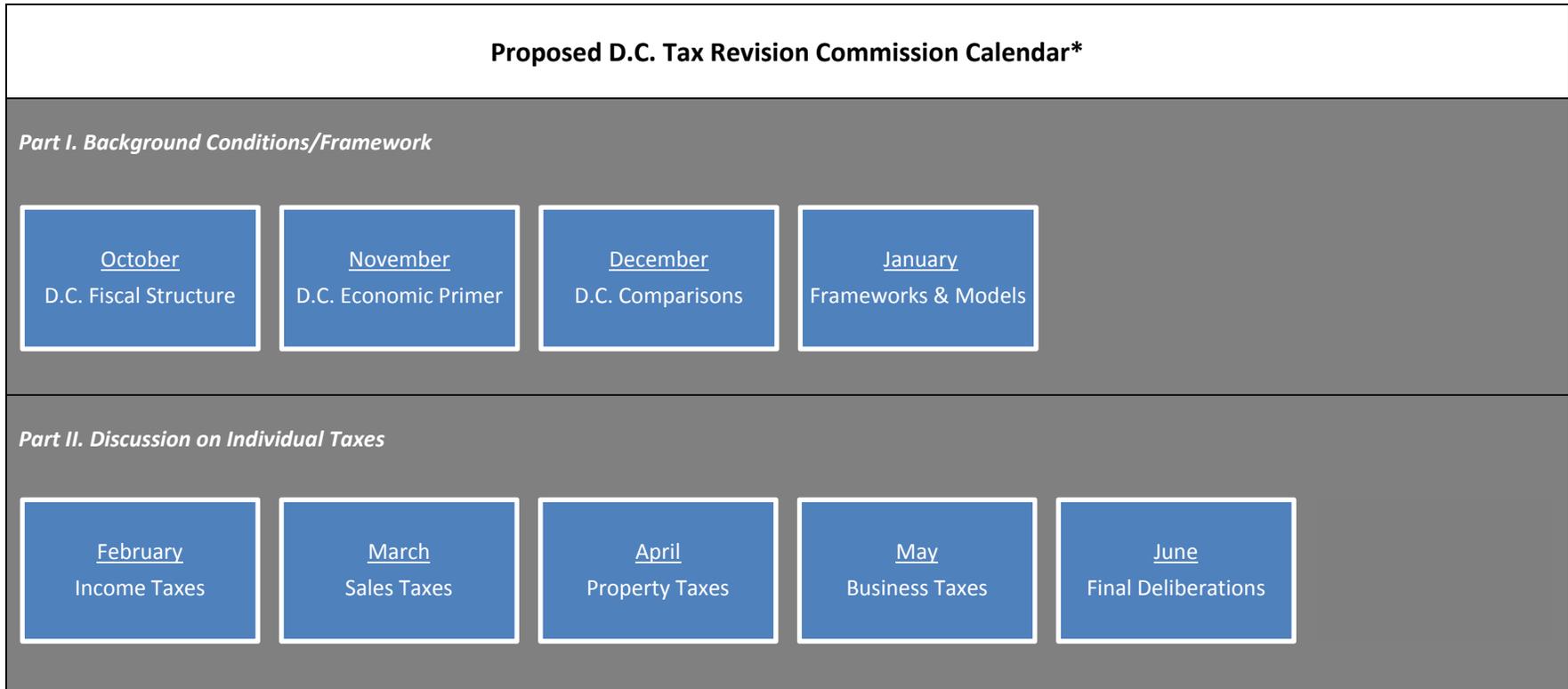
The enclosed agenda should be considered a draft for feedback, further input, and approval rather than a final document to be endorsed in whole by the Commission.

This document is divided into three sections:

- I. **Proposed Calendar of Research Topics – Summary.** This section provides a high-level overview of the topics and general timeline for consideration by the Commission
- II. **Proposed Calendar of Research Topics – Detail.** This section provides a detailed listing of research topics for the TRC’s consideration. Members of the Commission will determine which items in this detailed agenda will be researched by Commission staff.
- III. **Proposed Report Outline.** This section provides a preliminary outline of the TRC’s report as required by the Commission’s authorizing legislation.

The Commission will be asked to make preliminary decisions with respect to this agenda during its September 10, 2012 meeting and will be asked to approve the final agenda during its October 1, 2012 meeting.

Proposed Calendar of Research Topics – Summary



*** At its September 10, 2012 meeting, the D.C. Tax Revision Commission discussed the option of requesting an extension of its term through September 2013 to provide time to fully consider and deliberate all agenda items and to provide the necessary lead time to contract for third-party studies.**

The Commission may vote to request an extension of its term to September 2013 and if so the schedule above would be adjusted.

In addition, it is important to note that the schedule is contingent on completion of the contracting process for external research and may be delayed if the contract process is extended.

II. Proposed Calendar of Research Topics – Detail

Part I. Background Conditions/Framework



Part I Introduction

- The revenue system of the District of Columbia is more than a collection of arcane law and regulation; rather it is a reflection of and a statement about not only the relationship between the citizens of the District of Columbia and their government but also among the citizens themselves
- It is further the case that powerful economic, demographic, and technological changes are occurring throughout the world, nation, region and for the city; and that many of these changes are beyond the control of local (and indeed, in many cases national and global) policymakers. Nonetheless, these external forces cannot be ignored in the design of state *and* local (and the District is both) fiscal policy.
- Moreover, like all of the other state and local systems in the United States, the District of Columbia has its own special “tax and revenue culture” and financial history that shapes both current and future tax policy and policy action
- Accordingly, in order to make recommendations for a an efficient, fair, and sustainable revenue systems for today and well as in the next decade(s), the members of the Commission have determined that it is essential that prior to examining, and making recommendations regarding, specific revenue sources, the Commission will first systematically develop a knowledge base of the District of Columbia economy and its financial institutions and processes.

Part I. Background Conditions/Framework: D.C.'s Fiscal Framework

October
D.C. Fiscal Structure

November
D.C. Economic Primer

December
D.C. Comparisons

January
Frameworks & Models

Topic/ Chapter Title	Content Includes	Initial Comments	Notes
<p>1 District of Columbia Governance and Fiscal Structure including Fiscal Turnaround</p> <p><i>Note: This is a new chapter title and combines the first two chapters in the previous draft</i></p>	<p>A Brief Fiscal History of D.C. including:</p> <ul style="list-style-type: none"> • The US Constitution and Home Rule Charter (DC Constitution?); • DC arguments relating to Fiscal Autonomy (current issues); • Federal Pre-emption of the tax base; and • History of the Control Board (1995- 9/30/01) and current law on Control Board triggers <p>The current D.C. fiscal system</p> <ul style="list-style-type: none"> • After the Control Board • Importance of the OCFO structure (focus on the Hard Budget Constraint of the Revenue Estimates, but also research output, FIS and Comptroller, Treasury, and Budget preparation and execution functions) • Briefing on Tax Administration 	<p><u>Political autonomy</u>: may include differing legal perspectives.</p> <p><u>Fiscal autonomy</u>: document and examine the Districts case for increased fiscal sovereignty.</p> <p>DC's structure is unique among the 51 state and local systems of the United States</p>	

Part I. Background Conditions/Framework: D.C.'s Fiscal Framework

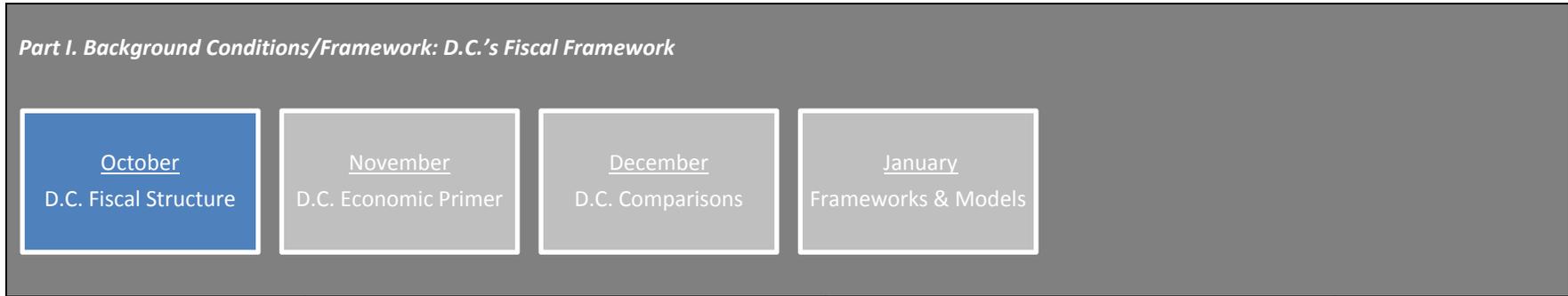
October
D.C. Fiscal Structure

November
D.C. Economic Primer

December
D.C. Comparisons

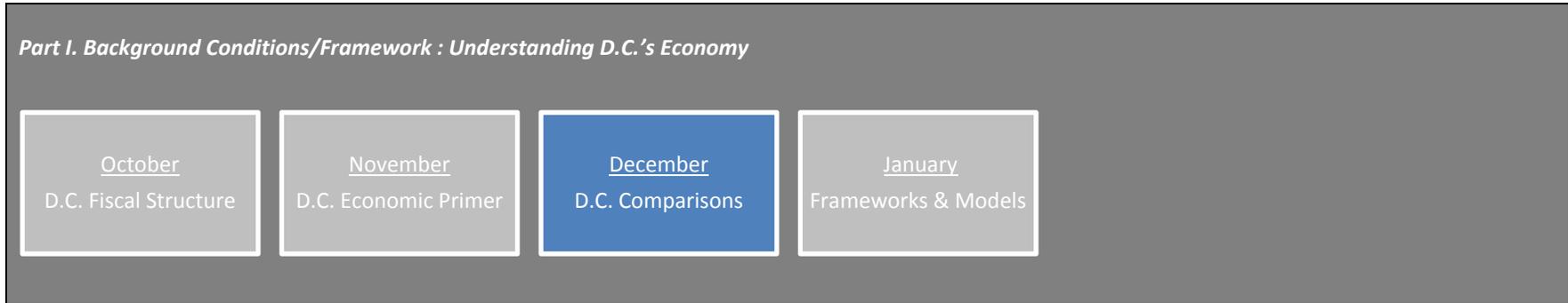
January
Frameworks & Models

	Topic/ Chapter Title	Content Includes	Initial Comments	Notes
2	The Revenue System <ul style="list-style-type: none"> • Operating revenues, tax and non-tax • Includes Focus on grant system 	Overview of Sources of Funds and education on the content of different types of taxes and the various classes /treatments & types of non-tax revenues; State and local Tax Revenue Volatility. <i>A discussion of detailed tax rates (i.e. detailed information on what services are taxed and at what rates goods are taxed).</i> <i>A summary of how revenues have varied from estimates in recent years.</i>	Key Chapter—lots of work here. Here is an example where one can provide highlights of (ii) DC Tax Facts (i) reveal the detail of a source such as the Revenue Chapter of the Financial Plan; (iii) Provide Recent Trends as well as those in 2013-2016 FP	

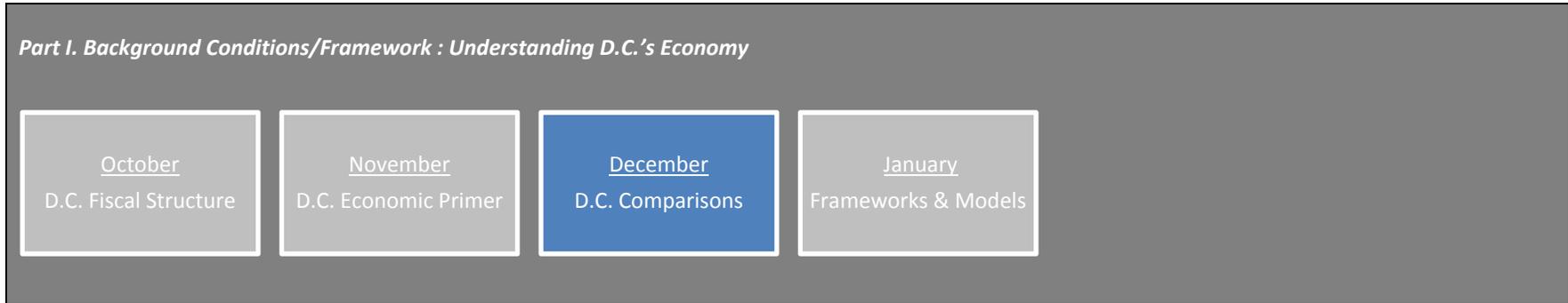


	Topic/ Chapter Title	Content Includes	Initial Comments	Notes
3	The Budget: Operating and Capital Budget Medium/Long Term Projections and Plan	Overview of expenditure areas with a focus on long-term trends and needs: <ul style="list-style-type: none"> • Five-year Financial Plan • Budget reserve funds, • Tax expenditures taxes and • Grants and transfers; • Implications of long term pension funding needs, and • Borrowing, debt and the statutory debt limit. • A discussion of the expenditure impact of sequestration. 	DC is one of the few states to have adopted a medium-term Financial Plan, a process that in part explains its post-Control Board record of financial stability as, inter alia, recognized by the financial markets. Basic but important background; Focus on the question of a structural deficit— includes the projected drivers of spending	

<i>Part I. Background Conditions/Framework : Understanding D.C.'s Economy</i>			
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid gray; padding: 10px; text-align: center; width: 15%;"> <p><u>October</u> D.C. Fiscal Structure</p> </div> <div style="border: 1px solid blue; padding: 10px; text-align: center; width: 15%; background-color: #4a86e8; color: white;"> <p><u>November</u> D.C. Economic Primer</p> </div> <div style="border: 1px solid gray; padding: 10px; text-align: center; width: 15%;"> <p><u>December</u> D.C. Comparisons</p> </div> <div style="border: 1px solid gray; padding: 10px; text-align: center; width: 15%;"> <p><u>January</u> Frameworks & Models</p> </div> </div>			
Topic/ Chapter Title	Content Includes	Initial Comments	Notes
4	<p>DC's Economy/ Economic Overview</p> <p>Current Base, recent trends; include DC in a metro context (metro as engine of growth and competitor), how DC OCFO tracks the economy on a monthly basis.</p> <p>Relationship between D.C.'s Economy its Tax System</p> <p>Demographic, Regionalism, and Trends, including D.C.'s Demographic Divide</p> <p style="color: red;">A discussion of the impact of sequestration or federal downsizing on D.C. revenue.</p>	<p>Rely on ORA material &/or projected economic base, metro land local should specific sectors be addressed (tourism, the growth vs. decline sectors?)</p>	



Topic/ Chapter Title	Content Includes	Initial Comments	Notes
5 How the District Compares	<p>Fiscal Comparisons: explanation and pros and cons of rankings and discussions of fiscal capacity study here one must bring in expenditure as well as revenue side of the budget; Who pays DC taxes can fit here. This will also include the tax burden study carried out annually by ORA.</p> <p><i>This section will look at not just the level of taxes but also what those taxes pay for in the context of services provided by the District and the overall vision for the city.</i></p> <p><i>Although the primary focus of this section will be on taxes, the Commission recognizes that Individuals do not make location decisions based on taxes alone – there are many other factors that impact those decisions – and that the study must provide consideration of these other factors.</i></p>	<p>Representative Tax System study with estimates of tax capacity and effort (ORA)</p> <p><i>Members will receive a copy of D.C.'s 2005 Fiscal Capacity Study. Staff are evaluating whether there is sufficient time to update this analysis.</i></p> <p><i>Members will receive a copy of the 2003 GAO study on D.C.'s structural imbalance</i></p> <p><i>Note: A number of issues were raised here about what we are actually comparing and the need to also look at expenditures to make meaningful comparisons across jurisdictions. Commissioners discussed the need to look at revenue capacity AND revenue effort as well as expenditure needs AND actual spending AND expenditure quality. Because this is a tax study, staff proposes that we will concentrate on the revenue side of these questions and will not look at quality of expenditures.</i></p>	



	Topic/ Chapter Title	Content Includes	Initial Comments	Notes
6	<p>QUESTION: WOULD MEMBERS LIKE BRIEFINGS ON SPECIAL TOPICS AT THIS MEETING?</p> <ul style="list-style-type: none"> • Tax Expenditures • Tax Abatements • Tax Earmarking • Tax Administration • National State & Local Trends • History of D.C. Tax Changes • LT Tax Burden/ growth of fees <p><i>Note: This will be overarching Member briefings on tax these issues and will ultimately be discussed within chapters below as well.</i></p>	<p>Commissioners requested a separate briefing on tax expenditures and tax abatements which will include:</p> <ul style="list-style-type: none"> • A discussion of the tax abatements and tax expenditures provided by the District of Columbia, including individual abatements and industry-wide abatements such as technology incentives. • A discussion of sun setting some tax expenditures. <p>An issue for the Commission to consider is whether it would like a briefing on “tax earmarking” as a separate topic as part of this briefing.</p> <p>The other issues presented as optional briefings were added by the Chair for consideration.</p>	<p>Members will receive the Tax Expenditure budget.</p>	

Part I. Background Conditions/Framework : Frameworks for Analyzing the D.C. Tax System

October
D.C. Fiscal Structure

November
D.C. Economic Primer

December
D.C. Comparisons

January
Frameworks & Models

	Topic/ Chapter Title	Content Includes	Initial Comments	Notes
7	Fiscal Architecture	The paper on fiscal architecture sets the framework for what makes ‘fiscal sense’ by examining economic, demographic, and institutional factors that determine pressures on expenditure and revenue sources; a look ahead as the DC’s economic structure, demographics, and Institutional arrangements and implications for revenue policy. This will also include a discussion of the Great Recession and its implications for revenue performance and estimation in DC. This raises an issue of structural reform in view of evolving reality including impact of gentrification.	Include expenditure implications here to allow TRC to say it did look at the “we tax to spend” This will also include an (ORA assisted) discussion on the possible downsizing of the federal government and its impact on revenue in DC should be? There was also a comment about looking at the experience in the 1990s with government downsizing to see what impact it had on DC.	The presentation of this report in January is contingent on putting a contract in place by October 1, 2012 with the selected vendor.

Part I. Background Conditions/Framework : Frameworks for Analyzing the D.C. Tax System

October
D.C. Fiscal Structure

November
D.C. Economic Primer

December
D.C. Comparisons

January
Frameworks & Models

	Topic/ Chapter Title	Content Includes	Initial Comments	Notes
8	CGE Model	<p>A Computable General Equilibrium Model will provide an economic model of the Greater Washington Area that will allow for the evaluation of the impact of macro-level changes in the District’s tax rates and structure on growth and inter-regional economic activity.</p> <p>Issues a CGE may address:</p> <ul style="list-style-type: none"> • Cross border effects of the retail sales tax • DC central city as an “engine of growth” for the metro area • The metro area as an engine of growth for DC • What would be the results of systematic reductions in defense spending (e.g., the Obama Admin budget in the out-years) • How much would DC tax levels have to be to significantly affect DC GDP? • How much would DC tax levels have to be to significantly affect DC employment levels 	<p>Econometric work</p> <ul style="list-style-type: none"> a. Computable General Equilibrium model for DC (CGE) b. Analysis of factors contributing to job growth <p>This model has been developed for the State of Georgia and City of Atlanta by the Economics Department at Georgia State University.</p>	
9	Remi-Model: Cross-Border Impact of Tax Changes	<p>The Remi model, which the Office of Revenue Analysis has and uses, will help us look at the impact of changes to tax rates on representative households and representative businesses and model the impact of changes on those location decisions.</p>		

<p><i>Part II. Discussion on Individual Taxes</i></p>	
<p><u>February</u> Income Taxes</p>	<p><u>March</u> Sales Taxes</p>
<p><u>April</u> Property Taxes</p>	<p><u>May</u> Business Taxes</p>
<p><u>June</u> Final Deliberations</p>	
<p>PART II. The Revenue System: Specific Types of Revenues</p> <p>The enabling legislation for the Tax Revision Commission lists the following Commission functions</p> <ul style="list-style-type: none"> • Establish criteria and a conceptual framework for evaluating current and future taxes • Analyze the current tax system in terms of revenue productivity and stability, efficiency, equity, simplicity of administration and effect upon the District’s economy • Recommend changes in the District’s current tax policies and laws • Propose innovative solutions for meeting the District’s projected revenue needs while recommendation potential modifications to the tax rates • Identify unused and duplicative tax credits and tax abatements and recommend policy changes to improve the way the District utilizes tax expenditures 	<p>Each revenue chapter will (i) combine with basic template (description, judge <i>vis-a-vis</i> criteria for a good revenue system) and performance during the Great Recession and 2013-2020 outlook; (ii) include, data runs on alternative rate and base structures; (iii) consider options for restructuring or even eliminating a revenue source; and (iv) provide options for restructuring and reform. .</p>

Part II. Discussion on Individual Taxes

February
Income Taxes

March
Sales Taxes

April
Property Taxes

May
Business Taxes

June
Final Deliberations

Topic/ Chapter Title		Content Includes	Initial Comments	Notes
10	The Individual Income Tax	<p>This will be a detailed study of the D.C.’s income tax including the following areas:</p> <ol style="list-style-type: none"> 1. Mechanics of the tax and <i>Federal Conformity</i>; 2. Policies to broaden the PIT base; flat tax?; 3. Treatment of some low income families and severity of tax penalties; 4. The Earned Income Tax Credit, and interaction with Low-Income Credit; 5. Pension and 401K phase out; 6. Taxation of municipal bond interest; 7. Overall income tax rates and brackets; 8. The standard deduction and the personal exemption amounts; 9. Capital gains taxes including inter-state comparisons (consider including Technology Sector of 2012 Act here or in Business Tax section); 10. Tax Administration; 11. Non-resident taxation; 12. Commuter taxation; and 13. Individual income tax administration, including the process for determining who is audited. 	<p>←As with all the (next set of) specific tax chapters—work with “scorekeeper” ORA on simulations ↓</p>	
11	Estate Tax	<p>Key issue is federal Issue is conformity; and are there locational effects?</p>		

Part II. Discussion on Individual Taxes

February
Income Taxes

March
Sales Taxes

April
Property Taxes

May
Business Taxes

June
Final Deliberations

Topic/ Chapter Title		Content Includes	Initial Comments	Notes
12	Retail Sales Tax	<p>This section will explore the following issues:</p> <ol style="list-style-type: none"> 1. Base broadening of current law a key issue/as DC sees growth in service sectors; how to tax and (a) avoid pyramiding and (b) the mechanics of taxation of professional income; 2. Remote commerce, including hotel reservation system; 3. Not- for- Profit Entities; 4. Implications on Visitors and other non – residents; 5. Estimate business to business transactions as part of the RST Base; 6. Sales taxes paid by non-profit organizations; and. 7. Sales tax administration. 	To discuss—how to bring together PIT, RST, and RPT low income tax relief.	
13.	Selected Sales Taxes	Cigarette, Alcohol, Motor Vehicle Excises. Motor Vehicle Fuel (excludes registration fees); baseball gross receipts.		
14.	Utility Taxes	A review of D.C.’s utility tax rates.		
15.	Congestion Taxation	A review of establishing a congestion tax.		

Part II. Discussion on Individual Taxes

February
Income Taxes

March
Sales Taxes

April
Property Taxes

May
Business Taxes

June
Final Deliberations

	Topic/ Chapter Title	Content Includes	Initial Comments	Notes
15	Real Property Tax: A Basic Primer	<p>Property tax as critical tax as DC is a local governments and property tax is good local revenue source.</p> <p>Describe personal and real property taxes in DC with a focus on real residential and commercial property taxes—both very different but important.</p> <p>After describing the institutional/legal framework, this chapter presents trends in DC – assessments, levies, collections, delinquencies, tax base composition and tax rates.</p> <p style="color: red;">A history of how real property tax rates and classes have changed over the years.</p>	Property as a key Focus of the Commission (at least four chapters as now listed)	

16	Taxation of Residential Real Property	<p>Define the real property tax base by identifying what is included and what is excluded. Describe the valuation processes, how well they are done and how transparent they are to the public.</p> <p>This section will address a number of issues related to the fairness and overall complexity of the system, including:</p> <ul style="list-style-type: none"> i. A discussion of the how revenues foregone through tax relief measures (tax expenditures) erode the tax base and shift the tax burden ii. exploring the impact of assessment caps, which limit the growth in real property assessments for owner occupied housing, on revenue productivity, uniformity and fairness iii. identifying administrative costs associated with the implementation of the real property tax resulting from the plethora of property tax relief mechanisms and the imposition of the 40 percent floor on assessed values and taxes iv. Real property tax administration. 	<p>This is a huge chapter with separate sections on</p> <ol style="list-style-type: none"> 1. tax expenditures, including a discussion of the sun-setting some tax expenditures 2. assessment caps 3. administration issues with a focus on assessment uniformity and property tax relief in both cases 	
----	---------------------------------------	---	--	--

Proposed D.C. Tax Revision Commission Research Agenda

17	Taxation of Commercial Property	<p>Explores issues related to the real property tax on commercial properties. It starts with a description of current law including defining the base and various classes of property. The chapter looks at:</p> <ul style="list-style-type: none"> i. the issue of the level and variation in tax rates across property types and the classification system generally ii. the extent to which the commercial real property tax is exported to non-residents iii. the appeals process and recent changes to that process iv. discussing the proliferation in properties that are totally exempt from the real property tax and how they might contribute to the cost of services they consume through payments-in-lieu-of-taxes (PILOTs), the provision of services-in-lieu-of-taxes (SILOTs) or other means v. the growth and nature of abatements as an economic development tool vi. Commercial property tax administration 	<p>Another huge topic which will include separate sections on:</p> <ol style="list-style-type: none"> 1. Classification and the level and variation of tax rates across property types 2. portion of tax paid by non-residents 3. appeals process 4. exempt properties including property exempted by local statute and federal mandate (staff recommends that the Commission’s scope cannot extend to a detailed analysis of the cost benefit analysis of non-profit’s non-tax contributions to the D.C. community given the complexity of this analysis) 5. property tax abatements and economic development 	
18	Personal Property, Public Space Use (vault tax); Possessory interest	<p>Issues to be examined include: (i) providing detail about what taxes and fees public space users and (ii) discussing the equitable application of sales and property taxes vis-à-vis similar business properties that do not use public space. The 1998 TRC report found the personal property tax to have a negative effect.</p>		
19	Deed and Recordation Taxes, Including tax on Economic Interests	<p>Rationale; administration; effect on transactions (e.g. housing). Look at the level of the tax and arguments pro and con for a tax greater than administrative/record keeping costs. Issue of commercial refinancing, issues of earmarking tax revenues for specific expenditures.</p>		

Part II. Discussion on Individual Taxes									
February Income Taxes		March Sales Taxes		April Property Taxes		May Business Taxes		June Final Deliberations	
Topic/ Chapter Title	Content Includes		Initial Comments		Notes				
20	General Business Taxation: the Corporate Net Income (Franchise) Tax and Unincorporated Business Tax	Key issues to lay out (which will also pertain to Chapter 10) include why tax the business enterprise in the first place? → Do pass through entities make the tax obsolete/treatment of UB tax. Apportionment of business income and receipts (combined reporting); special attention to tax admin. (?) Taxation by size of business—the “small business” topic.		Also must focus on the history, status, and options for taxation of unincorporated business income. Logical to have this follow PIT even though gen. bus tax not one of the “Big 3” (PIT, RST, RPT)					
21	Alternatives to the Taxation of Business Net Income: VAT and GRT	Description of alternatives. Equal yield vis-à-vis corporate tax only; Could have a section of “what if” Federal Gov’t adopts a broad based consumption tax.		Entity taxation. Success of Ohio’s CAT makes this an issue meriting attention. It’s hard to see how we can justify deleting this chapter					
22	The Revenue System and Local Economic Development	This is the competitiveness chapter: Includes Fundamentals of job creation; business tax incentives to include a discussion of where tax incentives have worked in other jurisdictions so that we can understand how they may work in D.C. A question arises as to whether we (i) commission a special section on Enterprise zones, on (ii) role of small business in economic development, and (iii) on providing tax abatements to Certified Business Enterprises.		Business Tax Incentives: Document what programs and incentives there are and what the trends have been since the 1998 study. Then discuss current programs in DC and their relationship to factors identified in 1(b). Include TIFs here along with abatements: Is there a set of principles for abatements and TIFs or has this been ad hoc? Include baseball tax.					

III. Proposed Commission Report Outline. [This will be updated to reflect the Commission's approved agenda.]

Front Matter

1. List of Commission Members and Staff.
2. Comments on (i) need for this study; (ii) Purpose and Scope (attention to the medium/long term as well as recommendations for short term action)
3. How the economic, demographic and institutional circumstances that framed earlier comprehensive reviews of the DC revenue system differed from/were similar to this Commission's work.
4. Document the process—how the Commission carried out its charge, selected and then worked through its issues/topics and the process building sustainable elements of citizen participation.
5. Document research process (TRC, OCFO/ORR).

Executive Summary

1. Broad themes relating to the fiscal framework and the nature of the revenue system that that emerged throughout the year deliberations.
2. Criteria for Judging a DC Revenue System.
3. Findings and Recommendations (Refer to the Chair's initial (8/6) comments on how the Commission's work should be judged (knowledge development; ask the right questions; transparent in its operation; solid research and documentation of findings; adequate time and budget)

Part I. Context and Background

- A. D.C.'s Fiscal Framework
- B. Understanding the D.C. Economy
- C. Frameworks and Models

Part II. Reports on Individual Agenda Topics

- A. Sales Taxes
- B. Income Taxes
- C. Property Taxes (including Deed & Recordation)
- D. Business Taxes
- E. Final Deliberations