PUBLIC HEARING ON
REVENUE PROPOSALS FOR THE
FISCAL YEAR 2028 BUDGET

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Phil Mendelson, Chairman

Friday, October 16, 2026, at 10 a.m.
Room 412
John A. Wilson Building

Testimony of
Glen Lee
Chief Financial Officer
Government of the District of Columbia

Good afternoon, Chairman Mendelson and members of the Committee of the Whole. My name is Glen Lee, and I proudly serve as the Chief Financial Officer for the Government of the District of Columbia. I am joined by Dr. Fitzroy Lee, the District's chief economist, and Radee Skipworth, the District's interim tax commissioner.

For today's hearing, I believe we can best help the Council assess revenue proposals by answering two basic questions:

1. How does the Office of the Chief Financial Officer estimate the amount of revenue a tax proposal would generate?
2. How much time does it take to start collecting revenue from a newly implemented tax?

As you will hear, new taxes that apply to the same tax base as an existing District tax can be estimated with more certainty and implemented relatively quickly. I point this out because the District faces a difficult budget season next year. As ordained by Council this past summer, the FY 2027 – FY 2030 Financial Plan requires the District ***to reduce*** General Fund spending by roughly 4.5% in FY 2028. This challenge is made more difficult with our recent quarterly revenue

forecast that reduces expectations of revenue in FY 2028 by $145 million, due to a sharp decline in corporate franchise tax collections.

All this is to say that any proposals for new taxes to address FY 2028 budget challenges may be limited by what we can estimate with relative certainty and implement quickly, so the District can realize the revenues in FY 2028.

Dr. Lee and Mr. Skipworth will now give a presentation on the challenges of estimating and implementing new D.C. tax changes. Dr. Lee will describe procedures for, and challenges to, estimating revenue generated by a proposed tax. Mr. Skipworth will discuss each phase of tax administration, referred to as the *Tax Compliance Continuum,* and how different types of tax proposals impact the complexity and timing of implementation. Afterwards, my colleagues and I would be pleased to answer any questions the Committee may have. Thank you.

Understanding the Challenges of Estimating and Implementing New DC Tax Changes

October 16, 2026

Why it is so hard to predict the revenue a new tax will raise

Estimating incremental changes to **existing taxes** (changes to rates, deductions, credits, etc.) has its challenges (e.g., behavioral responses, timing effects) but is often manageable within existing estimation frameworks.

Estimating **new taxes** presents additional challenges because it also requires estimating the tax base; without historical data, behavioral responses are even more difficult to gauge and can be especially challenging in DC.

People can easily move

In DC, neighboring states are minutes away.

Few people pay most

A small group of taxpayers carrying the load means a stronger revenue response to tax changes.

New taxes lack data

We can't track what we've never taxed.

Commuter tax ban

For some businesses, difficult to isolate nonresident labor income.

High earners: high elasticity, high volatility

High earners, whose income is often derived from volatile sources, can use various strategies to avoid higher taxes, increasing the uncertainty in multi-year forecasts.

The tax base is narrow

Tax increases on high earners affect a small number of high-income individuals who **pay a large share of the taxes** and who have **options to avoid higher taxes**.

3.5% ~12K

DC taxpayers paid

42% ~ $1.4B

of the individual income tax (tax year 2024)

Tax Avoidance & Volatility

1 Shift timing

Delay selling assets or taking income (by, for example, borrowing against assets instead) until the tax is lower.

2 Re-label income

Keep earnings in a company or move them into structures with better deductions.

3 Relocate

DC is surrounded by amenity-rich communities that offer alternatives for residents new to the region and, at times, for existing residents.

4 Market ups and downs

Non-wage income swings with the ups and downs of financial markets, so multi-year forecasts are highly error-prone.

Estimation challenges for a new business tax like the BAT

When a new tax targets businesses outside today's tax base, estimating the revenue is especially challenging.

1 Lack of data

The BAT would include partnerships and LLCs that are not well-represented in existing data.

2 Slow revenue ramp-up

The ballpark fee brought in about $ 40M (in 2025 dollars) early on; audits lifted it to about $50M.

3 Staying under the threshold

If a tax starts at $250,000 in gross receipts, firms may restructure to stay just below the limit.

4 Lawsuit risks to revenue

A tax on partnerships and LLCs may capture nonresident labor income, leading to litigation that can delay collections for years.

5 Who is hidden?

Hard to tell who owes nothing from who isn't filing. Commuters and some partnerships aren't tracked.

Our approach:

To avoid a budget shortfall if expected revenue doesn't materialize, the estimates are conservative, a standard practice among revenue estimators when revenue from tax changes is highly uncertain.

1. **Estimate what's relatively certain**
   We estimate direct impacts (including behavioral responses) but exclude macro effects (e.g., investment/labor).

2. **Assume higher elasticities than the averages from previous studies**
   We assume it is relatively easy for individuals and businesses to relocate nearby because of border proximity.

3. **Incorporate slowly the revenue from new taxes**
   With little history to rely on, we are cautious about reflecting an immediate infusion of new revenue.

Challenges in Implementing New Tax Laws

Tax Compliance Continuum

Resource and Time Requirements Affect Implementation Schedule

Rate Changes

Require the least amount of additional resources (money, technology, people, and time)

Income tax or Sales tax rate changes can be implemented in 6-month timeframe.

New Tax Initiatives

Most resource intensive

Potential 12-24 month implementation timeline for new tax initiatives

Multiplier Effect

Note: Additional time may be required based on the number of taxes implemented during the same timeframe.

Technology & System Requirements

Redesign Billing Cycles, Notice Frameworks, and Account Structures

Reprogram Tax System and Validate System Changes

Develop Multi-Channel Taxpayer Response Mechanisms

Administrative & Operational Requirements

1. Identify impacted taxpayers, make necessary revisions to tax returns, and create processing cycles
2. Provide technology support for increased customer interaction rate/call volume
3. Increase staffing and training as required
4. Additional printing, mailing, and processing costs
5. Additional third-party software vendor contracts may be needed
6. Assess need for external training for complex taxpayer returns

Customer Service & Communication Requirements

1. **Respond to increased call volumes & taxpayer inquiries**

2. **Develop taxpayer outreach & education program, public information campaign, and FAQ needs**

3. **Implement required additional compliance remedies**

Stakeholder Coordination & Legal Requirements

1. Educate and inform relevant stakeholders and impacted agencies
2. Identify exemptions and create clear appeals processes
3. Develop required regulatory or policy documentation
4. Continue to monitor taxpayer behavior

Summary

Changes to existing taxes (changes to rates, deductions, credits, etc.) can be estimated with greater certainty and implemented more quickly.

Estimating new taxes presents additional challenges:

- Unknown tax base creates estimation uncertainty.
- Taxpayer behavioral responses more difficult to gauge without historical data.
- Resource intensive with longer implementation timelines

Questions?