

DC FOR DEMOCRACY
TESTIMONY OF DAN WEDDERBURN
CHAIR, TAX REFORM COMMITTEE

BEFORE THE DC TAX REVISION COMMISSION
PUBLIC HEARING

DECEMBER 3, 2012

Good afternoon, Chairman Williams and Commission members. My name is Dan Wedderburn. I serve as chair of the Tax Reform Committee of DC For Democracy. DC For Democracy is a leading non-aligned progressive organization in the District with over 500 members.

Because of the 3-minute time constraint, I will focus on the Commission's key charge under its enacting legislation -- to recommend to the Council and Mayor how to "Provide for fairness in apportionment of taxes."

As you formulate your Research Agenda, please consider two recent Reports from the DC Chief Financial Office (CFO): DC Tax Facts-2010 and Tax Rates and Tax Burdens-2011, cited at the end. Our testimony is based mostly on them.

Most DC citizens have long taken pride that we live in a city in which progressive values are the norm. Thus it may come as a surprise to many that the current District tax structure is not fair. Neither is it progressive. Also, contrary to widespread belief, DC's Tax Burden, or effective tax rate, is not higher than surrounding jurisdictions. Indeed it is lower except for our lowest income residents.

The highest marginal tax rate of 8.5% on District taxpayers has, for many years, applied to taxable income over \$40,000. Thus, if your taxable income was, say, \$42,000 or a million dollars, you paid the same highest tax rate. (In 2012, this rate increased to 8.95% for taxable income over \$350,000.)

The 8.5% marginal rate starts at such a low \$40,000 of taxable income, it greatly dilutes the progressivity of our tax system. Also, most DC high income earners itemize deductions on the Federal return, including DC income and property taxes. Their effective tax rate then falls to about 6%. Note this is equal to the marginal 6% tax rate on DC taxable incomes between \$10,000 and \$40,000 in which only 10% of taxpayers itemize deductions. Almost 60% of all DC taxpayers use the standard deduction and must pay the actual tax rate. Of the 40% who itemize, a much greater percent of high income earners do. Add to this the fact that the sales tax is regressive and the overall tax structure turns out to hit lower and middle class Washingtonians significantly harder than the wealthy. 1/

The Institute on Tax & Economic Policy conducted a study of the DC tax system. It concluded that as incomes rose the more regressive the effective tax rate became. This was true even

without accounting for the advantage provided to those who itemized deductions. This study covered the year 2007 and may not represent the current situation. 2/

Several ways exist to make the DC tax system fair and progressive. Examples include increasing the standard deduction amount, raising the taxable income amount beyond the \$40,000 to which the 8.5% marginal rate applies, capping itemized deductions or applying a minimum effective tax rate on high earners.

The CFO's Report on DC's tax burden in 2011 compares to that in four counties (Montgomery, Prince George's, Arlington and Fairfax) and Alexandria City. The tax burden is for a family of three and includes taxes on income, real estate, sales & use, and autos. The tax burden equals the percent of income paid in total taxes. 3/

At the \$25,000 income level, District taxpayers in 2010, had the 3rd highest tax burden (10.4% of income). For income of \$50,000, \$75,000, \$100,000 and \$150,000, DC had the lowest tax burden compared to all five surrounding jurisdictions. 4/

A look at the top marginal income tax rates shows that DC's 8.95% is lower than the combined State and local 9.45% rate in Montgomery and Prince George's counties). Arlington and Fairfax have no county income tax so their top marginal tax rate is the 5.75% State rate. However they pay much higher property taxes than that in DC. 5/

What's to be done in light of the unfairness, lack of progressivity, and widespread misconceptions about the District's tax structure? The country was educated this year about the ever-increasing disparity of incomes these past 30 years. This Commission has the opportunity to educate citizens and leaders about the reality of DC's tax structure. And to then follow through with recommendations to remedy this. Commission members, not only are you highly talented and hardworking, you are blessed with abilities beyond the norm. District residents are counting on you.

We ask the Commission to hold another Public Hearing at least a month before making its final recommendations. Thank you.

Sources:

1/ DC Tax Facts -2010, DC Office of the Chief Financial Officer, p.35.

2/ 'A Distributional Analysis of the Tax Systems in All 50 States', Institute on Tax & Economic Policy, November 2009.

3/ Tax Rates and Tax Burdens -2011 – Washington Metropolitan Area, DC Office of the Chief Financial Officer, p. iv.

4. Ibid. , p. 11.

5/ 'Overview of DC's Economy and Tax Base', Presentation to DC Tax Revision Commission, November 19, 2012, p. 21.