Testimony before Committee on Finance and Revenue

Public Roundtable on:

Bill 13-132, "Tax Reduction Amendment Act of 2000",

Bill 13-244, "Federal Tax Conformity Amendment Act of 2000",

Bill 13-576, "Dry Cleaning and Newspaper Gross Sales Tax Relief Act of 2000",

Bill 13-585, "Earned Income Tax Credit Act of 2000",

Bill 13-596, "Education Sales Tax-Free Week Act of 2000",

and

Bill 13-598, "Senior Citizen Real Property Tax Reduction Act of 2000"

Thursday, March 2, 2000

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Councilmember Evans, thank you for the opportunity to testify today on six proposed bills which if enacted would substantially change the tax structure of the District of Columbia. Our estimates of these bills' the revenue impacts are attached.

Section 2 of the Tax Reduction Amendment Act would reduce the general sales tax rate from 5.75% to 5.00% and exempt clothing, clothing accessories and shoes costing $100 or less from the general sales tax. These provisions would make the District's general sales tax rate comparable with that of Maryland (5%) and just above the Virginia rate (4.5%). The $100 exemption for clothing and shoes is not provided in either Maryland or Virginia. If enacted these two provision would reduce FY 2001 revenues by an estimated $56 million.

The Federal Tax Conformity Amendment Act would require federal net taxable income as the starting point for the calculation of the District's individual income taxe. Currently, the District of Columbia uses federal adjusted gross income as the starting point for income tax calculations. Beginning with net taxable income automatically adopts federal exemptions and deductions. In general, this legislation shifts the income tax burden from lower to higher income tax payers. If enacted, revenues would be reduced by an estimated $91.5 million in FY 2001. By FY 2005 revenues would increase by $68.4 million over what they would otherwise have been because of the changes currently scheduled to go into effect as a result of the Tax Parity Act.

The Dry Cleaning and Newspaper Gross Sales Tax Relief Act would remove from the sales tax base dry cleaning and laundry services, newspapers and certain other publications. These goods and services were added to the sales tax base in the early 1990's to increase revenue. This legislation would result in an estimated revenue reduction of $5 million beginning in FY 2001. Some additional clarity in wording is needed for OTR to administer sales taxes effectively on publications that the Council intends to continue to tax. We are happy to work with committee staff on this matter.

The Earned Income Tax Credit Act proposes a refundable District of Columbia earned income tax credit equal to 25% of the federal tax credit. About 54,000 families would be eligible for this credit. We estimate that about 46,000 or 85 percent of those eligible would actually take advantage of the credit. Currently 11 states have an earned income credit, including Maryland. Montgomery County, Maryland is the first jurisdiction other than a state to adopt such a credit. The District currently has a non-refundable tax credit for low income tax filers which reduces the District's income tax to zero for those with adjusted gross income equal to or less than Federal personal exemptions plus the standard deduction. Under current law, a family of four with adjusted gross income of $20,000 pays about $551 in District income tax. With the proposed earned income tax credit, that family will receive a $5 grant. That same family would receive a grant of $222 if they lived in Prince George's county, Maryland or pay income taxes of $460 in Virginia. If this bill is passed, District revenues will be reduced by an estimated $17.2 million in FY 2001. The estimated revenue loss will rise to $17.4 million in FY 2002 and continue to increase by $0.2 million each year from FY 2002 through FY 2005.

The Education Sales Tax-Free Week Act would provide one week of tax free sales for clothes and back-to-school items valued at $150 or less immediately before school starts. Maryland is considering similar legislation. If this bill is enacted, it will reduce revenues in the District by an estimated $1.3 million per year. Florida and Texas have provided similar tax benefits in the last year.

The Senior Citizen Real Property Tax Reduction Act would modify the current senior citizen property tax relief credit by creating two categories for senior citizens qualifying for the credit. Seniors in owner-occupied housing with less than $100,000 in adjusted gross income will receive the current 50 percent reduction in their real property tax while those with adjusted gross incomes of $30,000 of less would receive a 70 percent reduction in their real property tax. Slightly more than 26,000 seniors now receive this credit. We estimate that about 17,000 of those seniors would qualify for the 70 percent credit. This provision would reduce revenue by an estimated $13 million per year.

Two general issues are important when considering these proposed changes to the District's tax system. First, will the triggers in the Tax Parity Act of 1999 be influenced by the proposed change? For the Tax Parity Act to be implemented as originally envisioned, the CFO must certify that the accumulated general fund balance at the close of the fiscal year is at least 5 percent of the general fund operating budget for the next fiscal year. If the fund balance is below 5 percent, then further tax rate reductions under Tax Parity will not occur.

This trigger is very unlikely to take effect in FY 2000 and will not interfere with the initial roll-out of Tax Parity. Depending on other budget decisions, however, tax rate reductions could trigger an end to subsequent stages in implementing Tax Parity.

Second, will the proposed changes improve the District's tax system? Each of these tax proposals has a purpose, sometimes unstated, and a cost. For example, the EITC bill is intended to help the working poor, while the two-tier senior credit is to help older, lower-come homeowners. The intent of the sales tax bills and federal conformity are not as transparent. Striking the correct balance between the intended goals of the tax changes and the cost is a very important consideration for the future of the District's tax structure.

Thank you for the opportunity to testify on these proposed bills.

Estimated Revenue Impacts (dollars in millions)					
Legislation	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**
13-132 -- Tax Reduction Amendment Act					
Sales tax rate reduction	-40.3	-41.7	-43.2	-44.7	-46.2
$100 clothing exemption	-15.6	-16.1	-16.6	-17.2	-17.8
Total	**-55.9**	**-57.8**	**-59.8**	**-61.9**	**-64.0**
13-244 -- Federal Tax Conformity Amendment Act					
Change in Personal Exemptions	-50.4	-51.8	-50.6	-48.3	-48.3
Change in Standard Deduction	-32.2	-31.7	-30.6	-27.6	-27.6
Rate Changes	-21.0	30.2	70.4	132.0	132.0
Pension Exclusion	8.8	8.8	8.8	8.8	8.8
Low Income Credit	3.5	3.5	3.5	3.5	3.5
Total	**-91.3**	**-41.0**	**1.5**	**68.4**	**68.4**
13-576 -- Dry Cleaning and Newspaper Gross Sales Tax Relief Act					
Dry Cleaning	-2.0	-2.1	-2.1	-2.2	-2.2
Newspapers & Publications	-3.0	-3.0	-3.1	-3.2	-3.3
Total	**-5.0**	**-5.1**	**-5.2**	**-5.4**	**-5.5**
13-585 -- Earned Income Tax Credit Act					
Total	**-17.2**	**-17.4**	**-17.6**	**-17.8**	**-18.0**
13-596 -- Education Sales Tax-Free					

Week Act					
Total	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**
13-598 -- Senior Citizen Real Property Tax Reduction Act					
Total	**-13.8**	**-13.8**	**-13.8**	**-13.8**	**-13.8**