

Government of the
District of Columbia



Adrian M. Fenty
Mayor

Natwar M. Gandhi
Chief Financial Officer

District of Columbia Tax Expenditure Report

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District of Columbia Tax Expenditure Report

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Robert Zahradnik
Director of Research
Office of Revenue Analysis/Office of the Chief Financial Officer
Washington, District of Columbia

District of Columbia Tax Expenditure Report

Introduction

D.C. Law 13-161, the “Tax Expenditure Budget Review Act of 2000,”¹ requires the Chief Financial Officer to prepare a biennial tax expenditure budget that estimates the revenue loss to the District government resulting from tax expenditures during the current fiscal year and the next two fiscal years. The law defines “tax expenditures” as “the revenue losses attributable to provisions of federal law and the laws of the District of Columbia that allow, in whole or in part, a special exclusion, exemption, or deduction from taxes ... or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.”²

The Chief Financial Officer prepared the first required tax expenditure budget as part of the proposed fiscal year 2003 budget. This report, which estimates the revenue forgone due to tax expenditures in fiscal years 2010 through 2013,³ is the fifth tax expenditure budget presented to the Mayor and Council. As described below, this report includes much more extensive analysis than prior reports and reviews more than 200 provisions of the tax code, many of which are covered in the tax expenditure budget for the first time.

The Importance of Tax Expenditures

Tax expenditures are often described as “spending by another name,” or “disguised spending.” Policymakers use tax deductions, exclusions, exemptions, deferrals, and credits to promote a wide range of policy goals in education, human services, public safety, economic development, environmental protection, and other areas. Instead of pursuing these objectives through direct spending, policymakers reduce the tax liability associated with certain actions (such as hiring new employees) or conditions (such as being blind or elderly) so that individuals or businesses can keep and spend the money, often for particular purposes. For example, a program to expand access to higher education could offer tax deductions for college savings instead of increasing student loans or grants. Regardless of which approach the government uses, there is a real resource cost in terms of forgone revenue or direct expenditures.

Tax expenditures are frequently used as a policy tool in the District of Columbia. There are more than 100 tax exemptions, exclusions, credits, abatements, and deferrals authorized by the D.C. Code that apply to targeted groups of taxpayers. One local exemption dates back to 1902 and 22 local tax expenditures originated in the 1940s, when the District’s current real property and sales

¹ D.C. Law 13-161 took effect on October 4, 2000, and is codified in § 47-318 and § 47-318.01 of the D.C. Official Code.

² See D.C. Official Code § 47-318(6).

³ Although the law requires that the tax expenditure budget provide estimates of the revenue loss for the current fiscal year and the subsequent two fiscal years, this report covers the current year and the subsequent *three* fiscal years to be consistent with the District’s four-year financial plan and budget. The four-year time frame for the District’s financial plan and budget is mandated by Public Law 104-8, the “District of Columbia Financial Responsibility and Management Assistance Act of 1995,” and is codified at D.C. Official Code § 47-392.01(b).

tax systems were established. In addition, more than 100 tax expenditures are triggered by federal tax provisions that are incorporated into the D.C. income tax. These tax expenditures warrant regular scrutiny to make sure they are effective, efficient, and equitable, and to highlight the tradeoffs between tax expenditures and other programs and policies.

Tax expenditures are different from direct expenditures in several respects. Direct spending programs in the District receive an annual appropriation and the proposed funding levels are reviewed during the annual budget cycle. By contrast, tax expenditures remain in place unless policymakers act to modify or repeal them; in this respect, they are similar to entitlement programs. Direct spending programs are itemized on the expenditure side of the budget, whereas revenues are shown in the budget as aggregate figures without an itemization of tax expenditures.

The tax expenditure budget aims to subject tax preferences to the same scrutiny as direct appropriations. The itemization of tax expenditures provides policymakers with a more complete picture of how the government uses its resources and should help officials consider ways to reallocate resources more effectively. For example, if ineffective or outmoded tax expenditures were eliminated, policymakers could free up resources to expand high-priority direct spending programs or cut overall tax rates. This report is designed to provide policymakers with the information they need about tax expenditures to make sound fiscal policy decisions.

New Features of the Report

This tax expenditure budget, prepared by the staff of the Office of Revenue Analysis (ORA), provides extensive background information on each tax expenditure, in addition to estimates of the revenue forgone for fiscal years 2010 through 2013. The report has been expanded to include (1) the statutory basis and year of enactment for each provision, (2) a description of the tax expenditure and how it is structured, (3) the purpose of the tax expenditure, and (4) a summary of who benefits. For the first time, ORA has also presented the distribution of benefits, by income level, for many of the income tax expenditures.

Structure of the Report

The report begins with a summary table that provides an overview of the District's tax expenditures. The summary table classifies the tax expenditure according to the type of tax and provides the statutory authority, year of enactment, policy area, and estimated revenue loss for fiscal years 2010 through 2013.

The body of the report is organized into chapters, with one chapter for each tax: the income tax, real property tax, deed recordation and transfer tax, sales tax, insurance premiums tax, and personal property tax. Each tax expenditure is described in detail, including its design and eligibility criteria.

The vast majority of the income tax provisions included in this report are designated as "federal" because they result from the District's use of federal income tax rules and definitions. By conforming to the federal definition of adjusted gross income (with several exceptions), the District thereby adopts most of the exclusions and deductions from income that are part of the federal personal and corporate income tax systems. Most other states with an income tax use federal adjusted gross income as the basis for their income tax.

The tax expenditures described in each chapter are also classified by one of the following types:

- exclusions, which are items that are not considered part of a taxpayer’s gross income. Exclusions do not appear on the tax form but still cause adjusted gross income to be lower than it otherwise would be.
- adjustments, which are reductions in gross income that are available to all filers, regardless of whether or not they claim itemized deductions. Adjustments are also known as “above-the-line deductions” and are included on the tax form.
- exemptions, which are reductions in gross income offered to taxpayers because of their status or circumstances (such as the personal exemption and the dependent exemption).
- deductions, which are reductions to gross income for different types of income or expenses that apply to both federal and local taxes (as contrasted with exclusions, which are not part of gross income in the first place).
- subtractions, which are reductions from federal adjusted gross income that are used to derive District of Columbia adjusted gross income. Subtractions reflect income that is taxed by the federal government but not by the D.C. government.
- abatements, which are reductions in tax liability (typically real property) that are often applied on a percentage basis or through a negotiated process.
- credits, which reduce tax liability directly instead of reducing the amount of income subject to taxation. Credits can be refundable (if the amount of the credit exceeds tax liability, the taxpayer gets the difference as a direct refund) or non-refundable (the amount of the credit cannot exceed tax liability).
- deferrals, which delay the recognition of income to a future year or years, or accelerate deductions that would apply in a future year or years. Because they shift the timing of tax payments, deferrals function like interest-free loans to the taxpayer.
- rebates, which are refunds provided to qualifying taxpayers as a separate payment (as contrasted with tax credits that are first applied as a reduction of tax liability).

Policy and Program Areas

Each tax expenditure was classified by one of 17 policy or program areas, such as education, health, social policy, and transportation. The policy areas, shown in the summary tables, largely mirror the categories used by the Joint Committee on Taxation of the U.S. Congress in order to facilitate comparisons. Nevertheless, the categories were modified and expanded in several cases to make them more relevant to the District of Columbia. For example, the “business and commerce” category used by the Joint Committee on Taxation was changed to “economic development” to reflect a policy focus of particular importance in the District, and a “public safety” category was added (there are no public safety tax expenditures at the federal level).

Among the federal income tax expenditures that are included in the District's income tax system, the two most common policy areas were economic development (26 tax expenditures) and income security (19 tax expenditures). Many federal provisions that are classified under economic development concern the treatment of different types of business income, expenses, reserves, and depreciation.

Among the local tax expenditures that are authorized by D.C. Law, the two most common policy areas were housing (23 tax expenditures), economic development (22 tax expenditures), and social policy (14 tax expenditures).

Important Caveats

A particular caution about the interpretation of the revenue loss estimates in this report deserves emphasis. The forgone revenue estimate is intended to measure what is being "spent" through the tax system, or alternatively, the amount of relief or subsidy provided through that provision. Nevertheless, the forgone revenue is *not* identical to the amount of revenue that could be gained by repealing the tax expenditure. There are three main reasons for this distinction:

- First, the estimates of revenue loss are "static" and therefore do not reflect behavioral changes that might occur if a tax expenditure were repealed. For example, if the District eliminated the local supplement to the federal earned income tax credit, people might reduce their hours of work and their income tax payments could also drop.
- Second, the revenue loss for each tax expenditure is estimated independently, which does not account for the interaction effects among different tax provisions. For example, D.C. law establishes that taxpayers may not claim both the local supplement to the earned income tax credit and the D.C. low-income credit. If the local earned income credit were abolished, more taxpayers might then claim the low-income credit.
- Third, the D.C. government may not be able to collect the full liability for some tax expenditures for administrative reasons. For example, if the District disallowed for local income tax purposes an exemption or exclusion that is allowed on the federal income tax (a process known as "decoupling"), the District would probably not recoup all of the forgone revenue. That is because taxpayers would have to make a separate calculation on their District income taxes to add back the dollars that had been excluded, and compliance with this requirement would not be universal.

Because of the interaction effects described above, the total forgone revenue from tax expenditures is *not* equivalent to the sum of the individual estimates of forgone revenue. As the U.S. Government Accountability Office has stated:

While sufficiently reliable as a gauge of general magnitude, the sum of the individual revenue loss estimates has important limitations in that any interactions between tax expenditures will not be reflected in the sum ... Thus, the revenue loss from all or several tax expenditures together might be greater or less than the sum of the estimated revenue losses from the individual tax expenditures, and no measure of the size or the magnitude of these potential

interactions or behavioral responses to all or several tax expenditures is available.⁴

Methodology

Summary statistics from the Office of Tax and Revenue (OTR) from D.C. tax returns were an important source of data for this tax expenditure budget and were particularly useful for the income tax estimates. Unfortunately, in many instances tax expenditures cannot be estimated from available tax data because tax expenditures reflect income, property, or economic activity that is not taxed, and the relevant information is never known to the tax office. Therefore, ORA often used data from federal sources (such as the U.S. Census Bureau) and D.C. government agencies to estimate the number of beneficiaries and the revenue lost from certain tax expenditures.

OTR generally lacks information on federal income tax expenditures because the relevant exclusions and deductions are simply transferred to the local tax forms instead of being reported explicitly. In those cases, ORA generally estimated a District of Columbia portion of the nationwide tax expenditures estimated by the Joint Committee on Taxation.

Because of these methodological challenges and problems, it is important to view these revenue estimates as indicating orders of magnitude rather than providing precise point estimates. In some cases where empirical data were lacking but the number of eligible beneficiaries appeared small, the revenue loss has been estimated as “minimal,” or less than \$50,000 per year. In other cases, revenue estimates of less than \$50,000 per year *are* specified, because in those cases there was more precise data on the number of beneficiaries and the value of the benefit per person.

In addition, U.S. Internal Revenue Service rules provide that, “No statistical tabulation may be released with cells containing data from fewer than three returns,” in order to protect the confidentiality of individual tax records.⁵ Tax expenditures with fewer than three claimants are therefore listed in this report as “no estimate.”

Comments Welcomed

The Office of Revenue Analysis hopes that this report will contribute to a more informed discussion of budget and tax policy in the District of Columbia by providing clear and concise information both for policymakers and for the general public. ORA welcomes comments on the report and will use the feedback to improve future versions.

⁴ U.S. Government Accountability Office, Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined (GAO-05-960, September 2005), p. 3.

⁵ U.S. Internal Revenue Service, Publication 1075, “Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities” (October 2007), p. 39.

Summary Data on District of Columbia Tax Expenditures

Office of the Chief Financial Officer

#	Name	Program Area	Year Enacted	Section of Internal	Revenue Forgone (\$ in thousands)			
				Revenue Code	FY 2010	FY 2011	FY 2012	FY 2013
INCOME TAX								
Federal Exclusions								
	Exclusion of interest on state and local "private-activity" bonds issued to support airport, dock and similar facilities	Economic development	1968	103, 141, 142, and 146	\$1,711	\$1,711	\$1,711	\$1,906
1	Credit union income	Economic development	1951	501(C)(14)	\$817	\$868	\$919	\$919
3	Magazine, paperback, and record returns	Economic development	1978	458	too small	too small	too small	too small
4	Cash accounting, other than agriculture	Economic development	1916	446 and 448	\$986	\$986	\$1,085	\$1,085
5	Structured settlement accounts	Economic development	1982	104(A)(2) and 130	too small	too small	too small	too small
6	Exclusion of step-up basis of capital gains at death	Economic development	1921	1001, 1002, 1014, 1015, 1023, 1040, 1221, 1222	\$20,616	\$25,466	\$30,641	\$32,985
7	Earnings of certain environmental settlement funds	Economic development	2005	468B	too small	too small	too small	too small
8	Imputed interest rules	Economic development	1964	163(e), 483, 1274, and 1274A	\$395	\$493	\$493	\$592
9	Exclusion of interest on state and local "private-activity" bonds issued to support education	Education	1986	144,150,145,501(C)(3)	\$4,938	\$5,133	\$5,378	\$5,378
10	Exclusion of interest on savings bonds redeemed to finance educational expenditures**	Education	1988	135	\$23	\$23	\$23	\$23
11	Exclusion of scholarship and fellowship income	Education	1954	117	\$1,170	\$1,232	\$1,294	\$1,355
12	Employer-provided educational assistance	Education	1978	127	\$554	\$554	sunset	sunset
13	Coverdell education savings accounts	Education	1998	530	\$115	\$115	\$230	\$230
14	Qualified tuition programs	Education	1997	529	\$576	\$691	\$922	\$1,268
15	Discharge of certain student loan debt	Education	1984	108(f), 20 U.S.C. 1087ee(a)(5) and 42 U.S.C. 2541-1(g)(3)	\$115	\$115	\$115	\$115
16	Spread on acquisition of stock	Employment	1981	422 and 423	-\$218	-\$218	-\$317	-\$407
17	Cafeteria plan benefits	Employment	1974	125	\$25,547	\$28,215	\$30,479	\$32,823
18	Employer-paid meals and lodging (other than military)	Employment	1918	119 and 132(e)(2)	\$808	\$889	\$889	\$933
19	Employee stock ownership plan	Employment	1974	133, 401(a)(28), 404(a)(9), 404(k), 415(c)(6), 1042, 4975(e)(7), 4978, and 4979A	\$966	\$1,017	\$1,017	\$1,068
20	Employee awards	Employment	1986	74(c) and 274(j)	\$162	\$162	\$162	\$162
21	Voluntary employees' beneficiary associations	Employment	1928	419, 419A, 501(a), 501(c)(9), 4976	\$1,536	\$1,698	\$1,859	\$1,859
22	Rental allowances for minister's home	Employment	1921	107	\$431	\$431	\$431	\$493
23	Miscellaneous fringe benefits	Employment	1984	132 and 117(d)	\$5,336	\$6,063	\$6,468	\$6,629
24	Exclusion of interest on state and local "private-activity" bonds issued to support water, sewer, and hazardous-waste facilities	Energy	1968	103, 141, 142, and 146	\$881	\$1,076	\$1,076	\$1,076
25	Gain on like-kind exchanges	Energy	1921	1031	\$1,142	\$1,356	\$1,631	\$1,845
26	Exclusion of interest on public-purpose state and local bonds	General fiscal assistance	1913	103, 141, 142, 143, 144, 145, 146, and 501(c)(3)	\$22,400	\$23,067	\$24,400	\$25,467
27	Exclusion of interest on state and local "private-activity" bonds issued to support non-profit hospital construction	Health	1913	103, 141, 145(b), 145(c), 146, and 501(c)(3)	\$3,667	\$3,862	\$4,057	\$4,057
28	Exclusion of employer contributions for medical insurance premiums and medical care	Health	1918	105, 106, 125	\$86,182	\$93,134	\$98,632	\$105,099
29	Medicare hospital insurance (Part A)	Health	1970	Rev. Rul. 70-341, 1970-2 C.B. 31.	\$23,122	\$27,568	\$29,913	\$32,257
30	Supplementary medical insurance (Part B)	Health	1970	Rev. Rul. 70-341, 1970-2 C.B. 31.	\$16,573	\$19,646	\$20,939	\$23,445
31	Prescription drug insurance (Part D)	Health	2003	Rev. Rul. 70-341, 1970-2 C.B. 31.	\$4,204	\$4,932	\$4,851	\$5,498
32	Income from discharge of indebtedness	Housing	1954, 1986, 2007	108 and 117	\$592	\$296	\$99	too small

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#	Name	Program Area	Year Enacted	Section of Internal	Revenue Forgone (\$ in thousands)			
				Revenue Code	FY 2010	FY 2011	FY 2012	FY 2013
33	Exclusion of interest on state and local "private-activity" bonds issued to support housing	Housing	1980	103, 141, 143, and 146	\$3,473	\$3,862	\$3,862	\$3,862
34	Exclusion of capital gains on sale of principal residence	Housing	1997	121	\$8,386	\$9,537	\$10,304	\$10,853
35	Certain disaster mitigation payments	Income security	2005	139(g)	too small	too small	too small	too small
36	Gain on involuntary conversions in disaster areas***	Income security	1996	1033(h)	too small	too small	too small	too small
37	Social security benefits (Federal)	Income security	1938	86	\$21,994	\$22,332	\$22,813	\$23,278
38	Survivor annuities	Income security	1997	101(h)	too small	too small	too small	too small
39	Compensatory damages	Income security	1918	104(a)(2)-104(a)(5) 72, 101, 7702,	\$1,213	\$1,294	\$1,294	\$1,294
40	Income on life insurance savings	Income security	1913	7702A	\$24,176	\$24,793	\$25,491	\$26,189
41	Workers' compensation benefits	Income security	1918	104(a)(1)	\$4,608	\$5,012	\$5,336	\$5,498
42	Public assistance benefits	Income security	Note A	Note A	\$1,910	\$2,094	\$2,710	\$3,018
43	Income of trusts to finance supplemental unemployment benefits*	Income security	1960	501(17)(A) Section 79 and L.O. 1014, 2 C.B. 8 (1920).	\$32	\$40	\$40	\$40
44	Employer contributions for premiums on group-term life insurance	Income security	1920	1014, 2 C.B. 8 (1920).	\$1,940	\$2,021	\$2,021	\$2,102
45	Employer contributions for premiums on accident and disability insurance	Income security	1954	105 and 106	\$2,506	\$2,749	\$2,910	\$3,072
46	Employer contributions to employee pension plans	Income security	1921	401-407,410-418e, and 457	\$54,247	\$67,991	\$85,777	\$106,474
47	Roth IRA distributions	Income security	1997	219 and 408	\$182	\$344	\$407	\$375
48	Inventory source rule exception	International affairs	1921	861, 862, 863, and 865	\$3,675	\$3,777	\$3,879	\$3,981
49	Deferral of tax on income from controlled foreign corporations	International affairs	1909	11, 882, and 951- 964	\$5,767	\$6,175	\$6,584	\$6,890
50	Exclusion of income earned abroad by U.S. citizens	International affairs	1926	911	\$4,447	\$4,608	\$4,851	\$5,012
51	Exclusion of certain allowances for federal employees abroad	International affairs	1943	912	\$32,913	\$35,445	\$37,976	\$37,976
52	Exclusion of benefits, allowances, and certain pay to armed forces personnel	National defense	1925	112 and 134	\$3,234	\$3,476	\$3,638	\$3,719
53	Exclusion of interest on state and local "private-activity" bonds issued to support energy facilities**	Natural resources and environment	1980	103, 141, 142(f), and 146.	\$19	\$44	\$44	\$44
54	Contributions in aid of construction for utilities	Natural resources and environment	1996	118(c),(d)	too small	too small	too small	too small
55	Exclusion of conservation subsidies provided by public utilities**	Natural resources and environment	1992	136	\$258	\$253	\$234	\$234
56	Restitution payments for Holocaust survivors	Social policy	2001	P.L. 107-16, Sec 803	too small	too small	too small	too small
57	Certain foster care payments	Social policy	1982	131	\$493	\$493	\$554	\$554
58	Employer-provided dependent care**	Social policy	1981	129	\$745	\$844	\$869	\$912
59	Employer-provided adoption assistance***	Social policy	1996	137	\$37	\$37	\$37	\$37
60	Reimbursed employee parking expenses*	Transportation	1984	132(f)	\$2,442	\$2,506	\$2,579	\$2,684
61	Employer-provided transit passes*	Transportation	1992	132(f)	\$515	\$438	\$453	\$485
62	Veterans' benefits	Veterans' benefits	1917	Note B	\$2,239	\$2,293	\$2,239	\$2,239
63	G.I. Bill education benefits*	Veterans' benefits	1917	Note B	\$251	\$411	\$539	\$677
64	Military disability pensions	Veterans' benefits	1942	104(a)(4) or (5) and 104(b)	\$107	\$107	\$107	\$107

Federal Adjustments

65	Interest on student loans^	Education	1997	221	\$1,997	\$1,082	\$866	\$866
66	Educator expenses^	Education	2002	62(a)(2)(D) and Section 62(d)(1)	\$104	\$107	\$109	\$111
67	Moving expenses^	Employment	1964	217	\$754	\$815	\$815	\$882

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#	Name	Program Area	Year Enacted	Section of Internal Revenue Code	Revenue Forgone (\$ in thousands)			
					FY 2010	FY 2011	FY 2012	FY 2013
68	Deduction for medical insurance premiums of self-employed [^]	Health	1986	162(l)	\$3,785	\$4,197	\$4,444	\$4,699
69	Deduction for contributions to medical savings accounts [^]	Health	2003	223	\$341	\$455	\$607	\$796
70	One-half of self-employment tax [^]	Income security	1983	164(f)	\$5,278	\$5,446	\$5,755	\$6,001
71	Alimony paid [^]	Income security	1954	215	\$2,183	\$2,231	\$2,280	\$2,331
72	Penalty on early withdrawal of savings [^]	Income security	1974	62(a)(9)	\$62	\$61	\$59	\$58
73	Contributions to self-employment retirement plans [^]	Income security	1962	401-407, 410-418E, and 457	\$10,120	\$10,441	\$11,035	\$11,506
74	Employee contributions to traditional Individual Retirement Accounts [^]	Income security	1974	219 and 408	\$1,089	\$1,124	\$1,187	\$1,238
75	Overnight travel expenses of National Guard and Reserve members	National defense	2003	162	\$81	\$81	\$81	\$81

Federal Deductions

76	Accelerated depreciation of buildings other than rental housing	Economic development	1954	167 and 168	\$201	\$299	\$299	\$299
77	Accelerated depreciation of machinery and equipment	Economic development	1954	167 and 168	\$12,145	\$14,884	\$16,303	\$17,859
78	Deduction of qualified business income	Economic development	2005	199	decoupled	decoupled	decoupled	decoupled
79	Deduction of loss from sale of small business corporation stock*	Economic development	1958	1244	\$59	\$59	\$59	\$59
80	Exception from passive loss rules for \$25,000 of rental real estate loss*	Economic development	1986	469(i)	\$5,829	\$7,230	\$8,394	\$9,538
81	Excess bad debt reserves of financial institutions	Economic development	1969	585 and 593	too small	too small	too small	too small
82	Incentives for businesses in empowerment zones, enterprise communities, and renewal communities ^e	Economic development	1993, 2000	38(b), 39(d), 45A, 168(j), 280C(a), 1391-1397D, 1400-1400B.	no estimate	sunset	sunset	sunset
83	Research and development expenditures	Economic development	1954	174	\$2,140	\$2,548	\$3,059	\$3,365
84	Life insurance company reserves	Economic development	1984	803(a)(2), 805(a)(2), 807, 846, 847	\$1,123	\$1,174	\$1,225	\$1,327
85	Deferral of certain financing income of foreign corporations ^d	Economic development	1962	11(d), 882, and 951-964	\$510	sunset	sunset	sunset
86	Section 179 expensing allowance	Economic development	1958	179	\$797	\$807	\$856	\$896
87	Amortization of business start-up costs	Economic development	1980	195	\$888	\$986	\$986	\$1,040
88	Property and casualty insurance company reserves	Economic development	1986	832(b)	\$153	\$204	\$204	\$204
89	Creation or acquisition of musical compositions	Economic development	2005	167(g)(8)	too small	too small	sunset	sunset
90	Deferral of income from post-1987 installment sales	Economic development	1986	453 and 453A(b)	-\$3,618	-\$559	\$2,580	\$3,712
91	Magazine circulation expenditures	Economic development	1950	173	too small	too small	too small	too small
92	Net operating loss limitation***	Economic development	1954	382	\$861	\$861	\$861	\$861
93	Completed contract rules	Economic development	1986	460	\$306	\$306	\$357	\$357
94	Energy efficient commercial property**	Energy	2005	179D	\$60	\$85	\$85	\$90
95	Itemized deduction for medical and dental expenses [^]	Health	1942	213	\$20,604	\$25,755	\$29,743	\$32,069
96	Accelerated depreciation on rental housing	Housing	1954	167 and 168	\$4,694	\$4,595	\$4,398	\$4,051
97	Home mortgage interest deduction [^]	Housing	1913	163(h)	\$153,349	\$177,305	\$189,579	\$199,191
98	Itemized deduction for state and local property tax on owner-occupied dwellings [^]	Housing	1913	164	\$24,543	\$22,586	\$21,760	\$21,945
99	Casualty and theft losses [^]	Income security	1913	165(c)(3), 165(e), 165(h) - 165(k)	\$377	\$386	\$394	\$403
100	Mining reclamation reserves	Natural resources and environment	1984	468	too small	too small	too small	too small
101	Charitable contributions [^]	Social policy	1917, 1935	170 and 642(c)	\$61,938	\$68,052	\$70,528	\$73,408
102	Removal of architectural barriers	Social policy	1976	190	\$62	\$62	\$62	\$62

Office of the Chief Financial Officer

#	Name	Program Area	Year Enacted	D.C. Code Section	Revenue Forgone (\$ in thousands)			
					FY 2010	FY 2011	FY 2012	FY 2013
D.C. Exemptions								
103	Additional personal exemption for the blind	Income security	1987	§ 47-1806.02(d)	\$93	\$93	\$94	\$94
104	Additional personal exemption for the elderly	Income security	1987	§ 47-1806.02(e)	\$4,511	\$4,534	\$4,556	\$4,579
D.C. Subtractions from Federal Adjusted Gross Income								
105	Capital gains exclusion for high-technology companies	Economic development	2001	§ 47-1803.2(a)(2)(Q)	\$0	\$0	\$0	\$0
106	Certain depreciable business assets for high-technology companies	Economic development	2001	§ 47-1803.3(a)(18) § 47-4501 - § 47-4512	\$0	\$0	\$0	\$0
107	College Savings Program	Education	2001	§ 47-1803.03(b-2)	\$611	\$614	\$617	\$621
108	Public school teacher expenses	Education	2007	§ 47-1803.03(b-2)	\$117	\$119	\$122	\$124
109	Health insurance premiums paid for a non-employee domestic partner	Health	2006	§ 47-1803.02(a)(2)(W)	\$43	\$45	\$47	\$49
110	Deduction of health insurance premiums paid for a non-employee domestic partner	Health	1992	§ 47-1803.03(a)(15)	\$861	\$864	\$974	\$984
111	Long-term care insurance	Health	2005	§ 47-1803.03(b-1)	\$151	\$154	\$158	\$161
112	Health professional recruitment	Health	2006	§ 7-751.01 - § 7-751.16	\$34	\$35	\$36	\$36
113	Housing relocation services	Housing	2002	§ 42-2851.05	\$0	\$0	\$0	\$0
114	Social Security benefits for retired workers	Income security	1985	§ 47-1803.02(a)(2)(L)	\$15,508	\$15,747	\$16,086	\$16,414
115	Social Security benefits for the disabled	Income security	1985	§ 47-1803.02(a)(2)(L)	included in #114	included in #114	included in #114	included in #114
116	Social Security benefits for dependents and survivors	Income security	1985	§ 47-1803.02(a)(2)(L)	included in #114	included in #114	included in #114	included in #114
117	Railroad retirement system benefits	Income security	1985	§ 47-1803.02(a)(2)(L)	included in #114	included in #114	included in #114	included in #114
118	D.C. and federal government pension income	Income security	1987	§ 47-1803.02(a)(2)(N)	\$4,221	\$4,286	\$4,378	\$4,468
119	DC and federal government survivor benefits	Income security	1987	§ 47-1803.02(a)(2)(N)	\$3,153	\$3,222	\$3,293	\$3,366
120	Income for people with a permanent and total disability	Income security	2005	§ 47-1803.02(a)(2)(V)	\$420	\$426	\$435	\$444
121	Disability income exclusion	Income security	1985	§ 47-1803.02(a)(2)(M)	\$255	\$259	\$265	\$270
122	Environmental Savings Accounts	Natural resources and environment	2001	§ 8-637.03	minimal	minimal	minimal	minimal
123	Rental assistance to police officers	Public safety	1993	§ 42-2902	minimal	minimal	minimal	minimal
124	Compensatory damages awarded in a discrimination case	Social policy	2002	§ 47-1803.02(a)(2)(U) and § 47-1806.10	\$42	\$43	\$46	\$48
125	Loans forgiven by the Poverty Lawyer Loan Assistance Repayment Program	Social policy	2007	§ 47-1803.02(a)(2)(X)	\$6	\$6	\$6	\$6

D.C. Credits

126	Lower corporate income tax rate credit for high technology companies	Economic development	2001	§ 47-1817.06	\$5,600	\$5,750	\$6,470	\$6,550
127	Employment relocation credit for high-technology companies	Economic development	2001	§ 47-1817.02	included in #126	included in #126	included in #126	included in #126
128	Incentives for high-technology companies to employ qualified workers	Economic development	2001	§ 47-1817.03	included in #126	included in #126	included in #126	included in #126
129	Incentives for high-technology companies to retrain disadvantaged workers	Economic development	2001	§ 47-1817.04	included in #126	included in #126	included in #126	included in #126

Office of the Chief Financial Officer

#	Name	Program Area	Year Enacted	D.C. Code Section	Revenue Forgone (\$ in thousands)			
					FY 2010	FY 2011	FY 2012	FY 2013
130	Incentives for high-technology companies to employ disadvantaged workers	Economic development	2001	§ 47-1817.05	included in #126	included in #126	included in #126	included in #126
131	Economic development zone incentives for businesses	Economic development	1988	§ 6-1501, § 6-1502, § 6-1504, and § 47-1807.06	\$0	\$0	\$0	\$0
132	First-time homebuyer credit for D.C. government employees	Employment	2000	§ 42-2506	\$250	\$250	\$250	\$250
133	Paid leave for organ or bone marrow donors	Health	2006	§ 47-1807.08	\$0	\$0	\$0	\$0
134	Employer-assisted home purchases	Housing	2002	§ 47-1807.07	minimal	minimal	minimal	minimal
135	Lower-income, long-term homeowner credit	Housing	2002	§ 47-1806.09 - § 47-1806.09f	\$6	\$6	\$6	\$6
136	Low-income credit	Income security	1987	§ 47-1806.04(e)	\$2,330	\$2,381	\$2,433	\$2,487
137	Homeowner and renter property tax credit (circuit breaker)	Income security	1977	§ 47-1806.06	\$3,635	\$3,715	\$3,797	\$3,880
138	Earned income tax credit	Income security	2000	§ 47-1806.04(f)	\$43,769	\$44,732	\$43,851	\$44,816
139	Brownfield revitalization cleanup	Natural resources and environment	2001	§ 8-637.01	\$0	\$0	\$0	\$0
140	Child and dependent care credit	Social policy	1977	§ 47-1806.04(c)	\$3,524	\$3,602	\$3,681	\$3,762

PROPERTY TAX

Abatements

141	New or improved buildings used by high-technology companies	Economic development	2001	§ 47-811.03	no estimate	no estimate	no estimate	no estimate
142	New residential developments	Housing	2002	§ 47-857.01 - § 47-857.10	\$8 million maximum	\$8 million maximum	\$8 million maximum	\$8 million maximum
143	Preservation of section 8 housing in qualified areas	Housing	2002	§ 47-865	\$388	\$388	\$389	\$389
144	Improvements to section 8 and other affordable housing	Housing	2002	§ 47-866	\$1 million maximum	\$1 million maximum	\$1 million maximum	\$1 million maximum
145	Incentives for the development of single-room-occupancy housing	Housing	1994	§ 42-3508.06	\$0	\$0	\$0	\$0

Exemptions

146	Development of a qualified supermarket	Economic development	1988	§ 47-1002(23)	\$1,167	\$1,407	\$1,667	\$1,798
147	Libraries	Education	1942	§ 47-1002(7)	\$8,654	\$8,654	\$8,663	\$8,671
148	Property of educational institutions	Education	1942	§ 47-1002(10)	\$100,249	\$100,249	\$100,349	\$100,450
149	Miscellaneous exemptions	General law	multiple years	multiple code sections	\$80,656	\$80,656	\$81,462	\$82,277
150	Federal government property	General law	1942	§ 47-1002(1)	\$629,330	\$629,330	\$629,959	\$630,589
151	Hospital buildings	Health	1942	§ 47-1002(9)	\$14,434	\$14,434	\$14,448	\$14,463
152	Homestead exemption	Housing	1978	§ 47-850	\$40,833	\$41,241	\$41,654	\$42,070
153	Historic property	Housing	1974	§ 47-842 - § 47-844	\$338	\$311	\$299	\$302
154	Multi-family and single-family rental and cooperative housing for low- and moderate-income persons	Housing	1978	§ 47-1002(20)	\$15,539	\$15,694	\$15,851	\$16,010
155	Qualifying lower-income homeownership households and cooperative housing associations	Housing	1983	§ 47-3503	\$1,295	\$1,308	\$1,321	\$1,334
156	Nonprofit housing associations	Housing	1983	§ 47-3505	\$9,064	\$9,155	\$9,246	\$9,339
157	Resident management corporations	Housing	1992	§ 47-1002(24)	\$0	\$0	\$0	\$0
158	Embassies, chanceries, and associated properties of foreign governments	International affairs	1942	§ 47-1002(3)	\$34,032	\$34,032	\$34,066	\$34,100
159	Correctional Treatment Facility	Public safety	1997	§ 47-1002(25)	\$784	\$784	\$784	\$784
160	Art galleries	Social policy	1942	§ 47-1002(6)	\$2,362	\$2,362	\$2,385	\$2,409
161	Churches, synagogues, and mosques	Social policy	1942	§ 47-1002(12)	\$56,324	\$56,324	\$56,380	\$56,437
162	Cemeteries	Social policy	1942	§ 47-1002(12)	\$4,573	\$4,573	\$4,578	\$4,582
163	Properties of charitable organizations	Social policy	1942	§ 47-1002(8)	\$13,531	\$13,531	\$13,545	\$13,558

Office of the Chief Financial Officer

#	Name	Program Area	Year Enacted	D.C. Code Section	Revenue Forgone (\$ in thousands)			
					FY 2010	FY 2011	FY 2012	FY 2013
164	Headquarters buildings of tax-exempt organizations	Tax administration and equity	1942	§ 47-1002(17)	included in #163	included in #163	included in #163	included in #163
165	Grounds belonging to tax-exempt organizations	Tax administration and equity	1942	§ 47-1002(18)	included in #163	included in #163	included in #163	included in #163
166	Properties owned by the Washington Metropolitan Area Transit Authority	Transportation	1966	§ 9-1107.01	\$6,626	\$6,626	\$6,633	\$6,639

Credits

167	First-time homebuyer credit for D.C. government employees	Employment	2000	§ 42-2506	\$351	\$383	\$419	\$413
168	Credit for senior citizens and persons with disabilities	Housing	1986	§ 47-863	\$5,781	\$5,784	\$5,842	\$5,900
169	Assessment increase cap	Housing	2001	§ 47-864	\$151,059	\$151,135	\$152,646	\$154,173
				§ 47-872 (condominiums) and § 47-873 (cooperatives)				
170	Condominium and cooperative trash collection	Natural resources and environment	1990	§ 8-637.01	\$4,882	\$4,931	\$5,029	\$5,130
171	Brownfield revitalization cleanup	Natural resources and environment	2001	§ 8-637.01	\$0	\$0	\$0	\$0

Deferrals, Rebates, Multiple Provisions

172	Economic development zone incentives for real property owners	Economic development	1988	§ 6-1501 - § 6-1503	\$0	\$0	\$0	\$0
173	Public charter school tax rebate	Education	2005	§ 47-867	\$725	\$784	\$843	\$902
174	Tax deferral for low-income homeowners	Housing	2005	§ 47-845.02	\$3,342	\$3,342	\$3,346	\$3,349
175	Tax deferral for low-income, senior-citizen homeowners	Housing	2005	§ 47-845.03	\$1,003	\$1,003	\$1,004	\$1,005
176	Tax abatements for homeowners in enterprise zones	Housing	2002	§ 47-858.01 - § 47-858.05	\$0	\$0	\$0	\$0

DEED RECORDATION AND TRANSFER TAX

Exemptions

177	Exemption for property purchased by educational institutions	Education	1962 (recording tax) and 1980 (transfer tax)	§ 42-1102(3) and § 47-902(3)	\$1,173	\$1,056	\$950	\$969
178	Deed recordation and transfer tax exemption of properties purchased by the federal government	General law	1962 (recording tax) and 1980 (transfer tax)	§ 42-1102(2) for the deed recordation tax; § 47-902 (2) for the transfer tax	\$880	\$792	\$713	\$727
179	Exemption for other properties exempted from real property taxation	General law	1962 (recording tax) and 1980 (transfer tax)	§ 42-1102(3) for the deed recordation tax; § 47-902 (3) for the transfer tax	\$1,056	\$950	\$855	\$872
180	Properties exempt by act of Congress (Recordation tax only)	General law	1962	§ 42-1102(4)	\$367	\$330	\$297	\$303
181	Qualifying lower-income homeownership households	Housing	1983	§ 42-1102(12) , § 47-3503(a)(1), and § 47-3503(a)(3) for deed recordation tax; § 47-902(9) and § 47-3503(b)(1) for transfer tax	\$663	\$531	\$531	\$531

Office of the Chief Financial Officer

#	Name	Program Area	Year Enacted	D.C. Code Section	Revenue Forgone (\$ in thousands)			
					FY 2010	FY 2011	FY 2012	FY 2013
182	Cooperative housing associations	Housing	1983	§ 42-1102(14), § 47-3503(a)(2), and § 47-3503(a)(3) for deed recordation tax; § 47-902(11) and § 47-3503(b)(2) for transfer tax	no estimate	no estimate	no estimate	no estimate
183	Nonprofit housing associations	Housing	1983	§ 42-1102(13) and § 47-3505(c) for deed recordation tax; § 47-902(10) and § 47-3505(b) for transfer tax	no estimate	no estimate	no estimate	no estimate
184	Resident management corporations Transfers of property pursuant to the Inclusionary Zoning program (Transfer tax only)	Housing	1992	§ 42-1102(20) and § 47-3506.01(b)(1) for recordation tax; § 47-902(15) and § 47-3506.01(b)(2) for transfer tax	\$0	\$0	\$0	\$0
185		Housing	2007	§ 47-902(23)	\$0	\$22	\$88	\$143
186	Exemption of properties purchased by foreign governments for embassies and related uses	International affairs	1962 (recordation tax) and 1980 (transfer tax)	§ 42-1102(3) and § 47-902(3)	\$586	\$528	\$475	\$485
187	Exemption for property purchased by churches, synagogues, and mosques	Social policy	1962 (recordation tax) and 1980 (transfer tax)	§ 42-1102(3) and § 47-902(3)	\$293	\$264	\$238	\$243
188	Exemption for property purchased by charitable entities	Social policy	1962 (recordation tax) and 1980 (transfer tax)	§ 42-1102(3) for the deed recordation tax; § 47-902 (3) for the transfer tax	\$1,759	\$1,584	\$1,425	\$1,454
189	Tax-exempt entities subject to a long-term lease	Tax administration and equity	2003	§ 42-1102(27) for the deed recordation tax; § 47-902(21) for the transfer tax	no estimate	no estimate	no estimate	no estimate

SALES TAX

Exemptions

190	Exclusion of energy products used in manufacturing	Economic development	1949	§ 47-2005(11)	\$633	\$647	\$661	\$648
191	Exclusion of materials used in supermarkets	Economic development	2000	§ 47-2005(28)	\$118	\$121	\$123	\$121
192	Exemption for technology purchases made by high-technology companies	Economic development	2001	§ 47-2005(31)	\$30	\$31	\$31	\$31
193	Exemption for certain sales made by high- technology companies	Economic development	2001	§ 47-2001(n)(2)(G)	\$98	\$100	\$102	\$100
194	Exemption for transportation and communication services	Economic development	1949	§ 47-2001(n)(2)(A)	\$41,390	\$42,301	\$43,231	\$42,341
195	Exemption for professional and personal services	Economic development	1949	§ 47-2001(n)(2)(B)	\$277,000	\$283,094	\$289,322	\$283,367
196	Exemption for Internet access service	Economic development	1999	§ 47-2001(n)(2)(F)	\$2,646	\$2,704	\$2,764	\$2,707
197	Exemption for the federal and D.C. governments	General law	1949	§ 47-2005(1)	\$167,000	\$170,674	\$174,429	\$170,839
198	Exclusion of materials used in war memorials	Social policy	1957	§ 47-2005(16)	\$0	\$0	\$0	\$0
199	Exemption for semi-public institutions	Social policy	1949	§ 47-2005(3)	\$44,670	\$45,652	\$46,657	\$45,696
200	Exemption for groceries	Social policy	1949	§ 47-2001(n)(2)(E)	\$53,961	\$55,148	\$56,361	\$55,201
201	Exemption for state and local governments	Tax administration and equity	1949	§ 47-2005(2)	minimal	minimal	minimal	minimal
202	Exemption for public utility companies	Tax administration and equity	1949	§ 47-2005(5)	\$91,140	\$93,145	\$95,194	\$93,235
203	Miscellaneous exemptions	Tax administration and equity	1949	§ 47-2005	no estimate	no estimate	no estimate	no estimate
204	Exemption for valet parking services	Tax administration and equity	2002	§ 47-2001(n)(2)(H)	\$182	\$186	\$190	\$186

#	Name	Program Area	Year Enacted	D.C. Code Section	Revenue Forgone (\$ in thousands)			
					FY 2010	FY 2011	FY 2012	FY 2013
205	Exemption of medicine, drugs, and medical devices	Health	1949	§ 47-2005(14) and (15)	\$9,313	\$9,518	\$9,727	\$9,527
206	Exemption of sales by 501(c)(4) organizations	Social policy	1987	§ 47-2005(22)	\$25,920	\$26,490	\$27,073	\$26,516
207	Exemption of sales of motor fuels that are subject to the motor fuels tax	Tax administration and equity	1981	§ 47-2005(20)	\$15,130	\$15,463	\$15,803	\$15,478

INSURANCE PREMIUMS TAX

Credit

208	Tax credit for certified capital investment by insurance companies	Economic development	2004	§ 31-5233	\$12,500	\$12,500	\$12,500	\$9,600
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PERSONAL PROPERTY TAX

Exemptions

209	Exemption for digital audio radio satellite	Economic development	2000	§ 47-1508(a)(8)	no estimate	no estimate	no estimate	no estimate
210	Exemption for qualified supermarkets	Economic development	2000	§ 47-1508(a)(9)	\$488	\$490	\$494	\$499
211	Exemption for qualified high-technology companies	Economic development	2001	§ 47-1508(a)(10)	\$181	\$183	\$186	\$188
212	Nonprofit exemption	Social policy	1902	§ 47-1508(a)(1)	\$3	\$3	\$3	\$3
213	Exemption for works of art lent to the National Gallery by non-residents	Tax administration and equity	1950	§ 47-1508(a)(2)	\$0	\$0	\$0	\$0
214	Exemption for organizations subject to the public utility or toll telecommunications tax	Tax administration and equity	2001	§ 47-1508(a)(3A)	\$9	\$9	\$9	\$9
215	Exemption for wireless telecommunication companies	Tax administration and equity	1998	§ 47-1508(a)(7)	minimal	minimal	minimal	minimal
216	Exemption of motor vehicles and trailers	Transportation	1954	§ 47-1508(a)(3)	\$1,929	\$1,972	\$2,015	\$2,060

Definitions:

- too small: too small to calculate according to the Joint Committee on Taxation (JCT) or U.S. Department of the Treasury.
- minimal: empirical data lacking and the number of eligible beneficiaries is small, the revenue loss has been estimated as "minimal," or less than \$50,000 per year.
- no estimate: insufficient data for a direct estimate and insufficient information to development assumptions for an indirect estimate.
- sunset: the provision has a statutory expiration date.
- decoupled: the District of Columbia has decided not to adopt a provision included in the federal tax code.

Methodology notes for federal conformity estimates

- JCT estimates were used as the base as they provided estimates for a greater number of tax expenditures. In cases where JCT had no estimates/tax expenditures were combined (*) or the estimates were noted as too small (**), Treasury estimates were used. The latter was possible since Treasury's estimates are in millions, not billions. In cases where neither had an estimate (***), estimates were made using Oregon's tax expenditure estimates. Lastly, in cases where the tax expenditures appear on the DC Federal Personal Income Tax file, projections based on the actual numbers (adjusted by the DC average marginal tax rate) were used (^).
- DC estimates were calculated by multiplying the federal estimates by DC's share of taxable corporate income (constant) or personal income data (changing based on tax expenditure) and by a constant corporate or personal rate adjustment.

Notes:

- ^a This exclusion was established through a series of Internal Revenue Service rulings dating back to the 1930s.
- ^b Veteran's benefits are authorized by U.S. Code title 38, Section 3101.
- ^c DC is only an enterprise zone. However, JCT only reports data for empowerment zones and renewal communities. Thus, no data are available.
- ^d JCT only provides an estimate for FY 2010 because Subpart F, which is the relevant tax code provision, was set to expire at the end of 2009.

PART I: INCOME TAX PROVISIONS

Income Tax

Federal Exclusions

1. Exclusion of interest on state and local “private-activity” bonds issued to support airport, dock, and similar facilities

Internal Revenue Code Sections: 103, 141, 142, and 146
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1968

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$153	\$153	\$153	\$153
Personal Income Tax Impact	\$1,558	\$1,558	\$1,558	\$1,752
Total	\$1,711	\$1,711	\$1,711	\$1,906

DESCRIPTION: Each state receives a certain amount of authority to issue tax-exempt private activity bonds, which are securities issued by a state or local government to finance qualified projects by a private user. These qualified projects, which include the construction of airports, docks, wharves, and mass commuting facilities, are expected to have a public benefit.

PURPOSE: The purpose of these private-activity bonds is to promote the construction of airport, dock, wharf, and mass-transit infrastructure by subsidizing low-interest loans, and thereby support commerce and improve transportation. Investors purchase the bonds at low interest rates because the income from them is tax-free.

WHO BENEFITS: The owners of airport, dock, wharf, and mass-transit infrastructure, as well as the businesses and residents who use these facilities, benefit from this provision.

Income Tax

Federal Exclusions

2. Credit union income

Internal Revenue Code Section: 501(c)(14)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1951

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$817	\$868	\$919	\$919
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$817	\$868	\$919	\$919

DESCRIPTION: The income of a credit union is exempt from corporate income tax. Credit unions are non-profit cooperatives organized by people with a common bond that distinguishes them from the general public. Members of the credit union pool their funds to make loans to one another.

PURPOSE: The purpose of this exclusion is to support credit unions, which are regarded as an important part of the financial system, particularly for low-income individuals and families.

WHO BENEFITS: Credit unions and their members benefit from this provision.

Income Tax
Federal Exclusions

3. Magazine, paperback and record returns

Internal Revenue Code Section: 458
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1978

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	too small	too small	too small	too small
Total	too small	too small	too small	too small

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: Generally, if a buyer returns goods to the seller, the seller’s income is reduced in the year in which the items are returned. This tax expenditure grants an exemption to publishers and distributors of magazines, paperbacks, and records (records include discs, tapes, and similar objects that contain pre-recorded sounds).

The publishers and distributors may elect to exclude from corporate or personal taxable income any goods sold during a tax year that are returned shortly after the close of the tax year. Specifically, magazines must be returned within two months and 15 days after the end of the tax year, and paperbacks and records within four months and 15 days. This allows publishers and distributors to sell more copies to wholesalers and retailers than they expect will be sold to consumers.

PURPOSE: The purpose of this exclusion is to encourage the purchase of magazines, paperbacks, and recordings and to promote the businesses involved in publishing and distributing such materials.

WHO BENEFITS: Publishers and distributors of magazines, paperbacks and records benefit from this provision.

Income Tax

Federal Exclusions

4. Cash accounting, other than agriculture

Internal Revenue Code Sections: 446 and 448
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1916

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	\$986	\$986	\$1,085	\$1,085
Total	\$986	\$986	\$1,085	\$1,085

Note: "too small" means too small to calculate according to JCT or Treasury.

DESCRIPTION: This tax expenditure allows employee-owned service businesses and other small businesses with average annual gross receipts of less than \$5 million for the last three years the option to use the cash method of accounting instead of the accrual method. Using the cash method of accounting for tax purposes effectively defers corporation and personal income taxes by allowing qualified businesses to record income when it is received rather than when it is earned.

PURPOSE: The purpose of this exclusion is to simplify record keeping and eliminate an additional drain on the working capital of small businesses

WHO BENEFITS: Small businesses and personal service corporations benefit from this provision.

Income Tax
Federal Exclusions

5. Structured settlement accounts

Internal Revenue Code Sections: 104(A)(2) and 130
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1982

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	too small	too small	too small	too small
Total	too small	too small	too small	too small

Note: "too small" means too small to calculate according to JCT or Treasury.

DESCRIPTION: Individuals who are liable for damages to compensate for causing personal injury or sickness can make a payment to a settlement company rather than making a lump sum payment to the injured party. The settlement company invests in an annuity and then makes periodic payments to the injured party. This allows the responsible party to pay a smaller total settlement. The interest on the annuity or bond is not included in the taxable income of the settlement company. Likewise, the periodic annuity payments, which contain both principal and interest components, are not included in personal taxable income for the injured party.

PURPOSE: The purpose for exempting investment income from structured settlement accounts is not clear and may have been inadvertent. The intent of the federal legislation that exempts periodic payments for damages was to make the tax treatment consistent with that of lump sum compensatory damages payments.

WHO BENEFITS: The individual who is liable for damage payments benefits from this provision by paying a smaller total settlement, even though the tax benefit accrues to the annuity company.

Income Tax

Federal Exclusions

6. Exclusion of step-up basis of capital gains at death

Internal Revenue Code Sections: 1001, 1002, 1014, 1015, 1023, 1040, 1221, and 1222
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$20,616	\$25,466	\$30,641	\$32,985
Total	\$20,616	\$25,466	\$30,641	\$32,985

DESCRIPTION: When property is transferred upon the death of an owner, unrealized capital gains on the property are excluded from personal taxable income. The new basis of taxation for the heir is set to the market value of the property on the date of the owner's death, rather than the original cost of the asset (hence the term "step-up basis").

PURPOSE: The purpose of this exclusion is to provide tax relief to heirs who inherit property.

WHO BENEFITS: Heirs who inherit property benefit from this provision.

Income Tax
Federal Exclusions

7. Earnings of certain environmental settlement funds

Internal Revenue Code Section: 468B
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	too small	too small	too small	too small

Note: "too small" means too small to calculate according to JCT or Treasury.

DESCRIPTION: Hazardous waste site cleanup is sometimes funded by environmental "settlement funds." These accounts are established in consent decrees between the U.S. Environmental Protection Agency and the settling parties under the jurisdiction of a federal district court. This provision allows businesses that contribute to certain environmental settlement funds to exclude the earnings on those contributions from taxable income. Contributions to funds established between May 17, 2006 and December 31, 2010, are treated as government owned, and thus the earnings are not taxable.

PURPOSE: The purpose of this exclusion is to encourage the creation of environmental settlement funds.

WHO BENEFITS: Businesses that establish environmental settlement funds during the eligible period benefit from this provision.

Income Tax
Federal Exclusions

8. Imputed interest rules

Internal Revenue Code Sections: 163(e), 483, 1274 and 1274A
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1964

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	\$395	\$493	\$493	\$592
Total	\$395	\$493	\$493	\$592

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: For debt instruments that do not bear a market rate of interest, the Internal Revenue Service assigns or “imputes” a market rate to them to estimate interest payments for tax purposes. The imputed interest must be included as income to the recipient and is deducted by the payer. There are several exceptions to this general rule, covering debt associated with the sale of property when the total sales price is no more than \$250,000; the sale of farms or small businesses by individuals when the sales price is no more than \$1 million; and the sale of a personal residence. An interest rate greater than 9 percent may not be assigned to debt instruments given in exchange for real property for amounts less than an inflation-adjusted maximum (currently about \$3 million).

The tax expenditure is the revenue loss caused by the exceptions listed above. A common example of this exemption is a low-interest, no-interest, or “gift” loan involved in the sale of property between family members.

PURPOSE: The purpose of this exclusion is to reduce the tax burden on the sales of homes, small businesses, and farms, and to allow buyers to structure the purchase of property that would otherwise be unaffordable under financial market rates and conditions.

WHO BENEFITS: Sellers of residences, small businesses, and farms who would have to pay tax on interest they do not charge, and otherwise will not receive, benefit from this provision.

Income Tax

Federal Exclusions

9. Exclusion of interest on state and local “private-activity” bonds issued to support education

Internal Revenue Code Sections: 144 and 150 (student loans), 145 and 501(c)(3) (university facilities)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$459	\$459	\$510	\$510
Personal Income Tax Impact	\$4,478	\$4,673	\$4,868	\$4,868
Total	\$4,938	\$5,133	\$5,378	\$5,378

DESCRIPTION: Each state receives a certain amount of authority to issue tax-exempt private activity bonds, which are securities issued by a state or local government to finance qualified projects by a private user. Qualified projects, which include student loan bonds and facility improvements at private, non-profit universities, are expected to have a public benefit.

PURPOSE: The purpose of the education private-activity bonds is to both expand access to higher education and support the construction or substantial rehabilitation of university facilities by subsidizing low-interest loans. Investors purchase the bonds at low interest rates because the income from them is tax-free.

WHO BENEFITS: Students pursuing higher education and universities benefit from this provision.

Income Tax

Federal Exclusions

10. Exclusion of interest on savings bonds redeemed to finance educational expenditures

Internal Revenue Code Section: 135
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1988

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$23	\$23	\$23	\$23
Total	\$23	\$23	\$23	\$23

DESCRIPTION: The interest earned on U.S. Series EE savings bonds purchased to finance higher education for the taxpayer, his or her spouse, or dependents is excluded from personal taxable income. The bonds must be purchased and owned by people age 24 or older, and must have been issued after 1989. The proceeds must be used for qualified higher education expenses in the same year in which they are redeemed.

Qualified higher education expenses include tuition and fees, but not room and board. In 2009, a full exclusion is allowed for taxpayers with income less than \$69,950 (single) and \$104,900 (married). The exclusion is phased out through incomes up to \$84,950 (single) and \$134,900 (married). Anyone earning more than those ceilings receives no benefit.

PURPOSE: The purpose of this exclusion is to subsidize the costs of higher education.

WHO BENEFITS: Tax filers who purchase U.S. series EE savings bonds to finance education benefit from this provision.

Income Tax
Federal Exclusions

11. Exclusion of scholarship and fellowship income

Internal Revenue Code Section: 117
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$1,170	\$1,232	\$1,294	\$1,355
Total	\$1,170	\$1,232	\$1,294	\$1,355

DESCRIPTION: Scholarships and fellowships are excluded from personal taxable income to the extent that they cover tuition and course-related expenses of individuals who are candidates for undergraduate or graduate degrees at colleges, universities, or other educational institutions.

PURPOSE: The purpose of this exclusion is to reduce the cost of higher education. It was enacted to clarify the status of grants to students and provide equitable treatment among taxpayers. Originally, scholarships and fellowships were included in gross income, unless it could be proven that the money was a gift.

WHO BENEFITS: Individuals receiving scholarship or fellowship income, or reduced tuition, benefit from this provision. Students attending private colleges and universities benefit the most because tuition and course-related fees are likely to be higher than at public colleges and universities.

Income Tax
Federal Exclusions

12. Employer-provided educational assistance

Internal Revenue Code Section: 127
Federal Law Sunset Date: December 31, 2010
Year Enacted in Federal Law: 1978

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	sunset	sunset
Personal Income Tax Impact	\$554	\$554	sunset	sunset
Total	\$554	\$554	sunset	sunset

DESCRIPTION: An employee may exclude from income amounts paid by his or her employer for education assistance, including tuition, fees, and books. The maximum exclusion is \$5,250 per year. The exclusion applies regardless of whether the employer pays the expenses, reimburses the employee for expenses, or provides the education directly.

This exclusion was first enacted in 1978 as a temporary provision and has been renewed a number of times. In 2001, the exclusion was extended to tax year 2010 and was expanded to cover graduate education. The exclusion expires after tax year 2010.

PURPOSE: The purpose of this exclusion is to subsidize employer-sponsored higher education.

WHO BENEFITS: Employees receiving educational assistance from their employers benefit from this provisions. Employers may also benefit from investing in the education and training of their workers, thereby raising their skill levels and productivity.

Income Tax
Federal Exclusions

13. Coverdell education savings accounts

Internal Revenue Code Section: 530
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1998

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$115	\$115	\$230	\$230
Total	\$115	\$115	\$230	\$230

DESCRIPTION: A taxpayer may establish a Coverdell education savings account (ESA) to pay for the qualified education expenses of a named beneficiary. The program is named after the late Senator Paul Coverdell of Georgia, who was the chief sponsor of the authorizing legislation (Coverdell ESAs are sometimes called “Coverdell plans”).

Qualified expenses include tuition, fees, books, and supplies for elementary, secondary, and higher education. Annual contributions to an account cannot exceed \$2,000 and cannot be made after the beneficiary reaches age 18. The annual contribution is not deductible, but any earnings on the contributions are tax-free.

The maximum allowable contribution is reduced for taxpayers with annual incomes over \$95,000 and is phased out completely at an annual income level of \$110,000 (the comparable thresholds are \$190,000 and \$210,000 for a joint return). Earnings on funds in the account are not included in income until the funds are distributed. Distributions used for qualified education expenses of the beneficiary are excluded from income.

PURPOSE: The purpose of this exclusion is to help families and students afford the rising costs of education.

WHO BENEFITS: Families or individuals who assume responsibility for paying tuition for themselves, or for beneficiaries such as children or grandchildren, benefit from this provision.

Income Tax
Federal Exclusions

14. Qualified tuition program

Internal Revenue Code Section: 529
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1997

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$576	\$691	\$922	\$1,268
Total	\$576	\$691	\$922	\$1,268

DESCRIPTION: Individuals may establish tax-deferred and tax-exempt college savings plans through state sponsored savings plans or through prepaid tuition accounts with qualifying educational institutions. These accounts are set up for the purpose of paying education related expenses or tuition on behalf of a designated beneficiary. Total contributions to these accounts are allowed up to the amount necessary to cover the qualified higher education expenses of the beneficiary.

Under federal law, contributions to these accounts are not tax deductible, but qualifying distributions from savings or prepaid tuition plans are excluded from tax. Non-qualifying distributions are subject to a penalty, and the earnings share of the non-qualifying distribution is subject to income taxation. The revenue impacts for this expenditure do not include the value of the deduction the District of Columbia allows for contributions, which is estimated later in this report in the local tax expenditure section.

PURPOSE: The purpose of this exclusion is to clarify the federal tax status of state-sponsored qualified tuition savings programs and increase the ability of families and individuals to save for higher education.

WHO BENEFITS: Students and families of students with college savings plans benefit from this provision because it allows them to defer and eventually avoid tax on earnings of these accounts. Therefore, students and their families may accumulate savings more quickly for future higher education expenses.

Income Tax
Federal Exclusions

15. Discharge of certain student loan debt

Internal Revenue and U.S. Code Sections: 108(f), 20 U.S.C. 1087ee(a)(5) and 42 U.S.C. 2541-1(g)(3)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$115	\$115	\$115	\$115
Total	\$115	\$115	\$115	\$115

DESCRIPTION: Income for tax purposes generally includes forgiveness of debt. However, the federal tax code excludes from income loans made by the federal government, state and local governments, public benefit corporations, and qualified educational institutions that are forgiven conditional on performing services in a specified occupation for a certain period of time. The code also excludes repayment of loans for graduates made under the National Health Service Corps repayment program for 2004 and after.

PURPOSE: The purpose of this exclusion is to encourage individuals to work for federal, state or local government agencies and school districts where student loan forgiveness is offered as an incentive.

WHO BENEFITS: Individuals with student loans forgiven under the program benefit from this provision. Industries and professions that experience qualified applicant shortages may also benefit.

Income Tax
Federal Exclusions

16. Spread on acquisition of stock

Internal Revenue Code Sections: 422 and 423
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1981

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	-\$612	-\$612	-\$612	-\$663
Personal Income Tax Impact	\$395	\$395	\$296	\$256
Total	-\$218	-\$218	-\$317	-\$407

DESCRIPTION: Employees may be granted stock options under an Incentive Stock Option Plan (which is capped at \$100,000 annually per employee, and can be confined to officers or highly-paid employees) or an Employer Stock Purchase Plan (which is capped at \$25,000 annually per employee, and must be offered to all employees). Under these plans, employees are allowed to exercise, or buy, the stock options within a specified time frame.

Generally, a stock option or purchase plan allows an employee to buy the stock for less than the current market price. At the time the employee exercises his or her options, the stock is transferred from the company to the employee, but the difference in value between the market value and the option prices (also known as the spread) is not considered taxable income. The value of this tax expenditure stems from the deferral of the tax until the employee sells the stock. If the stock is held one year from purchase and two years from the granting of the option, the gain is also taxed at the lower long-term capital gain rate.

The employer is not allowed a tax deduction for granting the stock options, but if the stock is not held for the required amount of time the employee is taxed at ordinary income tax rates and the employer is allowed a deduction.

PURPOSE: The purpose of this exclusion is to defer tax liability until the income is realized by the taxpayer.

WHO BENEFITS: Taxpayers who receive stock options as a form of compensation benefit from this provision. The reason why the estimated tax expenditure for fiscal years 2010 through 2013 is negative (a gain to the D.C. Treasury) is that many of the stock options have lost value and the companies offering the options do not have to sell their stock to employees.

Income Tax
Federal Exclusions

17. Cafeteria plan benefits

Internal Revenue Code Section: 125
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1974

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$25,547	\$28,215	\$30,479	\$32,823
Total	\$25,547	\$28,215	\$30,479	\$32,823

DESCRIPTION: Cafeteria plans are employer-sponsored benefit packages that offer employees a choice between taking cash and receiving qualified benefits, such as accident and health coverage, group-term life insurance coverage, or coverage under a dependent care program. Employer-paid benefits under cafeteria plans that offer employees a choice between taking monetary compensation or qualified benefits (such as health insurance) are not included in the employee’s personal taxable income. The employee pays no tax when choosing the benefits but does pay tax when choosing the cash.

Most flexible spending accounts (FSAs), which reimburse employees for specific expenses (subject to reimbursement maximums) are governed by cafeteria plan provisions because they involve a choice between cash wages and non-taxable benefits. FSAs allow employees to make pre-tax contributions for the reimbursement of health and/or dependent care expenses. However, these arrangements have a “use or lose” rule.

PURPOSE: The purpose of this exclusion is to encourage employers to include a flexible benefit package as part of their compensation package and to encourage employees to use the qualified benefit options.

WHO BENEFITS: Employees receiving employer-paid cafeteria plans benefit from this provision. Employers may also benefit by using flexible benefit plans as an incentive in recruiting high-quality employees.

Income Tax

Federal Exclusions

18. Employer-paid meals and lodging (other than military)

Internal Revenue Code Sections: 119 and 132(e)(2)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1918

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$808	\$889	\$889	\$933
Total	\$808	\$889	\$889	\$933

DESCRIPTION: Employees can exclude from personal taxable income the fair market value of meals provided by employers if the meals are furnished on the employer’s business premises and for the convenience of the employer. The fair market value of lodging provided by an employer can also be excluded from personal taxable income, if the lodging is furnished on business premises for the convenience of the employer, and if the employee is required to accept the lodging as a condition of employment. The exclusion does not apply to cases in which an employee is reimbursed by the employer for amounts spent on meals and lodging.

PURPOSE: The purpose of the exclusion is to eliminate a record-keeping burden and to acknowledge that the fair market value of employer-provided meals and lodging may be difficult to measure.

WHO BENEFITS: Employees and employers in occupations or economic sectors where the provision of meals or lodging is common (such as a resident property manager) benefit from this provision.

Income Tax
Federal Exclusions

19. Employee stock ownership plan

Internal Revenue Code Sections: 133, 401(a)(28), 404(a)(9), 404(k), 415(c)(6), 1042, 4975(e)(7), 4978, and 4979A
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1974

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$561	\$612	\$612	\$663
Personal Income Tax Impact	\$404	\$404	\$404	\$404
Total	\$966	\$1,017	\$1,017	\$1,068

DESCRIPTION: An Employee Stock Ownership Plan (ESOP) is a defined-contribution plan that invests in the stock of the sponsoring employer. These plans involve several tax exemptions.

Employer contributions may be deducted from corporation taxable income as a business expense. An employer may also deduct dividends paid on stock held by an ESOP if the dividends are paid to plan participants. Employees are not taxed on employer contributions or the earnings on invested funds until they are distributed. A benefit is also available to certain lenders: qualified lenders may exclude from taxable income 50 percent of the interest earned on an ESOP loan if the ESOP owns over 50 percent of the company's stock. Under certain circumstances, a stockholder may defer the recognition of the gain from the sale of stock to an ESOP.

PURPOSE: The purpose of this exclusion is to broaden employee stock ownership and provide employees with a source of retirement income.

WHO BENEFITS: Employers and employees of participating companies benefit from this provision.

Income Tax

Federal Exclusions

20. Employee awards

Internal Revenue Code Sections: 74(c) and 274(j)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$162	\$162	\$162	\$162
Total	\$162	\$162	\$162	\$162

DESCRIPTION: Awards given to employees for length of service or for safety are excluded from personal taxable income. The amount of the exclusion is usually limited to \$400 but may be as much as \$1,600, depending on the specifics of the employer's achievement award plan. There are certain qualification requirements to ensure that the awards do not constitute disguised compensation.

PURPOSE: The purpose of this exclusion is to encourage longevity in employment and safety practices on the job.

WHO BENEFITS: Employees who receive length-of-service or safety awards and employers who save costs related to training and time lost to injuries benefit from this provision.

Income Tax

Federal Exclusions

21. Voluntary employees' beneficiary associations

Internal Revenue Code Sections: 419, 419A, 501(a), 501(c)(9) and 4976
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1928

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$1,536	\$1,698	\$1,859	\$1,859
Total	\$1,536	\$1,698	\$1,859	\$1,859

DESCRIPTION: A Voluntary Employees' Beneficiary Association (VEBA) provides life, sickness, accident, and other insurance, as well as fringe benefits, to its employee members, their dependents, and their beneficiaries. These benefits are not included in personal taxable income.

PURPOSE: The purpose of this exclusion is to promote the provision of life, sickness, accident, and other insurance and fringe benefits.

WHO BENEFITS: Participants in VEBA programs and employers who contribute to the program benefit from this provision.

Income Tax

Federal Exclusions

22. Rental allowance for minister's home

Internal Revenue Code Section: 107
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$431	\$431	\$431	\$493
Total	\$431	\$431	\$431	\$493

DESCRIPTION: Ministers can exclude from personal taxable income the fair rental value of a church-owned or church-rented home furnished as part of their compensation, or a cash housing allowance paid as part of their compensation.

PURPOSE: The purpose of this exclusion is to avoid the difficulty of putting a value on the provision of a church-provided rectory, and to provide equal treatment among ministers who receive a cash allowance and those who have their homes included in their compensation package.

WHO BENEFITS: Ministers who receive a housing allowance or who live in a church-provided home benefit from this provision.

Income Tax
Federal Exclusions

23. Miscellaneous fringe benefits

Internal Revenue Code Sections: 132 and 117(d)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1984

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$5,336	\$6,063	\$6,468	\$6,629
Total	\$5,336	\$6,063	\$6,468	\$6,629

DESCRIPTION: Certain non-cash fringe benefits qualify for an exclusion from an employee’s gross income. These benefits include no-additional-cost services (such as free stand-by flights for airline employees), qualified employee discounts, working condition fringe benefits, and de minimis fringe benefits (such as providing coffee to employees or allowing them occasional personal use of an office copy machine). Also included are subsidized parking, eating facilities, and provision of on-premises athletic facilities.

The provision of these fringe benefits must meet certain non-discrimination rules to qualify. The benefits must be provided solely to employees, their spouses, and dependent children; retired employees; or the widows or widowers of former employees. Federal law requires that the imputed value of health and other fringe benefits of a domestic partner be included in adjusted gross income.

PURPOSE: The purpose of this exclusion is to codify the traditional treatment of these benefits as not contributing to taxable income, and to avoid the difficulty of monitoring and assigning monetary values to them.

WHO BENEFITS: Employees receiving fringe benefits benefit from this provision.

Income Tax

Federal Exclusions

24. Exclusion of interest on state and local “private-activity” bonds issued to support water, sewer, and hazardous-waste facilities

Internal Revenue Code Sections: 103, 141, 142, and 146.
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1968

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$102	\$102	\$102	\$102
Personal Income Tax Impact	\$779	\$974	\$974	\$974
Total	\$881	\$1,076	\$1,076	\$1,076

DESCRIPTION: Each state receives a certain amount of authority to issue tax-exempt private activity bonds, which are securities issued by a state or local government to finance qualified projects by a private user. Qualified projects, which include water, sewer, and hazardous-waste facilities, are expected to have a public benefit.

PURPOSE: The purpose of the private-activity bonds is to encourage the construction of water, sewer, and hazardous-waste facilities by subsidizing low-interest loans. Investors purchase the bonds at low interest rates because the income from them is tax-free.

WHO BENEFITS: Water, sewer, and environmental agencies benefit from the lower interest rates that they receive in the construction of facilities, and the communities where these facilities are located benefit as well.

Income Tax

Federal Exclusions

25. Gain on like-kind exchanges

Internal Revenue Code Section: 1031
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$714	\$868	\$1,021	\$1,174
Personal Income Tax Impact	\$427	\$488	\$610	\$671
Total	\$1,142	\$1,356	\$1,631	\$1,845

DESCRIPTION: Like-kind exchanges are exchanges of properties that are of the same general type but may be of very different quality and use, such as real estate. Gain at the time of exchange is deferred until the ultimate disposition of the property. In the case of properties being exchanged in a series of transactions, the accumulated gains from each transaction are claimed for tax purposes only in the year in which the final property in the series is disposed.

PURPOSE: The purpose of this exclusion is to recognize that the investment in the new property is much like a continuation of the investment in the old, and therefore is not a taxable event.

WHO BENEFITS: Taxpayers who engage in exchanges of like properties benefit from this exclusion. This type of activity is concentrated in the real estate sector.

Income Tax
Federal Exclusions

26. Exclusion of interest on public-purpose state and local bonds

Internal Revenue Code Sections: 103, 141-146, and 501(c)(3)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$22,400	\$23,067	\$24,400	\$25,467
Total	\$22,400	\$23,067	\$24,400	\$25,467

DESCRIPTION: The interest on a state or local bonds that are used to build capital facilities that are owned and operated by government entities, and serve the general public interest (for example, schools, highways, and bridges) are excluded from personal taxable income.

In most states, out-of-state portion of state and local bond interest is added back to adjusted gross income, and thus is taxable, which reduces the impact of this tax expenditure. The District does not have such an add-back. Therefore, the interest from all state and local bonds, including out-of-state bonds, is excluded from the income tax. This policy has been the subject of considerable debate. As part of a gap-closing measure in late 2002, the Council enacted legislation to repeal the exclusion for the public-purpose bonds of out-of-state jurisdictions, but reversed this action several months later. Mayor Anthony Williams proposed repealing the exclusion for out-of-state bonds in his fiscal year 2005 budget, but the Council rejected the proposal.

PURPOSE: The purpose of the exclusion is to lower the cost of borrowing for state and local governments.

WHO BENEFITS: State and local governments benefit from the exclusion because it allows them to offer lower interest rates since the exclusion increases the effective rate of return enjoyed by the bondholder. Purchasers of state and local bonds also benefit from this exclusion.

Proponents of the exclusion also argue that it gives D.C. residents access to a wider range of tax-exempt municipal bond investments than they would otherwise enjoy. In most states, there are numerous municipalities and special-purpose entities (such as water and sewer authorities) that offer bonds with different features and credit ratings, but this is not the case in the District of Columbia. The tax-exempt status of out-of-state bonds may be particularly important to elderly residents who rely on income from savings.

Opponents of the exclusion (those who would require the add-back of out-of-state bonds) point out that most states provide tax exemptions only for bonds issued in the state. The opponents also argue that the exclusion provides an incentive for residents to purchase bonds from other states while reducing tax revenue in the District. Finally, opponents contend that the tax exemption for bond interest primarily benefits wealthy households.

Income Tax

Federal Exclusions

27. Exclusion of interest on state and local “private-activity” bonds issued to support non-profit hospital construction

Internal Revenue Code Sections: 103, 141, 145(b), 145(c), 146, and 501(c)(3).
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$357	\$357	\$357	\$357
Personal Income Tax Impact	\$3,310	\$3,505	\$3,700	\$3,700
Total	\$3,667	\$3,862	\$4,057	\$4,057

DESCRIPTION: Each state receives a certain amount of authority to issue tax-exempt private activity bonds, which are securities issued by a state or local government to finance qualified projects by a private user. Qualified projects, such as the construction of non-profit hospitals, are expected to have a public benefit.

PURPOSE: The purpose of these private-activity bonds is to support the construction of hospitals owned by non-profit organizations by subsidizing low-interest loans. Investors purchase the bonds at low interest rates because the income from them is tax-free.

WHO BENEFITS: Private, non-profit hospitals and the communities they serve benefit from this provision.

Income Tax

Federal Exclusions

28. Exclusion of employer contributions for medical insurance premiums and medical care

Internal Revenue Code Sections: 105, 106, and 125
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1918

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$86,182	\$93,134	\$98,632	\$105,099
Total	\$86,182	\$93,134	\$98,632	\$105,099

DESCRIPTION: Employer payments for health insurance, other employee medical expenses, and long-term care insurance are not included in the employee’s personal taxable income. However, federal law requires that the imputed value of health and other fringe benefits of a domestic partner be included in adjusted gross income.

PURPOSE: The purpose of the exclusion is to encourage employers to include health insurance in their compensation packages.

WHO BENEFITS: Employees, their spouses, and dependents receiving employer-paid health benefits benefit from this provision. Employers may also benefit from offering highly-valued health services as a recruitment and retention tools for skilled employees.

Income Tax
Federal Exclusions

29. Medicare hospital insurance (Part A)

Internal Revenue Code Section: Rev. Rul. 70-341, 1970-2 C.B. 31.
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1970

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$23,122	\$27,568	\$29,913	\$32,257
Total	\$23,122	\$27,568	\$29,913	\$32,257

DESCRIPTION: Part A of Medicare pays for certain in-patient hospital care, skilled nursing facility care, home health care, and hospice care for eligible individuals age 65 or over or who are disabled. These benefits are not included in the personal taxable income of the recipient. The subsidy paid equals the benefits that exceed an individual's lifetime contributions through payroll tax. The tax expenditure equals the subsidy multiplied by the recipient's marginal tax rate.

PURPOSE: The purpose of this exclusion is to ensure that Medicare benefits are treated the same as non-taxed Social Security benefits, and to avoid imposing taxes during a period of illness.

WHO BENEFITS: People enrolled in Medicare Part A benefit from this provision.

Income Tax
Federal Exclusions

30. Supplementary medical insurance (Part B)

Internal Revenue Code Section: Rev. Rul. 70-341, 1970-2 C.B. 31.
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1970

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$16,573	\$19,646	\$20,939	\$23,445
Total	\$16,573	\$19,646	\$20,939	\$23,445

DESCRIPTION: For those who elect to pay the required monthly premiums, Part B of Medicare covers certain doctors' services, outpatient services, and other medical services for people who are age 65 and over or who are disabled. The portion of the program's costs that are paid with governmental general revenues are not included in the personal taxable income of recipients. Currently, these costs account for 75 percent of the program's costs. Under current law, annual increases in the Part B premium are limited to the percentage increase in the Social Security cost of living allowance.

PURPOSE: The purpose of this exclusion is to ensure that Medicare benefits are treated the same as non-taxed Social Security benefits, and to avoid imposing taxes during a period of illness.

WHO BENEFITS: People enrolled in Medicare Part B benefit from this provision.

Income Tax
Federal Exclusions

31. Prescription drug insurance (Part D)

Internal Revenue Code Section: Rev. Rul. 70-341, 1970-2 C.B. 31.
Federal Law Sunset Date: None
Year Enacted in Federal Law: 2003

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$4,204	\$4,932	\$4,851	\$5,498
Total	\$4,204	\$4,932	\$4,851	\$5,498

DESCRIPTION: Medicare Part D is a federal program that subsidizes the cost of some prescription drugs for individuals eligible for Medicare. Benefits are provided to individuals through insurance companies approved by Medicare, and are excluded from individuals' taxable incomes. Benefits that exceed premiums paid by participants are considered a tax expenditure.

PURPOSE: The purpose of this exclusion is to reduce the effective cost of prescription drugs for Medicare recipients.

WHO BENEFITS: People enrolled in Medicare Part D benefit from this provision.

Income Tax

Federal Exclusions

32. Exclusion of income attributable to the discharge of principal residence acquisition indebtedness

Internal Revenue Code Sections: 108 and 117
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1954, 1986, 2007

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$592	\$296	\$99	too small
Total	\$592	\$296	\$99	too small

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: Mortgage debt cancellation can occur when lenders either: 1) restructure loans, thereby reducing principal balances, or 2) sell properties, either in advance, or as a result, of foreclosure proceedings. Historically, if a lender forgives or cancels such debt, tax law has treated it as cancellation of debt income subject to tax. Exceptions, however, have been available for certain taxpayers who are insolvent or in bankruptcy – these taxpayers may exclude canceled mortgage debt income under existing law.

An additional exception allows for the exclusion of discharged qualified residential debt from gross income. Qualified indebtedness is defined as debt, limited to \$2 million (\$1 million if married filing separately), incurred in acquiring, constructing, or substantially improving the taxpayer’s principal residence that is secured by the residence. It also includes refinancing of this debt, to the extent that the refinancing does not exceed the amount of refinanced indebtedness. The taxpayer is required to reduce the basis in the principal residence by the amount of the excluded income.

This provision does not apply if the discharge was on account of services performed for the lender or any other factor not directly related to a decline in the residence’s value or to the taxpayer’s financial condition. The additional exclusion of discharged qualified residential debt applies to discharges that are made on or after January 1, 2007, and before January 1, 2013.

PURPOSE: The purpose of this exclusion is to minimize hardship for households in distress. Policymakers have expressed concern that individuals who are experiencing hardship and are in danger of losing their home, presumably as a result of financial distress, should not incur an additional hardship by being taxed on canceled debt income. Some analysts have also drawn a connection between minimizing hardship for individuals and consumer spending: reductions in consumer spending, if significant, can lead to recession.

WHO BENEFITS: Taxpayers who have had debt canceled benefit from this provision.

Income Tax

Federal Exclusions

33. Exclusion of interest on state and local “private-activity” bonds issued to support housing

Internal Revenue Code Sections: 103, 141, 143, and 146.
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax	\$357	\$357	\$357	\$357
Personal Income Tax	\$3,115	\$3,505	\$3,505	\$3,505
Total	\$3,473	\$3,862	\$3,862	\$3,862

DESCRIPTION: Each state receives a certain amount of authority to issue tax-exempt private activity bonds, which are securities issued by a state or local government to finance qualified projects by a private user. Qualified projects, which include rental housing, owner-occupied housing, and veterans’ housing for low and moderate-income families, are expected to have a public benefit.

PURPOSE: The purpose of the housing private-activity bonds is to finance low-interest mortgages for low- and moderate-income homebuyers, and the acquisition, construction, and rehabilitation of multi-family housing for low-income renters. Investors purchase the housing bonds at low interest rates because the income from them is tax-free. The interest savings made possible by the tax exemption are passed on to home buyers and renters in the form of reduced housing costs.

WHO BENEFITS: Low- and moderate-income homebuyers and renters benefit from this provision.

Income Tax

Federal Exclusions

34. Exclusion of capital gains on sale of principal residence

Internal Revenue Code Section: 121
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1997

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$8,386	\$9,537	\$10,304	\$10,853
Total	\$8,386	\$9,537	\$10,304	\$10,853

DESCRIPTION: Homeowners may exclude from personal taxable income up to \$250,000 (single taxpayers) or \$500,000 (married taxpayers filing joint returns) of capital gains realized on the sale of their principal residence. To qualify, the taxpayer must have owned and occupied the home for at least two of the previous five years. The exclusion applies only to the portion of the property associated with the residence, not to portions of the property used in business activity. The exclusion cannot be used more than once every two years.

PURPOSE: The purpose of this exclusion is to promote home ownership by reducing the after-tax cost.

WHO BENEFITS: Homeowners who sell their principal residences benefit from this provision.

Income Tax

Federal Exclusions

35. Certain disaster mitigation payments

Internal Revenue Code Section: 139(g)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	too small	too small	too small	too small
Total	too small	too small	too small	too small

Note: "too small" means too small to calculate according to JCT or Treasury.

DESCRIPTION: Disaster mitigation payments made to the owner of a property to mitigate hazards to that property, paid by the Robert T. Stafford Disaster Relief and Emergency Assistance Act, or the National Flood Insurance Act, are excluded from taxable income.

PURPOSE: The purpose of this exclusion is to retain the value of disaster mitigation payments by not imposing tax on those payments.

WHO BENEFITS: Recipients of specified disaster mitigation payments benefit from this provision.

Income Tax
Federal Exclusions

36. Gain on involuntary conversions in disaster areas

Internal Revenue Code Section: 1033(h)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1996

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	too small	too small	too small	too small
Total	too small	too small	too small	too small

Note: ‘too small’ means too small to calculate according to JCT or Treasury.

DESCRIPTION: When a taxpayer is reimbursed for damaged property, by insurance for example, it is possible for the recovery to exceed the taxpayer’s basis in the property. In those cases, the property is “involuntarily converted” into cash and is generally taxed unless the proceeds are used to replace the damaged property with similar property within a specified period.

This deferral of gain provides special rules for a taxpayer’s principal residence or any of its contents when involuntarily converted, if the property is located in a presidentially declared disaster area. In the case of unscheduled personal property (property that is not specified but is insured), no gain is recognized as a result of any insurance proceeds. In addition, the replacement period is increased from two years to four years.

PURPOSE: The purpose of this exclusion is to defer or reduce the tax burden for taxpayers who experience large losses due to a natural disaster.

WHO BENEFITS: Taxpayers in presidentially declared disaster areas that experience an involuntary gain as a result of being reimbursed for damaged property benefit from this provision.

Income Tax
Federal Exclusions

37. Social security benefits (federal)

Internal Revenue Code Section: 86
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1938

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$21,994	\$22,332	\$22,813	\$23,278
Total	\$21,994	\$22,332	\$22,813	\$23,278

Note: This estimate is for the federal portion of the exclusion of social security benefits. The District of Columbia exempts all social security benefits. The balance of this tax expenditure is covered under number 114 – “Social Security benefits for retired workers (D.C.)”

DESCRIPTION: A portion of Social Security and Railroad Retirement Board benefits are considered nontaxable at the federal level. The District of Columbia extends the tax exemption to the full amount of benefits. As a result, there are two tax expenditures pertaining to these benefits. This tax expenditure pertains to those benefits that are exempt at the federal level. The tax expenditure pertaining to the portion of benefits that are taxed at the federal level but are exempt in the District is number 114 – “Social Security benefits for retired workers (D.C.)”.

The amount of Social Security benefits subject to federal taxation depends on the amount of “provisional income” above certain thresholds. Provisional income is adjusted gross income plus one-half of Social Security benefits and otherwise tax-exempt interest income (i.e., interest from tax-exempt bonds).

Taxpayers with provisional income under \$25,000 (single) or \$32,000 (married filing jointly) pay no tax. If provisional income is above these thresholds but below \$34,000 (single) or \$44,000 (joint) then the amount of benefits subject to tax is the lesser of: (1) 50 percent of benefits, or (2) 50 percent of income above the first threshold. If income is above the second threshold, the amount of benefits subject to tax is the lesser of: (1) 85 percent of benefits, or (2) 85 percent of income above the second threshold, plus the smaller of \$4,500 (single) or \$6,000 (joint), or 50 percent of benefits. For couples filing separately, taxable benefits are the lesser of 85 percent of benefits or 85 percent of provisional income.

PURPOSE: The purpose of the exclusion is to shield a portion of Social Security benefits from taxation and ensure that Social Security provides adequate income support to the beneficiaries.

WHO BENEFITS: In 2007, almost 44,600 District tax filers claimed the Federal exclusion for social security benefits. Some 69 percent of the filers claiming this deduction had income below \$50,000 and those filers claimed 89 percent of the total dollar value of this tax expenditure.

Social security benefits (federal) – 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	355	1%	\$325	2%
\$0 to \$25,000	23,903	54%	\$15,583	75%
\$25,001 to \$50,000	6,708	15%	\$2,474	12%
50,001 to \$75,000	4,314	10%	\$639	3%
\$75,001 to \$100,000	2,582	6%	\$380	2%
\$100,001 to \$150,000	2,618	6%	\$445	2%
\$150,001 to \$200,000	1,340	3%	\$261	1%
\$200,001 to \$500,000	2,012	5%	\$462	2%
Over \$500,000	766	2%	\$194	1%
Total	44,598	100%	\$20,762	100%

Income Tax

Federal Exclusions

38. Survivor annuities

Internal Revenue Code Section: 101(h)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1997

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	too small	too small	too small	too small
Total	too small	too small	too small	too small

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: Income received as a survivor annuity due to the death of a public safety officer killed in the line of duty is not considered taxable income. The annuity must be attributable to the officer’s service as a public safety officer and must be paid to the spouse or child of the officer to qualify for this exclusion.

PURPOSE: The purpose of this exclusion is to recognize the service these officers provide and to avoid taxation at times of personal trauma.

WHO BENEFITS: Surviving family members of officers killed in the line of duty benefit from this provision.

Income Tax

Federal Exclusions

39. Compensatory damages

Internal Revenue Code Section: 104(a)(2)-104(a)(5)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1918

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$1,213	\$1,294	\$1,294	\$1,294
Total	\$1,213	\$1,294	\$1,294	\$1,294

DESCRIPTION: Payments received as compensatory damages for physical injury or physical illness, whether paid in a lump sum or in periodic payments, are excluded from taxable income.

PURPOSE: The purpose of this exclusion is to avoid reducing the value of the compensatory payments.

WHO BENEFITS: People who have been injured and received compensatory damages benefit from this provision.

Income Tax
Federal Exclusions

40. Income on life insurance savings

Internal Revenue Code Sections: 72, 101, 7702, 7702A
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1913

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$1,378	\$1,429	\$1,480	\$1,531
Personal Income Tax Impact	\$22,798	\$23,364	\$24,011	\$24,658
Total	\$24,176	\$24,793	\$25,491	\$26,189

DESCRIPTION: The investment income on life insurance contracts is typically not included in personal or corporate taxable income as it accrues or when it is received by beneficiaries upon the death of the insured individual. The investment income from annuity policies is free from taxation as it accumulates, but may be taxed as personal or corporate income when paid.

PURPOSE: The purpose of this exclusion is to defer or reduce the tax burden on the investment income of life-insurance contracts and annuity policies.

WHO BENEFITS: Policyholders who purchase life insurance and annuities (mostly middle-income taxpayers) for financial security benefit from this provision.

Income Tax
Federal Exclusions

41. Workers' compensation benefits

Internal Revenue Code Section: 104(a)(1)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1918

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$4,608	\$5,012	\$5,336	\$5,498
Total	\$4,608	\$5,012	\$5,336	\$5,498

DESCRIPTION: Workers' compensation benefits (both medical and non-medical benefits) to disabled workers and to their families, in case of work-related injury, illness, or death, are not included in personal taxable income. The benefits include earnings replacement payments, special payments for physical impairment, coverage for certain injury or death-related expenses (such as burial costs), and medical treatment of work-related illness or injury.

PURPOSE: The purpose of the exclusion is to compensate for the economic hardship imposed by work-related injury, sickness, or death.

WHO BENEFITS: Injured or ill workers who receive workers' compensation benefits, as well as their families in the case of work-related death, benefit from this exclusion.

Income Tax
Federal Exclusions

42. Public assistance benefits

Internal Revenue Code Section: N.A. (this exclusion was established through a series of IRS rulings dating back to the 1930s)
Federal Law Sunset Date: None
Year Enacted in Federal Law: N.A. (this exclusion was established through a series of IRS rulings dating back to the 1930s)

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$1,910	\$2,094	\$2,710	\$3,018
Total	\$1,910	\$2,094	\$2,710	\$3,018

DESCRIPTION: Public assistance benefits in the form of cash payments or in-kind benefits (goods or services), whether provided free or partly subsidized, are not included in the personal taxable income of the recipient. Examples include benefits provided by the Temporary Assistance to Needy Families and Supplemental Security Income programs.

PURPOSE: The purpose of this exclusion is to reduce the taxation of individuals receiving public assistance and to reduce the cost to government of providing such assistance.

WHO BENEFITS: Individuals and families who qualify for public assistance benefits benefit from this exclusion. Nevertheless, many low-income individuals and families who receive public assistance have incomes below the levels at which income begins to be taxed and therefore would not have any tax liability even without this exclusion.

Income Tax
Federal Exclusions

43. Income of trusts to finance supplemental unemployment benefits

Internal Revenue Code Section: 501(17)(A)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1960

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$32	\$40	\$40	\$40
Total	\$32	\$40	\$40	\$40

DESCRIPTION: A supplemental unemployment benefit trust may be exempt from taxation if it is a written plan established by an employer, employees, or both, solely for the purpose of providing supplemental unemployment compensation benefits paid when an involuntary separation of employment is due to a reduction in force, discontinuation of a plant or operation, temporary layoff, or other similar circumstance.

The trust must be part of a plan whose eligibility conditions and benefits do not discriminate in favor of officers, shareholders, supervisors, or highly compensated employees. Benefits must be determined according to objective standards.

Supplemental unemployment trusts were first established in the auto industry in 1955. If an employee leaves a company voluntarily or is discharged for misconduct, he or she is not eligible for a benefit; the employee has no vested interest in the amounts paid into the fund on his or her behalf.

PURPOSE: The purpose of this exclusion is to encourage the creation of supplemental unemployment benefit trusts and to increase income support for laid-off workers.

WHO BENEFITS: Employers who sponsor a supplemental unemployment benefit trust and the employees who participate in the plans benefit from this provision.

Income Tax
Federal Exclusions

44. Employer contributions for premiums on group-term life insurance

Internal Revenue Code Section: Section 79 and L.O. 1014, 2 C.B. 8 (1920).
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1920

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$1,940	\$2,021	\$2,021	\$2,102
Total	\$1,940	\$2,021	\$2,021	\$2,102

DESCRIPTION: Employer payments for employee life insurance (up to \$50,000 in coverage) and death benefits are not included in an individual's personal taxable income. In order for the premiums to qualify for the exclusion, the plan must meet certain requirements including non-discrimination rules.

PURPOSE: The purpose of the exclusion is to encourage employers and employees to include life-insurance benefits in their benefit packages.

WHO BENEFITS: Employees who receive employer-provided life insurance, and their dependents who would otherwise not be insured, benefit from this provision.

Income Tax

Federal Exclusions

45. Employer contributions for premiums on accident and disability insurance

Internal Revenue Code Sections: 105 and 106
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1954

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$2,506	\$2,749	\$2,910	\$3,072
Total	\$2,506	\$2,749	\$2,910	\$3,072

DESCRIPTION: Employer payments for employee accident and disability insurance premiums are not included in an individual's personal taxable income.

PURPOSE: The purpose of this exclusion is to encourage employers and employees to include accident and disability insurance in benefit packages.

WHO BENEFITS: Employees who do not have to purchase their own accident or disability insurance, and their dependents who would otherwise not be insured, benefit from this provision.

Income Tax

Federal Exclusions

46. Employer contributions to employee pension plans

Internal Revenue Code Sections: 401-407, 410-418e, and 457
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$54,247	\$67,991	\$85,777	\$106,474
Total	\$54,247	\$67,991	\$85,777	\$106,474

DESCRIPTION: Employer contributions to pension plans are not included in the employee's personal taxable income in the year of contribution. Taxation on contributions and earnings is deferred until distribution, when the withdrawals are included in taxable income. The estimated revenue impact is a net figure reflecting the revenue foregone in a given year offset by the amount of tax paid on withdrawals in that year.

PURPOSE: The purpose of this exclusion is to promote saving for retirement.

WHO BENEFITS: Employees receiving employer-paid pensions benefit from this provision.

Income Tax
Federal Exclusions

47. Roth IRA distributions

Internal Revenue Code Sections: 219 and 408
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1997

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$182	\$344	\$407	\$375
Total	\$182	\$344	\$407	\$375

DESCRIPTION: There are two types of Individual Retirement Accounts (IRAs) that offer tax benefits: the Roth IRA and the traditional IRA. Contributions to a Roth IRA are taxable, but the earnings and qualified distributions made more than five years after the establishment of the IRA are tax-free. Contributions to a traditional IRA and the earnings on those contributions are tax-free, but the qualified distributions are taxable.

Qualified distributions are those made after age 59½, upon the death or disability of the individual, or for first-time homebuyer expenses. An individual may contribute up to \$5,000 to a Roth IRA for tax year 2009 (\$6,000 for an individual above the age of 50) or an amount equal to earned income, whichever is less, but the tax benefits are limited based on income. The maximum contribution is phased out for single filers with income between \$105,000 and \$120,000, and for joint filers with income between \$166,000 and \$176,000, during tax year 2009.

PURPOSE: The purpose of this exclusion is to provide an incentive for taxpayers to save for retirement, and in particular to provide a savings incentive for workers who do not have employer-provided pension plans.

WHO BENEFITS: Taxpayers who save for retirement by utilizing a Roth IRA benefit from this provision.

Income Tax
Federal Exclusions

48. Inventory source rule exception

Internal Revenue Code Sections: 861, 862, 863, and 865
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1921

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$3,675	\$3,777	\$3,879	\$3,981
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$3,675	\$3,777	\$3,879	\$3,981

DESCRIPTION: This provision allows export firms to exempt 50 percent of their export income from the corporate income tax by allocating the income to foreign rather than U.S. sources. For firms that have enough foreign tax credits to offset all U.S. tax on foreign-source income, this rule is tantamount to a tax exemption.

PURPOSE: The purpose of this exclusion is to encourage U.S. businesses to export to other countries.

WHO BENEFITS: Businesses that export goods to other countries benefit from this provision.

Income Tax

Federal Exclusions

49. Deferral of tax on income from controlled foreign corporations

Internal Revenue Code Sections: 11, 882, and 951-964
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1909

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$5,767	\$6,175	\$6,584	\$6,890
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$5,767	\$6,175	\$6,584	\$6,890

DESCRIPTION: When a U.S. firm earns income through a foreign subsidiary, the income is exempt from U.S. corporate taxes as long as it is in the hands of the foreign subsidiary. When the foreign income is repatriated, the U.S. parent corporation can credit foreign taxes paid by the subsidiary against U.S. taxes owed on the repatriated income. Because U.S. firms can delay paying U.S. taxes by keeping income in the hands of foreign subsidiaries, this provision provides a tax benefit for firms that invest in countries with low tax rates.

PURPOSE: The purpose of this tax deferral is to encourage the purchase and operation of foreign subsidiaries by U.S. firms, thereby increasing U.S. firms' penetration of foreign markets and enhancing the firms' global competitiveness.

WHO BENEFITS: U.S. multinational firms with foreign operations in low-tax countries benefit from this provision.

Income Tax
Federal Exclusions

50. Exclusion of income earned abroad by U.S. citizens

Internal Revenue Code Section: 911
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1926

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$4,447	\$4,608	\$4,851	\$5,012
Total	\$4,447	\$4,608	\$4,851	\$5,012

DESCRIPTION: U.S. citizens who live abroad (except for U.S. government employees, who benefit from a separate exclusion described on the next page) may exclude up to \$91,400 from personal taxable income in 2009. The limit on excludable income is adjusted annually for inflation. A taxpayer must meet foreign residence tests to receive the exclusion. Taxpayers may also exclude a certain amount of foreign housing expenses from taxable income. The combined income and housing exclusion cannot exceed the taxpayer's total foreign earned income for that year.

PURPOSE: The purpose of this exclusion is to compensate U.S. citizens working abroad for the costs of living overseas and the taxes they pay to the foreign country where they live.

WHO BENEFITS: U.S. citizens who live and work abroad benefit from this provision.

Income Tax
Federal Exclusions

51. Exclusion of certain allowances for federal employees abroad

Internal Revenue Code Section: 912
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1943

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$32,913	\$35,445	\$37,976	\$37,976
Total	\$32,913	\$35,445	\$37,976	\$37,976

DESCRIPTION: U.S. federal civilian employees working abroad are allowed to exclude from personal taxable income certain special allowances that are provided to offset the costs of living abroad, such as the costs of housing, education, and travel.

PURPOSE: The purpose of this exclusion is to offset the extra costs of working abroad (such as maintaining a home in the U.S. and in the foreign country) and to encourage employees to accept assignments abroad.

WHO BENEFITS: Federal civilian employees working abroad benefit from this provision.

Income Tax
Federal Exclusions

52. Exclusion of benefits, allowances, and certain pay to armed forces personnel

Internal Revenue Code Sections: 112 and 134
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1925

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$3,234	\$3,476	\$3,638	\$3,719
Total	\$3,234	\$3,476	\$3,638	\$3,719

DESCRIPTION: Compensation received by military personnel for active service in a designated combat zone is not taxable, nor are payments made to families as death gratuities when members of the armed forces die.

In addition, a range of in-kind benefits received by military personnel are not taxed. These include medical and dental benefits, group life insurance, professional education and dependent education, moving and storage, premiums for survivor and retirement protection plans, subsistence allowances, uniform allowances, housing allowances, overseas cost-of-living allowances, evacuation allowances, family separation allowances, travel for consecutive overseas tours, emergency assistance, family counseling, defense counsel, burial and death services, and travel of dependents to a burial site. Moreover, any cash payments given in lieu of the benefits are also excluded from taxable income.

PURPOSE: The purpose of this exclusion is to recognize the sacrifices made by members of the armed forces, and to establish that the in-kind benefits paid to active personnel are not part of taxable income, partly due to the difficulty of monitoring and assigning monetary values to the benefits.

WHO BENEFITS: District of Columbia residents serving in the military and their families benefit from this provision.

Income Tax

Federal Exclusions

53. Exclusion of interest on state and local “private-activity” bonds issued to support energy facilities

Internal Revenue Code Sections: 103, 141, 142(f), and 146
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$5	\$5	\$5
Personal Income Tax Impact	\$19	\$39	\$39	\$39
Total	\$19	\$44	\$44	\$44

DESCRIPTION: Each state receives a certain amount of authority to issue tax-exempt private activity bonds, which are securities issued by a state or local government to finance qualified projects by a private user. Qualified projects, which include energy production facilities such as electric energy or gas, are expected to have a public benefit.

PURPOSE: The purpose of these private-activity bonds is to promote the construction of energy production facilities by subsidizing low-interest loans, and thereby expand the energy supply to residential and commercial users. Investors purchase the bonds at low interest rates because the income from them is tax-free.

WHO BENEFITS: Energy production companies as well as residential and commercial users of energy benefit from this provision.

Income Tax
Federal Exclusions

54. Contributions in aid of construction for utilities

Internal Revenue Code Section: 118(c) and (d)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1996

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	too small	too small	too small	too small

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: Contributions in aid of construction received by regulated water and sewage disposal utilities are not included in the utilities’ gross income if the contributions are spent for the construction of new facilities within two years. Contributions in aid of construction are charges paid by utility customers, usually builders or developers, to cover the cost of expanding, improving, or replacing water or sewage disposal facilities. Contributions that are an advance of funds and require repayment are also excluded from the utilities’ income. Connection fees charged to customers for installing lines cannot be excluded from income unless the lines will serve multiple customers. This tax provision allows the utility to treat the contribution as a tax-free addition to its capital rather than treating it as taxable income.

PURPOSE: The purpose of this exclusion is to encourage the modernization of water and sewage facilities.

WHO BENEFITS: Water or sewage disposal utilities benefit because the utilities are able to attract capital through contributions in aid of construction, in addition to debt or equity financing sources.

Income Tax
Federal Exclusions

55. Exclusion of conservation subsidies provided by public utilities

Internal Revenue Code Section: 136
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1992

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$5	\$0	\$0	\$0
Personal Income Tax Impact	\$253	\$253	\$234	\$234
Total	\$258	\$253	\$234	\$234

DESCRIPTION: Residential energy customers can exclude from personal taxable income any subsidy they receive from a public utility for purchasing or installing an energy conservation device.

PURPOSE: The purpose of the exclusion is to encourage residential customers of public utilities to participate in conservation programs sponsored by the utilities. These programs would enhance energy efficiency of dwelling units and encourage energy conservation in residential buildings.

WHO BENEFITS: Homeowners who participate in conservation programs and install energy-saving devices benefit from this provision.

Income Tax
Federal Exclusions

56. Restitution payments for Holocaust survivors

Internal Revenue Code Section: P.L. 107-16 and Section 803
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	too small	too small	too small	too small
Total	too small	too small	too small	too small

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: Payments received by an individual from Germany, Austria, and the Netherlands because of Nazi persecution that caused damage to life, body, health, liberty, or to professional or economic advancement, are not considered taxable income. This exclusion also applies to the individual’s heirs or estate.

PURPOSE: The purpose of this exclusion is to formalize in policy historical rulings made by the IRS that pertained to specific individuals.

WHO BENEFITS: Holocaust survivors or family members who receive restitution payments benefit from this provision.

Income Tax
Federal Exclusions

57. Certain foster care payments

Internal Revenue Code Section: 131
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1982

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$493	\$493	\$554	\$554
Total	\$493	\$493	\$554	\$554

DESCRIPTION: Payments made by a state, local, or qualified foster-care placement agency to a foster care provider who cares for a foster child in the home are excluded from the personal taxable income of the foster care provider.

PURPOSE: The purpose of this exclusion is to encourage individuals to care for foster children, and to relieve foster parents of the need to maintain complex records about their expenditures on behalf of foster children. Before 1986, foster-care payments that exceeded documented expenses were included as income; such record-keeping is no longer required.

WHO BENEFITS: Foster-care providers for children benefit from this exclusion.

Income Tax
Federal Exclusions

58. Employer-provided dependent care

Internal Revenue Code Section: 129
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1981

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$745	\$844	\$869	\$912
Total	\$745	\$844	\$869	\$912

DESCRIPTION: Employer payments for dependent care through a dependent-care assistance program and employee contributions to a dependent-care account are not included in an individual's personal taxable income. The maximum annual exclusion is \$5,000, and may not exceed the lesser of the employee's earned income or the earned income of the employee's spouse, if married. To qualify, the employer assistance must be provided through a plan that meets certain conditions, such as eligibility requirements that do not discriminate in favor of highly-compensated employees, shareholders, or owners.

PURPOSE: The purpose of the exclusion is to encourage employers to provide dependent-care benefits, and to reduce the costs of dependent care for employees.

WHO BENEFITS: Employees who make contributions to tax-free dependent-care accounts set up by their employers benefit the most from this provision. However, employees receiving employer-paid dependent-care benefits also benefit.

Income Tax

Federal Exclusions

59. Employer-provided adoption assistance

Internal Revenue Code Section: 137
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1996

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$37	\$37	\$37	\$37
Total	\$37	\$37	\$37	\$37

DESCRIPTION: Benefits that a taxpayer receives through an employer-sponsored adoption assistance program are excluded from personal taxable income. The employer-sponsored benefits that are eligible for deduction include reasonable and necessary adoption fees, court costs, attorney fees, and traveling expenses.

For 2009, the maximum deduction is \$12,150 per child. The deduction is phased out for taxpayers with modified adjusted gross income between \$182,180 and \$222,180 (2009 limits); at higher income levels, there is no benefit. The maximum deduction, and the income levels over which the benefits are phased out, are indexed for inflation.

PURPOSE: The purpose of this exclusion is to encourage and facilitate adoption.

WHO BENEFITS: Adoptive parents benefit from this provision.

Income Tax
Federal Exclusions

60. Reimbursed employee parking expenses

Internal Revenue Code Section: 132(f)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$2,442	\$2,506	\$2,579	\$2,684
Total	\$2,442	\$2,506	\$2,579	\$2,684

DESCRIPTION: Taxpayers were allowed to exclude up to \$230 per month for employer-paid parking in 2009. The maximum monthly exclusion is adjusted annually for inflation.

In addition, the American Recovery and Reinvestment Act of 2009, signed into law on February 17, 2009, temporarily allows employers to finance employee commuting expenses (including parking) themselves and get a corresponding tax deduction. This provision took effect on March 1, 2009, and extends through December 31, 2010.

PURPOSE: This exclusion is part of a general policy of excluding employer-provided transportation benefits from taxable income.

WHO BENEFITS: Employees receiving parking reimbursements from their employers benefit from this provision.

Income Tax
Federal Exclusions

61. Employer-provided transit passes

Internal Revenue Code Section: 132(f)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1992

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$41	\$4	\$0	\$0
Personal Income Tax Impact	\$474	\$434	\$453	\$485
Total	\$515	\$438	\$453	\$485

DESCRIPTION: Until the passage of the American Recovery and Reinvestment Act (ARRA) of 2009, signed by President Obama on February 17, 2009, taxpayers were allowed to exclude up to \$120 per month for employer-provided transit passes or van-pool benefits in 2009. The maximum monthly exclusion is adjusted annually for inflation. A “transit pass” means any pass, token, farecard, voucher, or similar item that entitles an individual to transportation in a mass-transit system or through a commuter highway vehicle (van pool).

ARRA temporarily expanded the tax benefits associated with transit passes. First, employers can finance employee commuting expenses (including transit passes) themselves and get a corresponding tax deduction. Second, employees can deduct the same amount per month for transit passes (\$230 in 2009) as they can for parking reimbursement. These provisions took effect on March 1, 2009, and extend through December 31, 2010. On January 1, 2011, the previous rules described in the first paragraph will go back into place.

PURPOSE: This exclusion is part of a general policy of excluding employer-provided transportation benefits from taxable income. The changes included in the American Recovery and Reinvestment Act of 2009 are intended to place mass-transit benefits on an equal benefit with parking benefits provided through the tax code.

WHO BENEFITS: Employees receiving transit benefits from their employers benefit from this provision. Under the ARRA rules that extend through the end of December 2010, employers also benefit from a tax deduction for the employee commuting expenses that they finance on behalf of employers.

Income Tax
Federal Exclusions

62. Veterans' benefits

Internal Revenue Code Section: None – veterans' benefits are authorized by U.S. Code Title 38, Section 3101
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1917

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$2,239	\$2,293	\$2,239	\$2,239
Total	\$2,239	\$2,293	\$2,239	\$2,239

DESCRIPTION: All cash payments provided by the U.S. Department of Veterans Affairs are excluded from the personal taxable income of recipients. The payments include veterans' death benefits, disability compensation, pension payments, and readjustment benefits.

PURPOSE: The purpose of the exclusion is to recognize the service and sacrifices that veterans made for our country, and to provide income support to veterans in their old age.

WHO BENEFITS: Individuals receiving veterans' benefits, and their families, benefit from this provision.

Income Tax
Federal Exclusions

63. G.I. bill education benefits

Internal Revenue Code Section: None – veterans’ benefits are authorized by U.S. Code Title 38, Section 3101
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1917

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$251	\$411	\$539	\$677
Total	\$251	\$411	\$539	\$677

DESCRIPTION: Higher education benefits that veterans receive under the G.I. bill are excluded from the personal taxable income of recipients.

PURPOSE: The purpose of the exclusion is to recognize the service and the sacrifices that veterans made for our country, and to help them prepare for civilian employment.

WHO BENEFITS: Veterans receiving education benefits under the G.I. bill benefit from this provision.

Income Tax
Federal Exclusions

64. Military disability pensions

Internal Revenue Code Section: 104(a)(4) or (5) and 104(b).
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$107	\$107	\$107	\$107
Total	\$107	\$107	\$107	\$107

DESCRIPTION: Individuals who were members of the armed forces on or before September 24, 1975, may be eligible for the exclusion of disability pay from personal taxable income. The amount of military disability pay is calculated as the greater of (1) the percentage of disability multiplied by the last month of basic pay, or (2) the last month of basic pay multiplied by the number of service years multiplied by 2.5. If the first method is used, the entire amount of disability pay is excludable from taxable income. If the second method is used, only the portion of benefits that would have been paid under the percentage-of-disability method is excludable.

Individuals who joined the armed forces after September 24, 1975, may exclude military disability payments equivalent to disability payments they could have received from the U.S. Veterans Administration. Otherwise, their disability payments may be excluded only if the disability is a combat-related injury.

Under the Victims of Terrorism Tax Relief Act of 2001, any civilian or member of the military whose disability is attributable to terrorism or military action anywhere in the world may exclude disability income from gross income.

PURPOSE: The purpose of this exclusion is to compensate veterans for economic hardship created by injury or illness.

WHO BENEFITS: Veterans who are retired on disability benefit from this exclusion.

Income Tax
Federal Adjustments

65. Deduction for student-loan interest

Internal Revenue Code Section: 221
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1997

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$1,997	\$1,082	\$866	\$866
Total	\$1,997	\$1,082	\$866	\$866

DESCRIPTION: A taxpayer may deduct as much as \$2,500 in annual interest on qualified higher education loans (the maximum is not adjusted for inflation). The deduction is not allowed for individuals who may be claimed as a dependent on another taxpayer's return. The deduction can be taken without itemizing (known as an adjustment or above-the-line deduction), but is phased out for taxpayers with modified adjusted gross incomes over \$60,000 and \$75,000 (\$120,000 to \$150,000 for joint returns) for tax year 2009. The income thresholds are adjusted annually for inflation.

A qualified education loan is indebtedness incurred solely to pay for qualified higher education expenses, such as tuition, fees, and room and board. Interest on loans from relatives or qualified employer plans may not be deducted. The qualifying expenses must be reduced by amounts received from other tax-free education benefits.

PURPOSE: The purpose of this adjustment is to encourage higher education by reducing the costs.

WHO BENEFITS: In 2007, almost 28,000 District tax filers claimed the federal student loan adjustment. Filers with adjusted gross income between \$25,001 and \$50,000 were the largest income group to claim this deduction.

Federal Adjustment for Student-loan Interest - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	301	1%	\$26	1%
\$1 to \$25,000	4,751	17%	\$305	16%
\$25,001 to \$50,000	12,461	45%	\$962	49%
\$50,001 to \$75,000	7,367	26%	\$418	21%
\$75,001 to \$100,000	1,292	5%	\$124	6%
\$100,001 to \$150,000	1,794	6%	\$113	6%
Over \$150,001	-	0%	-	0%
Total	27,966	100%	\$1,948	100%

Income Tax
Federal Adjustments

66. Educator expenses

Internal Revenue Code Section: 62(a)(2)(D) and Section 62(d)(1).
Federal Law Sunset Date: None
Year Enacted in Federal Law: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$104	\$107	\$109	\$111
Total	\$104	\$107	\$109	\$111

DESCRIPTION: A teacher, aide, instructor, counselor, or principal who worked in a school at least 900 hours during the school year and paid for classroom supplies and other materials (e.g. supplies, materials, books, software, etc.) out of his own pocket can claim up to \$250 of those expenses as a tax deduction. If both the teacher and his or her spouse are educators, they can both claim up to \$250 of expenses, or \$500 on a joint return. Only grade school and high school educators qualify (kindergarten through 12th grade).

PURPOSE: The purpose of this adjustment is to assist educators in paying for out-of-pocket classroom expenses.

WHO BENEFITS: In 2007, more than 5,500 District tax filers claimed the federal educator expenses adjustment. Filers with adjusted gross income between \$25,001 and \$75,000 claimed more than half of this deduction.

Federal Adjustment for Educator Expenses - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss to \$25,000	801	14%	\$14	15%
\$25,001 to \$50,000	1,756	32%	\$30	31%
\$50,001 to \$75,000	1,327	24%	\$23	24%
\$75,001 to \$100,000	656	12%	\$12	12%
\$100,001 to \$150,000	569	10%	\$11	11%
\$150,001 to \$200,000	235	4%	\$4	4%
Over \$200,00	200	4%	\$4	4%
Total	5,544	100%	\$98	100%

Income Tax
Federal Adjustments

67. Moving expenses

Internal Revenue Code Section: 217
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1964

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$754	\$815	\$815	\$882
Total	\$754	\$815	\$815	\$882

DESCRIPTION: Employees and self-employed individuals may take qualified moving expenses, which include the costs of moving household goods and traveling expenses while moving, as an adjustment to gross income. This deduction can be taken without itemizing (known as an adjustment or an above-the-line deduction). The move must be in conjunction with a new job or business at least 50 miles farther away than one's current job.

PURPOSE: The purpose of this adjustment is to reduce employment-related moving costs.

WHO BENEFITS: In 2007, almost 4,600 District tax filers claimed the Federal adjustment for moving expenses. Filers with adjusted gross income between \$25,001 and \$50,000 were the largest group to claim this deduction, and they also accounted for the largest share of the benefits.

Federal Adjustment for Moving Expenses - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss to \$25,000	1,180	26%	\$118	17%
\$25,001 to \$50,000	1,448	32%	\$158	23%
\$50,001 to \$75,000	727	16%	\$104	15%
\$75,001 to \$100,000	427	9%	\$84	12%
\$100,001 to \$150,000	399	9%	\$81	12%
\$150,001 to \$200,000	190	4%	\$47	7%
Over \$200,000	214	5%	\$104	15%
Total	4,585	100%	\$697	100%

Income Tax
Federal Adjustments

68. Deduction for medical insurance premiums of self-employed

Internal Revenue Code Section: 162(l)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$3,785	\$4,197	\$4,444	\$4,699
Total	\$3,785	\$4,197	\$4,444	\$4,699

DESCRIPTION: Self-employed individuals may deduct amounts paid for health insurance covering themselves, their spouses, or their dependents. In addition, self-employed individuals may also reduce their taxable personal income by the amounts paid for qualified long-term care insurance, subject to annual limits of \$200 to \$2,500 per individual, depending on the age of the insured person.

PURPOSE: The purpose of this adjustment is to promote the purchase of health insurance by the self-employed and to provide equitable treatment to the self-employed and to employees covered by employer-sponsored health insurance.

WHO BENEFITS: In 2007, more than 8,000 District tax filers claimed the federal adjustment for medical insurance premiums. More than half of the value of this tax expenditure was claimed by tax filers with income more than \$200,000.

Federal Adjustment for Medical Insurance Premiums for Self-employed - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	176	2%	\$47	2%
\$1 to \$25,000	1,109	14%	\$236	8%
\$25,001 to \$50,000	1,210	15%	\$282	9%
\$50,001 to \$75,000	902	11%	\$234	7%
\$75,001 to \$100,000	632	8%	\$182	6%
\$100,001 to \$150,000	834	10%	\$282	9%
\$150,001 to \$200,000	547	7%	\$201	6%
\$200,001 to \$500,000	1,363	17%	\$704	23%
Over \$500,000	1,294	16%	\$957	31%
Total	8,067	100%	\$3,127	100%

Income Tax
Federal Adjustments

69. Deduction for contributions to medical savings accounts

Internal Revenue Code Section: 223
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 2003

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$341	\$455	\$607	\$796
Total	\$341	\$455	\$607	\$796

DESCRIPTION: A health savings account (HSA) is used to pay for medical expenses until an insurance deductible is met. In 2009, taxpayers could contribute to an HSA as much as \$3,000 for an individual and \$5,950 for a family. Taxpayers can use the HSA to pay for medical expenses on a pre-tax basis, and their contributions to HSAs are deductible from federal gross income.

To qualify for the deduction in tax year 2009, individuals had to have health insurance with a deductible of at least \$1,150 for individual coverage and \$2,300 for family coverage. In addition, participants must have health insurance that limits their annual deductible and out-of-pocket expenses (in 2009, the limit is \$5,950 for individual coverage and \$11,900 for family coverage).

The unused balance in an HSA can grow over the years without limit. Contributions to an HSA can also be made by an employer on the employee's behalf. The employer contributions are exempt from employment taxes.

PURPOSE: The purpose of this adjustment is to slow the growth of health-care costs by reducing reliance on insurance, to preserve freedom of choice in health care, and to help individuals and families finance health-care costs.

WHO BENEFITS: In 2007, 750 District tax filers claimed the Federal adjustment for medical savings accounts. The number of filers and amount of this tax expenditure were fairly evenly spread across the income spectrum.

Federal Adjustment for Contributions to Medical Savings Accounts - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss to \$50,000	203	27%	\$21	19%
\$50,001 to \$75,000	124	17%	\$16	14%
\$75,001 to \$100,000	91	12%	\$11	10%
\$100,001 to \$200,000	161	21%	\$24	21%
\$200,001 to \$500,000	86	11%	\$18	16%
Over \$500,000	85	11%	\$24	21%
Total	750	100%	\$114	100%

Income Tax
Federal Adjustments

70. One-half of self-employment tax

Internal Revenue Code Section: 164(f)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1983

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$5,278	\$5,446	\$5,755	\$6,001
Total	\$5,278	\$5,446	\$5,755	\$6,001

DESCRIPTION: A taxpayer with self-employment income can take a deduction for half of his or her self-employment tax. Self-employment income includes any of the following: net profit from Schedules C or F, guaranteed payments from a partnership, or wages from an S corporation.

PURPOSE: The purpose of this adjustment is to provide tax relief to the self-employed.

WHO BENEFITS: In 2007, almost 37,000 District tax filers claimed the federal adjustment for one-half of self employment tax. Filers with adjusted gross income below \$25,000 represent one-third of all filers claiming this deduction. However, more than half of the value of this tax expenditure was claimed by filers with income above \$200,000.

Federal Adjustment for One-half of Self Employment Tax – 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	397	1%	\$44	1%
\$1 to \$25,000	11,939	32%	\$501	8%
\$25,001 to \$50,000	5,694	15%	\$458	7%
\$50,001 to \$75,000	3,925	11%	\$432	7%
\$75,001 to \$100,000	2,705	7%	\$376	6%
\$100,001 to \$150,000	3,490	9%	\$608	9%
\$150,001 to \$200,000	2,173	6%	\$457	7%
\$200,001 to \$500,000	4,218	11%	\$1,400	22%
Over \$500,000	2,372	6%	\$2,208	34%
Total	36,913	100%	\$6,485	100%

Income Tax
Federal Adjustments

71. Alimony paid

Internal Revenue Code Section: 215
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$2,183	\$2,231	\$2,280	\$2,331
Total	\$2,183	\$2,231	\$2,280	\$2,331

DESCRIPTION: Alimony paid is tax deductible if the following six requirements are met: 1) the payer and spouse or former spouse do not file a joint return with each other; 2) the alimony is paid in cash (including checks or money orders); 3) the divorce or separation instrument does not say that the payment is not alimony; 4) the payer and former spouse, if legally separated under a decree of divorce or separate maintenance, are not members of the same household when payment is made; 5) there is no liability to make any payment (in cash or property) after the death of the spouse or former spouse; and 6) the payment is not treated as child support.

PURPOSE: The purpose of this adjustment is to prevent the double taxation of alimony.

WHO BENEFITS: In 2007, almost 900 District tax filers claimed the Federal adjustment for alimony paid. Almost 70 percent of the value of this tax expenditure was claimed by filers with income above \$200,000.

Federal Adjustment for Alimony Paid - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss to \$50,000	142	16%	\$121	6%
\$50,001 to \$100,000	163	19%	\$179	9%
\$100,001 to \$150,000	137	16%	\$179	9%
\$150,001 to \$200,000	91	10%	\$151	7%
\$200,001 to \$500,000	172	20%	\$447	22%
Over \$500,000	166	19%	\$972	47%
Total	871	100%	\$2,049	100%

Income Tax
Federal Adjustments

72. Penalty on early withdrawal of savings

Internal Revenue Code Section: 62(a)(9)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1974

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$62	\$61	\$59	\$58
Total	\$62	\$61	\$59	\$58

DESCRIPTION: Tax filers may deduct the penalty associated with withdrawing money from a certificate of deposit or other time-deposit savings account prior to the certificate maturing. This penalty is charged by the bank and withheld directly from the proceeds from the certificate.

PURPOSE: The purpose of this adjustment is to provide tax relief to tax filers who make early withdrawals from savings.

WHO BENEFITS: In 2007, just over 1,900 District tax filers claimed the federal adjustment for penalty on early withdrawal of savings. About two-thirds of the filers had income below \$75,000 and one-half of the value of this tax expenditure was claimed by filers with income below \$75,000.

Federal Adjustment for Penalty for Early Withdrawal of Savings - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss to \$25,000	407	21%	\$11	20%
\$25,001 to \$50,000	456	24%	\$12	22%
\$50,001 to \$75,000	367	19%	\$7	12%
\$75,001 to \$100,000	206	11%	\$5	8%
\$100,001 to \$150,000	198	10%	\$6	10%
\$150,001 to \$200,000	98	5%	\$3	5%
Over \$200,000	181	9%	\$13	23%
Total	1,913	100%	\$57	100%

Income Tax
Federal Adjustments

73. Contributions to self-employment retirement plans

Internal Revenue Code Sections: 401-407, 410-418E, and 457.
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1962

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$10,120	\$10,441	\$11,035	\$11,506
Total	\$10,120	\$10,441	\$11,035	\$11,506

DESCRIPTION: Self-employed taxpayers who contribute to their own retirement accounts may subtract those contributions from their personal taxable income. Taxes on the earnings of the retirement accounts are deferred until the funds are distributed during retirement. The withdrawals from the plans are included in personal taxable income.

One type of self-employment retirement plan is a “Keogh plan.” A self-employed taxpayer may deduct contributions to a Keogh plan of as much as 25 percent of self-employment income (net of any Keogh contributions) or \$49,000 in 2009 (whichever is less). Earnings from the Keogh plan are not included in the taxpayer’s income until they are withdrawn from the fund.

PURPOSE: The purpose of this adjustment is to promote saving for retirement among the self-employed.

WHO BENEFITS: In 2007, almost 6,000 District tax filers claimed this federal adjustment. Filers with adjusted gross income above \$200,000 claimed 80 percent of the value of this tax expenditure.

Federal Adjustment for Contributions to Self-employment Retirement Plans - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss to \$25,000	191	3%	\$80	1%
\$25,001 to \$50,000	338	6%	\$217	2%
\$50,001 to \$75,000	386	6%	\$298	2%
\$75,001 to \$100,000	378	6%	\$340	3%
\$100,001 to \$150,000	751	13%	\$813	7%
\$150,001 to \$200,000	623	10%	\$819	7%
\$200,001 to \$500,000	1,781	30%	\$3,687	30%
Over \$500,000	1,535	26%	\$6,179	50%
Total	5,983	100%	\$12,433	100%

Income Tax
Federal Adjustments

74. Employee contributions to traditional Individual Retirement Accounts

Internal Revenue Code Sections: 219 and 408
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1974

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$1,089	\$1,124	\$1,187	\$1,238
Total	\$1,089	\$1,124	\$1,187	\$1,238

DESCRIPTION: There are two types of Individual Retirement Accounts (IRAs) that offer tax benefits: the traditional IRA and the Roth IRA. Contributions to a traditional IRA and the earnings on the contributions are tax-free, but the qualified distributions are taxable. By contrast, contributions to a Roth IRA are taxable, but the earnings and qualified distributions are tax-free.

Qualified distributions are those made after age 59½, upon the death or disability of the individual, or for first-time homebuyer expenses. An individual may contribute up to \$5,000 to a traditional IRA for tax year 2009 (\$6,000 for an individual above the age of 50) or an amount equal to earned income, whichever is less, but the tax benefits are limited based on income. For a traditional IRA, the full deduction is allowed for tax year 2009 if adjusted gross income is less than \$52,000 for a single person or \$85,000 for a married couple filing jointly. The full deduction is phased out over an income range of \$10,000 for single filers and \$20,000 for joint filers.

PURPOSE: The purpose of this adjustment is to provide an incentive for taxpayers to save for retirement, and in particular to provide a savings incentive for workers who do not have employer-provided pension plans.

WHO BENEFITS: In 2007, almost 5,900 District tax filers claimed this federal adjustment. Some 73 percent of the filers had adjusted gross income of \$75,000 or less, and this group claimed 63 percent of the benefits.

Federal Adjustment for Employee Contributions to Traditional IRA – 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss to \$25,000	945	16%	\$170	13%
\$25,001 to \$50,000	2,229	38%	\$440	33%
\$50,001 to \$75,000	1,112	19%	\$233	17%
\$75,001 to \$100,000	510	9%	\$134	10%
\$100,001 to \$150,000	629	11%	\$190	14%
\$150,001 to \$200,000	221	4%	\$68	5%
\$200,001 to \$500,000	252	4%	\$103	8%
Total	5,898	100%	\$1,338	100%

Income Tax

Federal Adjustments

75. Overnight travel expenses of National Guard and Reserve members

Internal Revenue Code Section: 162
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 2003

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$81	\$81	\$81	\$81
Total	\$81	\$81	\$81	\$81

DESCRIPTION: A deduction from federal gross income is allowed for all unreimbursed overnight travel, meals, and lodging expenses of District National Guard and Reserve members. This deduction can be taken without itemizing (known as an adjustment or above-the-line deduction). To qualify, members must have traveled more than 100 miles away from home and stayed overnight as part of an activity while on official duty. No deduction is permitted for commuting expenses to and from drill meetings and the amount of expenses may not exceed the general federal government per diem rate applicable to that locale.

PURPOSE: The purpose of this adjustment is to reimburse members of the District of Columbia National Guard and Reserve for expenses incurred in the line of duty.

WHO BENEFITS: Members of the District of Columbia National Guard and Reserve benefit from this provision.

Income Tax

Federal Deductions

76. Accelerated depreciation of buildings other than rental housing

Internal Revenue Code Sections: 167 and 168
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$102	\$102	\$102	\$102
Personal Income Tax Impact	\$99	\$197	\$197	\$197
Total	\$201	\$299	\$299	\$299

DESCRIPTION: This provision of the Internal Revenue Code allows for accelerated depreciation of buildings as a deduction from personal and corporate income tax. The standard method to calculate depreciation is the straight-line method in which equal amounts are deducted in each period. Accelerated depreciation allows for faster write-offs than the straight-line method. The revenue impact of this tax expenditure represents the additional tax that would have been paid under the straight-line method.

PURPOSE: The purpose of this deduction is to promote investment in buildings.

WHO BENEFITS: Owners of buildings that are used in a trade or business benefit from this provision.

Income Tax

Federal Deductions

77. Accelerated depreciation of machinery and equipment

Internal Revenue Code Sections: 167 and 168
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1954

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$9,186	\$11,432	\$12,575	\$13,833
Personal Income Tax Impact	\$2,959	\$3,452	\$3,728	\$4,027
Total	\$12,145	\$14,884	\$16,303	\$17,859

DESCRIPTION: This provision of the Internal Revenue Code allows for accelerated depreciation of equipment as a deduction from personal and corporate income tax. The standard method to calculate depreciation is the straight-line method in which equal amounts are deducted in each period. Accelerated depreciation allows for faster write-offs than the straight-line method. The revenue impact of this tax expenditure represents the additional tax that would have been paid under the straight-line method.

PURPOSE: The purpose of this deduction is to promote investment in business equipment and machinery.

WHO BENEFITS: Owners of machinery and equipment used in a trade or business benefit from this provision.

Income Tax

Federal Deductions

78. Deduction of qualified business income

Internal Revenue Code Sections: 199
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	Decoupled	Decoupled	Decoupled	Decoupled
Personal Income Tax Impact	0	0	0	0
Total	Decoupled	Decoupled	Decoupled	Decoupled

Note: D.C. decoupled from this provision so it realizes no revenue loss.

DESCRIPTION: This deduction allows manufacturers to deduct 9 percent of their “qualified production activities income” (QPAI) in 2010 and subsequent years. The deduction was phased in as a 3 percent deduction in 2005 and 2006, and 6 percent in 2007, 2008, and 2009. QPAI is the portion of business taxpayer income that equals the amount by which domestic production gross receipts exceed the sum of the cost of the goods.

The District of Columbia decoupled from this provision in 2008, which means that businesses may not claim this deduction when they file their D.C. franchise tax return.⁶

PURPOSE: The purpose of this deduction is to encourage domestic manufacturing production.

WHO BENEFITS: Manufacturers with high levels of domestic manufacturing production benefit from this provision.

⁶ The statutory provision requiring decoupling was included in D.C. Law 17-219, the “Fiscal Year 2009 Budget Support Act of 2008,” which took effect on August 16, 2008.

Income Tax

Federal Deductions

79. Deduction of loss from sale of small business corporation stock

Internal Revenue Code Section: 1244
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1958

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$59	\$59	\$59	\$59
Total	\$59	\$59	\$59	\$59

DESCRIPTION: Taxpayers may deduct a loss on the sale or exchange of qualifying small business corporation stock, which is defined in section 1244 of the Internal Revenue Code as stock issued for money or property in a small business corporation, as an ordinary loss (rather than a capital loss). The deduction as an ordinary loss is more valuable because ordinary income is taxed at a higher rate than capital income.

The eligibility requirements for a small business corporation include a limit of \$1 million on the amount of money and property received for its stock. For any taxable year, the aggregate amount that a taxpayer may treat as an ordinary loss shall not exceed \$50,000 for single filers or \$100,000 in the case of joint filers.

PURPOSE: The purpose of this deduction is to encourage investment in small businesses.

WHO BENEFITS: Individuals with losses from small business corporation stock benefit from this provision.

Income Tax

Federal Deductions

80. Exception from passive loss rules for \$25,000 of rental real estate loss

Internal Revenue Code Section: 469(i)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1986

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$5,829	\$7,230	\$8,394	\$9,538
Total	\$5,829	\$7,230	\$8,394	\$9,538

DESCRIPTION: Taxpayers who own rental property and meet specific requirements can deduct up to \$25,000 in related losses from their ordinary income. “Passive income” generally arises from ventures such as limited or general partnerships, or other investment-oriented ventures, in which the taxpayer does not actively participate. Although passive-activity loss rules usually prohibit deducting rental property losses from income, this tax expenditure involves an exception to those rules. To qualify for the deduction, the taxpayer must play an active role in the rental process, own a stake of at least 10 percent in the property, and have an adjusted gross income of less than \$100,000 for a full deduction or \$150,000 for a partial deduction.

PURPOSE: The purpose of this deduction is to provide owners of rental real property with a limited exemption from passive-loss rules so that they can deduct up to \$25,000 in losses from rental real estate from ordinary income.

WHO BENEFITS: Owners of rental real estate benefit from this provision.

Income Tax

Federal Deductions

81. Excess bad debt reserves of financial institutions

Internal Revenue Code Section: 585 and 593
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1969

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	too small	too small	too small	too small

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: Financial institutions with an average asset basis of up to \$500 million are allowed to have a reasonable addition to their reserves for bad debts. The maximum allowable addition to a reserve is calculated according to the “experience method,” which is set forth in section 585 of the Internal Revenue Code, and is deductible from corporate tax.

PURPOSE: The purpose of this deduction is to provide tax relief to small financial institutions.

WHO BENEFITS: Small financial institutions benefit from this provision.

Income Tax

Federal Deductions

82. Incentives for businesses in empowerment zones, enterprise communities, and renewal communities

Internal Revenue Code Sections: 38(b), 39(d), 45A, 168(j), 280C(a), 1391-1397D, 1400-1400B.
 Federal Law Sunset Date: December 31, 2009
 Year Enacted in Federal Law: 1993 (empowerment zones and enterprise communities) and 2000 (renewal communities)

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	no estimate	sunset	sunset	sunset
Personal Income Tax Impact	no estimate	sunset	sunset	sunset
Total	no estimate	sunset	sunset	sunset

Note: There is no estimate for FY 2010 because the Joint Committee on Taxation only reports data for empowerment zones and renewal communities; D.C. is only an enterprise zone. There could be tax expenditures for FY 2010 because benefits from tax year 2009 would be claimed in 2010.

DESCRIPTION: Federal law provides for the designation of up to 40 empowerment zones, 95 enterprise zones, and 40 renewal communities in the United States to receive special tax benefits. The District of Columbia is designated as an enterprise zone, but was not designated as an empowerment zone or a renewal community.

The benefits provided by the enterprise zone program include wage credits, an additional expensing account for businesses, a capital gains tax exemption on certain investments, and tax-exempt bond financing. Census tracts in the District of Columbia with a poverty rate of at least 20 percent are available for all enterprise zone benefits, while census tracts with a poverty rate between 10 and 20 percent are eligible only for the capital gains tax exemption.

These provisions expired at the end of 2009.

PURPOSE: The purpose of this deduction is to revitalize economically-distressed areas through expanded business and employment opportunities.

WHO BENEFITS: Businesses and employees within the designated zones, as well as the holders of the bonds, benefit from this provision.

Income Tax
Federal Deductions

83. Research and development expenditures

Internal Revenue Code Section: 174
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$2,041	\$2,450	\$2,960	\$3,266
Personal Income Tax Impact	\$99	\$99	\$99	\$99
Total	\$2,140	\$2,548	\$3,059	\$3,365

DESCRIPTION: This provision allows research and development expenditures to be fully deducted as an expense in the first year for purposes of computing corporation and personal taxable income. This is in contrast to the tax treatment of other investments with long-term benefits, in which the expenditures would be depreciated over the useful life of the asset. The research and development expenditures are reduced by the amount of any federal research credit that the taxpayer receives.

PURPOSE: The purpose of deduction is to encourage investment in research and development, and to avoid the difficulty of determining the useful life of any asset created through the research and development process.

WHO BENEFITS: Firms with certain research and development expenditures benefit from this provision.⁷

⁷ IRS guidance states that, “R&D expenditures generally include all expenditures incident to the development or improvement of a product. R&D expenditures include the expenditures of obtaining a patent, such as attorney’s fees expended in making and perfecting a patent application.” IRS also states that R&D expenditures do not include quality control testing; advertising or promotions; consumer surveys; efficiency surveys; management studies; research in connection with literary, historical or similar products; or the acquisition of another’s patent, model, production, or process. See www.irs.gov.

Income Tax

Federal Deductions

84. Life insurance company reserves

Internal Revenue Code Sections: 803(a)(2), 805(a)(2), 807, 846, 847
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1984

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$1,123	\$1,174	\$1,225	\$1,327
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$1,123	\$1,174	\$1,225	\$1,327

DESCRIPTION: In calculating corporation taxable income, most businesses cannot deduct expenses until the business becomes liable for paying them. Life insurance companies, however, can deduct additions to reserve accounts for future liabilities. The deduction for an increase in reserves takes into account increases due to both premiums and interest credited to the reserves.

In any year in which there is a reduction to the reserve account, a corresponding addition to income is required. This effectively allows life insurance companies to offset current income (in years in which there is an addition to the reserve) with expenses that will not actually be paid until some future time period. This means that in some years the companies may reduce their amount of reserves and that would actually add to their tax liability. However, in most years insurance companies add to reserves.

PURPOSE: The purpose of this deduction is to make tax rules consistent with standard industry accounting practices. In the insurance industry, it is common practice to use some form of reserve accounting in estimating net income, and these methods were reflected in the tax code when life insurance companies first became taxable in 1909.

WHO BENEFITS: Life insurance companies benefit from this provision.

Income Tax

Federal Deductions

85. Deferral of certain financing income of foreign corporations

Internal Revenue Code Sections: 11(d), 882, and 951-964
 Federal Law Sunset Date: December 31, 2009
 Year Enacted in Federal Law: 1962

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$510	sunset	sunset	sunset
Personal Income Tax Impact	\$0	sunset	sunset	sunset
Total	\$510	sunset	sunset	sunset

DESCRIPTION: When a U.S. firm earns income through a foreign subsidiary, the income is exempt from U.S. corporate taxes as long as it is in the hands of the foreign subsidiary. Although U.S. tax laws generally exclude income from passive activities from this deferral, this tax expenditure extends the deferral principle to financial corporations. Companies that conduct active financial operations overseas may defer taxes on income earned abroad until that income is repatriated to the U.S.

PURPOSE: The purpose of this deduction is to give financial and manufacturing businesses operating abroad similar tax benefits.

WHO BENEFITS: U.S. firms conducting financial business abroad benefit from this provision. These firms are not liable for District corporate income tax until they actually repatriate taxable income back to the United States.

Income Tax
Federal Deductions

86. Section 179 expensing allowance

Internal Revenue Code Section: 179
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1958

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$87	\$87	\$97	\$97
Personal Income Tax Impact	\$710	\$720	\$759	\$799
Total	\$797	\$807	\$856	\$896

DESCRIPTION: In general, the cost of business property must be deducted from personal and corporate income as it depreciates over its useful life. Section 179 expensing allows certain businesses to deduct the full purchase price of qualified equipment. For taxable years 2008 and 2009, this deduction has been expanded by the federal Economic Stimulus Act of 2008 and extended by the American Recovery and Re-Investment Act of 2009. The temporary limits allow a taxpayer to deduct, as an expense, up to \$250,000 of the cost of qualifying property in the year it is purchased. The amount that can be expensed is phased out if the taxpayer purchases more than \$800,000 of property during the year.

Without the expansion, the 2008 expensing limitations would be \$128,000 and \$510,000, and the 2009 and 2010 limits would be based on these amounts adjusted for inflation. *The District of Columbia de-coupled from the expansion of Section 179*, which means that the limits that were in place prior to the enactment of the 2008 and 2009 federal stimulus legislation are in effect for purpose of calculating D.C. franchise taxes.⁸ In 2011, these limits are scheduled to be reduced by \$25,000 and \$200,000, respectively. The limitations ensure that smaller businesses receive most of the benefit from this expenditure.

Accelerated depreciation of any type of property does not change the cumulative amount of depreciation over all years. Therefore, this provision allows a taxpayer to deduct more in the first year of the investment and subsequently less in the latter years of the capital life-cycle resulting in a potential revenue gain from this provision.

PURPOSE: The purpose of this deduction is to promote investment in equipment, specifically by smaller businesses.

WHO BENEFITS: Businesses with qualified property purchases benefit from this provision.

⁸ The statutory provision requiring decoupling was included in D.C. Law 17-219, the "Fiscal Year 2009 Budget Support Act of 2008," which took effect on August 16, 2008.

Income Tax

Federal Deductions

87. Amortization of business start-up costs

Internal Revenue Code Section: 195
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1980

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	\$888	\$986	\$986	\$1,040
Total	\$888	\$986	\$986	\$1,040

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: This provision allows a taxpayer to deduct from personal or corporate taxable income eligible start-up expenditures of up to \$5,000 and to amortize any remaining amount over 15 years. Such expenditures must satisfy two requirements. First, the expenditures must be paid in connection with creating or investigating a trade or business before the taxpayer begins an active business. Second, they must be expenditures that would have been deductible for an active business.

PURPOSE: The purpose of this deduction is to encourage the formation of new businesses and to clarify the tax treatment of start-up expenditures.

WHO BENEFITS: New businesses that incur start-up costs benefit from this provision.

Income Tax

Federal Deductions

88. Property and casualty insurance company reserves

Internal Revenue Code Section: 832(b)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1986

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$153	\$204	\$204	\$204
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$153	\$204	\$204	\$204

DESCRIPTION: A property and casualty insurance company’s taxable income during a tax year is its underwriting income (i.e., premiums minus incurred losses and expenses) plus investment income and certain other income items minus allowable deductions. Additions to loss reserves held to pay future claims can also be deducted from taxable income under certain conditions.

The Tax Reform Act of 1986 imposed a 15 percent pro-ration provision, as Congress held that using tax-exempt investments to finance additions to loss reserves was “inappropriate.” Therefore, the allowable deduction for additions to loss reserves was reduced to 15 percent of the sum of (1) the insurer’s tax-exempt interest, (2) the deductible portion of dividends received (with special rules for dividends from affiliates), and (3) the increase in the cash value of life insurance, endowment or annuity contracts for the taxable year.

PURPOSE: The purpose of this deduction is to make tax rules consistent with standard industry accounting practices. For most regulated industries, the tax code was written to be consistent with the accounting rules already used in those industries (in most cases dictated by state regulation). In the insurance industry it is common practice to use some form of reserve accounting in estimating net income, and those methods were adopted for tax purposes when property and casualty insurance companies first became taxable in 1909.

WHO BENEFITS: Property and casualty insurance companies benefit from this provision.

Income Tax

Federal Deductions

89. Creation or acquisition of musical compositions

Internal Revenue Code Section: 167(g)(8)
 Federal Law Sunset Date: December 31, 2010
 Year Enacted in Federal Law: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	sunset	sunset
Personal Income Tax Impact	too small	too small	sunset	sunset
Total	too small	too small	sunset	sunset

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: A taxpayer may amortize the expenses associated with the creation or acquisition of musical compositions over five years. This method is elective, allowing the taxpayer to choose five-year amortization. The prior methods generally available for deduction of these costs were 15-year straight line, or the income forecast method.

PURPOSE: The purpose of this deduction is to reduce barriers to the creation of musical compositions and to transfers of song catalogs.

WHO BENEFITS: Acquirers or creators of musical compositions who use the five-year amortization to accelerate the expensing of their costs benefit from this provision.

Income Tax

Federal Deductions

90. Deferral of income from post-1987 installment sales

Internal Revenue Code Sections: 453 and 453A(b)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1986

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	-\$2,092	\$51	\$2,092	\$2,858
Personal Income Tax Impact	-\$1,525	-\$610	\$488	\$854
Total	-\$3,618	-\$559	\$2,580	\$3,712

DESCRIPTION: People who do not deal regularly in selling property (non-dealers) are allowed to report some sales of property for personal and corporate tax purposes under a special method of accounting called the installment method. This method allows the taxpayer to pro-rate the gross profit from the sale over a period in which payments are received. The taxpayer gets the advantage of deferring some of the taxes to future years, rather than paying the taxes in full. The tax expenditure is the difference between what the tax liability would be under year-of-sale reporting and installment reporting.

PURPOSE: The purpose of this deduction is to match the timing of tax payments to the timing of the cash flow generated by the sale of the property

WHO BENEFITS: Infrequent sellers of property who sell on an installment basis benefit from this provision.

Income Tax

Federal Deductions

91. Magazine circulation expenditures

Internal Revenue Code Section: 173
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1950

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	too small	too small	too small	too small
Total	too small	too small	too small	too small

Note: “too small” means too small to calculate according to JCT or Treasury.

DESCRIPTION: This provision allows publishers of periodicals to deduct expenditures to establish, maintain, or increase circulation in the year that the expenditures are made. The revenue impact of this tax expenditure is the difference between the current deduction of costs and the recovery that would have been allowed if these expenses were capitalized and deducted over time.

PURPOSE: The purpose of this deduction is to simplify tax compliance and administration, and to allow magazine publishers to immediately expense their advertising and related expenditures, rather than spreading the costs over a period of time.

WHO BENEFITS: Publishers of periodicals benefit from this provision.

Income Tax

Federal Deductions

92. Net operating loss limitation

Internal Revenue Code Section: 382
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1954

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$861	\$861	\$861	\$861
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$861	\$861	\$861	\$861

DESCRIPTION: Under federal tax law, when one corporation acquires another, the acquiring corporation inherits the tax situation of the acquired corporation, including any net operating loss carryovers. Limitations are imposed, however, so that the acquiring corporation cannot write-off losses faster than the acquired corporation would have. Under this provision, the limitations do not apply when the acquired corporation is in bankruptcy.

PURPOSE: The purpose of this deduction is to allow creditors of a bankrupt corporation that is acquired by another corporation to recover some of their losses through faster write-off of the bankrupt corporation's losses against the acquiring corporation's income.

WHO BENEFITS: Creditors of bankrupt corporations that are acquired by other corporations benefit from this provision.

Income Tax
Federal Deductions

93. Completed contract rules

Internal Revenue Code Section: 460
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$306	\$306	\$357	\$357
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$306	\$306	\$357	\$357

DESCRIPTION: Some taxpayers with construction or manufacturing contracts extending for more than one tax year are allowed to use the completed contract method of accounting. Under this method, income and costs pertaining to the contract are reported when the contract is completed; however, some indirect costs may be deducted from corporate and personal taxable income in the year paid or incurred. This mismatching of income and expenses results in a deferral of tax payments. This provision applies mostly to long-term home construction contracts. Other real estate construction contracts may qualify if the average annual gross receipts of the contractor do not exceed \$10 million, and the contract is estimated to be completed within two years.

PURPOSE: The purpose of this deduction is to simplify tax administration when the ultimate profitability of a contract is currently unknown.

WHO BENEFITS: Residential construction contractors benefit from this provision.

Income Tax

Federal Deductions

94. Energy efficient commercial property

Internal Revenue Code Section: 179D
 Federal Law Sunset Date: December 31, 2013
 Year Enacted in Federal Law: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$31	\$36	\$36	\$51
Personal Income Tax Impact	\$30	\$49	\$49	\$39
Total	\$60	\$85	\$85	\$90

DESCRIPTION: A deduction is available for expenditures made on energy-efficient commercial property after December 31, 2005, and before January 1, 2014. The deduction is based on a formula with a maximum of \$1.80 per square foot of commercial building space. The deduction may be taken by the designer of a commercial building that would otherwise qualify, if the building were owned by a non-taxable entity like a school or non-profit organization.

PURPOSE: The purpose of this deduction is to promote energy efficiency by encouraging businesses to retrofit their buildings with energy conserving equipment.

WHO BENEFITS: Businesses that make investments in energy-efficient property benefit from this provision.

Income Tax**Federal Deductions****95. Itemized deduction for medical and dental expenses**

Internal Revenue Code Section: 213
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$20,604	\$25,755	\$29,743	\$32,069
Total	\$20,604	\$25,755	\$29,743	\$32,069

DESCRIPTION: Taxpayers who itemize their deductions can deduct from their taxable personal income any medical and dental expenses in excess of 7.5 percent of adjusted gross income. The deduction includes amounts that are paid for health insurance, and covers the medical expenses of the taxpayer, his or her spouse, and dependents.

PURPOSE: The purpose of this deduction is to compensate for large medical bills that are viewed as involuntary expenses and that reduce an individual's ability to pay taxes.

WHO BENEFITS: In 2007, more than 24,400 District tax filers claimed the federal deduction for medical and dental expenses. Some 79 percent of the filers claiming this deduction had income below \$75,000 and those filers claimed 61 percent of the total dollar value of this tax expenditure.

Federal Deduction for Itemized Deduction for Medical and Dental Expenses - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	498	2%	\$273	2%
\$1 to \$25,000	4,785	20%	\$2,118	15%
\$25,001 to \$50,000	8,877	36%	\$3,398	24%
\$50,001 to \$75,000	5,193	21%	\$2,780	20%
\$75,001 to \$100,000	2,302	9%	\$1,525	11%
\$100,001 to \$150,000	1,702	7%	\$1,669	12%
\$150,001 to \$200,000	568	2%	\$820	6%
Over \$200,000	515	2%	\$1,374	10%
Total	24,440	100%	\$13,957	100%

Income Tax

Federal Deductions

96. Accelerated depreciation on rental housing

Internal Revenue Code Sections: 167 and 168
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1954

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$255	\$255	\$255	\$204
Personal Income Tax Impact	\$4,439	\$4,340	\$4,143	\$3,847
Total	\$4,694	\$4,595	\$4,398	\$4,051

DESCRIPTION: This tax expenditure measures the revenue loss due to deductions in excess of those allowed under the 40-year straight-line depreciation method used in the Alternative Minimum Tax. In general, taxpayers may deduct from corporate and personal taxable income the depreciation of rental housing based on a straight-line method where equal amounts are deducted in each period.

For rental housing placed in service since 1986, the depreciation period is 27.5 years, and the property is depreciated in equal amounts each year. Rental housing that was placed in service before 1986 continues to depreciate according to the method in effect when it came on the market, which may allow the property to depreciate faster than under a straight-line method.

PURPOSE: The purpose of this deduction is to promote investment in rental housing by effectively deferring taxes paid on such investment.

WHO BENEFITS: Owners of rental housing benefit from this provision.

Income Tax
Federal Deductions

97. Home mortgage interest deduction

Internal Revenue Code Section: 163(h)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$153,349	\$177,305	\$189,579	\$199,191
Total	\$153,349	\$177,305	\$189,579	\$199,191

DESCRIPTION: A taxpayer may take an itemized deduction for interest paid on debt secured by a principal or second residence. Although some restrictions apply, most taxpayers can deduct the full amount of their mortgage interest. This deduction is one of several deductions subject to the limitation of itemized deductions for higher-income taxpayers. Mortgage interest is deductible on up to \$1 million of debt used to buy, build, or improve a principal or second residence. If the debt is used for any other purpose, the limitation is \$100,000 of debt. If more than one home is involved, the limitations apply to the total amount.

Home mortgage interest was deductible without limitation until the current restrictions were enacted in 1987. The limitation of certain itemized deductions was made permanent in 1993, and in 2001 a decision was made to phase out the limitation from tax year 2006 through 2010. Starting with tax year 2011, the limitation is reinstated.

PURPOSE: The purpose of this deduction is to promote home ownership by lowering the cost of mortgages.

WHO BENEFITS: In 2007, more than 85,600 District tax filers claimed the Federal mortgage interest deduction. Taxpayers with annual income of more than \$100,000 claimed 56 percent of the benefits, as shown in the table on the next page.

Federal Deduction for Home Mortgage Interest Deduction - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	776	1%	\$1,320	1%
\$1 to \$25,000	5,294	6%	\$4,177	4%
\$25,001 to \$50,000	14,468	17%	\$11,266	11%
\$50,001 to \$75,000	16,416	19%	\$13,973	14%
\$75,001 to \$100,000	12,908	15%	\$12,513	13%
\$100,001 to \$150,000	14,399	17%	\$17,096	17%
\$150,001 to \$200,000	7,438	9%	\$10,762	11%
\$200,001 to \$500,000	10,566	12%	\$19,293	19%
Over \$500,000	3,401	4%	\$8,678	9%
Total	85,666	100%	\$99,078	100%

Income Tax

Federal Deductions

98. Itemized deduction for state and local property tax on owner-occupied dwellings

Internal Revenue Code Section: 164
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1913

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$24,543	\$22,586	\$21,760	\$21,945
Total	\$24,543	\$22,586	\$21,760	\$21,945

DESCRIPTION: An itemized deduction is allowed for real estate taxes paid on an owner-occupied residence. This deduction is one of several deductions subject to the limitation on itemized deductions for higher-income taxpayers.

PURPOSE: The purpose of this deduction is to promote home ownership.

WHO BENEFITS: In 2007, more than 86,200 District tax filers claimed the federal mortgage interest deduction. Taxpayers with annual income of more than \$100,000 claimed 68 percent of the benefits.

Itemized deduction for state and local property tax on owner-occupied dwellings - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	749	1%	243	1%
\$1 to \$25,000	5,123	6%	644	3%
\$25,001 to \$50,000	13,165	15%	1,565	8%
\$50,001 to \$75,000	15,709	18%	2,014	10%
\$75,001 to \$100,000	12,986	15%	1,982	10%
\$100,001 to \$150,000	15,071	17%	3,091	16%
\$150,001 to \$200,000	7,904	9%	2,170	11%
\$200,001 to \$500,000	11,559	13%	4,495	23%
Over \$500,000	3,997	5%	3,683	19%
Total	86,263	100%	19,886	100%

Income Tax

Federal Deductions

99. Casualty and theft losses

Internal Revenue Code Section: 165(c)(3), 165(e), 165(h) - 165(k)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1913

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$377	\$386	\$394	\$403
Total	\$377	\$386	\$394	\$403

DESCRIPTION: Taxpayers who itemize deductions may deduct from personal taxable income their non-business casualty and theft losses that are not reimbursed through insurance, subject to the following limitations: total losses must exceed 10 percent of adjusted gross income, and only losses of more than \$100 each can be counted.

PURPOSE: The purpose of deduction is to reduce the tax burden for those who experience large casualty and theft losses.

WHO BENEFITS: Taxpayers who experience large casualty and theft losses benefit from this provision. In 2007, more than 250 District tax filers claimed the federal deduction for casualty and theft losses.

Income Tax

Federal Deductions

100. Mining reclamation reserve

Internal Revenue Code Section: 468
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1984

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	too small	too small	too small	too small
Total	too small	too small	too small	too small

Note: "too small" means too small to calculate according to JCT or Treasury.

DESCRIPTION: Current-value equivalents of reclamation and closing costs for mining and solid waste disposal sites are deductible from corporate and personal taxable income at the beginning of the project, even though these costs are typically incurred at the end of a project. In other words, this provision allows for the deduction of these expenses before they occur.

PURPOSE: The purpose of this deduction is to encourage mine and solid waste disposal site reclamation activities and to compensate companies for the cost of reclamation.

WHO BENEFITS: Mining and solid waste disposal companies with reclamation costs benefit from this provision.

Income Tax
Federal Deductions

101. Charitable contributions

Internal Revenue Code Sections: 170 and 642(c)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1917 (personal) and 1935 (corporation)

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$1,582	\$1,633	\$1,684	\$1,735
Personal Income Tax Impact	\$60,356	\$66,419	\$68,844	\$71,673
Total	\$61,938	\$68,052	\$70,528	\$73,408

DESCRIPTION: Contributions to charitable, religious and certain other nonprofit organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of pre-tax income. Taxpayers who donate property may deduct the current market value of the property and do not need to pay tax on any capital gains realized on the property.

PURPOSE: The purpose of this deduction is to encourage donations to qualifying charitable organizations.

WHO BENEFITS: In 2007, more than 105,000 District tax filers claimed the federal deduction for charitable contributions. While almost half of the filers claiming this deduction have incomes below \$75,000, almost 60 percent of the value of this tax expenditure is claimed by filers with income above \$200,000.

Federal Deduction for Charitable Contributions - 2007				
Income Category (AGI)	Claimants	Share	Amount (\$ in '000s)	Share
\$1 to \$25,000	6,915	7%	\$1,144	2%
\$25,001 to \$50,000	21,999	21%	\$5,371	10%
\$50,001 to \$75,000	20,535	19%	\$5,501	10%
\$75,001 to \$100,000	15,313	14%	\$3,939	7%
\$100,001 to \$150,000	16,389	16%	\$4,664	8%
\$150,001 to \$200,000	8,445	8%	\$2,665	5%
\$200,001 to \$500,000	11,980	11%	\$6,290	11%
Over \$500,000	4,100	4%	\$26,875	48%
Total	105,676	100%	\$56,449	100%

Income Tax

Federal Deductions

102. Removal of architectural barriers

Internal Revenue Code Section: 190
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1976

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	too small	too small	too small	too small
Personal Income Tax Impact	\$62	\$62	\$62	\$62
Total	\$62	\$62	\$62	\$62

Note: "too small" means too small to calculate according to JCT or Treasury.

DESCRIPTION: A deduction from corporate or personal taxable income of up to \$15,000 is allowed for the removal of architectural and transportation barriers. Eligible expenses include those necessary to make facilities or transportation vehicles for use in the trade or business more accessible to persons with disabilities and those 65 and over.

PURPOSE: The purpose of this deduction is to reduce physical barriers for both employees and customers who are person with disabilities or age 65 and over.

WHO BENEFITS: The taxpayers incurring the costs of making the structural changes, as well as the elderly individuals and persons with disabilities who benefit from expanded access, benefit from this provision.

Income Tax

District of Columbia Exemptions

103. Additional personal exemption for the blind

District of Columbia Code: D.C. Official Code § 47-1806.02(d)
 Sunset Date: None
 Year Enacted: 1987

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$93	\$93	\$94	\$94
Total	\$93	\$93	\$94	\$94

DESCRIPTION: All District of Columbia taxpayers may claim a personal exemption, which amounts to \$1,675 for tax year 2008. An additional exemption of equal value (\$1,675) is available for a blind taxpayer, and for the blind spouse or domestic partner of a taxpayer, if the spouse or partner has no gross income and is not the dependent of another taxpayer.

Although the D.C. Code provides that the exemption shall be adjusted annually to reflect changes in the cost of living,⁹ the adjustments were suspended until January 1, 2013, to help close the budget gap created by the economic recession.¹⁰

PURPOSE: The purpose of this provision is to reduce the tax burden of taxpayers who are blind or who have blind spouses or domestic partners. The additional exemption reflects the assumption that someone who is legally blind faces additional expenses that makes it more difficult for him or her to maintain an adequate standard of living.

WHO BENEFITS: Taxpayers who are legally blind benefit from this provision. In tax year 2007, 823 taxpayers claimed this exemption and 65 percent of the benefits went to filers with income at or below \$50,000.

⁹ See D.C. Official Code § 47-1806.02(i).

¹⁰ The suspension of the cost-of-living adjustments was made by Title VII-V of D.C. Act 18-255, the “Fiscal Year 2010 Budget Support Act of 2009,” which was signed by Mayor Fenty on December 18, 2009.

Additional Personal Exemption for the Blind - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	28	3%	\$3	3%
\$1 to \$25,000	311	38%	\$34	38%
\$25,001 to \$50,000	195	24%	\$22	24%
\$50,001 to \$75,000	92	11%	\$10	11%
\$75,001 to \$100,000	74	9%	\$8	9%
\$100,001 to \$150,000	56	7%	\$6	7%
\$150,001 to \$200,000	30	4%	\$3	4%
Over \$200,000	37	4%	\$4	4%
Total	823	100%	\$91	100%

Income Tax

District of Columbia Exemptions

104. Additional personal exemption for the elderly

District of Columbia Code: D.C. Official Code § 47-1806.02(e)
 Sunset Date: None
 Year Enacted: 1987

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$4,511	\$4,534	\$4,556	\$4,579
Total	\$4,511	\$4,534	\$4,556	\$4,579

DESCRIPTION: All taxpayers may claim a personal exemption, which amounts to \$1,675 for tax year 2009. An additional exemption of equal value (\$1,675) is available for an elderly taxpayer (someone who has reached the age of 65 before the end of the taxable year), and another exemption is available for the elderly spouse or domestic partner of the taxpayer, provided that the spouse or partner has no gross income and is not the dependent of another taxpayer.

Although the D.C. Code provides that the exemption shall be adjusted annually to reflect changes in the cost of living,¹¹ the adjustments were suspended until January 1, 2013, to help close the budget gap created by the economic recession.¹²

PURPOSE: The purpose of this provision is to reduce the tax burden of elderly taxpayers and their families. The additional exemption reflects the assumption that the elderly face additional expenses, such as medical bills, that make it more difficult for them to maintain an adequate standard of living.

WHO BENEFITS: Elderly taxpayers benefit from this provision. During tax year 2007, 40,076 taxpayers claimed this exemption and 60 percent of the benefits went to filers with income at or below \$50,000.

¹¹ See D.C. Official Code § 47-1806.02(i).

¹² The suspension of the cost-of-living adjustments was made by Title VII-V of D.C. Act 18-255, the “Fiscal Year 2010 Budget Support Act of 2009,” which was signed by Mayor Fenty on December 18, 2009.

Additional personal exemption for the elderly - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	1,149	3%	\$127	3%
\$1 to \$25,000	13,112	33%	\$1,450	33%
\$25,001 to \$50,000	9,800	24%	\$1,083	24%
\$50,001 to \$75,000	4,804	12%	\$531	12%
\$75,001 to \$100,000	2,887	7%	\$319	7%
\$100,001 to \$150,000	2,992	7%	\$331	7%
\$150,001 to \$200,000	1,596	4%	\$176	4%
\$200,001 to \$500,000	2,571	6%	\$284	6%
Over \$500,000	1,165	3%	\$129	3%
Total	40,076	100%	\$4,430	100%

Income Tax (Corporate)
District of Columbia Subtractions

105. Capital gains exclusion for high-technology companies

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(Q)
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0

DESCRIPTION: Qualified high-technology companies were allowed to exclude the capital gain from the sale or exchange of an asset held for more than five years, except that in the case of a sale or exchange of an interest in a partnership or the stock of an S corporation, the amount of the excludable capital gain may not include any gain that (1) is attributable to real property or an intangible asset which is not an integral part of the company, and (2) occurs before January 1, 2001, and after December 31, 2007.

A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies.

PURPOSE: The purpose of this tax exclusion is to encourage the growth of high-technology companies in the District of Columbia and thereby expand the District's economy and employment base.

WHO BENEFITS: High-technology companies in the District of Columbia benefited from this provision. The estimate is \$0 because, as noted above, the provision applies to capital gains occurring prior to December 31, 2007.

Income Tax (Corporate)
District of Columbia Subtractions

106. Expensing certain depreciable business assets for high-technology companies

District of Columbia Code: D.C. Official Code § 47-1803.03(a)(18)
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0

DESCRIPTION: Qualified high-technology companies benefitted from more generous rules regarding the franchise tax deduction for personal property expenses. Whereas other businesses can deduct the lesser of \$25,000 or the actual cost of the property for the year the property is placed in service, a qualified high-technology company can deduct the lesser of \$40,000 or the actual cost of the property for the year the property is placed in service.

Moreover, if a qualified high-technology company is a tenant, the cost of any real property and leasehold improvements incurred by the high-technology company shall be treated as costs that can be deducted from the franchise tax, whether or not these improvements become an integral part of the property.

A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies.

PURPOSE: The purpose of this tax abatement is to encourage the growth of high-technology companies in the District of Columbia and thereby expand the District's economy and employment base.

WHO BENEFITS: High-technology companies in the District of Columbia benefited from this provision. The estimate is \$0 because the provision applied to personal property expenses that occurred prior to January 1, 2003.

Income Tax

District of Columbia Subtractions

107. College Savings Program

District of Columbia Code: D.C. Official Code § 47-4501 - § 47-4512
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$611	\$614	\$617	\$621
Total	\$611	\$614	\$617	\$621

DESCRIPTION: The District of Columbia College Savings Program authorizes the creation of college savings accounts to enable residents to benefit from the incentives provided for qualified tuition programs through section 529 of the Internal Revenue Code. Contributions to a college savings account must be spent on “qualified higher education expenses,” which include tuition, fees, books, supplies, and equipment.¹³ Anyone can open a college savings account on behalf of a particular child.

The earnings in a college savings account are exempt from federal income tax, as is the distribution of funds in the account to pay for qualified higher education expenses.

The District of Columbia also allows account owners to take an annual income tax deduction of as much as \$4,000 in college savings account contributions for taxpayers who file as single, head of household, married filing separately, or registered domestic partner, or \$8,000 for taxpayers who file jointly. If the account owner contributes more than the maximum amount in a tax year, the excess amount may be carried forward, subject to the annual limit, for five years. In addition, earnings on the college savings accounts as well as withdrawals to pay for higher education expenses are exempt from District of Columbia income tax.

PURPOSE: The purpose of these tax benefits is to increase access to higher education by helping individuals and families save for higher education on a tax-favored basis.

WHO BENEFITS: Families and others who pay for higher education benefit from the tax advantages granted to college savings accounts, as do the students whose educations are financed, at least in part, by these tax-favored investments. Moreover, there may be a general benefit to society from having a more educated citizenry and productive workforce.

During tax year 2007, 2,445 taxpayers claimed this deduction. As shown in the table on the next page, tax filers with income above \$100,000 claimed 84 percent of the benefits of this provision.

¹³ See Section 529(c)(3) of the Internal Revenue Code for the statutory definition of “qualified higher education expenses.”

College Savings Program - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	16	1%	\$3	1%
\$1 to \$25,000	84	3%	\$10	2%
\$25,001 to \$50,000	141	6%	\$16	3%
\$50,001 to \$75,000	170	7%	\$27	4%
\$75,001 to \$100,000	227	9%	\$38	6%
\$100,001 to \$150,000	404	17%	\$85	14%
\$150,001 to \$200,000	357	15%	\$90	15%
\$200,001 to \$500,000	784	32%	\$242	40%
Over \$500,000	262	11%	\$89	15%
Total	2,445	100%	\$600	100%

Income Tax

District of Columbia Subtractions

108. Public school teacher expenses

District of Columbia Code: D.C. Official Code § 47-1803.03(b-2)
 Sunset Date: None
 Year Enacted: 2007

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$117	\$119	\$122	\$124
Total	\$117	\$119	\$122	\$124

DESCRIPTION: An individual who has served as a classroom teacher in a traditional public school or a public charter school for an entire taxable year may deduct the following expenses from District of Columbia gross income: (1) the amount paid for basic classroom materials and supplies needed for teaching, up to \$500 per year, and (2) the amount paid as tuition and fees for post-graduate education, professional development, or licensing and certification requirements, up to \$1,500 per year. If the taxpayer used a deduction for classroom materials and supplies, or tuition and fees, that was used to compute adjusted gross income on his or her federal income tax return, then those expenses may not be claimed as a deduction from District of Columbia gross income.

PURPOSE: The purpose of this deduction is to defray the significant costs that teachers often expend for classroom supplies, materials, and professional development, and to enhance the public schools' ability to recruit and retain highly qualified teachers.

WHO BENEFITS: Classroom teachers in the traditional public schools and the public charter schools are the direct beneficiaries of this deduction, but there may be spillover benefits for the entire citizenry if the deduction helps District of Columbia schools attract and retain skilled teachers. During tax year 2007, 3,438 taxpayers claimed this deduction. Taxpayers with income below \$50,000 claimed 54 percent of the benefits of this provision, as shown in the table below.

Public school teacher expenses - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	26	1%	\$1	1%
\$1 to \$25,000	612	18%	\$20	18%
\$25,001 to \$50,000	1,173	34%	\$39	35%
\$50,001 to \$75,000	711	21%	\$21	19%
\$75,001 to \$100,000	351	10%	\$11	10%
\$100,001 to \$150,000	336	10%	\$11	10%
\$150,001 to \$200,000	125	4%	\$3	3%
Over \$200,000	104	3%	\$3	2%
Total	3,438	100%	\$109	100%

Income Tax*District of Columbia Subtractions***109. Health insurance premiums paid for a non-employee domestic partner**

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(W)
 Sunset Date: None
 Year Enacted: 2006

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$43	\$45	\$47	\$49
Total	\$43	\$45	\$47	\$49

DESCRIPTION: A taxpayer may exclude from gross income the amount of any health insurance premium paid by his or her employer for a domestic partner. D.C. law defines a “domestic partner” as a person with whom an individual maintains a committed relationship characterized by mutual caring and the sharing of a mutual residence; who is at least 18 years of age and competent to contract; who is the sole domestic partner of the other person; and is not married. Domestic partners must also register with the D.C. government.

PURPOSE: The purpose of this exclusion is to promote tax equity for domestic partners and to expand domestic partners’ access to health insurance. The health insurance premiums paid by employers on behalf of an employee’s husband, wife, or children are not considered part of District of Columbia gross income; this provision offers the same treatment to domestic partners. Moreover, this exclusion was designed to remove the significant cost barrier to the use of domestic partner health benefits created by the taxation of the health insurance premiums.

WHO BENEFITS: Domestic partners benefit from this exclusion. During tax year 2007, 267 taxpayers claimed this exclusion.

Income Tax (Corporate)
District of Columbia Subtractions

110. Deduction of health insurance premiums for a non-employee domestic partner

District of Columbia Code: D.C. Official Code § 47-1803.03(a)(15)
Sunset Date: None
Year Enacted: 1992

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$861	\$864	\$974	\$984
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$861	\$864	\$974	\$984

DESCRIPTION: A corporation, unincorporated business, or partnership can deduct from gross income all health insurance premiums paid on behalf of employees' domestic partners, provided that the benefits are offered to all full-time employees who are District of Columbia residents.

Corporations and other businesses can also deduct from gross income the health insurance premiums they pay on behalf of other family members of an employee, but that deduction is provided in federal law, to which the District conforms. The federal government does not allow any tax deductions on behalf of domestic partners, so this deduction is based in local law and applies to the District's corporate tax but not to federal corporate tax.

PURPOSE: The purpose of this provision is to make the tax treatment of health insurance benefits for domestic partners more equitable by providing businesses with the same deduction from local corporate tax that they receive for providing health benefits to other family members of an employee.

WHO BENEFITS: Businesses that pay health insurance premiums on behalf of domestic partners benefit from this provision. Domestic partners also benefit indirectly from this provision because it lowers the price to businesses of providing health benefits to domestic partners and therefore may increase the availability and affordability of the benefits.

Income Tax
District of Columbia Subtractions

111. Long-term care insurance

District of Columbia Code: D.C. Official Code § 47-1803.03(b-1)
 Sunset Date: None
 Year Enacted: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$151	\$154	\$158	\$161
Total	\$151	\$154	\$158	\$161

DESCRIPTION: An individual may deduct from District of Columbia gross income the amount paid annually in premiums for long-term care insurance, provided that the deduction may not exceed \$500 per year, per individual, whether he or she is filing individually or jointly.

PURPOSE: The purpose of this deduction is to encourage people to purchase long-term care insurance policies. Long-term care insurance is particularly important as the population ages, and can avert the need for the elderly to spend down their assets in order to qualify for long-term care provided by the Medicaid program.

WHO BENEFITS: Individuals purchasing long-term care insurance benefit from this deduction. During tax year 2007, 3,719 taxpayers claimed this deduction. As shown in the table below, more than half of the benefits (54 percent) were claimed by tax filers with income of more than \$100,000.

Long-term care insurance - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	22	1%	\$1	1%
\$1 to \$25,000	310	8%	\$9	7%
\$25,001 to \$50,000	515	14%	\$16	11%
\$50,001 to \$75,000	558	15%	\$18	13%
\$75,001 to \$100,000	588	16%	\$21	15%
\$100,001 to \$150,000	738	20%	\$29	20%
\$150,001 to \$200,000	348	9%	\$16	11%
\$200,001 to \$500,000	535	14%	\$27	19%
Over \$500,000	105	3%	\$5	4%
Total	3,719	100%	\$142	100%

Income Tax

District of Columbia Subtractions

112. Health professional recruitment

District of Columbia Code: D.C. Official Code § 7-751.01 - § 7-751.16
 Sunset Date: None
 Year Enacted: 2006

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$34	\$35	\$36	\$36
Total	\$34	\$35	\$36	\$36

DESCRIPTION: The District of Columbia Health Professional Recruitment Program was established to serve as a recruitment tool for health professionals in the District. Based on the availability of funds, the program repays the outstanding principal, interest, and related expenses for government or commercial loans obtained by an individual for the tuition, fees, and reasonable educational expenses incurred while obtaining a health professional degree. The loan repayments made by the District government are taxable under the federal income tax, but are not considered income for purposes of District of Columbia income tax.

In return for the loan repayment, the health professional must work for at least two years and a maximum of four years at a non-profit facility located in a “health professional shortage area” or “medically underserved area” in the District of Columbia designated by the U.S. Department of Health and Human Services. The non-profit facility must offer primary care, mental health, or dental services to District of Columbia residents regardless of their ability to pay.

Physicians, dentists, and nurses are among the health professionals who are eligible to apply for the program. Participants are competitively selected based on professional qualifications and relevant experience, professional achievements, and other indicators of competency. The Department of Health administers the program.

PURPOSE: The purpose of this tax benefit is to encourage health professionals to participate in the Health Professional Recruitment Program and thereby expand the supply of primary care, mental health, and dental services to low-income or uninsured individuals in medically underserved parts of the District of Columbia.

WHO BENEFITS: Health professionals who agree to work in health professional shortage or medically underserved areas in the District of Columbia benefit from this provision. Low-income residents who receive health care from non-profit entities in the targeted areas should also benefit from this provision. During tax year 2007, 80 taxpayers claimed this deduction.

Income Tax

District of Columbia Subtractions

113. Housing relocation services

District of Columbia Code: D.C. Official Code § 42-2851.05
 Sunset Date: None
 Year Enacted: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0

DESCRIPTION: The Housing Act of 2002 (D.C. Law 14-114) authorizes the Mayor to provide relocation services to the tenants of a building that discontinues its participation in a federal housing assistance program. The relocation services include not only information about available housing and relevant assistance programs, but also relocation assistance payments of as much as \$500 per tenant. Relocation assistance payments are excluded from the definition of District of Columbia gross income.

PURPOSE: The purpose of this exclusion is to protect low-income tenants who must leave federally-subsidized housing to find new housing.

WHO BENEFITS: Tenants receiving relocation assistance payments are the intended beneficiaries of this provision. Nevertheless, the D.C. government has never implemented the relocation assistance payments, and there are no plans to do so at this time.¹⁴

¹⁴ The authorizing statute provides that, “The Mayor *may* provide relocation assistance payments of up to \$500 per tenant, based on need and pursuant to regulations promulgated by the Mayor” (emphasis added). Thus, the Mayor has discretion about whether to implement the program or not.

Income Tax*District of Columbia Subtractions***114. Social Security benefits for retired workers**

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(L)
 Sunset Date: None
 Year Enacted: 1985

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$15,508	\$15,747	\$16,086	\$16,414
Total	\$15,508	\$15,747	\$16,086	\$16,414

Note: A portion of social security benefits are excluded from the Federal income tax. The District of Columbia excludes the balance of social security benefits, which means all social security benefits are exempt from the District of Columbia income tax. This estimate is for the D.C. portion of the exclusion of social security benefits. The balance of this tax expenditure is covered under number 37 – “Social Security benefits (Federal).”

DESCRIPTION: The District exempts all Social Security benefits from taxation, a policy that is more generous than the federal treatment of Social Security benefits. Under federal law, between 50 and 85 percent of the Social Security benefits of taxpayers whose “provisional income” is \$25,000 or more for single filers and \$32,000 or more for joint filers are subject to federal income tax. Provisional income consists of federal adjusted gross income, tax-exempt interest, some foreign-source income, and one-half of Social Security benefits.

PURPOSE: The purpose of the exclusion is to shield Social Security benefits from taxation and ensure that Social Security provides adequate income support to the elderly during their retirement. According to the Institute on Taxation and Economic Policy, 29 states similarly exempt all Social Security benefits from their income taxes.¹⁵

WHO BENEFITS: Retired Social Security recipients benefit from this provision. During tax year 2007, 20,478 taxpayers claimed the District exclusion for Social Security retirement or railroad retirement benefits. Some 65 percent of the recipients of this exemption had income below \$75,000 and they claimed 48 percent of the benefits.

The estimated revenue loss shown above includes the revenue loss from the exclusion of Social Security benefits for retired workers *and* from the exclusion of railroad retirement benefits (tax expenditure #117 in this report). It was not possible to provide separate estimates of forgone revenue for these provisions because District of Columbia taxpayers enter their Social Security and railroad retirement benefits on the same line of the income tax form.

¹⁵Institute on Taxation and Economic Policy, “Talking Taxes: State Income Taxes and Senior Citizens,” Policy Brief #30 (2006), p. 1.

Social Security benefits for retired workers and railroad retirement system benefits - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	226	1%	\$128	1%
\$1 to \$25,000	3,348	16%	\$849	6%
\$25,001 to \$50,000	6,644	32%	\$3,418	24%
\$50,001 to \$75,000	3,181	16%	\$2,395	17%
\$75,001 to \$100,000	1,849	9%	\$1,584	11%
\$100,001 to \$150,000	1,942	9%	\$1,945	14%
\$150,001 to \$200,000	1,009	5%	\$1,093	8%
\$200,001 to \$500,000	1,587	8%	\$1,983	14%
Over \$500,000	692	3%	\$992	7%
Total	20,478	100%	\$14,387	100%

Income Tax

District of Columbia Subtractions

115. Social Security benefits for the disabled

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(L)
 Sunset Date: None
 Year Enacted: 1985

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	Included in #114	Included in #114	Included in #114	Included in #114
Total	Included in #114	Included in #114	Included in #114	Included in #114

DESCRIPTION: The District exempts all Social Security benefits from taxation, a policy that is more generous than the federal treatment of Social Security benefits. Under federal law, between 50 and 85 percent of the Social Security benefits of taxpayers whose “provisional income” is \$25,000 or more for single filers and \$32,000 or more for joint filers are subject to federal income tax. Provisional income consists of federal adjusted gross income, tax-exempt interest, some foreign-source income, and one-half of Social Security benefits.

PURPOSE: The purpose of the exclusion is to shield Social Security benefits from taxation and ensure that Social Security provides adequate income support to the disabled. According to the Institute on Taxation and Economic Policy, 29 states similarly exempt all Social Security benefits from their income taxes.¹⁶

WHO BENEFITS: Disabled Social Security recipients benefit from this provision. All social security income is reported on one line on the tax form; therefore, the revenue forgone for this provision is included in the estimate for tax expenditure # 114 – “Social Security benefits for retired workers.”

¹⁶Institute on Taxation and Economic Policy, “Talking Taxes: State Income Taxes and Senior Citizens,” Policy Brief #30 (2006), p. 1.

Income Tax

District of Columbia Subtractions

116. Social Security benefits for dependents and survivors

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(L)
 Sunset Date: None
 Year Enacted: 1985

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	Included in #114	Included in #114	Included in #114	Included in #114
Total	Included in #114	Included in #114	Included in #114	Included in #114

DESCRIPTION: The District exempts all Social Security benefits from taxation, a policy that is more generous than the federal treatment of Social Security benefits. Under federal law, between 50 and 85 percent of the Social Security benefits of taxpayers whose “provisional income” is \$25,000 or more for single filers and \$32,000 or more for joint filers are subject to federal income tax. Provisional income consists of federal adjusted gross income, tax-exempt interest, some foreign-source income, and one-half of Social Security benefits.

PURPOSE: The purpose of the exclusion is to shield Social Security benefits from taxation and ensure that Social Security provides adequate income support to dependents and survivors. According to the Institute on Taxation and Economic Policy, 29 states similarly exempt all Social Security benefits from their income taxes.¹⁷

WHO BENEFITS: Survivors and dependents who receive Social Security benefit from this provision. All social security income is reported on one line on the tax form; therefore, the revenue forgone for this provision is included in the estimate for tax expenditure # 114 – “Social Security benefits for retired workers.”

¹⁷Institute on Taxation and Economic Policy, “Talking Taxes: State Income Taxes and Senior Citizens,” Policy Brief #30 (2006), p. 1.

Income Tax

District of Columbia Subtractions

117. Railroad retirement system benefits

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(L)
 Sunset Date: None
 Year Enacted: 1985

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	Included in #114	Included in #114	Included in #114	Included in #114
Total	Included in #114	Included in #114	Included in #114	Included in #114

DESCRIPTION: The District of Columbia exempts all railroad retirement benefits from the local income tax, a policy that goes beyond the federal policy of exempting a portion of railroad retirement benefits from the federal income tax.

At the federal level, the amount of railroad retirement benefits that equals the Social Security benefit a beneficiary would have received under the Social Security system is taxable in the same way that Social Security benefits are taxed. Any railroad retirement benefits that exceed the Social Security equivalent benefit are tax-exempt.

PURPOSE: The purpose of this exclusion is to help ensure that railroad retirement benefits provide adequate support to beneficiaries, and to ensure equitable tax treatment of railroad retirement and Social Security benefits. Under D.C. law, all Social Security benefits are also exempt from the local income tax.

WHO BENEFITS: Individuals receiving railroad retirement payments benefit from this exclusion.

There is no separate estimate for the revenue forgone from this income tax exclusion because District of Columbia taxpayers enter their Social Security and railroad retirement benefits on the same line of the income tax form. As a result, the estimate of forgone revenue from the exclusion of railroad retirement benefits is part of the estimated cost of tax expenditure #114, "Social Security benefits for retired workers."

Income Tax*District of Columbia Subtractions***118. D.C. and federal government pension income**

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(N)
 Sunset Date: None
 Year Enacted: 1987

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$4,221	\$4,286	\$4,378	\$4,468
Total	\$4,221	\$4,286	\$4,378	\$4,468

DESCRIPTION: Taxpayers who are 62 years of age or older may exclude from District of Columbia gross income the lesser of \$3,000 or the actual amount of pension, military retired pay, or annuity income received from the District of Columbia or the federal government during the taxable year. In order for an individual to qualify for this exclusion, his or her pension, military retired pay, or annuity must otherwise be subject to the D.C. income tax.

PURPOSE: The purpose of this exclusion is to shield from taxation a portion of the pension income earned by the elderly through public employment, thereby enhancing the economic self-sufficiency of senior citizens on fixed incomes.

WHO BENEFITS: Taxpayers aged 62 or older who have District of Columbia or federal pension income benefit from this provision. During tax year 2007, 16,815 taxpayers claimed this subtraction. More than 75 percent of the benefits of this provision were claimed by tax filers with income less than \$75,000.

Pension income – 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	389	2%	\$210	5%
\$1 to \$25,000	5,584	33%	\$1,251	32%
\$25,001 to \$50,000	4,864	29%	\$1,079	27%
\$50,001 to \$75,000	2,127	13%	\$503	13%
\$75,001 to \$100,000	1,242	7%	\$300	8%
\$100,001 to \$150,000	1,138	7%	\$265	7%
\$150,001 to \$200,000	554	3%	\$124	3%
\$200,001 to \$500,000	729	4%	\$164	4%
Over \$500,000	188	1%	\$49	1%
Total	16,815	100%	\$3,945	100%

Income Tax

District of Columbia Subtractions

119. D.C. and federal government survivor benefits

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(N)
 Sunset Date: None
 Year Enacted: 1987

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$3,153	\$3,222	\$3,293	\$3,366
Total	\$3,153	\$3,222	\$3,293	\$3,366

DESCRIPTION: Taxpayers may subtract from their District of Columbia taxable income the amount of any survivor benefits they received from the D.C. government or federal government if they are 62 years of age or older by the end of the tax year.

This provision does not affect Social Security survivor benefits, which are excluded from taxation under another provision of D.C. law (see tax expenditure # 116).

PURPOSE: The purpose of this subtraction is to promote income security among elderly survivors of D.C. government or federal government workers by shielding their benefits from taxation.

WHO BENEFITS: Individuals over the age of 62 who are receiving survivor benefits from the D.C. government or federal government benefit from this provision. In 2007 more than 2,800 taxpayers claimed this subtraction. About 80 percent of the benefits were claimed by filers with income below \$50,000.

DC and federal government survivor benefits, 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	360	13%	\$506	17%
\$1 to \$25,000	1,314	46%	\$1,209	41%
\$25,001 to \$50,000	661	23%	\$628	21%
\$50,001 to \$75,000	223	8%	\$241	8%
75,001 to \$100,000	92	3%	\$122	4%
\$100,001 to \$150,000	85	3%	\$127	4%
\$150,001 to \$200,000	38	1%	\$50	2%
\$201,000 to \$500,000	44	2%	\$61	2%
Over \$500,000	16	1%	\$14	0%
Total	2,833	100%	\$2,957	100%

Income Tax

District of Columbia Subtractions

120. Income for people with a permanent and total disability

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(V)
 Sunset Date: None
 Year Enacted: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$420	\$426	\$435	\$444
Total	\$420	\$426	\$435	\$444

DESCRIPTION: A taxpayer who has been determined to have a permanent and total disability by the U.S. Social Security Administration may exclude up to \$10,000 from District of Columbia gross income, if he or she (1) is receiving Supplemental Security Income or Social Security Disability, railroad retirement disability, or federal or District of Columbia government disability payments, and (2) has a household adjusted gross income of less than \$100,000.

PURPOSE: The purpose of this exclusion is to provide income support to people who cannot work due to a permanent and total disability.

WHO BENEFITS: People with a permanent and total disability benefit from this provision. During tax year 2007, 729 taxpayers claimed this exclusion. Almost 75 percent of the benefits were claimed by filers with income below \$50,000.

Income for people with a permanent and total disability - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	164	22%	\$91	23%
\$1 to \$25,000	363	50%	\$201	51%
\$25,001 to \$50,000	125	17%	\$65	17%
\$50,001 to \$75,000	56	8%	\$28	7%
Over \$75,000	21	3%	\$9	2%
Total	729	100%	\$394	100%

Income Tax

District of Columbia Subtractions

121. Disability income exclusion

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(M)
Sunset Date: None
Year Enacted: 1985

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$255	\$259	\$265	\$270
Total	\$255	\$259	\$265	\$270

DESCRIPTION: Taxpayers may subtract from adjusted gross income the disability payments they received if they were permanently and totally disabled when they retired, and had not reached the age required to retire under their employer’s retirement program as of the first day of the taxable year. This provision applies only to disability payments received under a private plan because Social Security disability benefits are excluded from taxation under another provision of D.C. law (see tax expenditure # 115).

The maximum annual benefit per disabled person is \$5,200 and non-disability income must be below \$15,000.

PURPOSE: The purpose of this subtraction is to maintain in D.C. law a provision of the U.S. Internal Revenue Code that was abolished by the Social Security Amendments of 1983, thereby extending a tax benefit to certain individuals with disability income.

WHO BENEFITS: Permanently and totally disabled individuals who received disability payments from a private employer, were not eligible for their employer’s retirement plan, and met the income eligibility requirements benefit from this provision. In 2007, 149 taxpayers benefitted from this provision.

Income Tax

District of Columbia Subtractions

122. Environmental Savings Accounts

District of Columbia Code: D.C. Official Code § 8-637.03
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	minimal	minimal	minimal	minimal
Total	minimal	minimal	minimal	minimal

DESCRIPTION: The Environmental Savings Account (ESA) program permits any person to establish an ESA in order to accumulate funds for the cleanup or redevelopment of a contaminated property (a property where a hazardous substance has been released). Funds deposited in an ESA, and the interest earned on the funds, are exempt from District of Columbia income tax. Any funds that are withdrawn and not used for the cleanup and redevelopment of a contaminated property will be subject to the income tax and a 10 percent penalty.

PURPOSE: The purpose of this tax expenditure is to provide incentives for individuals and organizations to clean up contaminated properties voluntarily, which would in turn reduce public health risks and promote economic development by encouraging the reuse of contaminated properties.

WHO BENEFITS: Owners of property that is contaminated by hazardous substances may benefit from this provision. This tax provision is claimed on a line of the tax form that includes other items; therefore no precise estimate of this provision is possible. Discussions with officials in the D.C. Department of the Environment and environmental advocacy groups did not reveal any evidence that environmental savings accounts were being used. Therefore, the revenue loss for fiscal years 2010 through 2013 is characterized as “minimal” (less than \$50,000 per year).

Income Tax

District of Columbia Subtractions

123. Rental assistance to police officers

District of Columbia Code: D.C. Official Code § 42-2902
 Sunset Date: None
 Year Enacted: 1993

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	minimal	minimal	minimal	minimal
Total	minimal	minimal	minimal	minimal

DESCRIPTION: Metropolitan Police Department (MPD) officers are eligible to participate in the “Police and Landlords for Unity and Safety” (PLUS) program, which provides officers who live in the District of Columbia with discounted rent from public and private housing providers.

The D.C. Housing Authority is required by law to offer public housing units at a discounted rent to MPD officers, with priority given to officers who already live in the District. In addition, MPD officers may receive discounted rent from private housing providers. The discounted rent received by an MPD officer is not counted as income in calculating District of Columbia income tax liability.

Any officer who receives discounted rent must notify the Chief of Police of the terms of the discount, and provide a copy of the lease or written agreement detailing the terms of the housing rental to the Chief of Police.

PURPOSE: The purpose of this provision is to encourage MPD officers to live in the District of Columbia, particularly in public housing, and thereby promote safety and security in the communities where they live.

WHO BENEFITS: MPD officers, and the communities where they reside, benefit from this provision. The D.C. Housing Authority (DCHA) stated that one police officer is living at a DCHA property and receiving a discounted rent, but no data were available on the number of officers receiving the benefit at private properties.

The estimated revenue loss is minimal (less than \$50,000 per year) because in most cases the discounted rent would not be taxable even without the explicit exclusion. The federal definition of taxable income (which is also used by the District except for specific cases in which the District has “decoupled” from the federal definition) requires taxpayers to report discounted rent as income only when the renter is providing a particular good or service in return.¹⁸ Therefore, police officers receiving discounted rent would not ordinarily be required to declare the discount as income unless they were providing security or other services to the landlord. The PLUS program does not require that police officers perform any duties in return for the discounted rent.

¹⁸ See Internal Revenue Service Publication 525, “Taxable and Nontaxable Income,” December 22, 2009.

Income Tax

District of Columbia Subtractions

124. Compensatory damages awarded in a discrimination case

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(U) and § 47-1806.10
Sunset Date: None
Year Enacted: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$42	\$43	\$46	\$48
Total	\$42	\$43	\$46	\$48

DESCRIPTION: A taxpayer may exclude from District of Columbia gross income a court award intended to compensate him or her individual for the pain and suffering associated with unlawful employment discrimination. The exclusion does not apply to back pay, front pay (future wages), or punitive damages.¹⁹

PURPOSE: The purpose of this exclusion is to protect the awards that are intended to compensate individuals for the pain and suffering associated with unlawful employment discrimination.

WHO BENEFITS: Individuals who have won an employment discrimination suit or received a monetary settlement of an employment discrimination claim benefit from this provision. During tax year 2007, 28 taxpayers claimed this exclusion.

¹⁹ D.C. law provides that damages pertaining to back pay and front pay are to be averaged over the period of back and future wages involved. This spreading of back pay and front pay protects the taxpayers from having to pay a large lump sum in taxes in one year, and avoids the perverse result in which a taxpayer could be pushed into a higher tax bracket due to the award of back pay and front pay.

Income Tax

District of Columbia Subtractions

125. Loans forgiven by the Poverty Lawyer Loan Assistance Repayment Program

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(X)
 Sunset Date: None
 Year Enacted: 2007

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$6	\$6	\$6	\$6
Total	\$6	\$6	\$6	\$6

DESCRIPTION: Loans that are awarded and subsequently forgiven through the District of Columbia Poverty Lawyer Loan Assistance Repayment Program can be excluded from District of Columbia gross income.

The Office of the Attorney General administers the program, which is intended to encourage law students and attorneys to practice in areas of law deemed to serve the public interest for at least four years.²⁰ Participants who practice law in the designated areas, live in the District of Columbia, meet an income requirement, and exhaust all other loan assistance opportunities receive loans to repay their educational debt. Those loans are forgiven when the participant completes the service obligation.

PURPOSE: The purpose of this exclusion is to encourage attorneys to enter public-interest work and thereby expand access to legal services for low-income residents.

WHO BENEFITS: Participants in the District of Columbia Poverty Lawyer Loan Assistance Repayment Program benefit from this tax exclusion, as do the organizations and clients who receive legal services from the participants. During tax year 2007, 35 taxpayers claimed this exclusion.

²⁰ The authorizing statute provides that the program administrator shall certify a list of the types of legal employment that qualify for the program. The D.C. Attorney General can serve as the program administrator or designate a third party to serve as the administrator.

Income Tax (Corporate)
District of Columbia Credits

126. Lower corporate income tax rate credit for high technology companies

District of Columbia Code: D.C. Official Code § 47-1817.06
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact**	\$5,600	\$5,750	\$6,470	\$6,550
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$5,600	\$5,750	\$6,470	\$6,550

**This estimate combines a five tax credits for qualified high-technology companies. Each tax credit is described separately in the report.

DESCRIPTION: High-technology companies are for a credit that reduces the marginal corporate tax rate from 9.975 percent to 6 percent.

A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies. A qualified employee is a person who is employed in the District of Columbia by a qualified high-technology company.

PURPOSE: The purpose of these credits is to encourage high-technology companies to locate, expand, and remain in the District of Columbia, thereby strengthening the District's employment and economic base.

WHO BENEFITS: Qualified high-technology companies benefit from these corporate income tax credits. In tax year 2007, 89 companies claimed franchise tax benefits that are available to high-technology companies.

Income Tax (Corporate)
District of Columbia Credits

127. Employment relocation credit for qualified high-technology companies

District of Columbia Code: D.C. Official Code § 47-1817.02
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	included in #126	included in #126	included in #126	included in #126
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	included in #126	included in #126	included in #126	included in #126

DESCRIPTION: A qualified high-technology company is authorized to claim corporate tax credits for the relocation costs paid to, or on behalf of, a qualified employee for the reimbursement of actual moving expenses or to assist the employee in financing the purchase of a home, or the required security deposit or lease payments for the first year of a lease. The credit may not exceed \$5,000 per taxable year for each employee relocated to the District from another state, or \$7,500 per taxable year for each employee relocated to the District from another state if the employee also relocates his or her principal residence into the District.

A company may not claim the credit until it has relocated at least two qualified employees and employed them for at least six months in the District. The credit is not available for employees who work less than 35 hours per week, and the company may not claim the credit if it has claimed a deduction for the relocation costs. If the amount of the credit exceeds the amount otherwise due, a company may carry forward the unused amount of the credit for 10 years. A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies. A qualified employee is a person who is employed in the District of Columbia by a qualified high-technology company.

PURPOSE: The purpose of this tax credit is to encourage high-technology companies to relocate, expand, and stay in the District of Columbia by ensuring that they can relocate key employees to the District of Columbia. In turn, the growth of the high-technology industry is intended to strengthen the District's economic and employment base.

WHO BENEFITS: High-technology companies, and their employees who relocate in the District of Columbia, benefit from this provision. Nevertheless, there are no estimates of the revenue loss associated with this provision because five high-technology franchise tax benefits are combined into Line 2 of Schedule UB, "Business Credits," and the amount of revenue loss attributable to each provision is not known. The estimated revenue loss from the five provisions is reported under tax expenditure #126, "Lower corporate income tax rate credit for high technology companies," because that tax expenditure likely accounts for the bulk of the forgone revenue.

Income Tax (Corporate)
District of Columbia Credits

128. Incentives for high-technology companies to employ qualified workers

District of Columbia Code: D.C. Official Code § 47-1817.03
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	included in #126	included in #126	included in #126	included in #126
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	included in #126	included in #126	included in #126	included in #126

DESCRIPTION: A qualified high technology company is allowed a credit against its corporate franchise tax liability equal to 10 percent of the wages paid during the first 24 calendar months of employment to a qualified employee hired after December 31, 2000. The credit for each qualified employee shall not exceed \$5,000 per taxable year. If the credit exceeds the amount of tax otherwise due from a high-technology company, the unused amount of the credit may be carried forward for 10 years.

A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies. A qualified employee is a person who is employed in the District of Columbia by a qualified high-technology company.

PURPOSE: The purpose of this tax abatement is to encourage the growth of high-technology industries and high-technology employment in the District of Columbia, and thereby strengthen the District's economic base.

WHO BENEFITS: High-technology companies in the District of Columbia benefit from this provision. Nevertheless, there are no estimates of the revenue loss associated with this provision because five high-technology franchise tax benefits are combined into Line 2 of Schedule UB, "Business Credits," and the amount of revenue loss attributable to each provision is not known. The estimated revenue loss from the five provisions is reported under tax expenditure #126, "Lower corporate income tax rate credit for high technology companies," because that tax expenditure likely accounts for the bulk of the forgone revenue.

Income Tax (Corporate)
District of Columbia Credits

129. Incentives to high-technology companies to retrain disadvantaged workers

District of Columbia Code: D.C. Official Code § 47-1817.04
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	included in #126	included in #126	included in #126	included in #126
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	included in #126	included in #126	included in #126	included in #126

DESCRIPTION: A qualified high technology company may take a credit against its franchise tax liability for the expenditures paid or incurred during the taxable year for the retraining of a qualified disadvantaged employee. The credit claimed cannot exceed \$20,000 for each qualified disadvantaged worker during the first 18 months of employment. If the credit exceeds the amount of tax otherwise due from a high-technology company, the unused amount of the credit may be carried forward for 10 years, or can be taken as a refundable credit in an amount up to 50 percent of the credit.

A qualified disadvantaged employee refers to a District of Columbia resident who is receiving benefits from the Temporary Assistance to Needy Families (TANF) program; was a recipient of TANF in the period immediately preceding employment; was released from incarceration within 24 months of being hired by a qualified high-technology company; or qualifies for the Welfare-to-Work Tax Credit or the Work Opportunity Tax Credit under the U.S. Internal Revenue Code. A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies. A qualified employee is a person who is employed in the District of Columbia by a qualified high-technology company.

PURPOSE: The purpose of this tax abatement is to encourage high-technology companies to invest in the skills of disadvantaged workers and, thereby, to help disadvantaged workers attain better jobs with higher wages and more potential for advancement within the high-technology sector.

WHO BENEFITS: Disadvantaged workers in the District of Columbia benefit from this tax credit, as do the high-technology companies that employ the workers. Nevertheless, there are no estimates of the revenue loss associated with this provision because five high-technology franchise tax benefits are combined into Line 2 of Schedule UB, "Business Credits," and the amount of revenue loss attributable to each provision is not known. The estimated revenue loss from the five provisions is reported under tax expenditure #126, "Lower corporate income tax rate credit for high technology companies," because that tax expenditure likely accounts for the bulk of the forgone revenue.

Income Tax (Corporate)
District of Columbia Credits

130. Incentives to high-technology companies to employ disadvantaged workers

District of Columbia Code: D.C. Official Code § 47-1817.05
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	included in #126	included in #126	included in #126	included in #126
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	included in #126	included in #126	included in #126	included in #126

DESCRIPTION: A qualified high technology company may take credits against its franchise tax liability equal to 50 percent of the wages paid to a qualified disadvantaged employee during the first 24 calendar months of employment. The credit may not exceed \$15,000 in a taxable year for each disadvantaged employee, and the credit is not allowable if the company “accords the qualified employee lesser benefits or rights than it accords other employees in similar jobs.” If the amount of the allowable credit exceeds the tax otherwise due, the company may carry forward the unused amount of the credit for 10 years.

A qualified disadvantaged employee refers to a District of Columbia resident who is receiving benefits from the Temporary Assistance to Needy Families (TANF) program; was a recipient of TANF in the period immediately preceding employment; was released from incarceration within 24 months of being hired by a qualified high-technology company; or qualifies for the Welfare-to-Work Tax Credit or the Work Opportunity Tax Credit under the U.S. Internal Revenue Code. A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies. A qualified employee is a person who is employed in the District of Columbia by a qualified high-technology company.

PURPOSE: The purpose of this tax abatement is to encourage high-technology companies to employ and retain disadvantaged workers.

WHO BENEFITS: Disadvantaged workers in the District of Columbia benefit from this tax credit, as do the high-technology companies that employ the workers. Nevertheless, there are no estimates of the revenue loss associated with this provision because five high-technology franchise tax benefits are combined into Line 2 of Schedule UB, “Business Credits,” and the amount of revenue loss attributable to each provision is not known. The estimated revenue loss from the five provisions is reported under tax expenditure #126, “Lower corporate income tax rate credit for high technology companies,” because that tax expenditure likely accounts for the bulk of the forgone revenue.

Income Tax (Corporate)
District of Columbia Credits

131. Economic development zone incentives for businesses

District of Columbia Code: D.C. Official Code § 6-1501, § 6-1502, § 6-1504, and § 47-1807.06
 Sunset Date: None
 Year Enacted: 1988

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0

DESCRIPTION: D.C. law designates three economic development zones that are eligible for tax and other development incentives: the Alabama Avenue zone, the D.C. Village zone, and the Anacostia zone. The Mayor may also designate additional economic development zones, subject to Council approval by resolution. The designation of additional zones must be based on evidence of economic distress such as high levels of poverty, high levels of unemployment, low income, population loss, and other criteria specified in the authorizing statute.

A business entity (incorporated or unincorporated) that has a place of business within an economic development zone is eligible for corporate franchise tax credits or unincorporated business franchise tax credits if (1) the business has signed a “First Source” agreement with the D.C. government setting the goal that 51 percent of new hires shall be D.C. residents, and (2) the business is subject to the D.C. franchise tax.

The available credits include (1) a credit equal to 50 percent of wages paid to low-income workers who are D.C. residents, up to a maximum of \$7,500 per employee per year, (2) a credit equal to 50 percent of the workers’ compensation premiums paid on behalf of workers who are D.C. residents, and (3) a rent credit for businesses that rent space to a non-profit child care center. The value of the rent credit is equal to the difference between the fair market value for the space and the actual rent charged to the child care center. If the rent credit exceeds the tax liability of a business, it can carry the credit backward or forward for up to five years.

The Mayor must submit and the Council must approve a resolution that qualifies the business for the incentives. The resolution must identify the business, specify the types of incentives to be granted, and estimate the annual dollar value of each franchise tax credit.

PURPOSE: The purpose of these tax incentives is to encourage economic development in neighborhoods characterized by economic distress, and to promote the employment of low-income D.C. residents.

WHO BENEFITS: Businesses located in an economic development zone are eligible to benefit from these incentives, as are low-income residents of the District of Columbia. Nevertheless, only two incentive packages have been approved since the economic development zones were created, and neither package included business tax incentives (both packages included real property tax incentives).

Income Tax

District of Columbia Credits

132. First-time homebuyer credit for D.C. government employees

District of Columbia Code: D.C. Official Code § 42-2506
 Sunset Date: None
 Year Enacted: 2000

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$250	\$250	\$250	\$250
Total	\$250	\$250	\$250	\$250

DESCRIPTION: District government employees and public charter school employees, as well as individuals who have accepted an offer to serve as a District of Columbia police officer, firefighter, emergency medical technician, public school teacher, or public charter school teacher, are eligible for a \$2,000 income tax credit in the year that they buy a home in the District and the following four years. To receive the credit, the individual must be a first-time homebuyer in the District and remain a District of Columbia resident. Any portion of the credit that is not used in a tax year cannot be carried forward, carried back, or refunded.

When first-time homebuyer credits were first authorized in 2000, only police officers were eligible, but the law was amended in 2007 to include the other groups of employees described above.

PURPOSE: The purpose of the credit is to provide a tool for the recruitment and retention of highly qualified employees (particularly teachers, police officers, firefighters, and emergency medical technicians); to strengthen the District of Columbia’s economic and tax base; and to encourage employees to live in the District of Columbia and become engaged in its civic and neighborhood life.

WHO BENEFITS: District government employees, as well as individuals who have accepted an offer to serve as a District of Columbia police officer, firefighter, emergency medical technician, or teacher, benefit from this tax credit. As noted above, there may also be spillover benefits for District of Columbia neighborhoods and the District economy.

During tax year 2007, 67 taxpayers claimed this credit.

Income Tax (Corporate)
District of Columbia Credits

133. Credits for corporations that provide paid leave to organ or bone marrow donors

District of Columbia Code: D.C. Official Code § 47-1807.08
Sunset Date: None
Year Enacted: 2006

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0

DESCRIPTION: A corporation that provides its employees with a paid leave of absence to serve as an organ or bone marrow donor may claim a non-refundable credit equal to 25 percent of the regular salary paid during the leave of absence, not to exceed 30 days for an organ donation and seven days for a bone marrow donation.

To qualify for the credit, the leave provided by the corporation must be in addition to any medical, personal, or other paid leave provided to the employee. In addition, the credit does not apply if the employee is eligible for leave under the U.S. Family and Medical Leave Act of 1993. The credit does not reduce the minimum corporate tax liability of \$100.

PURPOSE: The purpose of the credit is to increase the number of private employers who allow their employees paid leave to serve as organ and bone marrow donors.

WHO BENEFITS: Employees who serve as organ or bone marrow donors are the intended beneficiaries of this provision, which should also generate indirect benefits to the recipients of the organ or bone marrow transplants by expanding the number of donors. There were no claimants of this credit in tax year 2007.

Income Tax (Corporate)
District of Columbia Credits

134. Employer-assisted home purchases

District of Columbia Code: D.C. Official Code § 47-1807.07
 Sunset Date: None
 Year Enacted: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	minimal	minimal	minimal	minimal
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	minimal	minimal	minimal	minimal

DESCRIPTION: An incorporated or unincorporated business in the District of Columbia with at least one employee may receive a tax credit equal to one-half of the amount of homeownership assistance provided to its employees during the taxable year, provided that (1) the credit received for each employee shall not exceed \$2,500, (2) the assistance is provided through a certified employer-assisted home purchase program, (3) the assistance is used for the purchase of a qualified residential real property, and (4) the eligible employee is a new homebuyer (someone who did not own a principal place of residence in the District of Columbia in the prior 12 months).

To be eligible, an employee must have a household income less than or equal to 120 percent of the area median income.

PURPOSE: The purpose of this credit is to leverage private-sector assistance for new homeownership in the District of Columbia among low- to moderate-income individuals and families. By providing a tax credit equal to 50 percent of the housing assistance provided by a business, up to \$2,500 annually for each year, the District is in effect creating a matching incentive for employer-assisted home purchases.

WHO BENEFITS: Low- to moderate-income taxpayers who are eligible for an employer-assisted home purchase program benefit from this tax credit.

The revenue loss from this credit is difficult to estimate because the District's business tax forms do not include a separate line for employer-assisted home purchases. Instead, this credit is combined with other credits into a single line on the tax forms. Nevertheless, the estimated revenue loss for the FY 2010 to FY 2013 period is characterized as "minimal" for several reasons. First, almost two-thirds of corporate franchise taxpayers (63.5 percent in tax year 2006) and almost half of unincorporated business taxpayers (44.8 percent in tax year 2006) pay the minimum tax of \$100 and cannot benefit from the credits.²¹ In addition, the credits were designed during a very different housing market eight years ago when rapid price appreciation was taking place; since that time, the housing market has leveled off and the demand for the incentives has subsided.

²¹ Office of the Chief Financial Officer, *District of Columbia Data Book: Revenue and Economy* (July 2009), p. 40.

Income Tax

District of Columbia Credits

135. Lower-income, long-term homeowner credit

District of Columbia Code: D.C. Official Code § 47-1806.09 - § 47-1806.09f
Sunset Date: None
Year Enacted: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$6	\$6	\$6	\$6
Total	\$6	\$6	\$6	\$6

DESCRIPTION: The District offers a lower-income, long-term homeowner credit to residents with a household income equal to or less than 50 percent of the area median income who own an eligible residence (one that receives the homestead deduction) as a principal place of residence and have resided in that home for at least seven consecutive years. Eligible homeowners get a credit on their District of Columbia income tax equal to the difference between the current real property tax bill and 105 percent of their real property tax bill in the prior year.

PURPOSE: The purpose of this credit is to protect lower-income, long-term homeowners in the District of Columbia from rapid increases in real property taxes that could force them to sell their homes and possibly to leave the District.

WHO BENEFITS: Lower-income, long-term homeowners in the District of Columbia benefit from this provision. In tax year 2007, 13 taxpayers claimed the credit.

Income Tax

District of Columbia Credits

136. Low-income credit

District of Columbia Code: D.C. Official Code § 47-1806.04(e)
 Sunset Date: None
 Year Enacted: 1987

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$2,330	\$2,381	\$2,433	\$2,487
Total	\$2,330	\$2,381	\$2,433	\$2,487

DESCRIPTION: A taxpayer qualifies for a low-income credit if he or she meets the following requirements: (1) the taxpayer filed a federal tax return and his or her federal tax before credits and payments is zero, (2) the taxpayer’s federal adjusted gross income is less than the sum of his or her federal personal exemptions and federal standard deduction, and (3) the taxpayer’s amount of taxable income on the form D-40 is more than zero.

The credit is calculated in accordance with a table prescribed by the Mayor. For tax year 2008, the credit ranged from \$105 to \$1,311, depending on the taxpayer’s filing status and number of personal exemptions.

The credit is non-refundable, which means that the credit can reduce the amount of D.C. tax that is owed, but does not result in a tax refund if the credit exceeds the amount of tax liability.

Taxpayers who claim a D.C. earned income tax credit are not eligible for the low-income credit.

PURPOSE: The purpose of the low-income credit is to make the District of Columbia’s income tax threshold equal to the federal income tax threshold. The “tax threshold” is defined as “the point at which a taxpayer begins to owe income tax after allowance of the standard deduction and all personal exemptions to which the taxpayer is entitled, but before application of any itemized deductions or credits.”

WHO BENEFITS: D.C. taxpayers who do not have any federal tax liability benefit from this credit. During tax year 2007, 11,253 taxpayers claimed this credit. Tax filers with income between \$5,000 and \$10,000 claimed 40 percent of the value of this credit.

Low-income credit – 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	138	1%	\$23	1%
\$1 to \$5,000	2,503	22%	\$266	12%
\$5,001 to \$10,000	5,450	48%	\$872	40%
\$10,001 to \$15,000	1,426	13%	\$395	18%
\$15,001 to \$20,000	731	6%	\$259	12%
Greater than \$20,000	1,006	9%	\$370	17%
Total	11,254	100%	\$2,185	100%

Income Tax*District of Columbia Credits***137. Homeowner and renter property tax credit (circuit breaker)**

District of Columbia Code: D.C. Official Code § 47-1806.06
 Sunset Date: None
 Year Enacted: 1977

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$3,635	\$3,715	\$3,797	\$3,880
Total	\$3,635	\$3,715	\$3,797	\$3,880

DESCRIPTION: Low-income homeowners and renters (those with annual household gross income of \$20,000 or less) may claim a property tax credit that is applied to the taxpayer's income tax liability. To qualify, the taxpayer must have been a D.C. resident throughout the taxable year. The credit is refundable; if the amount of the credit exceeds tax liability, the taxpayer receives the excess amount in the form of a refund.

For homeowners, the credit equals the amount by which a homeowner's property tax bill exceeds a percentage of household income (the relevant percentage varies throughout the \$0 to \$20,000 income range), up to a maximum of \$750.

For renters, the imputed property tax payment is 15 percent of total rent payments. The renter also receives a credit equal to the amount by which his or her imputed property tax payment exceeds a percentage of household income (the relevant percentage varies throughout the \$0 to \$20,000 income range), up to a maximum of \$750.

There is a separate formula for determining the benefits available to elderly, blind, or disabled taxpayers, but the credit is once again capped at \$750.

PURPOSE: The purpose of this credit is to provide property tax relief to low-income District of Columbia residents. Although the tax relief is provided through the income tax system, it is based on the amount by which an individual or family's property tax bill exceeds a specified percentage of income.

WHO BENEFITS: The beneficiaries of this provision are taxpayers who have an annual household gross income of \$20,000 or less, and own or rent a home in the District of Columbia that serves as their primary place or residence. During tax year 2007, 7,589 taxpayers claimed this credit. The benefits of this provision are fairly evenly distributed among taxpayers with income below \$20,000, as shown in the table on the next page.

Homeowner and renter property tax credit (circuit breaker) - 2007				
Income Range	Number of Filers	Share	Amount	Share
Breakeven or Loss	1,267	17%	\$727	18%
\$1 to \$5,000	1,317	17%	\$746	19%
\$5,001 to \$10,000	1,563	21%	\$848	21%
\$10,001 to \$15,000	1,790	24%	\$926	23%
\$15,001 to \$20,000	1,632	22%	\$766	19%
Over \$20,000	20	0%	\$11	0%
Total	7,589	100%	\$4,023	100%

Income Tax**District of Columbia Credits****138. Earned income tax credit**

District of Columbia Code: D.C. Official Code § 47-1806.04(f)
 Sunset Date: None
 Year Enacted: 2000

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$43,769	\$44,732	\$43,851	\$44,816
Total	\$43,769	\$44,732	\$43,851	\$44,816

DESCRIPTION: An individual who receives a federal earned income tax credit (EITC), as authorized by section 32 of the U.S. Internal Revenue Code (26 U.S.C. § 32), is eligible for a District of Columbia EITC equal to 40 percent of the federal credit. The credit is refundable, meaning that if the taxpayer's credit exceeds his or her D.C. income tax liability, he or she receives the balance in the form of a refund.

Working families with children who have annual incomes below \$35,000 to \$48,000 (depending on marital status and number of children) generally are eligible for the federal EITC. In addition, low-income workers without children who have incomes below \$13,000 (\$18,000 for a married couple) can receive a very small federal EITC.²² The American Recovery and Reinvestment Act of 2009 (commonly known as the "stimulus" legislation) also revised the federal EITC for tax years 2009 and 2010 by providing a larger subsidy for the first \$12,750 of income earned by families with three or more children.

The District of Columbia EITC is also available to non-custodial parents between the ages of 18 and 30 who are in compliance with a court order for child support payments. These taxpayers are not eligible for the federal EITC.

Taxpayers who claim the D.C. low-income credit are not eligible for the D.C. EITC.

PURPOSE: The purpose of the credit is to promote self-sufficiency among low-income working parents, and thereby reduce poverty and welfare dependency.

WHO BENEFITS: Low-income working parents eligible for the federal EITC, as well as non-custodial parents who qualify for the District of Columbia EITC, benefit from this credit. During tax year 2007, 49,310 taxpayers claimed the D.C. EITC. Tax filers with income between \$10,000 and \$20,000 received 49 percent of the value of the credit. This is consistent with the structure of the credit, whereby the income range for receiving the maximum credit is between about \$8,000 and \$15,000.

²² Center on Budget and Policy Priorities, "Policy Basics: The Earned Income Tax Credit," December 17, 2008, p. 1.

Earned Income Tax Filers by Income, 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	730	1%	\$307	1%
\$1 to \$10,000	16,493	33%	\$7,658	22%
\$10,001 to \$20,000	15,184	31%	\$16,755	49%
\$20,001 to \$30,000	12,167	25%	\$8,518	25%
\$30,001 to \$40,000	4,736	10%	\$1,219	4%
Total	49,310	100%	\$34,457	100%

Income Tax (Corporate)
District of Columbia Credits

139. Brownfield revitalization cleanup

District of Columbia Code: D.C. Official Code § 8-637.01
 Sunset Date: None
 Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0

DESCRIPTION: The Mayor is authorized to submit proposed rules to the Council to establish business franchise tax credits for businesses that clean up and redevelop a property contaminated by hazardous waste. The Council would have 45 days to review the proposed rules (excluding Saturdays, Sundays, legal holidays, and days of Council recess), and if the Council did not act within this period, the rules would be deemed approved. The total credits awarded to a business would be capped at 100 percent of the costs of cleanup and 25 percent of the costs for development of the contaminated property.

PURPOSE: The purpose of this tax expenditure is to provide incentives for businesses to clean up contaminated properties voluntarily, which would in turn reduce public health risks and promote economic development by encouraging the reuse of contaminated properties.

WHO BENEFITS: Businesses that own contaminated property are the intended beneficiaries of this provision, which is also designed to have spillover the benefits for the public by reducing environmental risks and contaminants while promoting the redevelopment of contaminated properties. Nevertheless, the credits have not been offered because the implementing regulations have not been issued.

Income Tax

District of Columbia Credits

140. Child and dependent care credit

District of Columbia Code: D.C. Official Code § 47-1806.04(c)
 Sunset Date: None
 Year Enacted: 1977

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Corporate Income Tax Impact	\$0	\$0	\$0	\$0
Personal Income Tax Impact	\$3,524	\$3,602	\$3,681	\$3,762
Total	\$3,524	\$3,602	\$3,681	\$3,762

DESCRIPTION: An individual who receives a federal child and dependent care tax credit, as authorized by section 21 of the U.S. Internal Revenue Code (26 U.S.C. § 21), is eligible for a District of Columbia income tax credit equal to 32 percent of the federal credit. The credit is not refundable (it cannot exceed the amount of the individual’s tax liability).

The U.S. Internal Revenue Code limits the credit to care provided for a dependent child under the age of 13, or a spouse or certain other individuals who are incapable of self-care. The care must have been provided in order that the taxpayer, and his or her spouse if the taxpayer is married, can work or look for work. The individual receiving the care must have lived with the taxpayer for at least half of the year. The value of the federal credit ranges from 20 percent to 35 percent (depending on income) of dependent care expenses of as much as \$3,000 for one qualifying individual and \$6,000 for two or more qualifying individuals.²³

PURPOSE: The purpose of this credit is to assist families in paying for child and dependent care.

WHO BENEFITS: Individuals and families eligible for the federal child and dependent care tax credit benefit from the D.C. credit. During tax year 2007, 15,916 taxpayers claimed the credit. Tax filers with income below \$50,000 claimed 72 percent of the benefits from the D.C. credit.

²³ U.S. Internal Revenue Service, “Top Ten Facts About the Child and Dependent Care Credit,” IRS Tax Tip 2009-46.

Child and dependent care credit - 2007				
Income Category (AGI)	Number	Share	Amount (\$ in '000s)	Share
Breakeven or Loss	241	2%	\$71	2%
\$1 to \$25,000	3,726	23%	\$1,010	27%
\$25,001 to \$50,000	6,353	40%	\$1,615	43%
\$50,001 to \$75,000	1,724	11%	\$354	9%
\$75,001 to \$100,000	750	5%	\$151	4%
\$100,001 to \$150,000	945	6%	\$173	5%
\$150,001 to \$200,000	688	4%	\$114	3%
\$200,001 to \$500,000	1,128	7%	\$191	5%
Over \$500,000	361	2%	\$70	2%
Total	15,916	100%	\$3,749	100%

PART II: REAL PROPERTY TAX PROVISIONS

**Real Property Tax
Abatements**

141. New or improved buildings used by high-technology companies

District of Columbia Code: D.C. Official Code § 47-811.03
Sunset Date: None
Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	no estimate	no estimate	no estimate	no estimate

DESCRIPTION: Two types of non-residential or mixed-use buildings are eligible for a freeze on property taxes for a five-year period, if more than 50 percent of the tenants are qualified high-technology companies, or at least 50 percent of the aggregate square footage is leased to a qualified high-technology company using the premises as an office or retail space.

First, new buildings which received their initial certificate of occupancy after December 31, 2000, are eligible for the property tax freeze. In addition, existing buildings that were improved in order to adapt or convert the property for use by a qualified high-technology company are also eligible for the tax abatement.

A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies.

PURPOSE: The purpose of this tax abatement is to ensure that high-technology companies have adequate space and to protect property owners against sharp increases in their tax liability that may accompany the development or conversion of space suitable for use by high-technology companies. More generally, the tax abatement is intended to encourage the growth of high-technology companies in the District of Columbia and thereby expand the District's economy and employment base.

WHO BENEFITS: High-technology companies in the District of Columbia, as well as the property owners who lease space to high-technology companies, benefit from this provision. It was impossible to estimate the revenue loss from the tax abatement because the real property tax database does not identify the buildings that receive the property-tax freeze on this basis.

**Real Property Tax
Abatements**

142. New residential developments

District of Columbia Code: D.C. Official Code § 47-857.01 - § 47-857.10
 Sunset Date: None
 Year Enacted: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$8 million maximum	\$8 million maximum	\$8 million maximum	\$8 million maximum

DESCRIPTION: The Mayor is authorized to grant up to \$8 million annually in real property tax abatements for new residential developments. Within the \$8 million annual cap, there are sub-limits for three types of projects: (1) a \$2.5 million limit on annual tax abatements for new housing projects and new mixed-income housing projects downtown, (2) a \$2 million limit on annual tax abatements for new housing projects and new mixed-income housing projects in Housing Priority Area A (“Mount Vernon Square North”), and (3) a \$3.5 million limit on annual tax abatements for new, mixed-income housing projects in other parts of the District of Columbia.

PURPOSE: The purpose of these abatements is to encourage the growth of housing and mixed-income communities in targeted areas of the District of Columbia, and thereby strengthen the District’s economic and tax base, partly by attracting new residents to the city.

WHO BENEFITS: The tax abatements are intended to have broad-based benefits for residents by encouraging the growth of mixed-income communities with a mix of commercial and residential properties, and thereby strengthening the District’s economic and tax base.²⁴

²⁴ This summary draws on the Council of the District of Columbia, Committee on Finance and Revenue, “Committee Report on Bill 14-183, the ‘HomeStart Financial Incentives Act of 2001,” dated November 13, 2001. The tax abatements for new residential development originated in Bill 14-283, which became D.C. Law 14-114, the “Housing Act of 2002,” effective April 19, 2002.

**Real Property Tax
Abatements**

143. Preservation of section 8 housing in qualified areas

District of Columbia Code: D.C. Official Code § 47-865
 Sunset Date: None
 Year Enacted: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$388	\$388	\$389	\$389

DESCRIPTION: If the owner of a housing accommodation who receives subsidies through a project-based housing assistance program of the U.S. Department of Housing and Urban Development (HUD) renews or extends the HUD contract with substantially the same conditions for at least five years, the owner shall be eligible for a tax abatement. To qualify, the housing must be located in an area where the average rent for one-bedroom and two-bedroom apartments exceeds the fair-market rent (as defined by HUD) by 25 percent or more.

If the contract is renewed for five years, the owner shall receive a tax abatement equal to 75 percent of his or her real property tax liability for the year in which the renewed contract begins and for each of the four subsequent taxable years. If the contract is renewed for 10 years, the owner shall receive a tax abatement equal to 100 percent of his or her real property tax liability for the year in which the renewed contract begins and for each of the nine taxable years thereafter.

PURPOSE: The purpose of the abatements is to protect the supply of affordable housing by encouraging owners of housing who participate in federally-subsidized housing programs for low-income individuals and families to remain in the programs. The abatements are limited to areas where the average rents exceed the fair-market rent by 25 percent in order to target the benefits where they are most needed.²⁵

WHO BENEFITS: The owners of housing accommodations in qualified areas who renew their contracts to provide affordable housing through HUD-sponsored programs benefit from this provision, as do residents in federally-subsidized housing located in the qualified areas.

²⁵ This summary draws on the Council of the District of Columbia, Committee on Finance and Revenue, “Committee Report on Bill 14-183, the ‘HomeStart Financial Incentives Act of 2001,” dated November 13, 2001. The tax abatements for preservation of section 8 housing originated in Bill 14-283, which became D.C. Law 14-114, the “Housing Act of 2002,” effective April 19, 2002.

**Real Property Tax
Abatements**

144. Improvements to section 8 and other affordable housing

District of Columbia Code: D.C. Official Code § 47-866
 Sunset Date: None
 Year Enacted: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$1 million maximum	\$1 million maximum	\$1 million maximum	\$1 million maximum

DESCRIPTION: If the owner of an eligible housing accommodation makes improvements of at least \$10,000 per housing unit in a 24-month period, the owner shall be eligible for a 100 percent reduction of real property tax for five years if certain conditions are met. To qualify, the owner must offer at least 25 percent of the units at rents that are affordable to households with income below 50 percent of the area median.

In addition, the owner must maintain the property as a low-income housing development throughout the five-year period, and is not eligible for the benefit if he or she has recovered the costs of rehabilitation through another program.

The total abatements provided through this tax provision are capped at \$1 million annually.

PURPOSE: The purpose of the abatements is to preserve and upgrade the supply of affordable housing by encouraging owners to rehabilitate their housing units and making the abatements contingent on the affordability of the housing to low-income individuals and families.

WHO BENEFITS: The owners of affordable-housing accommodations who improve their housing benefit from this provision, as do low-income residents who live in the housing units.

**Real Property Tax
Abatements**

145. Incentives for the development of single-room-occupancy housing

District of Columbia Code: D.C. Official Code § 42-3508.06
 Sunset Date: None
 Year Enacted: 1994

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$0	\$0	\$0	\$0

DESCRIPTION: The Mayor is authorized to provide tax abatements, as well as deferral or forgiveness of water and sewer fees and other indebtedness to the District government, as incentives for the development of single-room-occupancy housing for low- and moderate-income tenants. These incentives shall be granted following negotiations and the signing of a written agreement between the Mayor and housing providers who are developing or operating single-room-occupancy housing accommodations.

The written agreement may establish a formula for abating property tax liability for the relevant property or properties. The abatement applies for a period of not longer than 10 years, beginning during the first year that newly constructed or rehabilitated single-room-occupancy housing becomes available for occupancy.

To qualify for the incentives, a housing provider must demonstrate to the satisfaction of the Mayor that the single-room-occupancy housing (1) is affordable to low- and moderate-income tenants and that the rent is reduced by the benefits received, (2) complies with the District’s zoning regulations, (3) includes at least 95 square feet of space and a clothing storage unit, (4) provides toilet and shower or bathing facilities on each floor, (5) includes common day room, kitchen, and laundry facilities, (6) provides a 24-hour security system, either manual or electronic, and (7) is supervised by a manager who resides on the premises.

PURPOSE: The purpose of these incentives is to encourage the development of single-room-occupancy housing for low- and moderate-income tenants.

WHO BENEFITS: Organizations that develop or operate single-room-occupancy housing for low- and moderate-income tenants are the intended beneficiaries of this provision, along with the low- and moderate-income tenants who need affordable housing. Nevertheless, there was no evidence that this provision had been used by single-room-occupancy housing providers in the past, and several organizations that provide such housing were not aware of the provision.

Real Property Tax Exemptions

146. Development of a qualified supermarket, restaurant or retail store

District of Columbia Code: D.C. Official Code § 47-1002(23)
 Sunset Date: None
 Year Enacted: 1988

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$1,167	\$1,407	\$1,667	\$1,798

DESCRIPTION: A “qualified supermarket” qualifies for a real property tax exemption for 10 consecutive real property tax years beginning with the tax year in which a certificate of occupancy was issued for the development. If the real property is not owned by the supermarket, the owner of the property can qualify for the real property tax exemption (valid for the same 10-year period) if the owner leases the land or structure to the supermarket at a fair-market rent that is reduced by the amount of the tax exemption.

This provision also applies to new construction or substantial rehabilitation of a “qualified restaurant or retail store” for which building permits are issued on or after October 4, 2000. "Substantial rehabilitation" means a capital investment within any 24-month period in a qualified restaurant or retail store that exceeds 50% of the adjusted basis of the building as calculated for District income tax purposes.

A “qualified supermarket” or “qualified restaurant or retail store” is one located in one of 13 “priority development areas” defined in D.C. Official Code § 47-3801. Examples of the priority development areas include “Downtown East,” the “Capital City Business and Industrial Area,” the “Capital City Market Area,” the “Georgia Avenue Area,” and the “Minnesota Avenue Area.”

PURPOSE: The purpose of this exemption is to encourage the construction and operation of supermarkets, restaurants and retail stores in underserved areas of the city.

WHO BENEFITS: Individuals and organizations that are constructing and operating supermarkets, restaurants, and retail stores in the target areas benefit from this provision, as do residents of these areas.

**Real Property Tax
Exemptions**

147. Libraries

District of Columbia Code: D.C. Official Code § 47-1002(7)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$8,654	\$8,654	\$8,663	\$8,671

DESCRIPTION: Library buildings that belong to and are operated by organizations that are not organized or operated for private gain, and are open to the public generally, are exempt from real property taxation.

PURPOSE: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the general public.

WHO BENEFITS: Libraries benefit from the exemption, but there is a wider social benefit because the libraries are open to the public and provide opportunities for learning and enrichment to all.

**Real Property Tax
Exemptions**

148. Property of educational institutions

District of Columbia Code: D.C. Official Code § 47-1002(10)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$100,249	\$100,249	\$100,349	\$100,450

DESCRIPTION: Buildings belonging to and operated by schools, colleges, or universities, and “which are not organized or operated for private gain,” are exempt from real property taxation.

PURPOSE: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the general public.

WHO BENEFITS: Educational institutions benefit directly from the exemption, which is also expected to provide broader societal benefits such as a better-informed citizenry and a more productive workforce.

**Real Property Tax
Exemptions**

149. Miscellaneous exemptions

District of Columbia Code: Multiple code sections.
Sunset Date: None
Year Enacted: Multiple years.

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$80,656	\$80,656	\$81,462	\$82,277

DESCRIPTION: This tax expenditure includes properties not classified into other general categories such as education, charitable or hospitals. The types of property contained in this category include theaters, commercial property, international organizations, national non-profit organizations and housing related properties. In some cases these properties were exempt by special legislation enacted by the D.C. Council.

PURPOSE: The purpose of this exemption is to reflect property tax exemptions that fall outside the standard exempt categories.

WHO BENEFITS: Owners of property designated for a real property tax exemption in the District of Columbia benefit from this exemption.

**Real Property Tax
Exemptions**

150. Federal government property

District of Columbia Code: D.C. Official Code § 47-1002(1)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$629,330	\$629,330	\$629,959	\$630,589

DESCRIPTION: Property belonging to the United States is exempt from real property taxation in the District of Columbia, “unless the taxation of same has been authorized by Congress.”

PURPOSE: This exemption recognizes the fact that the federal government is immune from taxation by the states or municipalities. This immunity has been established in numerous court decisions, beginning with *McCulloch v. Maryland*, 17 U.S. 316 in 1819, and has been reinforced in other cases including *Clallam County v. United States*, 263 U.S. 341 in 1923; *Cleveland v. United States*, 323 U.S. 329, 333 in 1945; *United States v. Mississippi Tax Commission*, 412 U.S. 363 in 1973; and *United States v. Mississippi Tax Commission*, 421 U.S. 599 in 1975.

WHO BENEFITS: The United States government benefits from this exemption.

**Real Property Tax
Exemptions**

151. Hospital buildings

District of Columbia Code: D.C. Official Code § 47-1002(9)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$14,434	\$14,434	\$14,448	\$14,463

DESCRIPTION: Hospital buildings that belong to and are operated by organizations “which are not organized or operated for private gain” are exempt from real property taxation. This exemption applies to buildings and structures that are “reasonably necessary and usual to the operation of a hospital.”

PURPOSE: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the general public.

WHO BENEFITS: Non-profit hospitals benefit from the exemption, but the general public is also intended to benefit from this subsidy to hospital care.

**Real Property Tax
Exemptions**

152. Homestead exemption

District of Columbia Code: D.C. Official Code § 47-850
Sunset Date: None
Year Enacted: 1978

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$40,833	\$41,241	\$41,654	\$42,070

DESCRIPTION: Taxpayers who live in their own home in the District of Columbia may take a homestead deduction that reduces the taxable value of their home. Presently, the homestead deduction is \$67,500. The deduction is to be adjusted on October 1st of every year to account for changes in the cost of living, but due to the budget crisis, the adjustment was suspended for 2009, 2010, and 2011. The next adjustment will take place on October 1, 2012.

To qualify for the homestead deduction, the taxpayer must file an application with the Office of Tax and Revenue. Taxpayers may not apply the homestead deduction to more than one home.

PURPOSE: The purpose of the homestead deduction is to encourage homeowners to live in the District of Columbia and to provide tax relief to resident homeowners.

WHO BENEFITS: District of Columbia residents who own their home benefit from this provision. In 2009, 91,879 owner-occupied residential properties qualified for the homestead exemption.

Real Property Tax Exemptions

153. Historic property

District of Columbia Code: D.C. Official Code § 47-842 - § 47-844
Sunset Date: None
Year Enacted: 1974

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$338	\$311	\$299	\$302

DESCRIPTION: The D.C. Council is authorized to grant tax relief to the owners of buildings that have been designated as historic. Although the statute refers to the Joint Committee on Landmarks of the National Capital as the designating authority,²⁶ the Joint Committee was replaced by the D.C. Historic Preservation Review Board, which was established in 1978. The tax relief would be provided through agreements between the District government and the property owners that would last at least 20 years, in order to assure the continued maintenance of the historic buildings.

The authorizing statute further provides that the agreements “shall, as a condition for tax relief, require reasonable assurance that such buildings will be used and properly maintained and such other conditions as the Council finds to be necessary to encourage the preservation of historic buildings. The Council shall also provide for the recovery of back taxes, with interest, which would have been due and payable in the absence of the exemption, if the conditions for such exemption are not fulfilled.”

PURPOSE: The purpose of this provision is to protect historic buildings and landmarks in the District of Columbia.

WHO BENEFITS: Although the owners of historic buildings would receive the direct benefits of this tax relief, there would also be a broader benefit to District of Columbia residents from the protection of the city’s historic, aesthetic, and cultural heritage. It is also thought that historic preservation enhances the city’s attraction to visitors and therefore supports economic development.

²⁶ The Joint Committee on Landmarks of the National Capital included representatives of the National Capital Planning Commission, the Committee of Fine Arts, and the D.C. government.

**Real Property Tax
Exemptions**

154. Multi-family and single-family rental and cooperative housing for low- and moderate-income persons

District of Columbia Code: D.C. Official Code § 47-1002(20)
Sunset Date: None
Year Enacted: 1978

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$15,539	\$15,694	\$15,851	\$16,010

DESCRIPTION: Multi-family and single-family rental and cooperative housing, as well as individual condominium units, are exempt from the real property tax if they are rented to low- and moderate-income persons and qualify for at least one of the following federal programs: (1) the mortgage interest subsidy program for owners of rental housing projects for lower-income families, (2) the “Section 8” housing voucher program, (3) the rent supplement program for needy tenants, (4) the mortgage insurance program for moderate-income and displaced families, and (5) the supportive housing direct loan program for the low-income elderly.

PURPOSE: The purpose of this provision is to increase and maintain the stock of affordable housing in the District of Columbia.

WHO BENEFITS: Owners of housing that is rented to low- and moderate-income families benefit from this provision, as do their tenants.

Real Property Tax Exemptions

155. Qualifying lower-income homeownership households and cooperative housing associations

District of Columbia Code: D.C. Official Code § 47-3503
 Sunset Date: None
 Year Enacted: 1983

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$1,295	\$1,308	\$1,321	\$1,334

DESCRIPTION: Property transferred to a “qualifying lower income homeownership household” is exempt from real property taxation. A qualifying lower-income homeownership household must meet two requirements: (1) household income can be no greater than 120 percent of the lower-income guidelines established for the Washington metropolitan area by the U.S. Department of Housing and Urban Development (HUD), and (2) the household must own the property in fee simple or receive at least a 5 percent qualified ownership interest as part of a shared equity financing agreement.

In addition, if there is a shared equity financing agreement in place, the renting household must receive a “credit against rent” that is equal to the value of the property tax exemption multiplied by the percentage of the household’s qualified ownership interest. Moreover, if the property was transferred to a cooperative housing association, at least 50 percent of the units must meet the HUD lower-income guideline and benefit from the “credit against rent” requirement, both of which are described above.

The real property tax exemption is valid until the end of the fifth tax year following the year in which the property was transferred. During the five-year period, the owner must continue to occupy the property. If the property is owned by a cooperative housing association, it must continue to rent at least 50 percent of the units to households that meet the income standard and benefit from the “credit against rent” requirement throughout the five-year period.

PURPOSE: The authorizing statute states that, “The purpose of this act is to expand homeownership opportunities for lower-income families to the maximum extent possible at the lowest possible cost to the District of Columbia.”

WHO BENEFITS: Households with annual income no greater than 120 percent of the lower-income guidelines established for the Washington metropolitan area benefit from this exemption.

Real Property Tax Exemptions

156. Nonprofit housing associations

District of Columbia Code: D.C. Official Code § 47-3505
Sunset Date: None
Year Enacted: 1983

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$9,064	\$9,155	\$9,246	\$9,339

DESCRIPTION: Property transferred to a qualifying non-profit housing association (an association that is exempt from federal income tax) shall be exempt from the real property tax through the end of the third year in which the property was transferred to the association, provided that the association certifies its intent to transfer the property to a qualifying lower income ownership household, a multi-family housing property where at least 35 percent of the households are qualifying lower income ownership households, or a cooperative housing association where at least 50 percent of the units are occupied by qualifying lower income ownership households and receive a “credit against rent.”²⁷

A qualifying lower-income homeownership household must meet two requirements: (1) household income can be no greater than 120 percent of the lower-income guidelines established for the Washington metropolitan area by the U.S. Department of Housing and Urban Development (HUD), and (2) the household must own the property in fee simple or receive at least a 5 percent qualified ownership interest as part of a shared equity financing agreement.

PURPOSE: The authorizing statute states that, “The purpose of this act is to expand homeownership opportunities for lower-income families to the maximum extent possible at the lowest possible cost to the District of Columbia.”

WHO BENEFITS: Non-profit housing associations and the lower-income residents they assist in attaining homeownership benefit from this provision.

²⁷ The credit against rent is equal to the value of the property tax exemption multiplied by the percentage of the household’s qualified ownership interest.

**Real Property Tax
Exemptions**

157. Resident management corporations

District of Columbia Code: D.C. Official Code § 47-1002(24)
Sunset Date: None
Year Enacted: 1992

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$0	\$0	\$0	\$0

DESCRIPTION: Public housing that is transferred to a qualifying resident management corporation is exempt from the real property tax through the end of the 10th tax year following the year in which the property is transferred.

A resident management corporation is a non-profit organization that consists of residents who live in public housing. Local housing authorities may contract with resident management corporations to perform some or all of the responsibilities of managing a public housing project under contract with a local housing authority.

PURPOSE: The purpose of this tax exemption is to expand the opportunities of low-income families living in a public housing project to become owners of the public housing. Once residents become owners, they are expected to have a stronger stake in the maintenance of the property and the quality of life in the community.

WHO BENEFITS: Resident management corporations and the individuals they serve are the intended beneficiaries of this provision. According to the D.C. Housing Authority, the Kenilworth-Parkside project is the only property that has been transferred to a resident management corporation.

Because the Kenilworth-Parkside Resident Management Corporation assumed control in 1992, that property is now taxable. Therefore, there are presently no beneficiaries and no exemptions are projected for the FY 2010 through FY 2013 period.

**Real Property Tax
Exemptions**

158. Embassies, chanceries, and associated properties of foreign governments

District of Columbia Code: D.C. Official Code § 47-1002(3)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$34,032	\$34,032	\$34,066	\$34,100

DESCRIPTION: Property belonging to foreign governments and used for diplomatic purposes is exempt from real property taxation in the District of Columbia. To claim the exemption, a foreign government must send a diplomatic note to the U.S. Department of State’s Office of Foreign Missions, which submits the request for property tax exemption to the District of Columbia government along with a “Foreign Government Information Request Form” that is completed by the foreign government.²⁸

PURPOSE: The purpose of this exemption is to uphold a principle of international law that foreign governments are entitled to exemption from taxation of real property owned by the foreign government and used by its diplomatic mission. Any portion of the property that is not used for diplomatic or consular purposes is not exempt from the District’s real property tax.

WHO BENEFITS: Foreign governments that own embassies, chanceries, and associated properties in the District of Columbia benefit from this exemption.

²⁸ U.S. Department of State, Office of Foreign Missions, “Diplomatic Note 06-01,” dated April 12, 2006.

**Real Property Tax
Exemptions**

159. Correctional Treatment Facility

District of Columbia Code: D.C. Official Code § 47-1002(25)
Sunset Date: None
Year Enacted: 1997

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$784	\$784	\$784	\$784

DESCRIPTION: The Correctional Treatment Facility (CTF), located on Lot 800 of Square 1112, is exempt from real property taxation as long as the facility on that site is used as a correctional facility housing inmates in the custody of the D.C. Department of Corrections (DOC).

The CTF, which houses all of DOC's female and juvenile prisoners as well as some male prisoners who are a medium-security risk or lower, is owned and managed by the Corrections Corporation of America, which purchased the facility from the D.C. government in 1997 under a sale/leaseback arrangement.

PURPOSE: The purpose of this provision is to maintain the tax-exempt status of the CTF following the change from government to private ownership.

WHO BENEFITS: This operators of the Correctional Treatment Facility benefit from this provision.

**Real Property Tax
Exemptions**

160. Art galleries

District of Columbia Code: D.C. Official Code § 47-1002(6)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$2,362	\$2,362	\$2,385	\$2,409

DESCRIPTION: Art gallery buildings belonging to and operated by “organizations which are not organized or operated for private gain” are exempt from real property taxation, provided that they are open to the public generally and do not charge admission more than two days per week.

PURPOSE: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the general public.

WHO BENEFITS: Art galleries benefit from the exemption, but there is a wider social benefit because the galleries are open to the public and provide general cultural enrichment.

**Real Property Tax
Exemptions**

161. Churches, synagogues, and mosques

District of Columbia Code: D.C. Official Code § 47-1002(12)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$56,324	\$56,324	\$56,380	\$56,437

DESCRIPTION: Churches, including buildings and structures reasonably necessary and usual in the performance of the activities of the church, are exempt from real property taxation. A church building is defined as a building “primarily and regularly used by its congregation for public religious worship.”

In addition, the following types of property belonging to religious orders or societies are exempt from real property taxation: buildings belonging to religious corporations or societies primarily and regularly used for religious worship, study, training, and missionary activities; pastoral residences owned by a church and actually occupied by the church’s pastor, rector, minister, or rabbi (with a limit of one pastoral residence for any church or congregation); and Episcopal residences owned by a church and used exclusively as the residence of a bishop of the church.

PURPOSE: The exemption reflects a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the general public. More specifically, the exemption is intended to promote the free exercise of religion and the separation of church and state.

WHO BENEFITS: Churches, synagogues, mosques, and other places of worship benefit from the exemption, but the exemption is also intended to benefit society more broadly by promoting the free exercise of religion and the separation of church and state.

**Real Property Tax
Exemptions**

162. Cemeteries

District of Columbia Code: D.C. Official Code § 47-1002 (12)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$4,573	\$4,573	\$4,578	\$4,582

DESCRIPTION: Cemeteries dedicated to and used solely for burial purposes and not organized or operated for private gain, including buildings and structures reasonably necessary and usual to the operation of a cemetery, are exempt from real property taxation.

PURPOSE: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the general public.

WHO BENEFITS: Cemeteries benefit from the exemption, but there is a wider social benefit to the families and loved ones of those who have passed away.

**Real Property Tax
Exemptions**

163. Properties of charitable organizations

District of Columbia Code: D.C. Official Code § 47-1002(8)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$13,531	\$13,531	\$13,545	\$13,558

DESCRIPTION: Buildings belonging to and operated by institutions “which are not organized or operated for private gain,” and are used “for purposes of public charity principally in the District of Columbia,” are exempt from real property taxation.

PURPOSE: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the general public.

WHO BENEFITS: Charitable organizations benefit directly from the exemption, which is also expected to provide broader societal benefits by encouraging the voluntary provision of social services.

**Real Property Tax
Exemptions**

164. Headquarters buildings of tax-exempt organizations

District of Columbia Code: D.C. Official Code § 47-1002(17)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	included in #163	included in #163	included in #163	included in #163

DESCRIPTION: Administrative headquarters are exempt from real property taxation if they belong to organizations that have received real property tax exemptions.

PURPOSE: The purpose of this exemption is to ensure that organizations eligible for a real property tax exemption receive the benefit on the property they use for administrative operations as well as the property they use to provide goods or services. For example, D.C. Official Code § 47-1002(8) provides a real property tax exemption for buildings used for purposes of public charity. This provision extends the property tax exemption to the administrative headquarters of the charitable organization in addition to the buildings used directly to provide charitable services.

WHO BENEFITS: Charitable organizations that receive a tax exemption and that have administrative headquarters buildings in the District benefit from this exemption.

**Real Property Tax
Exemptions**

165. Grounds belonging to tax-exempt organizations

District of Columbia Code: D.C. Official Code § 47-1002(18)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	included in #163	included in #163	included in #163	included in #163

DESCRIPTION: The grounds belonging to organizations that have received real property tax exemptions are also tax-exempt, provided that they are “reasonably required and actually used for the carrying on of the activities and purposes” of the organization.

PURPOSE: The purpose of this exemption is to ensure that organizations eligible for a real property tax exemption receive the benefit for the grounds that are reasonably necessary for their operations as well as the buildings that they own. For example, D.C. Official Code § 47-1002(8) provides a real property tax exemption for buildings used for purposes of public charity. This provision extends the property tax exemption to the grounds of the property.

WHO BENEFITS: Charitable organizations that are exempt from the real property tax benefit from this provision.

**Real Property Tax
Exemptions**

166. Properties owned by the Washington Metropolitan Area Transit Authority

District of Columbia Code: D.C. Official Code § 9-1107.01
Sunset Date: None
Year Enacted: 1966

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$6,626	\$6,626	\$6,633	\$6,639

DESCRIPTION: The Washington Metropolitan Area Transit Authority Compact establishes the rules that govern the operation and administration of the regional mass transit system, commonly known as “Metro.” The District of Columbia, the State of Maryland, and the Commonwealth of Virginia are signatories to the Compact. Article XVI (“General Provisions”), Section 78 of the Compact, exempts the Washington Metropolitan Area Transit Authority (WMATA) and its Board from all taxes or assessments on any property that WMATA owns or controls.

PURPOSE: As stated in the Compact, WMATA’s mission “is in all respects for the benefit of the people of the signatory states and is for a public purpose.” WMATA’s exemption from all taxes or assessments on its property helps WMATA fulfill its mission of improving transportation throughout the region.

WHO BENEFITS: Residents of the Washington metropolitan area benefit from this tax exemption, as do the businesses and visitors who also rely on the Metro system, because the exemption allows WMATA to devote more of its resources to serving the public.

**Real Property Tax
Credits**

167. First-time homebuyer credit for D.C. government employees

District of Columbia Code: D.C. Official Code § 42-2506
Sunset Date: None
Year Enacted: 2000

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$351	\$383	\$419	\$413

DESCRIPTION: District of Columbia government employees; employees of District of Columbia public charter schools; and individuals who have accepted an offer to be a District of Columbia police officer, firefighter, emergency medical technician, public school teacher, or public charter school teacher are eligible for property-tax credits if they are first-time homebuyers in the District of Columbia.

When first-time homebuyer credits were first authorized in 2000, only police officers were eligible, but the law was amended in 2007 to include the other groups of employees described above.

The property-tax credit phases out over five years. In the first year, the credit equals 80 percent of property tax liability; in the second year, 60 percent; in the third year, 40 percent; and in the fourth and fifth years, 20 percent.

PURPOSE: The purpose of the credit is to provide a tool for the recruitment and retention of highly qualified employees (particularly teachers, police officers, firefighters, and emergency medical technicians); to strengthen the District of Columbia's economic and tax base; and to encourage employees to live in the District of Columbia and become engaged in its civic and neighborhood life.

WHO BENEFITS: District government employees, as well as individuals who have accepted an offer to serve as a District of Columbia police officer, firefighter, emergency medical technician, or teacher benefit from this tax credit. As noted above, there may also be spillover benefits for District of Columbia neighborhoods and the District economy.

Real Property Tax
Credits

168. Credit for senior citizens and persons with disabilities

District of Columbia Code: D.C. Official Code § 47-863
Sunset Date: None
Year Enacted: 1986

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$5,781	\$5,784	\$5,842	\$5,900

DESCRIPTION: Senior citizens (age 65 or older) and persons with disabilities qualify for a 50 percent reduction in real property tax liability on a home that they own and occupy in the District of Columbia, provided that their household adjusted gross income is less than \$100,000. Taxpayers must file an application with the Office of Tax and Revenue in order to qualify.

PURPOSE: The purpose of the credit is to protect senior citizens and people with disabilities, who often live on fixed incomes, from real property tax liabilities that may be difficult or impossible for them to pay.

WHO BENEFITS: The beneficiaries of this provision are senior citizens and people with disabilities who live in their own homes in the District of Columbia and have adjusted gross income less than \$100,000. In 2009, 22,486 owner-occupied residential properties claimed the credit.

**Real Property Tax
Credits**

169. Assessment increase cap

District of Columbia Code: D.C. Official Code § 47-864
Sunset Date: None
Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$151,059	\$151,135	\$152,646	\$154,173

DESCRIPTION: Homeowners who qualify for a homestead deduction (those who occupy a home in the District of Columbia as their principal residence) are also eligible for an annual assessment cap credit. This credit limits the taxable assessed value of the individual’s home to a 10 percent increase from the prior tax year.

If during the prior tax year the property was sold, its value was increased to a change in its zoning classification, or the assessment of the property was clearly erroneous, then the taxpayer does not qualify for the assessment increase cap.

Title VII-A of D.C. Law 18-111, the “Fiscal Year 2010 Budget Support Act of 2009,” which took effect on March 3, 2010, established that the taxable assessment of a real property qualifying for a homestead deduction shall never fall below 40 percent of the current tax year’s assessed value.

PURPOSE: The purpose of the assessment increase cap is to protect resident homeowners from sharp growth in property values and assessments.

In the early to middle part of the past decade, the value of residential real property soared in the District of Columbia, often rising by more than 20 percent annually, and for some properties more than doubling in a single year. The assessed value of residential real property in the District almost tripled from \$24.9 billion in fiscal year 2002 to \$73.1 billion in fiscal year 2007).²⁹ The assessment increase cap was intended to protect resident homeowners from these rapid increases in real property tax liability, and was also designed to smooth the transition from triennial assessments to annual assessments.

WHO BENEFITS: Homeowners who have a principal residence in the District of Columbia benefit from the cap on the annual increase in real property assessments, if the assessed value of their property rises by more than 10 percent in one year.

²⁹ Government of the District of Columbia, Office of the Chief Financial Officer, CAFR 2008: Comprehensive Annual Financial Report, Year Ended September 30, 2008 (January 2009), p. 160.

**Real Property Tax
Credits**

170. Condominium and cooperative trash collection

District of Columbia Code: D.C. Official Code § 47-872 (condominiums) and § 47-873 (cooperatives)
Sunset Date: None
Year Enacted: 1990

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$4,882	\$4,931	\$5,029	\$5,130

DESCRIPTION: Owners of condominium units and cooperative dwelling units may qualify for a city trash collection credit against their real property tax liability if they pay for garbage collection instead of receiving city garbage service. The credit, which is \$96 for 2009, is adjusted annually for inflation.

In order to qualify for the credit, the property must be occupied by the owner and used for non-transient residential purposes. In addition, the property must be located in a condominium or cooperative housing building with more than four dwelling units.

PURPOSE: The purpose of the credit is to help defray the costs of garbage collection for real property owners who do not receive garbage collection services from the District government.

WHO BENEFITS: Condominium or cooperative housing owners who pay for garbage collection benefit from this credit.

**Real Property Tax
Credits**

171. Brownfield revitalization cleanup

District of Columbia Code: D.C. Official Code § 8-637.01
Sunset Date: None
Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$0	\$0	\$0	\$0

DESCRIPTION: The Mayor is authorized to submit proposed rules to the Council to establish real property tax credits for property owners who clean up and redevelop a property contaminated by hazardous waste. The Council would have 45 days to review the proposed rules (excluding Saturdays, Sundays, legal holidays, and days of Council recess), and if the Council did not act within this period, the rules would be deemed approved. The total credits awarded to a property owner would be capped at 100 percent of the costs of cleanup and 25 percent of the costs for development of the contaminated property.

PURPOSE: The purpose of this tax expenditure is to provide incentives for property owners to clean up contaminated properties voluntarily, which would in turn reduce public health risks and promote economic development by encouraging the reuse of contaminated properties.

WHO BENEFITS: The owners of contaminated property are the intended beneficiaries of this provision, which is also designed to have spillover the benefits for the public by reducing environmental risks and contaminants while promoting the redevelopment of contaminated properties. Nevertheless, the credits have not been offered because the implementing regulations have not been issued.

Real Property Tax
Multiple

172. Economic development zone incentives

District of Columbia Code: D.C. Official Code § 6-1501 - § 6-1503
 Sunset Date: None
 Year Enacted: 1988

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$0	\$0	\$0	\$0

DESCRIPTION: D.C. law designates three economic development zones that are eligible for tax and other development incentives: the Alabama Avenue zone, the D.C. Village zone, and the Anacostia zone. The Mayor may also designate additional economic development zones, subject to Council approval by resolution. The designation of additional zones must be based on evidence of economic distress such as high levels of poverty, high levels of unemployment, low income, population loss, and other criteria set forth in the authorizing statute.

An owner of real property in an economic development zone may receive a reduction in real property taxes, a deferral or forgiveness of real property tax owed, or deferral or forgiveness of fees and charges, provided that the owner constructed or substantially rehabilitated the property after October 20, 1988, and is using the property in conformance with zoning regulations.

The available real property incentives include a five-year period of property tax reductions that are gradually phased out (the reduction is 80 percent the first year, and is then reduced by 16 percent each subsequent year until reaching zero in year six); the deferral or forgiveness of any property tax owed with respect to the property; and the forgiveness (in whole or in part) of any cost or fee associated with a nuisance property infraction.

The Mayor must submit and the Council must approve a resolution that qualifies the property for the incentives. The resolution must identify the real property and its owner; specify each tax or charge to be reduced, deferred, or forgiven; and state the dollar amount of each tax incentive.

PURPOSE: The purpose of these tax incentives is to encourage commercial, industrial, and residential development, and thereby to create jobs, increase homeownership, and stabilize neighborhoods characterized by high poverty and unemployment rates, low income levels, population loss, and other indicators of economic distress.

WHO BENEFITS: Owners of newly constructed or improved real property in an economic development zone benefit from these incentives. Nevertheless, only two incentive packages have been approved since the economic development zones were created,³⁰ and neither is in effect today. There are no proposals pending to use the economic development zone incentives.

³⁰ Council Resolution 11-290, approved on April 16, 1996, awarded a real property tax abatement to the Good Hope Marketplace. Council Resolution 12-605, approved on July 17, 1998, forgave water and sewer charges for the Walter Washington Estates Project in the Alabama Avenue Development Zone, and also authorized the forgiveness and reduction of real property taxes owed by the Project.

**Real Property Tax
Rebate**

173. Public charter school tax rebate

District of Columbia Code: D.C. Official Code § 47-867
Sunset Date: None
Year Enacted: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$725	\$784	\$843	\$902

DESCRIPTION: A public charter school that leases a school facility from an entity that is subject to the District's real property tax shall receive a rebate equal to the school's pro-rata share of the lessor's tax on the property, provided that the school is liable under its lease for that share of the tax.

PURPOSE: The purpose of this provision is to put public charter schools that lease their facilities on an equal footing with other public schools that own their facilities and are exempt from taxation on the real property.

WHO BENEFITS: Public charter schools that lease their school buildings benefit from this provision. The estimates of forgone revenue shown above are based on 2008 data on the number of schools qualifying for the rebates and their property tax bills. The 2008 data were adjusted to reflect the historical growth in the number of charter schools.

Real Property Tax
Deferrals

174. Tax deferral for low-income homeowners

District of Columbia Code: D.C. Official Code § 47-845.02
Sunset Date: None
Year Enacted: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$3,342	\$3,342	\$3,346	\$3,349

DESCRIPTION: A taxpayer who uses a home or condominium in the District of Columbia as his or her principal place of residence can defer any real property tax in excess of the real property tax for the prior year, if the taxpayer has a household adjusted gross income of less than \$50,000. The amount of real property tax deferred cannot exceed 25 percent of the assessed value of the property in the current tax year. Real property tax deferred in accordance with this provision shall bear interest rate at the rate of 8 percent annually.

PURPOSE: The purpose of the tax deferral is to protect low- and moderate-income property owners from sharp increases in real property tax liability that may outpace the growth of their incomes.

WHO BENEFITS: Homeowners with annual household adjusted gross income less than \$50,000 benefit from this provision.

Real Property Tax
Deferrals

175. Tax deferral for low-income, senior-citizen homeowners

District of Columbia Code: D.C. Official Code § 47-845.03
Sunset Date: None
Year Enacted: 2005

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$1,003	\$1,003	\$1,004	\$1,005

DESCRIPTION: A taxpayer who is 65 years of age or older, uses a home or condominium in the District of Columbia as his or her principal place of residence, and has a household adjusted gross income of less than \$50,000 can defer any real property tax owed in a given tax year. However, the amount of tax deferred, plus interest accrued on the deferred taxes, is limited to 25 percent of the assessed value of the property in the current tax year. Real property tax deferred in accordance with this provision shall bear interest rate at the rate charged by the Internal Revenue Service on underpayments of federal income tax, but shall not exceed 8 percent per year.

PURPOSE: The purpose of the tax deferral is to protect low- and moderate-income senior citizens from real property tax burdens that they cannot afford. This provision recognizes that many senior citizens are “house-rich” but “cash-poor,” because many senior citizens live on fixed incomes that may not keep with the assessed value of homes.

WHO BENEFITS: Senior citizen homeowners with annual household adjusted gross income less than \$50,000 benefit from this provision.

Real Property Tax
Multiple

176. Tax abatements for homeowners in enterprise zones

District of Columbia Code: D.C. Official Code § 47-858.01 - § 47-858.05
Sunset Date: None
Year Enacted: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$0	\$0	\$0	\$0

DESCRIPTION: The District government provides real property tax abatements and tax credits for homeowners in an enterprise zone who substantially rehabilitate their home. To qualify, the taxpayer must have a household income less than 120 percent of the area median income. To qualify for the tax credit, a taxpayer must also pay District of Columbia income tax. Census tracts with poverty rates of 20 percent or more qualify as enterprise zones.

The tax abatement is measured as a percentage of the amount by which the homeowner’s tax liability for the property increased after the substantial rehabilitation. In the first three years after completing the rehabilitation, the taxpayer can deduct 100 percent of the increased tax liability; in the fourth year, the taxpayer can deduct 75 percent; in the fifth year, 50 percent; and in the sixth year, 25 percent.

The tax credit provides a \$50 reduction in real property tax liability for each \$1,000 spent on the substantial rehabilitation, with the maximum annual maximum credit set at \$5,000. There is also an aggregate limit of \$1 million on the tax credits.³¹

PURPOSE: The purpose of these tax benefits is to promote the revitalization of neighborhoods classified as enterprise zones, to attract new residents to the District of Columbia, and to strengthen the District’s tax base.

WHO BENEFITS: Low- to moderate-income owners of homes in enterprise zones are the target beneficiaries of these provisions, which are also intended to create spillover benefits for neighborhoods with poverty rates of 20 percent or more. Presently, there are no beneficiaries of these tax abatements and no abatements or credits are projected for the FY 2010 to FY 2013 period.

³¹ The authorizing statute does not state that the \$1 million cap is an annual cap; therefore, the cap would apply to the life of the program. See D.C. Official Code § 47-858.04.

**PART III: DEED RECORDATION AND TRANSFER TAX
PROVISIONS**

Deed Recordation and Transfer Tax
Exemptions

177. Exemption for property purchased by educational institutions

District of Columbia Code: D.C. Official Code § 42-1102(3) for the deed recordation tax
D.C. Official Code § 47-902 (3) for the transfer tax
Sunset Date: None
Year Enacted: 1962 (deed recordation tax) and 1980 (transfer tax)

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$1,173	\$1,056	\$950	\$969

DESCRIPTION: Organizations that are exempt from real property taxation in the District of Columbia pursuant to D.C. Official Code § 47-1002 are also exempt from the deed recordation tax and the transfer tax. Educational institutions are among the groups covered under § 47-1002 that qualify for this blanket exemption.

PURPOSE: The purpose of this exemption is to extend the real property tax exemption for educational institutions to the other two taxes related to real property: the deed recordation tax and the transfer tax. As a result, there is uniform treatment under the real property, deed recordation, and transfer taxes for educational institutions.

WHO BENEFITS: Educational institutions benefit from this exemption, which would also be expected to have spillover benefits for their employees and students. Moreover, there could be broader benefits to society because education promotes a better-trained workforce and a more informed citizenry.

Deed Recordation and Transfer Tax Exemptions

178. Exemption of properties purchased by the federal government

District of Columbia Code: D.C. Official Code § 42-1102(2) for the deed recordation tax
 D.C. Official Code § 47-902 (2) for the transfer tax
 Sunset Date: None
 Year Enacted: 1962 (deed recordation tax) and 1980 (transfer tax)

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$880	\$792	\$713	\$727

DESCRIPTION: Property acquired by the United States government is exempt from the deed recordation tax and transfer taxes, unless taxation of the property has been specifically authorized by the U.S. Congress.

PURPOSE: This exemption recognizes the fact that the federal government is immune from taxation by the states or municipalities. This immunity has been established in numerous court decisions, beginning with *McCulloch v. Maryland*, 17 U.S. 316 in 1819, and has been reinforced in other cases including *Clallam County v. United States*, 263 U.S. 341 in 1923; *Cleveland v. United States*, 323 U.S. 329, 333 in 1945; *United States v. Mississippi Tax Commission*, 412 U.S. 363 in 1973; and *United States v. Mississippi Tax Commission*, 421 U.S. 599 in 1975.

WHO BENEFITS: The United States government benefits from this exemption.

Deed Recordation and Transfer Tax Exemptions

179. Deed recordation and transfer tax exemption for other properties exempted from real property taxation

District of Columbia Code: D.C. Official Code § 42-1102(3) for the deed recordation tax
 D.C. Official Code § 47-902(3) for the transfer tax
 Sunset Date: None
 Year Enacted: 1962 (deed recordation tax) and 1980 (transfer tax)

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$1,056	\$950	\$855	\$872

DESCRIPTION: Properties exempted from the real property tax by D.C. Official Code § 47-1002 also receive a blanket exemption from the deed recordation and transfer taxes.³² In addition to some of the major categories of tax-exempt properties that were discussed earlier (churches, educational institutions, foreign embassies, and charitable organizations), there are a number of other institutions that also receive the deed recordation and transfer tax exemptions due to their real property tax exemption. These institutions include non-profit hospitals, libraries, art galleries, and cemeteries.

PURPOSE: The purpose of this exemption is to promote equitable treatment for non-profit institutions under the real property tax, the deed recordation tax, and the transfer tax. In addition, the exemption recognizes and encourages the public benefits provided by many non-profit entities such as hospitals and libraries.

WHO BENEFITS: The owners of non-profit hospitals, libraries, art galleries, cemeteries, and other organizations that are exempt from real property taxation in the District of Columbia benefit from this parallel exemption from the deed recordation and transfer taxes.

³² There are two narrow exceptions to this rule. D.C. law provides that the following tax-exempt properties do not receive corresponding exemptions from the deed recordation and transfer taxes: (1) property for which payments in lieu of taxes (PILOTs) are being made pursuant to a PILOT agreement, and (2) land in the Capper/Carrollsbury PILOT area that is not otherwise exempt from real property taxation.

Deed Recordation Tax
Exemptions

180. Properties exempted from real property taxation by special act of Congress

District of Columbia Code: D.C. Official Code § 42-1102(4)
Sunset Date: None
Year Enacted: 1962

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$367	\$330	\$297	\$303

DESCRIPTION: A deed to property acquired by an institution, organization, corporation, or association entitled to an exemption from real property by a special act of Congress is exempt from the deed recordation tax, provided that the property is acquired “solely for a purpose or purposes for which such special exemption was granted.”

A similar exemption applicable to the transfer tax was repealed by D.C. Law 14-282, the “Tax Clarity and Recorder of Deeds Act of 2002,” which took effect on April 4, 2003.³³

PURPOSE: The purpose of this exemption is to extend the deed recordation tax exemption to properties that have been exempted from real property taxation in the District of Columbia by a special act of Congress. Exempting the same properties from both taxes promotes uniformity and equity in property taxation.

WHO BENEFITS: Owners of property designated by Congress for a real property tax exemption in the District of Columbia benefit from this exemption.

³³ See section 11(o)(4) of this legislation.

Deed Recordation and Transfer Tax Exemptions

181. Qualifying lower-income homeownership households

District of Columbia Code: D.C. Official Code § 42-1102(12), § 47-3503(a)(1), and § 47-3503(a)(3) for deed recordation tax
D.C. Official Code § 47-902(9) and § 47-3503(b)(1) for transfer tax
Sunset Date: None
Year Enacted: 1983

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$663	\$531	\$531	\$531

DESCRIPTION: Property that is transferred to a “qualifying lower-income homeownership household” is exempt from the deed recordation and transfer taxes. A “qualifying lower-income homeownership household” must have an annual income no greater than 120 percent of the lower-income guidelines established for the Washington metropolitan area by the U.S. Department of Housing and Urban Development (HUD). The household must occupy the unit that qualifies for the deed recordation and transfer tax exemption.

The lower-income purchaser or the persons acquiring qualified ownership interests under a shared equity financing agreement must receive a credit against the purchase price of the property equal to the total transfer tax that would have been due without the exemption.

In addition, the recordation of a construction loan deed of trust or mortgage is exempt from the deed recordation tax if the property securing the deed of trust or mortgage is owned by a lower income homeownership household.

PURPOSE: The authorizing statute states that, “The purpose of this act is to expand homeownership opportunities for lower-income families to the maximum extent possible at the lowest possible cost to the District of Columbia.” The statute further states that, “Homeownership stabilizes families and, in turn, stabilizes neighborhoods, contributing to improved housing conditions and safer, better quality neighborhoods.”

WHO BENEFITS: Families with an annual income no greater than 120 percent of low-income guidelines set by HUD for the Washington metropolitan area benefit from this tax expenditure, provided that they meet the other eligibility criteria described above.

Deed Recordation and Transfer Tax Exemptions

182. Cooperative housing associations

District of Columbia Code: D.C. Official Code § 42-1102(14), § 47-3503(a)(2), and § 47-3503(a)(3) for deed recordation tax
 D.C. Official Code § 47-902(11) and § 47-3503(b)(2) for transfer tax
 Sunset Date: None
 Year Enacted: 1983

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	no estimate	no estimate	no estimate	no estimate

DESCRIPTION: Property that is transferred to a cooperative housing association is exempt from the deed recordation and transfer taxes if at least 50 percent of the units are occupied by households with an annual income no greater than 120 percent of the lower-income guidelines established by HUD for the Washington metropolitan area.

The purchaser must receive a credit against the purchase price of the property equal to the total transfer tax that would have been due without the exemption.

In addition, the recordation of a construction loan deed of trust or mortgage is exempt from the deed recordation tax if the property securing the deed of trust or mortgage is owned by a cooperative housing association meeting the criteria described in the previous paragraphs.

PURPOSE: The authorizing statute states that, “The purpose of this act is to expand homeownership opportunities for lower-income families to the maximum extent possible at the lowest possible cost to the District of Columbia.” The statute further states that, “Homeownership stabilizes families and, in turn, stabilizes neighborhoods, contributing to improved housing conditions and safer, better quality neighborhoods.”

WHO BENEFITS: Cooperative housing associations with at least 50 percent of units occupied by lower-income households benefit from this provision. It was impossible to estimate the revenue lost due to exemption because deed recordation and transfer tax exemptions are not categorized in a way that identifies the subset of cooperative housing associations that qualify for the exemption.

Deed Recordation and Transfer Tax Exemptions

183. Nonprofit housing associations

District of Columbia Code: D.C. Official Code § 42-1102(13) and § 47-3505(c) for deed recordation tax
 D.C. Official Code § 47-902(10) and § 47-3505(b) for transfer tax
 Sunset Date: None
 Year Enacted: 1983

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	no estimate	no estimate	no estimate	no estimate

DESCRIPTION: Property that is transferred to a “qualifying nonprofit housing organization” (a housing association that is exempt from federal income tax) is exempt from deed recordation and transfer taxes if the organization certifies its intent to do one of the following within the next 36 months: (1) transfer the property to a household with annual income no greater than 120 percent of the lower-income guidelines established by HUD for the Washington metropolitan area, (2) transfer at least 35 percent of the units in a multi-family property to households meeting the lower-income standard described above, or (3) transfer the property to a cooperative housing association that will make at least 50 percent of the units available to households meeting the lower-income standard described above.

The recordation of a construction loan deed of trust or mortgage, or a permanent loan deed of trust or mortgage, is also exempt from the deed recordation tax if the property securing the deed of trust or mortgage is owned by or is being simultaneously transferred to a qualifying nonprofit housing association.

PURPOSE: The authorizing statute states that, “The purpose of this act is to expand homeownership opportunities for lower income families to the maximum extent possible at the lowest possible direct cost to the District of Columbia.” The statute further states that, “Additional support for nonprofit housing organizations ... through property tax abatements and other incentives can serve to expand homeownership for lower income families at little or no additional cost to the District of Columbia.”

WHO BENEFITS: Nonprofit housing associations and the lower-income households they serve benefit from this provision. It was impossible to estimate the revenue lost due to exemption because deed recordation and transfer tax exemptions are not categorized in a way that identifies the subset of nonprofit housing associations that qualify for the exemption.

Deed Recordation and Transfer Tax

Exemptions

184. Resident management corporations

District of Columbia Code: D.C. Official Code § 42-1102(20) and § 47-3506.01(b)(1) for recordation tax
 D.C. Official Code § 47-902(15) and § 47-3506.01(b)(2) for transfer tax

Sunset Date: None

Year Enacted: 1992

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$0	\$0	\$0	\$0

DESCRIPTION: Public housing that is transferred to a qualifying resident management corporation³⁴ is exempt from deed recordation and transfer taxes.

PURPOSE: The purpose of this tax exemption is to expand the opportunities of low-income families living in a public housing project to become owners of the public housing. Resident ownership is also expected to help stabilize neighborhoods by giving residents a greater stake in the safety and upkeep of the community.

WHO BENEFITS: Resident management corporations and the individuals they serve are the intended beneficiaries of this provision. According to the D.C. Housing Authority, the Kenilworth-Parkside project is the only property that has been transferred to a resident management corporation (this transfer took place in 1992). Presently, no exemptions are projected for the FY 2010 through FY 2013 period.

³⁴ “Resident management corporation” is defined by section 21 of the United States Housing Act of 1937 (Title 42, Section 1437s of the U.S. Code).

Deed Transfer Tax Exemptions

185. Transfers of property pursuant to the Inclusionary Zoning Program

District of Columbia Code: D.C. Official Code § 47-902(23)
 Sunset Date: None
 Year Enacted: 2007

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$0	\$22	\$88	\$143

DESCRIPTION: Transfers of property to a qualifying low- or moderate-income household pursuant to the Inclusionary Zoning (IZ) program are exempt from the transfer tax on real property. IZ requires an affordable housing set-aside in a new development of 10 or more units, or a substantial rehabilitation that expands an existing building’s floor-area ratio (FAR) by 50 percent or more and adds 10 or more units, in exchange for an increase in density. There are exemptions for certain zones and historic districts.

IZ is targeted at households earning less than 50 percent of area median income (AMI), and between 50 percent and 80 percent of AMI, depending on the zoning and the type of construction. The amount of the affordable housing set-aside (which ranges between 8 and 10 percent of the residential space) also varies depending on the zoning and construction type. Affordable units offered through the IZ program have rental or sales price caps that are tied to AMI. In returning for providing affordable units, developers will receive a 20 percent bonus density.

After housing is built in accordance with the IZ program, the Department of Housing and Community Development (DHCD) will issue a notice of availability. DHCD will then hold a lottery in which at least four households are selected for each unit. To receive a Certificate of Eligibility, prospective renters or buyers have to submit a certification of income, a certification of occupancy, a mortgage pre-qualification if applicable, and any other documents required by the Mayor.

PURPOSE: The purpose of this exemption is to support the intent of the Inclusionary Zoning program to produce affordable housing for residents, to create mixed-income neighborhoods, and to increase homeownership opportunities for low- and moderate-income households.

WHO BENEFITS: Low- and moderate-income households are the intended beneficiaries of this provision. As of the writing of this report, no housing units had been built under the IZ program. Implementing regulations were issued on August 14, 2009, but there are unlikely to be any sales of IZ units for at least a year. The lag is due to the time needed to construct the units, issue the notices of availability, hold the lotteries, and certify the participants. The estimates of forgone revenue are based partly on data and assumptions derived from Montgomery County, Maryland, which implemented inclusionary zoning in the 1970s.

Deed Recordation and Transfer Tax

Exemptions

186. Exemption of properties purchased by foreign governments for embassies and related uses

District of Columbia Code: D.C. Official Code § 42-1102(3) for the deed recordation tax
D.C. Official Code § 47-902(3) for the transfer tax
Sunset Date: None
Year Enacted: 1962 (deed recordation tax) and 1980 (transfer tax)

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$586	\$528	\$475	\$485

DESCRIPTION: Organizations that are exempt from real property taxation in the District of Columbia pursuant to D.C. Official Code § 47-1002 are also exempt from the deed recordation tax and the transfer tax. Foreign governments are among the groups covered under § 47-1002 that qualify for this blanket exemption, which applies to the embassies and other properties that foreign governments use for diplomatic purposes.

PURPOSE: The purpose of this exemption is to uphold a principle of international law that foreign governments are entitled to exemption from taxation of real property owned by the foreign government and used by its diplomatic mission. Any portion of the property that is not used for diplomatic or consular purposes is not exempt from the District's deed recordation or transfer tax. The exemption also ensures that there is uniform treatment under the real property, deed recordation, and transfer taxes for properties purchased by foreign governments for diplomatic uses.

WHO BENEFITS: Foreign governments that own embassies, chanceries, and associated properties in the District of Columbia benefit from this exemption.

Deed Recordation and Transfer Tax
Exemptions

187. Exemption for property purchased by churches, synagogues, and mosques

District of Columbia Code: D.C. Official Code § 42-1102(3) for the deed recordation tax
D.C. Official Code § 47-902(3) for the transfer tax
Sunset Date: None
Year Enacted: 1962 (deed recordation tax) and 1980 (transfer tax)

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$293	\$264	\$238	\$243

DESCRIPTION: Organizations that are exempt from real property taxation in the District of Columbia pursuant to D.C. Official Code § 47-1002 are also exempt from the deed recordation tax and the transfer tax. Churches, synagogues, and mosques are among the groups covered under § 47-1002 that qualify for this blanket exemption.

PURPOSE: The purpose of this exemption is to extend the real property tax exemption for places of worship to the two other taxes related to real property: the deed recordation tax and the transfer tax. As a result, there is uniform treatment under the real property, deed recordation, and transfer taxes for churches, synagogues, mosques, and other places of worship.

WHO BENEFITS: Churches, synagogues, mosques, and other places of worship benefit from this exemption.

Deed Recordation and Transfer Tax
Exemptions

188. Exemption for property purchased by charitable entities

District of Columbia Code: D.C. Official Code § 42-1102(3) for the deed recordation tax
D.C. Official Code § 47-902 (3) for the transfer tax
Sunset Date: None
Year Enacted: 1962 (deed recordation tax) and 1980 (transfer tax)

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$1,759	\$1,584	\$1,425	\$1,454

DESCRIPTION: Organizations that are exempt from real property taxation in the District of Columbia pursuant to D.C. Official Code § 47-1002 are also exempt from the deed recordation tax and the transfer tax. Charitable entities are among the groups covered by § 47-1002 that qualify for this blanket exemption.

PURPOSE: The purpose of this exemption is to extend the real property tax exemption for charitable entities to the other two taxes on real property: the deed recordation tax and the transfer tax. As a result, there is uniform treatment under the real property, deed recordation, and transfer taxes for charitable organizations.

WHO BENEFITS: Charitable entities benefit from this exemption, which would also be expected to have spillover benefits for the people who receive goods or services from the charitable organizations.

Deed Recordation and Transfer Tax Exemptions

189. Tax-exempt entities subject to a long-term lease

District of Columbia Code: D.C. Official Code § 42-1102(27) for the deed recordation tax
 D.C. Official Code § 47-902(21) for the transfer tax
 Sunset Date: None
 Year Enacted: 2003

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	no estimate	no estimate	no estimate	no estimate

DESCRIPTION: A property is exempt from the deed recordation and transfer taxes it is subject to a lease or ground rent for a term of at least 30 years, and if the lessor would have been exempt from real property taxation under D.C. Official Code § 47-1002 if it had owned the property outright.

PURPOSE: This exemption was created to provide equitable treatment under the deed recordation and transfer taxes for properties that are under the control of organizations that are exempt from the real property tax. This provision extends the exemption these entities receive when they acquire a property in fee simple to the conveyance of property that is subject to a lease or ground rent of at least 30 years.

WHO BENEFITS: Organizations that are exempt from the real property tax and assume control of a property through a lease of 30 years or more benefit from this provision. It was impossible to estimate the revenue lost due to this exemption because deed recordation and transfer tax exemptions are not categorized in a way that identifies tax-exempt entities subject to a long-term lease.

PART IV: SALES TAX PROVISIONS

Sales Tax
Exemptions

190. Exclusion of energy products used in manufacturing

District of Columbia Code: D.C. Official Code § 47-2005(11)
Sunset Date: None
Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$633	\$647	\$661	\$648

DESCRIPTION: The District of Columbia Revenue Act of 1949, as amended, provides a sales-tax exemption for gross receipts from the “sales of natural or artificial gas, oil, electricity, solid fuel, or steam, directly used in manufacturing, assembling, processing, or refining.”

PURPOSE: The purpose of the exemption is to recognize that energy products used in manufacturing are ordinary and necessary expenses in the production process rather than outputs offered for retail sale. The sales tax is intended to be a consumption tax rather than a tax on intermediate goods and services that are consumed or directly used in production.

WHO BENEFITS: Manufacturing businesses benefit from this exemption.

Sales Tax
Exemptions

191. Exclusion of materials used in supermarkets

District of Columbia Code: D.C. Official Code § 47-2005(28)
Sunset Date: None
Year Enacted: 2000

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$118	\$121	\$123	\$121

DESCRIPTION: The District of Columbia Revenue Act of 1949, as amended, provides a sales-tax exemption for gross receipts from the “sales of building materials related to the development of a qualified supermarket” in one of four designated “priority development areas.” The four areas, which are defined in D.C. Official Code § 47-3801, are “Downtown East,” the “Capital City Business and Industrial Area,” the “Capital City Market Area,” and the “Georgia Avenue Area.”

PURPOSE: The purpose of this exemption is to encourage the construction and operation of supermarkets in underserved areas of the city.

WHO BENEFITS: Individuals and organizations that are constructing and operating supermarkets in the target areas benefit from this provision. Consumers are also intended beneficiaries of this exemption because it is intended to provide an incentive for supermarkets to locate in areas that lack them.

Sales Tax
Exemptions

192. Exemption for technology purchases made by high-technology companies

District of Columbia Code: D.C. Official Code § 47-2005(31)
Sunset Date: None
Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$30	\$31	\$31	\$31

DESCRIPTION: The District of Columbia Revenue Act of 1949, as amended, provides a sales-tax exemption for gross receipts from the “sales to a Qualified High Technology Company of computer software or hardware, and visualization and human interface technology equipment, including operating and applications software, computers, terminals, display devices, printers, cable, fiber, storage media, networking hardware, peripherals, and modems when purchased for use in connection with the operation of the Qualified High Technology Company.”

A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies.

PURPOSE: The purpose of this tax abatement is to encourage the growth of high-technology companies in the District of Columbia and thereby expand the District’s economy and employment base.

WHO BENEFITS: High-technology companies in the District of Columbia benefit from this provision. In tax year 2007, 14 companies benefited from the exemption.

Sales Tax
Exemptions

193. Exemption for certain sales made by high-technology companies

District of Columbia Code: D.C. Official Code § 47-2001(n)(2)(G)
Sunset Date: None
Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$98	\$100	\$102	\$100

DESCRIPTION: The District of Columbia Revenue Act of 1949, as amended, allows a sales-tax exemption for certain sales of intangible property or services otherwise taxable upon retail sale, provided that the sale is made by a qualified high technology company within the District of Columbia. The list of exempt products and services includes website design, maintenance, hosting, or operation; Internet-related consulting, advertising, or promotion services; graphic design; banner advertising; subscription services; and Internet website design and maintenance services. This exemption does not apply to telecommunication service providers.

A qualified high-technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies.

PURPOSE: The purpose of this tax abatement is to encourage the growth of high-technology companies in the District of Columbia and thereby expand the District's economy and employment base.

WHO BENEFITS: High-technology companies in the District of Columbia benefit from this provision. In tax year 2007, 14 companies benefited from the exemption.

Sales Tax
Exemptions

194. Exemption for transportation and communication services

District of Columbia Code: D.C. Official Code § 47-2001(n)(2)(A)
Sunset Date: None
Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$41,390	\$42,301	\$43,231	\$42,341

DESCRIPTION: Gross receipts from sales of transportation and communication services are exempt from the sales tax. The exemption does not include the sales of data processing services, information services, or local telephone services. (The original exemption, enacted in 1949, applied to “sales of transportation and communication services,” without any qualifiers).

PURPOSE: This exemption is part of most state tax systems because the sales tax originated as a levy on purchases of tangible personal property by both individuals and businesses, rather than taxes on all consumption. Even as the service economy has grown, policymakers continue to exempt most services from the sales tax.

WHO BENEFITS: Firms providing transportation and communication services benefit from this exemption.

Sales Tax
Exemptions

195. Exemption for professional and personal services

District of Columbia Code: D.C. Official Code § 47-2001(n)(2)(B)
Sunset Date: None
Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$277,000	\$283,094	\$289,322	\$283,367

DESCRIPTION: Gross receipts from sales of professional, insurance, or personal services are exempt from the sales tax.

PURPOSE: This exemption is part of most state tax systems because the sales tax originated as a levy on purchases of tangible personal property by both individuals and businesses, rather than taxes on all consumption. Even as the service economy has grown, policymakers have usually chosen to exempt professional, insurance, or personal services from the sales tax.

WHO BENEFITS: Firms providing professional, insurance, or personal services benefit from this exemption.

Sales Tax
Exemptions

196. Exemption for Internet access service

District of Columbia Code: D.C. Official Code § 47-2001(n)(2)(F)
Sunset Date: None
Year Enacted: 1999

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$2,646	\$2,704	\$2,764	\$2,707

DESCRIPTION: Gross receipts from sales of Internet access service are exempt from the sales tax. “Internet access service” is defined as a service that “enables users to access content, information, electronic mail, or other services offered over the Internet and may also include access to proprietary content, information, and other services as part of a package of Internet access services offered to customers.”

Internet access service does not include (1) the sales of data processing and information services that do not involve content, information, electronic mail, or other services offered over the Internet, or (2) telecommunication services. This exemption also does not cover online purchases.

PURPOSE: State and local taxation of Internet access has been barred by the 1998 Internet Tax Freedom Act approved by Congress. The Act has since been extended twice and is in effect until November 1, 2014. Proponents of the tax exemption for Internet access have argued that the exemption will stimulate the continued growth of a technology that has very positive economic and social impacts.

WHO BENEFITS: Individuals or firms selling Internet access service benefit from this exemption, as do their customers.

Sales Tax
Exemptions

197. Exemption for the federal and D.C. governments

District of Columbia Code: D.C. Official Code § 47-2005(1)
 Sunset Date: None
 Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$167,000	\$170,674	\$174,429	\$170,839

DESCRIPTION: Gross receipts from sales to the United States government, the District of Columbia government, or any instrumentalities thereof, are exempt from the sales tax, except for sales to national banks and federal savings and loan associations.

PURPOSE: The exemption for sales to the U.S. government recognizes the fact that the federal government is immune from taxation by the states or municipalities. This immunity has been established in numerous court decisions, beginning with *McCulloch v. Maryland*, 17 U.S. 316 in 1819, and has been reinforced in other cases including *Clallam County v. United States*, 263 U.S. 341 in 1923; *Cleveland v. United States*, 323 U.S. 329, 333 in 1945; *United States v. Mississippi Tax Commission*, 412 U.S. 363 in 1973; and *United States v. Mississippi Tax Commission*, 421 U.S. 599 in 1975.

The sales tax exemption for the District government eliminates a cost that would ultimately be borne by D.C. taxpayers, and can be justified on the grounds that the local government is usually an intermediate consumer of goods and services rather than the end user.

WHO BENEFITS: The federal government and the District of Columbia government benefit from this exemption.

Sales Tax
Exemptions

198. Exclusion of materials used in war memorials

District of Columbia Code: D.C. Official Code § 47-2005(16)
Sunset Date: None
Year Enacted: 1957

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$0	\$0	\$0	\$0

DESCRIPTION: The District of Columbia Revenue Act of 1949, as amended, provides a sales-tax exemption for gross receipts from the “sales of material to be incorporated permanently in any war memorial authorized by Congress to be erected on public grounds of the United States.”

PURPOSE: The purpose of the exemption is to facilitate the construction of war memorials on public grounds in the District of Columbia.

WHO BENEFITS: The exemption benefits the U.S. government by providing a sales tax exemption for materials used in the construction for war memorials that are authorized by Congress and built on federally owned land. There is zero projected revenue loss from this exemption during the FY 2010 through FY 2013 period because there are no war memorials planned for construction, according to the National Capital Planning Commission.

At the time of this writing, legislation was pending in Congress (S. 2097 and H.R. 482) that would re-dedicate the District of Columbia War Memorial as both a U.S. and District of Columbia World War I Memorial, but neither the U.S. House nor Senate had voted on these bills. The World War II Memorial, dedicated in 2004, is the most recent war memorial constructed in Washington, D.C.

Sales Tax Exemptions

199. Exemption for semi-public institutions

District of Columbia Code: D.C. Official Code § 47-2005(3)
 Sunset Date: None
 Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$44,670	\$45,652	\$46,657	\$45,696

DESCRIPTION: Gross receipts from sales to semi-public institutions are exempt from the sales tax under the following conditions: (1) the institution must first have obtained a certificate from the Mayor stating that the institution is entitled to the sales tax exemption,³⁵ (2) the vendor keeps a record of each sale, (3) the institution is located in the District of Columbia, and (4) the property or services purchased are for use or consumption, or both, in maintaining and operating the institution for the purpose for which it was established, or for honoring the institution or its members.

A semi-public institution is defined as “any corporation, and any community chest, fund, or foundation, organized exclusively for religious, scientific, charitable, or educational purposes, including hospitals, no part of the net earnings of which inures to the benefit of any private shareholder or individual.”

PURPOSE: The purpose of this exemption is to support the mission of private, non-profit institutions that provide religious, educational, social, philanthropic and other services that have important public benefits. The exemption recognizes and encourages the public benefits provided by many non-profit entities such as hospitals and libraries.

WHO BENEFITS: Semi-public (non-profit) institutions, and the people they serve, benefit from this exemption.

³⁵ The relevant form is Form FR-551, “District of Columbia Certificate of Exemption.”

Sales Tax Exemptions

200. Exemption of groceries

District of Columbia Code: D.C. Official Code § 47-2001(n)(2)(E)
 Sunset Date: None
 Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$53,961	\$55,148	\$56,361	\$55,201

DESCRIPTION: Gross receipts from sales of food or drinks that are defined as eligible foods under the federal Supplemental Nutrition Assistance Program (which was formerly known as the “Food Stamp” program) are exempt from sales tax, except sales of food or drink for immediate consumption.³⁶ Snack food is exempt from sales tax, due to a statutory change that the District adopted in 2001.³⁷

PURPOSE: The purpose of this exemption is to make the sales tax more equitable by exempting necessities that absorb a large share of the income of low-income households. The exemption of groceries from the sales tax is common. In 2004, only 13 states taxed food at the general sales tax rate.³⁸

WHO BENEFITS: All residents benefit from the exemption of groceries from the sales tax, but the exemption is particularly important for low-income individuals and families. Some have observed that the benefit for low-income families is smaller than one might expect, because food purchase made with Supplemental Nutrition Assistance Program benefits are already exempt from taxation.

³⁶ Food prepared for immediate consumption is taxed at a 10 percent rate, compared to the 5.75 percent general sales tax rate.

³⁷ This change was part of D.C. Law 13-305, the “Tax Clarity Act of 2000, which took effect on June 9, 2001.

³⁸ John Due and John Mikesell, “Retail Sales Tax, State and Local” in *The Encyclopedia of Taxation and Tax Policy*, Second Edition, Joseph Cordes, Robert Ebel, and Jane Gravelle, eds. (Washington, D.C.: The Urban Institute Press, 2005), p. 337.

Sales Tax
Exemptions

201. Exemption for state and local governments

District of Columbia Code: D.C. Official Code § 47-2005(2)
Sunset Date: None
Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	minimal	minimal	minimal	minimal

DESCRIPTION: Gross receipts from sales to a state or any of its political subdivisions (counties, cities, townships) are exempt from the sales tax, provided that the state grants a similar exemption to the District of Columbia. The term “state” refers to the states, territories, and possessions of the United States.

PURPOSE: The purpose of this exemption is to recognize that purchases made by state and local governments are not meant for final consumption, but rather as inputs to the provision of goods and services by those governments.

WHO BENEFITS: State and local governments benefit from this exemption, as do the taxpayers in those jurisdictions. The District of Columbia also benefits indirectly, because the District will not receive an exemption from the sales tax in other jurisdictions if it does not provide a reciprocal exemption.

Sales Tax
Exemptions

202. Exemption for public utility companies

District of Columbia Code: D.C. Official Code § 47-2005(5)
Sunset Date: None
Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$91,140	\$93,145	\$95,194	\$93,235

DESCRIPTION: Gross receipts from sales to a utility or a public-service company are exempt from the sales tax, provided that (1) the sales are for use or consumption in furnishing a service or commodity, and (2) the charges from furnishing the service or commodity are subject to a gross receipts tax or mileage tax in the District of Columbia.

PURPOSE: The purpose of this tax is to protect utilities and public-service companies from double taxation. Because utilities and public-service companies are subject to a gross receipts tax, the value of the purchases made to provide utility service are already included in the base of the gross receipts tax.

WHO BENEFITS: Utility and public-service companies benefit from this exemption.

Sales Tax Exemptions

203. Miscellaneous exemptions

District of Columbia Code: D.C. Official Code § 47-2005
 Sunset Date: None
 Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	no estimate	no estimate	no estimate	no estimate

DESCRIPTION: The District of Columbia Revenue Act of 1949, as amended, includes a number of sales-tax exemptions that are relatively small in scope. These miscellaneous exemptions cover gross receipts from (1) sales of materials and services to the printing clerks of the U.S. House of Representatives, and sales of materials and services by the printing clerks, (2) casual and isolated sales by a vendor who is not regularly engaged in the business of retail sales, (3) sales of food, beverages, and other goods made for use in the U.S. House of Representatives cloakrooms, and sales of food, beverages, and other goods made by anyone involved in operating the cloakrooms, (4) sales of food, or beverages on a train, airline, or other form of transportation operating in interstate commerce, (5) food or drink that is delivered and sold without profit by a non-profit volunteer organization to persons who are confined to their homes, (6) sales of food or drink made by a senior citizen residence to the residents, guests, and employees of the senior residence, (7) sales of vessels that are subject to Article 29 of the Police Regulations, (8) sales of residential cable television services and commodities,³⁹ (9) sales of printing services and sales of tangible personal property to a publisher that prints its own newspaper and distributes the newspaper in the District of Columbia free of charge, (10) sales of two-way land mobile radios used for taxicab dispatch and communication, (11) sales of material or equipment used in the construction, repair, or alteration of real property, provided that the materials are temporarily stored in the District of Columbia for not longer than 90 days in order to transport the property outside the District for use solely outside the District, and (12) sales by the U.S. government or the District government.

PURPOSE: The miscellaneous sales-tax exemptions in the D.C. Code serve a variety of purposes, including (1) removing the administrative burden on those who sell goods or services infrequently or incidentally, (2) preventing double-taxation for certain goods or services subject to other taxes when they are sold, (3) exempting goods or carriers that are passing through the District through interstate commerce or transportation, and (4) promoting the purchase of certain items.

There is no estimate of the forgone revenue for these provisions, because most of the individual items are very small and difficult to estimate.

WHO BENEFITS: Various groups of vendors and consumers benefit from these exemptions, as described above.

³⁹ These sales are subject to a gross receipts tax.

Sales Tax
Exemptions

204. Exemption for valet parking services

District of Columbia Code: D.C. Official Code § 47-2001(n)(2)(H)
Sunset Date: None
Year Enacted: 2002

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$182	\$186	\$190	\$186

DESCRIPTION: Gross receipts from sales of valet parking services are exempt from the sales tax.

PURPOSE: The District’s sales tax generally includes “the sale of or charge for the service of parking, storing, or keeping motor vehicles or trailers.” Nevertheless, the District had never levied the tax on valet parking services, and policymakers decided to codify the sales tax exemption for valet parking services.⁴⁰

WHO BENEFITS: Valet parking providers and their customers benefit from this exemption. As of January 2010, the District Department of Transportation reported that it had approved 97 applications for valet parking permits. The estimated revenue loss from the exemption for fiscal years 2010 through 2013 is based on assumptions about the number of days each valet parking establishment is open and the money collected per day.

⁴⁰ Office of the Chief Financial Officer, “Fiscal Impact Statement: ‘Fiscal Year 2003 Budget Support Act of 2002,’” June 4, 2002, p. 7.

Sales Tax
Exemptions

205. Exemption of medicines, pharmaceuticals, and medical devices

District of Columbia Code: D.C. Official Code § 47-2005(14) and (15)
Sunset Date: None
Year Enacted: 1949

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$9,313	\$9,518	\$9,727	\$9,527

DESCRIPTION: Gross receipts from sales of medicines, pharmaceuticals, drugs, and medical devices are exempt from District of Columbia sales taxation.

PURPOSE: The purpose of this exemption is to make the sales tax more equitable by exempting necessities that absorb a large share of the income of low-income households, and to avoid adding to the expense of potentially life-saving medicines, drugs, and medical devices. Most states exempt medicine, pharmaceuticals, and medical devices from the sales tax.⁴¹

WHO BENEFITS: The sellers and purchasers of medicines, pharmaceuticals, drugs, and medical devices benefit from this exemption, but low-income individuals and families in particular benefit from the exemption.

⁴¹ Due and Mikesell, p. 337.

Sales Tax
Exemptions

206. Exemption of sales by 501(c)(4) organizations

District of Columbia Code: D.C. Official Code § 47-2005(22)
Sunset Date: None
Year Enacted: 1987

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$25,920	\$26,490	\$27,073	\$26,516

DESCRIPTION: Gross receipts from sales to an organization that is exempt from federal corporate income tax under section 501(c)(4) of the Internal Revenue Code are exempt from District of Columbia sales taxation. Organizations covered by section 501(c)(4) include “civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.”

PURPOSE: The purpose of this exemption is to support the activities of non-profit organizations that promote social welfare.

WHO BENEFITS: Organizations that are tax-exempt under section 501(c)(4) of the Internal Revenue Code, and the people those organizations serve, benefit from this exemption.

Sales Tax
Exemptions

207. Exemption of sale of motor vehicle fuels that are subject to the motor fuels tax

District of Columbia Code: D.C. Official Code § 47-2005(20)
Sunset Date: None
Year Enacted: 1981

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$15,130	\$15,463	\$15,803	\$15,478

DESCRIPTION: Gross receipts from sales of motor vehicle fuels are exempt from the sales tax, provided that the fuels are subject to the motor vehicle fuels tax. In 2009, the motor vehicle fuels tax was raised from 20 cents per gallon to 23.5 cents per gallon.

PURPOSE: The purpose of this sales tax exemption is to avoid the double taxation of motor fuels.

WHO BENEFITS: Motor vehicle owners benefit from this exemption.

PART V: INSURANCE PREMIUM TAX PROVISIONS

**Insurance Premium Tax
Credit**

208. Tax credit for certified capital investment by insurance companies

District of Columbia Code: D.C. Official Code § 31-5233
 Sunset Date: None
 Year Enacted: 2004

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$12,500	\$12,500	\$12,500	\$9,600

DESCRIPTION: Insurance companies that invest in a certified capital company (CAPCO) can receive insurance premium tax credits equal to the amount of the insurance company’s total debt and equity investment in the CAPCO. By allowing insurance companies to claim premium tax credits, the District generates a pool of investment capital.

CAPCOs must apply for certification from the Commissioner of the Department of Insurance, Securities, and Banking (DISB), and must demonstrate that they meet statutory requirements for equity capitalization, venture capital experience, and other criteria. DISB has certified three CAPCOs.

The CAPCOs are required to invest the insurance company funds in qualified small businesses that are headquartered in the District, meet the requirement that 25 percent of employees live in the District, and certify in an affidavit that they are unable to obtain conventional financing.

In any tax year, an insurance company may not claim insurance premium tax credits that exceed 25 percent of its premium tax liability, but the unused premium tax credits can be carried forward indefinitely until they are utilized. There is an aggregate limit of \$50 million on the premium tax credits that may be granted and a \$12.5 million limit per year. Tax year 2009 was the first year that insurance companies could claim the credit.

PURPOSE: The purpose of this tax credit is to encourage private capital investment in new or expanding small businesses in the District of Columbia.

WHO BENEFITS: The goal of the tax credit (and the CAPCO program as a whole) is to help small businesses expand, but the program is intended more generally to strengthen and expand the District’s economic and tax base.

PART VI: PERSONAL PROPERTY TAX PROVISIONS

Personal Property Tax Exemptions

209. Exemption for digital audio radio satellite companies

District of Columbia Code: D.C. Official Code § 47-1508(a)(8)
Sunset Date: None
Year Enacted: 2000

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	no estimate	no estimate	no estimate	no estimate

DESCRIPTION: The personal property of a digital audio radio satellite service company with a license granted by the Federal Communications Commission is exempt from the personal property tax, provided that the company is subject to a gross receipts tax.

PURPOSE: The purpose of this exemption is to prevent double taxation.

WHO BENEFITS: Digital audio radio satellite companies benefit from this exemption. The Office of Revenue Analysis (ORA) cannot estimate the revenue forgone from the exemption because ORA follows the practice of the U.S. Internal Revenue Service whereby, “No statistical tabulation may be released with cells containing data from fewer than three returns,” in order to protect the confidentiality of individual tax records.⁴² Because there is only one provider of digital radio service located in the District of Columbia, an estimate of forgone revenue cannot be released.

⁴² U.S. Internal Revenue Service, Publication 1075, “Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities” (October 2007), p. 39.

Personal Property Tax Exemptions

210. Exemption for qualified supermarkets

District of Columbia Code: D.C. Official Code § 47-1508(a)(9)
 Sunset Date: None
 Year Enacted: 2000

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$488	\$490	\$494	\$499

DESCRIPTION: The personal property of a “qualified supermarket” is exempt from personal property taxation for 10 years, subject to several conditions. If the supermarket leases the real property where it is located, the owner of the property must reduce the rent charged to the supermarket by the amount of the real property tax exemption it receives. In addition, the supermarket must comply with the “First Source” program, which requires private organizations receiving D.C. government aid to give priority to D.C. residents in filling new jobs.⁴³

A “qualified supermarket” is a supermarket located in one of 13 “priority development areas” defined in D.C. Official Code § 47-3801. Examples of the priority development areas include “Downtown East,” the “Capital City Business and Industrial Area,” the “Capital City Market Area,” the “Georgia Avenue Area,” and the “Minnesota Avenue Area.”

PURPOSE: The purpose of this exemption is to encourage the construction and operation of supermarkets in underserved areas of the city.

WHO BENEFITS: Individuals and organizations that are constructing and operating supermarkets in the target areas benefit from this provision, as do residents of these areas.

⁴³ Specifically, the beneficiaries of D.C. government aid are supposed to adopt the target of hiring D.C. residents for at least 50 percent of their new jobs.

Personal Property Tax
Exemptions

211. Exemption for qualified high technology companies

District of Columbia Code: D.C. Official Code § 47-1508(a)(10)
Sunset Date: None
Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$181	\$183	\$186	\$188

DESCRIPTION: The personal property of a “qualified high technology company” is exempt from personal property taxation for the 10 years beginning in the year of purchase. The exemption applies to personal property purchased after December 31, 2000. In addition, qualified personal property leased to a qualified high technology company is also exempt from personal property tax for a period not to exceed 10 years.

A qualified high technology company must derive at least 51 percent of its gross revenue from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies.

PURPOSE: The purpose of this tax abatement is to encourage the growth of high-technology companies in the District of Columbia and thereby expand the District’s economy and employment base.

WHO BENEFITS: High-technology companies in the District of Columbia benefit from this provision.

**Personal Property Tax
Exemptions**

212. Nonprofit exemption

District of Columbia Code: D.C. Official Code § 47-1508(a)(1)
Sunset Date: None
Year Enacted: 1902

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$3	\$3	\$3	\$3

DESCRIPTION: The personal property of any non-profit organization organized exclusively for religious, scientific, charitable, or educational purposes, including hospitals, is exempt from personal property taxation, provided that (1) that the organization obtains a letter from the Chief Financial Officer stating that it is entitled to the exemption, and (2) any personal property used for activities that generated unrelated business income subject to tax under section 511 of the U.S. Internal Revenue Code of 1986 is not exempt from the personal property tax.

PURPOSE: The exemption supports a general policy of providing tax exemptions to non-profit organizations that provide religious, scientific, charitable, educational, or cultural benefits to the general public.

WHO BENEFITS: Non-profit organizations organized exclusively for religious, scientific, charitable, educational, or cultural purposes benefit from this exemption. There are 724 properties that presently qualify for this exemption.

Personal Property Tax
Exemptions

213. Exemption for works of art lent to the National Gallery of Art by non-residents

District of Columbia Code: D.C. Official Code § 47-1508(a)(2)
Sunset Date: None
Year Enacted: 1950

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$0	\$0	\$0	\$0

DESCRIPTION: Works of art owned by a non-resident of the United States, who is not a citizen of the United States, are exempt from the personal property tax if the works of art are lent to the National Gallery of Art solely for exhibition without charge to the general public.

PURPOSE: The purpose of this exemption is not known, but it may have been enacted to facilitate an exhibition of the art of oil magnate Calouste Gulbenkian, who was considered to have one of the best private art collections in the world. In late 1950, the National Gallery of Art opened an exhibition, “European Paintings from the Gulbenkian Collection,” showing 40 Gulbenkian paintings. These pieces were on loan to the National Gallery from October 1950 to May 1951.

WHO BENEFITS: It is not known how this exemption has been used. As stated above, it may have been used to facilitate the National Gallery of Art exhibition, “European Paintings from the Gulbenkian Collection,” in 1950.

Personal Property Tax
Exemptions

214. Exemption for organizations subject to public utility or toll telecommunications tax

District of Columbia Code: D.C. Official Code § 47-1508(a)(3A)
Sunset Date: None
Year Enacted: 2001

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$9	\$9	\$9	\$9

DESCRIPTION: The personal property of any company that is subject to a public utility tax or the toll telecommunications tax is exempt from the personal property tax.

PURPOSE: The purpose of this exemption is to prevent double taxation.

WHO BENEFITS: Companies that are subject to the public utility tax or the toll telecommunications tax benefit from this exemption. Presently, 12 companies qualify for the exemption.

Personal Property Tax Exemptions

215. Exemption for wireless telecommunication companies

District of Columbia Code: D.C. Official Code § 47-1508(7)
Sunset Date: None
Year Enacted: 1998

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	minimal	minimal	minimal	minimal

DESCRIPTION: The personal property of a wireless telecommunication company is exempt from personal property taxation, except for office equipment or office furniture. This exemption includes resellers that purchase telecommunications services from another telecommunications service provider, and then resell or integrate the purchased services into a mobile telecommunication service. The exemption is valid regardless of whether the wireless company pays the toll telecommunications tax or not.

PURPOSE: The purpose of this exemption is to provide wireless telecommunication companies with a personal property tax exemption equivalent to the exemption provided to other telecommunication companies.

WHO BENEFITS: Wireless telecommunication companies benefit from this exemption. Nevertheless, the number of firms that claim the exemption and the associated reduction in tax are unknown because the wireless telecommunication companies do not have to file a form with the Office of Tax and Revenue to be eligible.

The estimated revenue loss is deemed “minimal” (less than \$50,000 per year) because U.S. Census Bureau data show that wireless telecommunication companies are small (approximately 20 employees).⁴⁴ D.C. law exempts the first \$225,000 of taxable personal property from the tax, and it is likely that most if not all wireless telecommunication companies would be fully exempt, due to their size, even without this explicit exemption. The majority of D.C. businesses have no personal property tax liability as a result of the \$225,000 exemption.

⁴⁴ Specifically, the 2002 Economic Census reported that there were 27 wireless telecommunication companies in the District of Columbia with 616 employees, an average of 22.8 employees per firm.

Personal Property Tax Exemptions

216. Exemption of motor vehicles and trailers

District of Columbia Code: D.C. Official Code § 47-1508(a)(3)
 Sunset Date: None
 Year Enacted: 1954

(Dollars in thousands)	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Forgone	\$1,929	\$1,972	\$2,015	\$2,060

DESCRIPTION: Any motor vehicle or trailer registered in the District of Columbia is exempt from personal property taxation, except that special equipment mounted on a motor vehicle or trailer and not used for the transportation of persons or property is taxed as tangible personal property. The District’s personal property tax applies only to business property, so the motor vehicles owned by District residents for their personal use would not be taxed even if this exemption were not in place.

PURPOSE: The reason for the exemption is not known, but many states do not include motor vehicles in their personal property tax.⁴⁵ Motor vehicles are exempt from the personal property tax in Maryland, but personal and commercial motor vehicles in Virginia are subject to the personal property tax.⁴⁶

WHO BENEFITS: Owners of commercial motor vehicles and trailers benefit from this exemption. As of January 2010, there were 15,700 commercial vehicles registered in the District of Columbia, according to the D.C. Department of Motor Vehicles.⁴⁷

⁴⁵ John Bowman, “Personal Property Taxation” in District of Columbia Tax Revision Commission, *Taxing Simply, Taxing Fairly: Full Report* (1998), Chapter H, p. 204.

⁴⁶ In Virginia, each city or country sets its own personal property tax and the state subsidizes some personal property tax relief for non-commercial motor vehicles.

⁴⁷ This information was provided by the Office of the Director, Department of Motor Vehicles.