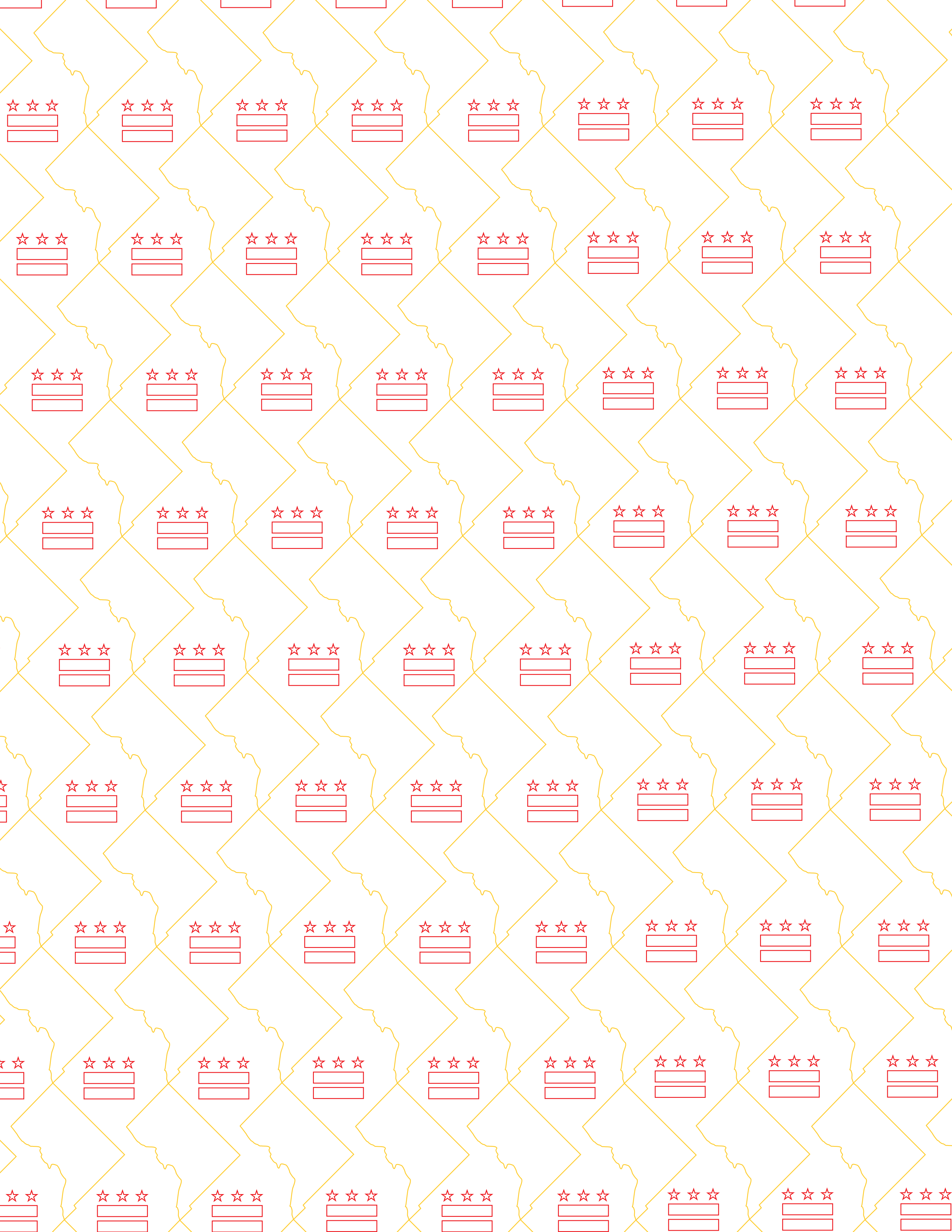
DC Tax Revision Commission

Final Report

May 2014



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EXECUTIVE SUMMARY

The District of Columbia's economic picture is largely bright. It weathered the recession better than most jurisdictions, adding businesses, jobs, and residents during the recovery. More and more people are now choosing the District as a place to live, rather than merely work.

Private employment is growing, offsetting a loss of federal government jobs. The current population and private employment strength translates into a relatively stable and growing revenue base. The District's budget is balanced (indeed, in surplus), and its tax system is fundamentally sound.

However, there are challenges on the horizon. The District may not continue to attract and retain residents. In addition, to reduce its dependence on the federal government, the District must diversify its economy. Finally, many commuters and businesses use District services but do not pay District taxes.

Jurisdictions often establish tax commissions to address fiscal crises or to lay foundations for new tax revenues. The Council of the District of Columbia (DC Council) created the DC Tax Revision Commission during a time of fiscal and economic progress and asked the Commission to analyze the District's tax system and propose innovative approaches to meet *future* challenges. The District last received a comprehensive review of its tax system from a tax commission in 1998.

From the fall of 2012 through the end of 2013, the Commission reviewed the major taxes in the District and considered ways to improve fairness, broaden the tax base, increase the District's competitiveness, encourage business and employment growth, and promote simplification, as directed by the Commission's authorizing legislation.[1] The Commission's objective was twofold: to improve the District's tax system and to maintain its fiscal integrity.

The Commission held 26 meetings and three public hearings in its 16 months of activity. Experts in state and local tax policy assisted the Commission's work. They analyzed the District's taxes, compared them with other localities and states, both regionally and nationally, and suggested reform options. Mayor Vincent Gray, members of the DC Council, and the public also offered policy suggestions.

In September 2013, the Commission's staff assembled a list of 63 wide-ranging policy ideas for the commissioners to deliberate during public meetings.[2] Some policy ideas were in conflict with others. The staff identified pros and cons for each idea, and the District's Office of Revenue Analysis (ORA), the revenue-estimating arm of the Office of the Chief Financial Officer, evaluated the revenue impact for each option.

On Dec. 18, 2013, the Commission unanimously approved a set of recommendations designed to improve the District's tax system and help its residents and businesses prosper. The Commission structured its recommendations as a package, and many of the recommendations work in concert. For example, base-broadening measures in some recommendations help fund other tax relief recommendations.

The DC Council allocated $18 million a year to fund tax changes. The Commission worked hard to keep the cost of its recommendations as close to this target as possible to ensure that the District has the resources necessary to adequately fund its public services. Although the final package of recommendations exceeds the DC Council's allocation, the Commission considers its recommendations affordable given the District's recent economic and tax revenue growth.

The Commission identified three challenges for the District's tax system:

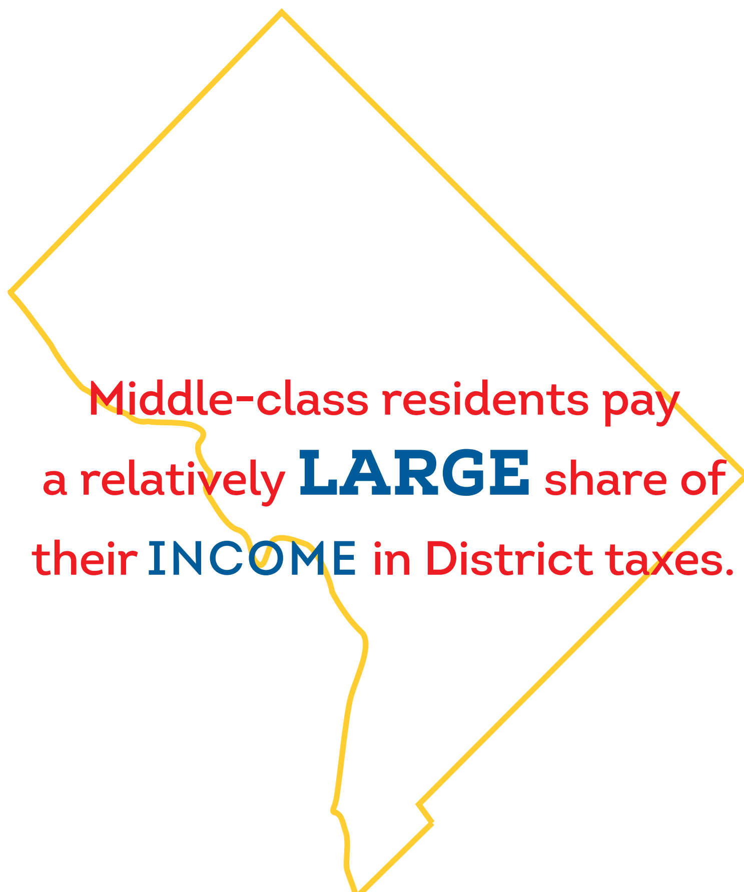
- Middle-class residents pay a relatively large share of their income in District taxes. This undercuts the progressive design of the District's tax system and impedes efforts to attract and retain residents. This disproportionate burden is especially troubling given the rising cost of living in the District. The current tax system often challenges long-term residents hoping to stay in the city, young professionals moving to the District, and growing families seeking to make the District their per

[1] The Commission was authorized by the DC Council on Sept. 14, 2011, through an amendment to DC Code § 47-461. Please see the Appendices for the authorizing legislation.

[2] Three of the original options were related to tax administration. These options are not included in this section of the report, but were presented in a memo to CFO Jeffrey DeWitt, who recently assumed office.

manent home. The Commission recommended increasing the standard deduction and the personal exemption as well as adding a new middle-income tax bracket, with a tax rate of 6.5 percent, rather than 8.5 percent.

- The District's business franchise tax and commercial property tax rates are the highest in the region and among the highest in the nation (although a comparison of the burden from all business taxes is less clear). These tax rates may fuel a perception problem. As it prepares for future challenges, including a shrinking federal government, the District must attract businesses and diversify its economy. The Commission recommended lowering the District's business franchise tax rate to 8.25 percent (from 9.975 percent), the same rate as Maryland and closer to Virginia's 6 percent rate.
- Because of federal limitations, the District cannot tax many businesses and individuals. As a result, taxable District businesses and residents must shoulder a higher burden. The Commission recommended broadening the tax base, which would spread the tax burden more widely and raise revenue more efficiently. To that end, the Commission recommended a local service fee of $25 per employee per quarter to be paid by all employers (except the federal and District governments) with five or more employees. It also recommended an expansion of the sales tax to a handful of additional services.



The first chapter of this report explains the Commission's recommendations, which are organized by type of tax: individual income tax, the estate tax, business taxes, sales tax, and property tax.[3] The chapter also addresses the ideas that the Commission rejected. Following the recommendations are a chapter highlighting the District's key economic trends and a chapter analyzing the District's tax system in more detail, including comparisons with other jurisdictions. Finally, the Appendix includes a revenue estimate for the Commission's package of recommendations, a distribution table for the recommended income tax changes, draft legislation to implement the recommendations, and a list of all the policymakers, experts, residents, and staff who contributed to the report.

[3] Deed recordation and deed transfer taxes are included in the discussion of property taxes.

By the Numbers*

4.0%–8.95%
Individual Tax Rates

5.75%
Sales Tax Rate

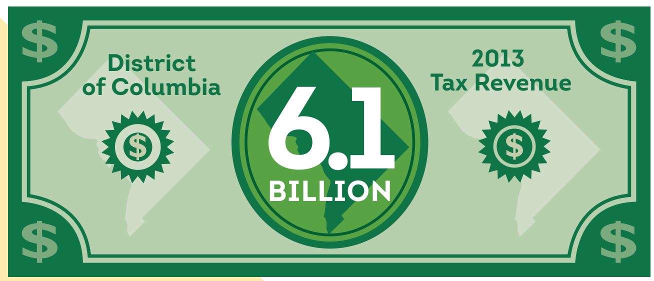
9.975%
Corporate Tax Rate

16%
Top Estate Tax Rate

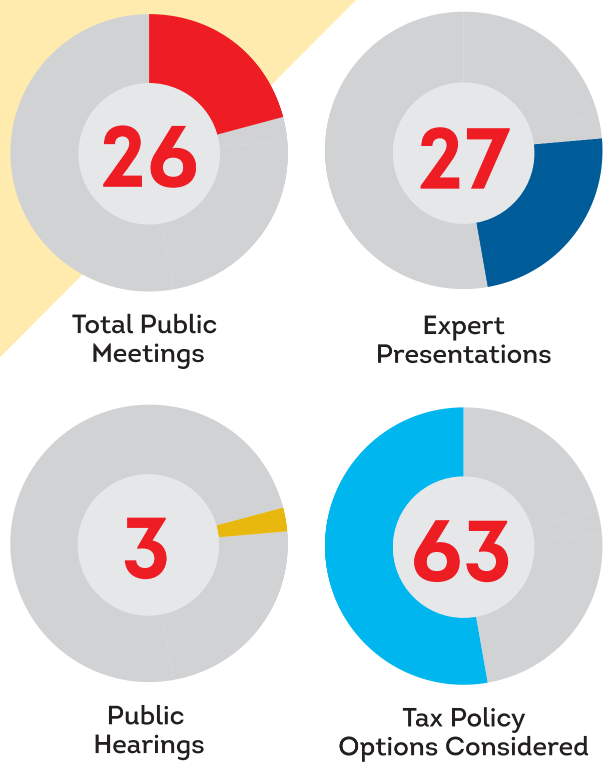
8.95%
Top Capital Gains Tax Rate

$0.85 per $100
Residential Property Tax Rate

$1.65/1.85 per $100
Commercial Property Tax Rate



Commission Stats



*Source: DC Tax Facts 2013, Office of the Chief Financial Officer

RECOMMENDATIONS

- ☆ Conform the District's eight income tax filing statuses to the five federal filing statuses
- ☆ Create separate income tax brackets for singles and marrieds
- ☆ Add a new middle-class tax bracket at 6.5 percent, reduced from 8.5 percent
- ☆ Reduce the top marginal rate to 8.75 percent from 8.95 percent as of Jan. 1, 2016, instead of 8.5 percent as currently scheduled
- ☆ Raise the District's $4,100 standard deduction to the federal level of $6,100 for singles, $8,950 for head of household filers, and $12,200 for marrieds
- ☆ Raise the District's personal exemption to the federal level (from $1,675 to $3,900)
- ☆ Phase out personal exemptions for taxpayers with more than $150,000/$200,000 of adjusted gross income (singles/marrieds)
- ☆ Increase the maximum DC Earned Income Tax Credit (EITC) for childless workers from $195 per filer to $487 and expand coverage
- ☆ Broaden the individual income tax base by eliminating several small deductions and exemptions

- ☆ Raise the estate tax threshold from $1 million to the $5.25 million federal level and then index it for inflation

- ☆ Lower the business franchise tax rate to 8.25 percent from 9.975 percent
- ☆ Exempt investment funds from the unincorporated business franchise tax
- ☆ Apportion business income to the District based on sales only
- ☆ Levy a local services fee on non-government DC employers of $100 per employee per year

- ☆ Expand the sales tax to more services
- ☆ Report use tax for online and mail-order purchases on the individual income tax return
- ☆ Raise the general sales tax rate to 6 percent from 5.75 percent
- ☆ Unify taxation of tobacco products

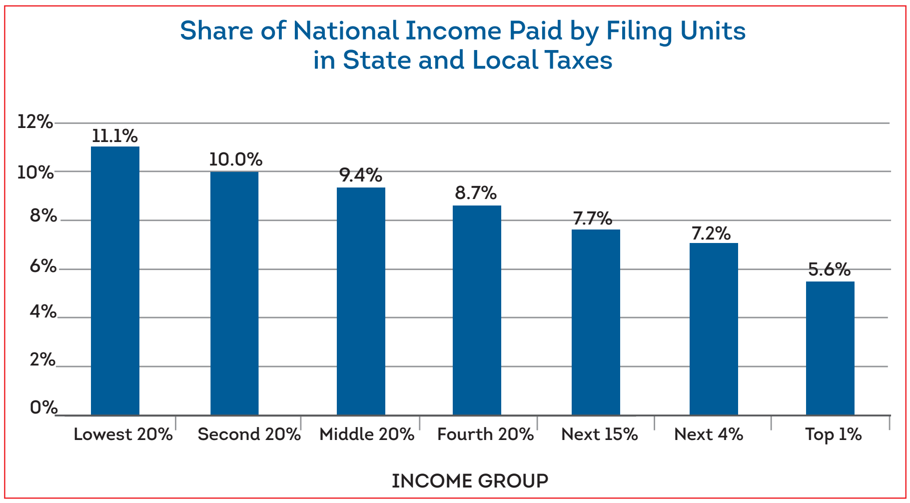
- ☆ The Commission did not recommend any policy changes for the District's property tax

INDIVIDUAL INCOME TAX

The District's individual income tax has eight filing statuses and four brackets. For taxpayers of any status, taxable income up to $10,000 is taxed at 4 percent, between $10,001 and $40,000 at 6 percent, between $40,001 and $350,000 at 8.5 percent, and above $350,000 at 8.95 percent.

When considering all taxes, most state and local tax systems are quite regressive, meaning that low- and middle-income families pay more of their income in taxes than high-income families. The Institute on Taxation and Economic Policy (ITEP), a non-partisan research organization, examines major state and local taxes by calculating the share of family income paid in these taxes by different income groups.[4] When calculating a national average, ITEP found substantial regressivity. Families in the lowest-income quintile pay 11.1 percent of their income in state and local taxes, the highest share of any income group. Furthermore, as the chart below illustrates, each successive income group pays a smaller share of its income in state and local taxes as income increases.

By contrast, the District's tax system is more progressive. District residents in the lowest-income quintile pay 6.6 percent of their income in District taxes–substantially lower than the national average. Furthermore, taxes as a share of income rise from the lowest-income quintile to the middle-income quintile, making the tax system progressive at these levels. However, as the chart below for the District illustrates, District tax liabilities as a share of income *fall* from the middle-income group to the highest-income group.

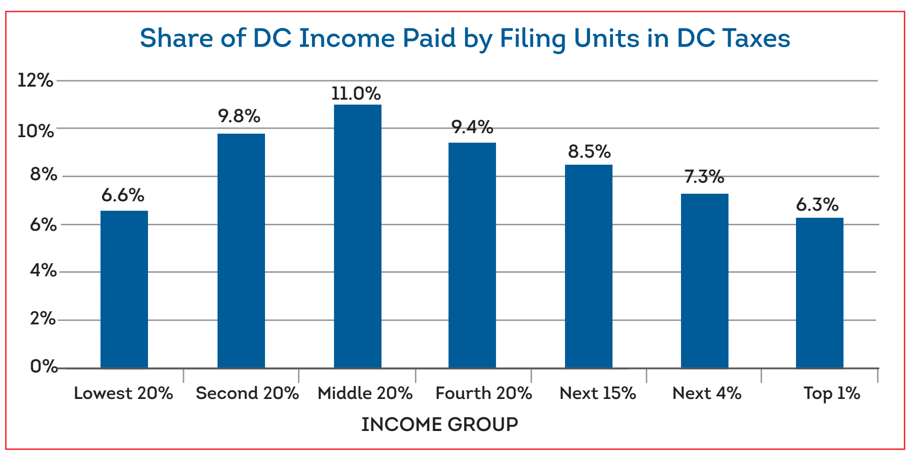


Source: Institute on Taxation and Economic Policy

The rise and fall of tax liabilities over the income ranges disproportionately burden the District's middle-class residents. In fact, the tax burden for middle-class residents is relatively large both when compared to that of the District's high-income residents and when compared to middle-income residents in other jurisdictions. The high tax burden for middle-class residents stems, in part, from a relatively high income tax rate that begins at a relatively low income level.

The Commission recommended reforms to the District's individual income taxes to (1) conform District tax filings to federal filings, (2) simplify the District's individual income tax, and (3) improve the progressivity of the District's tax system.

The individual income tax is only one of the District's major taxes, but it is the one most easily modified to adjust tax burdens across income levels.



Source: Institute on Taxation and Economic Policy

[4] The "major tax" model in the ITEP study combines five tax models: the personal income tax model (including special rates for capital gains, exclusions of various income, deductions, credits, etc.); the consumption tax model (including more than 250 base items); the property tax model (both residential and business); the corporate income tax model; and the local taxes (an aggregation of statewide revenue). It uses income data from 2010 and tax laws as of Jan. 2, 2013. For more information on the study's methodology, please see the full report at http://www.itep.org/whopays/.

What the Commission Recommended

Conform the District's individual income tax filing statuses to the federal options

Four of the District's eight income tax filing status options are shared with the federal government (single, married filing jointly, married filing separately, head of household) and four are not (married filing separately on the same return, domestic partners filing jointly, domestic partners filing separately on same return, dependent claimed by someone else). Residents can select their District status without regard to their status for federal filing.

The "married filing separately on the same return" status allows each member of a married couple to calculate tax liability separately but make one joint payment or receive one refund. This status may also help the couple avoid a "marriage penalty," which may occur if the couple's combined income on a tax return results in a greater tax obligation than if each member of the couple had filed separate returns. However, "married filing separately on the same return" is easily confused with "married filing separately," a status that is not eligible for many tax relief programs. The Commission recommended establishing a two-schedule tax system, with one set of brackets for married couples filing jointly (and head of household filers) and another set of brackets for single filers, to better address the marriage penalty.

The Commission recommended REFORMS to the District's individual income taxes to (1) CONFORM District tax filings to federal filings, (2) SIMPLIFY the District's individual income tax, and (3) IMPROVE the progressivity of the District's tax system.

The District created the two statuses for domestic partners in 2006, in part to provide same-sex partners with the same treatment enjoyed by married filers. Since the District subsequently legalized same-sex marriage and the Defense of Marriage Act was ruled unconstitutional, the Commission determined that the domestic partner options can be eliminated. However, the domestic partner options are not exclusive to married same-sex couples. For example, a brother and a sister living together, both senior citizens, can choose this option. Under the Commission's recommendations, each of these taxpayers would file as single–as they currently do for their federal returns. For the Commission, the benefits of all the recommended income tax changes outweighed possible negative effects, such as those that might result from a taxpayer filing as single rather than as a domestic partner. Furthermore, only 100 District filers used domestic partner status options in 2010, meaning this change would affect very few taxpayers.

DC Individual Income Tax Filing Statuses	
Current Law	**Commission Recommends**
1. Single 2. Head of Household 3. Married Filing Jointly 4. Married Filing Separately 5. Married Filing Separately on Same Return 6. Domestic Partners Filing Jointly 7. Domestic Partners Filing Separately on Same Return 8. Dependent Claimed by Someone Else	1. Single 2. Head of Household 3. Married Filing Jointly 4. Married Filing Separately 5. Qualifying Widow(er) with Dependent Child

Create a two-schedule tax system

Current DC Individual Income Tax Rates	
Income	Tax Rate
$0 to $10,000	4%
$10,001 to $40,000	6%
$40,001 to $350,000	8.5%
$350,001 and above	8.95%

Single and married filers in the District use the same set of tax brackets. The federal government and many states, by contrast, use different tax brackets for different family types, in large part to reduce the "marriage penalty." As noted earlier, two married adults, both earning income, might pay more tax if they file jointly than if they file separately because their combined income could place them into a higher tax bracket or subject more of their income to a higher tax rate.

For example, District taxable income above $40,000 is taxed at 8.5 percent for both a single filer and a married family. Therefore, a married couple with two adults each having $40,000 in taxable income (a combined $80,000) might pay more in District taxes if they file jointly than if those same two adults filed separately.

The Commission recommended creating a two-schedule tax system, one for single filers and one for married couples filing jointly and head of household filers, and then adjusting brackets to reduce the potential marriage penalty.[5]

Establish a new middle-class tax bracket

The District's current tax rates are progressive but not uniformly so. In presenting a paper on the District's individual income tax to the Commission, Professor Robert Buschman of Georgia State University observed that "the current structure is most steeply progressive going from the lowest to the second and third income quintiles, with more limited progressivity from there to the higher quintiles."[6]

This is because residents begin paying a relatively high tax rate of 8.5 percent on a relatively low amount of income. Furthermore, this tax rate applies to all taxable income between $40,001 and $350,000. (Before a new top tax rate was added in 2012, the old top rate applied to all taxable income above $40,000.) This means a family with annual taxable income of $50,000 pays the same marginal income tax rate as a family with $340,000 of taxable income.

Accordingly, the Commission recommended a new tax bracket to relieve middle-income residents. This bracket would lower the 8.5 percent rate to 6.5 percent for taxable income between $40,001 and $60,000 for single filers and $40,001 to $80,000 for married filers. Income above these thresholds would be taxed at an 8.5 percent rate, until the 8.95 percent rate (which would be 8.75 percent in 2016).

The Commission also recommended starting the 8.95 (or, in 2016, 8.75) percent rate at $200,001 for single filers and $350,001 for married filers. The split is designed to reduce the marriage penalty.

Commission's Recommended Individual Income Tax Rates		
Single Filers Income	Married Filers Income	Tax Rate
$0 to $10,000	$0 to $10,000	4%
$10,001 to $40,000	$10,001 to $40,000	6%
$40,001 to $60,000	$40,001 to $80,000	6.5%
$60,001 to $200,000	$80,001 to $350,000	8.5%
$200,001 and above	$350,001 and above	8.75%[7]

While some single taxpayers would move into higher tax brackets at lower income levels (e.g., the top rate at $200,000), the tax bills of almost all single taxpayers would be reduced under the recommended changes.[8] This is because the benefits of the new tax bracket, the increased standard deduction, and the personal exemption are greater than the costs of taxing some income at the higher rates.

5 Residents filing as "married filing separately" would use the tax schedule for "single" filers. Residents filing as "head of household" and "qualifying widow(er) with dependent child" would use the same tax schedule as "married" filers. For simplicity, this report uses only "single" and "married" when describing the two tax schedules. A taxpayer who previously filed as "dependent claimed by someone else" would file as single but not be eligible for a personal exemption.

6 Buschman, Robert D., "The District of Columbia Individual Income Tax: Structure, Competitiveness, and Potential Improvements," July 2013, p. v.

7 This is the tax rate the Commission recommended the District permanently adopt on Jan. 1, 2016. For single filers with more than $200,000 of income, the rate will increase to 8.95 percent from 8.5 percent until the end of 2015. For married filers, the 8.95 percent rate will remain until the end of 2015. Then, for both filers, the rate will become 8.75 percent.

8 The tax bills of substantially all married taxpayers also would be reduced.

The top marginal individual income tax rate

In 2012, the District increased its top rate from 8.5 percent to 8.95 percent, which is scheduled to expire at the end of 2015 and return to 8.5 percent in 2016. The District's top rate is relatively high, and some believed that allowing it to expire as scheduled would send a positive signal about the District's commitment to controlling taxes. (Maryland's top rate is 8.95 percent and Virginia's is 5.75 percent.[9])

Others argued that the District's relatively large number of high-income residents appears little affected by the higher top tax rate. Some also proposed raising the top rate above 8.95 percent. Such an increase could help fund the recommended changes or pay for additional low- and middle-income tax relief to make the system more progressive. The Commission rejected this proposal.

The Commission compromised: It unanimously supported a higher top tax rate for taxable income above $200,000 for single filers and $350,000 for married fliers but recommended lowering that top rate to 8.75 percent, rather than allowing it to drop to 8.5 percent (from 8.95 percent) as scheduled on Jan. 1, 2016. The Commission saw this compromise as a way to maintain the integrity and progressivity of the income tax system while fulfilling a commitment to make the 8.95 percent rate temporary.

Raise the District standard deduction and personal exemption to the federal levels[10]

The District provides a standard deduction of $4,100 to all filers, regardless of status. The Commission recommended raising the District's standard deduction to match the federal levels of $6,100 for single filers, $8,950 for head of household filers, and $12,200 for married couples filing jointly. As with the federal deduction, all District taxpayers ages 65 and older and blind taxpayers would add $1,200 to their standard deduction ($1,500 if they are also unmarried and not a surviving spouse).

DC Standard Deduction and Personal Exemption

	Current Law	Commission Recommends
Standard Deduction	$4,100	$6,100 (single); $8,950 (head of household); $12,200 (married)[11]
Personal Exemption	$1,675 (married, head of household, aged, and blind taxpayers receive two exemptions)[12]	$3,900 (per person)[13]

The District also offers a personal exemption of $1,675. Married couples filing jointly, head of household filers, taxpayers ages 65 and older, and blind taxpayers receive an extra personal exemption from the District for a total exemption of $3,350. The Commission recommended increasing the District's personal exemption to the federal level, $3,900, for all filers and dependents, and eliminating the extra personal exemptions (to conform to the federal rules, which provide larger standard deductions for such taxpayers, not an extra exemption).

As with the federal standard deductions and personal exemption, the new District deductions and exemptions would be adjusted for inflation each year.

Low-income residents would benefit greatly from these increases. For example, under the recommended system, the taxable income of a married family with two children would be reduced by $27,800. Under the current District tax system, that reduction is only $10,800. A single parent with one child would have his or her taxable income reduced by $16,750 under the Commission's recommended system instead of the current $9,125.[14]

9 The top individual income tax rate in both Montgomery County and Prince George's County is 8.95 percent. This is a combination of the state's top rate (5.75 percent) that begins at $250,000 for a single filer and the counties' flat tax rate (3.2 percent). The top combined rate is slightly lower in other Maryland counties.

10 All federal numbers are from 2013.

11 Taxpayers ages 65 and older or blind may add $1,200 to their standard deduction. The $1,200 is increased to $1,500 if the taxpayer is also unmarried and not a surviving spouse.

12 Married couples filing jointly and head of household filers, as well as taxpayers ages 65 and older and blind taxpayers, receive two personal exemptions for a total exemption of $3,350. All other filers (e.g., single filers) and all eligible dependents (including dependents of married couples/head of household and aged/blind taxpayers) receive one exemption.

13 All taxpayers and dependents, regardless of filing status or age, receive one federal personal exemption.

14 This calculation assumes the single parent is eligible to file as "head of household" on the District income tax return. This status allows the taxpayer to claim the same personal exemption as a married couple ($3,350). Parents who do not qualify as "head of household" file as "single" and claim the $1,675 exemption.

Middle-class taxpayers also would benefit because more of their income would be shielded from any tax and because less of their income would fall into higher-rate brackets. However, because nearly nine-in-10 District filers with more than $75,000 in income choose to itemize their deductions, a change in the standard deduction would have little effect on higher-income residents.

Phase out personal exemptions for high-income earners

All District residents, regardless of income, currently claim the same personal exemption. By contrast, the federal tax system phases out the personal exemption for singles with AGI above $250,000 and married filing jointly with income above $300,000. The Commission recommended phasing out personal exemptions to improve the progressivity of the income tax and to reduce the revenue loss resulting from an increased personal exemption.

The Commission recommended a phase-out that begins at $150,000 of AGI for single filers and $200,000 for married filers and that reduces personal exemptions by 2 percent for each $2,500 in excess of the threshold. This roughly matches the federal phase-out of personal exemptions, also 2 percent for each $2,500, beginning at slightly higher income levels. The District's phase-out is set at lower income levels than that of the federal government so as to better align with the Commission's proposed tax brackets for District taxpayers.

DC Itemized Deductions and Personal Exemptions		
	Current Law	**Commission Recommends**
Itemized Deductions	Reduce by amount equal to 5% of adjusted gross income (AGI) above $200,000	No change to current law
Personal Exemptions	No phase-out	Reduce by 2% for each $2,500 above $150,000 of AGI for singles and $200,000 for married couples

Expand the Earned Income Tax Credit for childless workers

The Commission examined multiple proposals to reform the District's Earned Income Tax Credit (EITC). The EITC, a powerful anti-poverty tool, considers a taxpayer's income and family circumstances (such as marital status and number of children). It is available as both a federal and a state credit. The District's EITC is 40 percent of the federal credit but the federal formula is heavily tilted toward workers with children. For example, the maximum federal credit for a worker with three children is $6,044 while the maximum credit for a worker with no children is $487. (Correspondingly, the District's maximum EITC for a worker with three children is $2,418 while the maximum benefit for a childless worker is $195.)

The District's 40 percent EITC match for workers *with children* is one of the most generous state-level credits in the nation, and there was little support for increasing it. Instead, the Commission recommended expanding the EITC benefit for low-income workers *without children*. First, the Commission recommended increasing the District's EITC for childless workers to 100 percent of the federal credit from the current 40 percent of the federal credit. Second, the Commission recommended expanding EITC eligibility for childless workers in the District.

DC Childless EITC			
	Max EITC	**Begin Phase-out**	**End Phase (No EITC)**
Single			
Current	$195	$7,970	$14,340
Recommended	$487	$17,235	$22,980
Married			
Current	$195	$13,310	$19,680
Recommended	$487	$17,235	$22,980

Under the District's formula, a single childless worker may claim a maximum EITC benefit ($195) up to $7,970 of adjusted gross income (AGI), and the benefit is reduced until the income of the childless worker reaches $14,340 of AGI, at which point the benefit ends. For a married childless worker the upper boundary is $19,680 of AGI.

The Commission recommended changing these boundaries for the District's EITC for childless workers. The Commission recommended allowing childless workers to receive the maximum District EITC benefit (now $487) until $17,235 of AGI, and then phase out the benefit up to $22,980 of AGI. Expanding the thresholds would make the EITC available to many more childless workers.

Broaden the individual income tax base by eliminating expenditures

The Commission recommended eliminating four tax expenditures to broaden the income tax base.

These expenditures are:

- Low-income credit
- District government employee first-time homebuyer credit
- Long-term care insurance deduction
- District and federal government pension exclusions

By raising the standard deduction and personal exemption to match the federal levels, virtually all residents would benefit from substantial tax relief, and the four targeted and exclusive credits would become less necessary.

The low-income credit (LIC) is used by residents with income subject to District taxes but not to federal taxes. In other words, their AGI is less than the sum of the federal standard deduction and personal exemptions, but more than the District's standard deduction and personal exemptions. The LIC reduces the likelihood that such a taxpayer will face District income taxes. The LIC is not refundable. If the District raises its standard deduction and personal exemption to the federal levels, as recommended by the Commission, this disparity will disappear and the LIC will be unnecessary. The elimination of the LIC will make the District's income tax both simpler and fairer.

District taxpayers can currently claim either the LIC or the EITC, but not both. Therefore, a resident must calculate which credit is more beneficial before completing a return. If the District eliminated the LIC—and the need for the LIC by raising the standard deduction and personal exemption—then all eligible taxpayers could benefit from the District EITC, a refundable credit.

Professor Buschman suggested eliminating the other three tax expenditures in order to increase horizontal equity (i.e. to treat similar taxpayers, such as all retired workers, the same). The Commission agreed. It recommended broad-based tax relief through the increased standard deduction and personal exemption rather than more targeted tax relief.

What the Commission Did Not Recommend

Limit itemized deductions further

The District already reduces allowable deductions as income increases. A taxpayer earning more than $200,000 in adjusted gross income (AGI) must reduce his or her itemized deductions by an amount equal to 5 percent of AGI over $200,000. After consideration, the Commission decided to maintain the current limitation on itemized deductions. The Commission rejected a more aggressive limitation on itemized deductions.

More high-income tax brackets

The District has many high-income residents. It also has high levels of poverty and unemployment. To increase the progressivity of the District's income tax, the Commission discussed additional high-income tax brackets. Instead of a final tax bracket beginning at $350,000, for example, the District could adopt an 8.95 percent tax rate on income from $350,001 to $500,000, a 9.25 percent rate on income between $500,001 and $750,000, and a 9.5 percent tax rate on all income above $750,000.

These new tax brackets and rates could raise revenue for social programs or provide additional tax relief for low- and middle-income residents. Opponents argued that new tax brackets would discourage affluent residents from living in the District. The Commission decided not to recommend top tax rates that exceed those of Maryland (8.95 percent) or widen the gap between the District's top rate and that of Virginia (5.75 percent).

Reduce upper income tax rates

Conversely, some advocated for lowering the District's top income tax rates to attract more high-income residents. High income residents contribute substantial tax revenue and, potentially, bring businesses to the jurisdiction where they live. In the District, this might translate into increased business growth and job creation.

Advocates for lower top tax rates also observed that successful entrepreneurs in the region may work in the District but live elsewhere. For example, they can reside in neighboring Virginia, where the top income tax rate is much lower (5.75 percent).

The Commission compromised: It unanimously agreed to lowering the top income tax rate to 8.75 percent in 2016 and to creating a new, lower, tax bracket for middle-income residents of 6.5 percent (reduced from 8.5 percent). The Commission did not recommend further cuts to the upper-income tax rates, in part because of their significant cost. There also was little evidence that the cuts would significantly increase the District's economic performance.

Eliminate exemption for out-of-state bonds

Interest that individuals, estates, and trusts earn from out-of-state municipal bonds is exempt from the District's individual income tax. In 2011, the DC Council enacted a tax on interest income from all out-of-state bonds held by District taxpayers, with a delayed effective date for the tax. However, in 2013, the DC Council repealed the tax before it took effect.

The Commission struggled to find a policy justification for the exemption. In public testimony, supporters of the exemption argued that it protects seniors with limited income. However, there is little evidence of that. Rather, it benefits all high-income residents who choose this form of investment.

Some states have reciprocal agreements with other specific states, but the District grants a blanket exemption. Not only does the exemption represent substantial lost revenue for the District, but such broad relief eliminates an incentive for residents to purchase District bonds over those from other jurisdictions. In other words, it essentially subsidizes investments outside the District.

Because the DC Council recently decided to maintain the exemption, the Commission decided not to recommend its elimination. However, the Commission found that the exemption for out-of-state municipal bonds runs counter to the Commission's goals of fairness and efficiency.

ESTATE TAX

The District imposes a maximum tax rate of 16 percent on estates worth more than $1 million that are not passed at death to a surviving spouse or charity. For tax year 2013, the federal government imposes an estate tax rate up to a maximum of 40 percent on estates valued in excess of $5.25 million. The threshold for the federal estate tax is indexed to inflation. The estate tax in Maryland also has a threshold of $1 million and a maximum estate tax rate of 16 percent.[15] Virginia has no estate tax.

What the Commission Recommended

Raise the estate tax threshold to the federal level of $5.25 million, indexed to inflation

The District's estate tax affects estates with homes or other assets valued at more than $1 million. Estates with values exceeding the District's threshold, but less than the federal $5.25 million threshold, must file a return with the District but not with the federal government. The District's threshold has remained unchanged since 2003—the year in which the federal government started increasing its threshold substantially and lowered its tax rates—even though nominal asset values have increased due to inflation.

Under the Commission's recommendation, the District's estate tax threshold would increase to $5.25 million, with annual inflation adjustments starting in 2014. An estate would file a District estate tax return only if it were also required to file a federal return.

The District's estate tax formula is tied to an OBSOLETE federal law.

The District's estate tax formula is tied to an obsolete federal law. Under prior law, the federal estate tax provided a graduated credit for state estate taxes that offset up to 16 percent of an estate's value against the federal tax. As a result, the District and most states had an estate tax with a graduated rate schedule that replicated the credit formula—including the top tax rate of 16 percent. In effect, a taxable estate owed tax to the state but had the entire cost "picked up" by the federal government. This allowed states to collect revenue without imposing additional tax burden on their residents.

Through a gradual phase-out starting in 2001, the federal credit was eliminated in 2005. The repeal of that credit caused the estate tax to disappear in many states. (In those states, the tax only existed because of the credit.) But the District and some other states retained the tax.

Today, the District's estate tax rate schedule is still tied to the outdated federal schedule and crediting mechanism. It has 21 graduated brackets and a top rate of 16 percent beginning at $10,040,000 of estate value.

By lifting the estate tax threshold to $5.25 million, and using fewer brackets, the system would be simplified. The Commission recommended a graduated rate schedule that would apply to the value of an estate above the federal threshold, as adjusted for inflation. Under this recommended schedule, all of an estate's value below the indexed threshold would be tax-exempt. The value between the threshold of $5.25 million, as indexed, and $7.5 million would be taxed at 12 percent while the value between $7.5 million and $10 million would be taxed at 14 percent. Finally, the value of an estate above $10 million would be taxed at 16 percent. As the threshold increases with inflation, the 12 percent bracket and, later, the 14 percent bracket would disappear.

Although simplified, this new rate schedule would keep the general structure of the current rates. The following chart shows the recommended rate schedule for tax year 2013, assuming a $5.25 million threshold.

Estates in the District with a taxable value above the current $1 million threshold, but below the new $5.25 million threshold, would universally benefit because they would no longer be subject to the tax. District estates with a taxable value slightly above the threshold (e.g., $6 million) would also benefit since more of their assets would be exempt from the tax. Estates with very high taxable values (e.g., $100 million) would continue to be taxed at the current 16 percent rate.

[15] In March 2014, Maryland lawmakers passed a bill to gradually raise the state's estate tax threshold from $1 million to the federal exemption (projected to be $5.9 million) in 2019.

The Commission's recommendation on the estate tax would also bring administrative uniformity to the review process. Currently, an estate that is required to pay the District's estate tax but not the federal estate tax must file a District return that includes pages from the federal return and its schedules. The audit responsibility for these returns falls entirely on the District government. For estates that exceed both federal and the District's thresholds, the District and the federal government share administrative responsibility. In the latter, the District can also choose to rely on audits conducted by the Internal Revenue Service.

Recommended Estate Rates (Tax Year 2013, $5.25 Million Threshold)		
Estate Value	Value Above Threshold	Tax Rate
$0 to $5.25 million	$0	0%
$5.25 million to $7.5 million	$0 to $2.25 million	12%
$7.5 million to $10 million	$2.25 million to $4.75 million	14%
$10 million and above	$4.75 million and above	16%

What the Commission Did Not Recommend

Eliminate the District's estate tax

Because many states, including Virginia, do not have an estate tax, some suggested that the District could attract and retain more affluent families by repealing the estate tax entirely. They reasoned that affluent families might remain in, or move to, a jurisdiction where they could avoid the tax.

The Commission recommended raising the threshold for the estate tax but not eliminating the tax. While some affluent residents might move to avoid the tax, the Commission expected many would stay and pay the tax. As a result, the estate tax could generate a lot of revenue, albeit a variable amount of revenue. For example in fiscal year 2012, the estate tax generated more than $100 million in revenue for the District. Furthermore, the Commission received written testimony from academic researchers who found little evidence of estate taxes influencing mobility.[16]

[16] Jon Bakija, Department of Economics, Williams College (Sept. 15, 2013); and Karen Conway, University of New Hampshire, and Jonathan Rork, Reed College (Nov. 18, 2013).

BUSINESS TAX

Business taxes are important for the District, generating nearly half its tax revenue.[17] Business leaders testified that business taxes are too high. They noted that the District's business franchise tax rate of 9.975 percent surpasses those of Maryland (8.25 percent), Virginia (6 percent), and all but two other states. However, the complete business tax picture is more complicated. For example, many localities in Virginia have a gross receipts tax that pushes their business tax burden above the statutory business income tax rate.

The Commission also recognized that the District has done relatively well over the past decade in both economic and population growth. The Commission heard from Norton Francis, a senior research associate at the Urban-Brookings Tax Policy Center, who reported that the District has enjoyed greater growth in employment, wages, and number of businesses than many of the adjacent counties in Maryland and Virginia through 2012.

In the end, the Commission believed the current retrenchment of the federal government requires the District to remain vigilant to remain competitive. The federal government is a large presence in the District, and a small reduction in the size of the federal government could harm the District disproportionately. This vulnerability underscores the importance of diversifying the District's economy.

In the end, the Commission believed the CURRENT RETRENCHMENT of the federal government requires the District to remain VIGILANT to remain competitive.

The Commission recommended several steps to broaden the District's economic portfolio and bolster its competitive position vis-à-vis regional business.

What the Commission Recommended

Lower the business franchise tax rate

The District has two business income taxes. The business franchise tax (BFT) applies to corporations (including S corporations) carrying on a trade, business, or profession in the District or receiving income from District sources. The unincorporated business franchise tax (UBFT) is imposed on unincorporated businesses (including partnerships and sole proprietors) with more than $12,000 in annual business income. Both the BFT and UBFT have a tax rate of 9.975 percent.

This high tax rate may deter businesses from locating in the District, although the evidence presented to the Commission was mixed. A study on business taxes found that "tax burden in the District for C-corporations is not significantly different from its Maryland and Virginia neighbors."[18] However, the authors of the study noted in their public testimony that business leaders' perception of tax liability runs contrary to that. Many in the business community believe that the District's business taxes are excessive when compared with neighboring jurisdictions.

The Commission recommended that the District reduce its BFT/UBFT rate to 8.25 percent, from 9.975 percent. This would put the District's headline tax rate on par with that of Maryland and much closer to the rate in Virginia. This large tax cut would signal that the District is "open for business" and, hopefully, boost the city's tax reputation.

[17] The commercial property tax provides most business tax revenue. This tax is addressed in the "Property Taxes" section of the report.

[18] Aceituno, Robert and Karen Yingst, "Case Studies of Business Taxes in the District of Columbia: A Comparison with Neighboring Jurisdictions," September 2013, p.1.

Exempt investment funds from the unincorporated business franchise tax

In general, the District can only tax the income of its residents. Unlike states with an individual income tax, it cannot tax non-residents' income, whether earned directly or via pass-through entities. Through its UBFT, the District taxes income that is earned by unincorporated businesses. Notably, the UBFT does not apply to trade or business in which more than 80 percent of gross income is derived from personal services actually rendered by the individuals or partners, without capital as a material income-producing factor. This exempts professional firms, including doctors, lawyers, engineers, and accountants.

However, investment funds operating a stock "trading" business in the District are subject to the tax. This amounts to a 9.975 percent tax on capital gains, dividends, and interest–and represents a liability that would not be imposed on funds in other states. The UBFT effectively precludes investment funds from "trading" stocks or securities in the District.

New York City collects an unincorporated business franchise tax, but it exempts partnerships and other unincorporated entities that purchase, hold, or sell property–both real property and intangible property, like stocks and bonds–for their own account. This creates a "trading safe harbor" that is similar to a federal trading safe harbor.

The Commission recommended that the District adopt such a "trading safe harbor" that would generally exempt investment funds from the UBFT. This step, which would apply only to intangible property and not real property, could position the District to attract a vibrant new industry, spurring growth and diversifying the economy.

Shift to sales only to apportion business income to the District for taxation

To apportion its share of income from a multi-state business, the District looks at three factors: sales, property, and payroll. In 2011, the District decided to double-weight the sales factor in its formula. In other words, a company's sales in the District have a larger effect on its apportionment of income than its property or payroll in the District.

The Commission recommended using sales alone to apportion business income for taxation. If a multi-state business has 10 percent of its sales in the District, it must apportion 10 percent of its income to the District. This change is designed to make the District more attractive to firms that seek to expand their District properties or payrolls. Many other states have already adopted this single-sales strategy. In addition to making the District more attractive, a single-sales factor generates more tax revenue. This is because many multi-state companies sell to District customers but relatively few companies have extensive property or payroll in the District relative to their national footprint. More business income allocated to the District would translate to more tax revenue, and this new revenue would help fund the significant reduction in business franchise taxes that the Commission believed is necessary for the District to become more business competitive.

Levy a local services fee on employers

Under the 40-year-old Home Rule Act, which imposed a layer of federal government oversight to the District's operations, the DC Council cannot "impose any tax on the whole or any portion of the personal income, either directly or at the source thereof, of any individual not a resident of the District."[19] This constraint benefits the thousands of commuters who work in the District and use its services but do not contribute to the cost of those services. Additionally, the District is home to many nonprofit organizations, all of which are exempt from the District's business income tax. Many of these organizations are also exempt from the commercial property tax. These limitations have forced the District to disproportionately shift its tax burden to a smaller base of residents and for-profit businesses.

The Commission studied several alternatives for broadening that tax base, including a program to negotiate payments in lieu of taxes (PILOTs) with nonprofits. Ultimately, the Commission recommended a local services fee on employers. The Commission believed this would broaden the tax base more efficiently, more transparently, and, most likely, more cheaply than a PILOT. After consulting with counsel, the Commission also concluded that a local services fee would be permissible under the Home Rule Act.

Employers would pay $25 per employee (calculated by the number of employees listed on their unemployment filings) every quarter, or $100 a year. Employers with four or fewer employees would be exempt. In addition to its simplicity, the fee would be based on employees, not income, thus more closely correlating with the value of the benefits (including police, fire, and ambulance protection) provided by the District to those employees.

[19] DC Code § 1-206.02.

It might be argued that a per-employee fee discourages employment. But the Commission tried to set the fee low enough to mitigate possible economic effects. (Other payroll taxes, such as Social Security taxes, Medicare taxes, and unemployment taxes, are much higher.) The local services fee would also offer a more equitable avenue for spreading the District's tax burden. By asking all employers to pay a little for the services their employees receive from the District, the income tax rate for those businesses—which already contribute revenue to the city—can be reduced. The lower business income tax rate should help spur commercial growth and job creation.

What the Commission Did Not Recommend

Eliminate business income taxes

Advocates of a repeal of business income taxes maintain that the taxes hurt competitiveness, impose compliance burdens, and generate little revenue. While agreeing that a reduction in the business income tax to 8.25 percent, from 9.975 percent, would increase the District's competitiveness, the Commission found little evidence to support a complete repeal. The District's regional competitors, Maryland and Virginia, both have a business income tax. And the District relies heavily on business income taxes, which accounted for 7 percent of the District's general fund tax revenue in fiscal year 2013. Finally, the District's business income tax is relatively simple. It has only four credits, a fraction of the credits offered by Maryland and Virginia.

Replace business taxes with a gross receipts tax

For some, the gross receipts tax represents a simple way to tax businesses. Firms subject to the tax tally their gross receipts, multiply that number by the tax rate, and pay the product.

The Commission examined constructing a gross receipts tax to replace the District's business franchise tax, unincorporated business tax, and personal property tax.[20] The objective was to make the transition revenue neutral. This meant the gross receipts tax would need to raise $550 million in revenue.

In 2007, the U.S. Census Bureau estimated the District's total business tax base at roughly $77 billion. ORA does not calculate an official estimate for the District's tax base but acknowledged that the census figure aligned with the District's current tax base. To make the tax swap revenue neutral, based on a tax base of $77 billion, a gross receipts tax rate would have to be set at 0.71 percent—far too high to be feasible. The gross receipts tax rate in Ohio, for example, is only 0.26 percent.

A gross receipts tax raises other concerns. The tax may be "pyramided," meaning that it could apply at more than one stage of production. The tax could cause businesses and residents to make purchases from non-District suppliers. Moreover, the tax is not sensitive to a business's ability to pay, in that companies would owe taxes whether or not they earn profits in a given year.

Reduce the capital gains tax rate to 3 percent for investors in high-technology firms

The District taxes long-term capital gains the same as all other individual income, with a current top tax rate of 8.95 percent on income above $350,000. The Commission did not recommend reducing that rate to 3 percent for capital gains from the sale of stock of a Qualified High Technology Company (QHTC).[21] Mayor Gray proposed such a reduction in the Technology Sector Enhancement Act of 2012, and the DC Council asked the Commission to consider the proposal.

The Commission supports the diversification of the District's economy, including efforts to attract QHTCs. But targeting capital gains tax benefits to these firms did not seem the best course to diversify. Targeting capital gains tax benefits is inherently difficult. Some investors might attempt to characterize their income as high-technology capital gains to take advantage of the lower tax rate. Others might invest without the added incentive.

This malleability and, therefore, the unknown response to such a policy option, is why ORA could not provide the Commission with an official revenue estimate. More troubling, a 2012 fiscal impact statement on the proposal from ORA concluded that "if

[20] The District's personal property tax is only paid by businesses. It is not paid by residents.

[21] A high-technology company is considered "qualified" if it (1) has two or more employees in the District and (2) derives at least 51 percent of gross revenues earned in the District 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.

[an eligible high-technology firm] were to have an IPO [initial public offering], depending on the IPO price and the subsequent trading, the revenue losses could be significant."

Rather than add a narrow and complex tax benefit, the Commission preferred to recommend a broad tax cut for all businesses. In addition, the District's recently enacted QHTC legislation has already provided tax benefits to QHTCs. The QHTC legislation primarily sets a QHTC's business income tax rate at zero for the five years after the QHTC achieves profitability, and then at 6 percent thereafter (with a cap on the total tax benefits of $15 million on the zero tax benefit only).

Provide certified business enterprises (CBEs) a tax credit

The District's Department of Small and Local Business Development determines whether an operation is a certified business enterprise (CBE). To qualify, a business's principal office must be located within the District and its top-tier managerial staff must operate from this location. There also are requirements related to revenue and employees. Currently, CBEs receive beneficial procurement and contracting treatment but no tax preferences. Because there is no indication that beneficial behavior could be induced through tax credits or preferential tax treatment for CBEs, the Commission made no recommendations in that direction. Additionally, there was concern that preferential treatment could cause administrative problems. For example, new CBEs could manipulate their status (rather than shift locations) to gain preferential tax treatment while current CBEs could collect tax relief without making changes to their business (such as location or employment).

SALES TAX

The District's general sales tax is 5.75 percent, lower than the 6 percent sales tax rate in Maryland and Northern Virginia.[22] The District's tax was raised to 6 percent in October 2010 (from 5.75 percent) but returned to its current rate in October 2013, in the middle of the Commission's deliberations. The District also has a special 18 percent sales tax for commercial parking, a 14.5 percent tax on transient accommodations (hotels), and a 10 percent tax on rental vehicles and restaurant meals.

The District's sales tax applies to nearly all goods (with a few exemptions, including grocery food) and some services. In presenting a paper on sales taxes to the Commission, Professor William F. Fox, director of the Center for Business and Economic Research at the University of Tennessee, Knoxville, noted that the District's sales tax base is broader than that of the average state and larger than those of Maryland and Virginia. However, the District, like many states, faces an eroding sales tax base as consumers shift their spending from goods to services. (The sales tax was originally designed as a tax on goods. Services were later added to the tax base.)

The District can use the revenue generated by a 6 percent sales tax to help fund more ADVANTAGEOUS TAX RELIEF, such as a middle-class income tax bracket and a lowered business franchise tax rate, and to improve its regional competitiveness—a goal the Commission believed is ESSENTIAL.

At the same time, increasing numbers of purchases are made online, away from "brick and mortar" stores. Only online retailers with a physical presence in the District are required to collect the District sales tax.[23] As the sales tax base shrinks so does sales tax revenue.

The Commission recommended changes that will broaden the sales tax base without hurting the District's competitiveness relative to neighboring jurisdictions.

What the Commission Recommended

Expand the sales tax to more services

Many states have tried to add new services to their sales tax in recent years in response to national trends showing a shift in demand from taxable goods to non-taxable services. The District already has a relatively broad sales tax base for services, covering 74 of a possible 183 services listed by the Federation of Tax Administrators. The District taxes far more services than Maryland (49) or Virginia (29). In fact, the District recently added laundry services, select telecommunications services, courier services, and employment services to its list of services that are taxed.

While a broad tax base is optimal, Professor Fox cautioned that the District must carefully choose any new services to tax in order to minimize the economic effect.

[22] Virginia has a state sales tax rate of 5.3 percent. An additional 0.7 percent sales tax rate for the jurisdictions within the Northern Virginia Transportation Authority brings the total sales tax rate in these jurisdictions to 6 percent.

[23] The U.S. Supreme Court added the "physical presence" requirement in Quill vs. North Dakota, 540 U.S. 298 (1992).

Professor Fox proposed that the following services be considered for taxation:

- Construction contractors
- Carpentry and other construction-related services
- Storage of household goods
- Mini-storage
- Water for consumption at home
- Barber and beautician services
- Carpet and upholstery cleaning
- Health clubs and tanning studios
- Carwashes
- Bowling alleys and billiard parlors

He selected those specific services for two reasons: They are typically a final purchase by consumers, and they are services linked to tangible goods or real property in the District, making them difficult for consumers to purchase online or in another state.

The Commission recommended that the District broaden its tax base by including the services identified by Professor Fox. The DC Council is encouraged to continue seeking additional services to tax in order to make the sales tax as broad and as equitable as possible.

The Commission did not recommend adding professional services, such as accounting, legal advice, and dental work, to the District's tax base. Professional services are a large portion of the District's tax base, but there are questions about whether taxing them would harm economic activity in the District. Maryland and Virginia do not tax professional services, and residents could choose to leave the District for these services if they were taxed, harming local businesses. This negative economic incentive is one reason why only four states–specifically, geographically isolated states such as Hawaii and South Dakota–tax a broad set of professional services.

Add a use tax line to the personal income tax return

Although an online retailer with no physical presence in the District is not required to collect a District sales tax, District residents shopping online are responsible for a use tax equal to the sales tax. However, very few residents pay the use tax–most often because they are unaware of it–and the District cannot effectively enforce the tax.

The Commission recommended adding a use tax line to District's personal income tax return as a simple, non-invasive reminder of the tax obligation. Many states that recently added a similar voluntary use tax line have seen an increase in collections. A majority of states with both an individual income tax and a sales tax have a use tax line on their income tax return.

The Commission also recommended that the District consider a "Use Tax Lookup Table" that allows taxpayers to estimate their use tax liability based on adjusted gross income. Nine states provide such a table to assist taxpayers who may not track their online purchases throughout the year. States with such tables enjoy higher participation rates than states that do not. Research also has found that states that require taxpayers to clearly indicate no liability–writing in "zero" rather than allowing filers to leave the line blank–generate slightly more voluntary use tax payments.

Raise the general sales tax rate to 6 percent

In October 2013, the general sales tax rate in the District was lowered to 5.75 percent after three years at 6 percent. The tax had been increased–with a three-year sunset provision–in 2010 to temporarily stem revenue losses arising from the recession. After a broad examination of the District's tax system, the Commission recommended returning the general sales tax rate to 6 percent.

When the District raised its sales tax in 2010, Northern Virginia's sales tax was 5 percent. However, in 2013 the sales tax rate in Northern Virginia increased to 6 percent. Maryland's 6 percent tax has been in place since 2008. While having the lowest sales tax rate in the region is commendable, the small 0.25 percent difference between the District's sale tax and those of its neighbors is unlikely to affect consumers' choices and, in fact, may not be noticed.

Sales Tax Rates: Regional Comparison

DC	Maryland	Northern Virginia
5.75%	6%	6%

The District can use the revenue generated by a 6 percent sales tax to help fund more advantageous tax relief, such as a middle-class income tax bracket and a lowered business franchise tax rate, and to improve its regional competitiveness–a goal the Commission believed is essential.

Unify taxation of tobacco products

The District has a complement of taxes for tobacco products. A pack of 20 cigarettes is subject to an excise tax of $2.50 ($0.125 per cigarette) and an "in lieu of" sales tax of $0.36, collected at the wholesale level, that brings the total District tax on a package of cigarettes to $2.86. This is an effective tax rate on cigarettes of 80 percent. The "in lieu of" tax is subject to recalculation every year and can be increased if the price of cigarettes increases. This formula results in a tax consistent with the District's general sales tax rate. To simplify administration, the District switched from a retail-level tax to a wholesale-level tax in 2012.

The District imposes a $0.75-per-ounce excise tax on other tobacco products (OTP), such as chewing tobacco, smokeless tobacco, snuff, and roll-your-own tobacco. In addition, OTP are subject to a 12 percent sales tax on their retail price.

Premium cigars (those costing more than $2) and pipe tobacco are not subject to the per-ounce excise tax or the special sales tax rate. They are taxed at the general sales tax rate of 5.75 percent. "Little cigars" are taxed as cigarettes. Cigars that do not fall into the "premium" category and are not considered cigarettes carry a 12 percent sales tax but are exempt from the per-ounce excise tax.

The tax system for tobacco is needlessly complex. The Commission recommended that the District first broaden its definition of OTP to encompass any product that "contains" tobacco or is "made or derived from tobacco". FDA-approved tobacco products for medicinal use (like tobacco-cessation products) would be excluded. The Commission further recommended that the District tax all OTP at the same rate, equivalent to the per-price rate on cigarettes.

To achieve this, a single excise tax of 80 percent of the wholesale price on OTP would replace the current per-ounce excise tax and special 12 percent sales tax rate. The 80 percent rate is equivalent to the current tax on cigarettes, if that tax were calculated as a percentage-of-price. The tax rate would require recalculation annually (or at another established time period) to adjust for cigarette price modifications and or tax changes. However, the collection of OTP taxes at the wholesale level, as is the practice in most states, would simplify administration.

What the Commission Did Not Recommend

Increase the sales tax rate on commercial parking, hotels, rental cars, and restaurant meals

The District has a special sales tax rate of 18 percent for commercial parking, 14.5 percent for transient accommodations (hotels), and 10 percent for rental vehicles and restaurant meals. Nearly all large cities tax these activities at high rates to compensate for costs associated with nonresidents who commute to or visit the city. Because these taxes shift the burden from residents to nonresidents, some suggested they could be increased to fund residential and business tax relief.

In his presentation, Professor Fox concluded that the District did not have the capacity to raise these taxes without harming the industries being taxed and, ultimately, the District's economy. He cited the comparatively lower rates in neighboring jurisdictions of Maryland and Virginia. However, no economic study was produced to support that conclusion. The Commission also heard testimony from hotel and restaurant industry representatives who warned that higher rates would harm their businesses.

The Commission decided that raising these tax rates would run counter to its efforts to make the District's tax policy more competitive, to encourage business growth, and to create jobs. The Commission did not recommend increases in these rates.

Expand the sales tax base to more goods

The Commission did not recommend expanding the sales tax to grocery-type foods and non-prescription drugs.

While a broad tax base is ideal, the Commission believed the current exemption for grocery food provides critical relief for residents who pay a disproportionate share of their income on groceries. Furthermore, policy proposals for taxing grocery food while subsidizing low-income residents proved both complex and inefficient. Maintaining the exemption is a simple way to make the tax system fairer. The Commission also decided that a limited "snack tax" on candy bars, potato chips, and similar products is not worth the administrative challenges that it would create.

The Commission did not recommend taxing non-prescription drugs. The District is similar to 11 states that exempt non-prescription drugs from the sales tax. Since Maryland and Virginia are among the states with the exemption, a District tax could induce consumers to purchase non-prescription drugs in the neighboring jurisdictions. Additionally, as with grocery food, the current exemption benefits low-income residents. Finally, such a tax would generate limited new revenue.

Expand the definition of nexus to require online retailers with District-based affiliates to collect the District sales tax

Many states are currently considering or have implemented so-called "Amazon taxes." These laws have been proposed as a way for states to collect the sales tax on online purchases. Under such a law, a business that had no physical presence in the District, but which had a commission-based business relationship with a District-based entity, would be required to collect and remit taxes on all sales to District residents.

Most states that have created such laws have not seen new tax revenue. That is because businesses in those states opt to end commission-based relationships rather than collect the tax. In fact, ORA estimated the revenue increase from passage of such a tax in the District "is likely negligible." Furthermore, "Amazon taxes" in New York and other states are being challenged in court.

Given the uncertain efficacy but certain complexity of such laws, the Commission decided against recommending this change.

PROPERTY TAX

Real property taxes are the largest source of tax revenue for the District, accounting for a third of the District's tax revenue. Residential property is taxed at $0.85 per $100 of assessed value, but due to a variety of measures enacted over time, the effective residential property tax rate for most owner-occupied residential property is significantly less than $0.85 per $100. The tax rate for commercial property is graduated: The first $3 million of assessed value is taxed at $1.65 per $100 of value and any additional amount is taxed at $1.85 per $100. The residential property tax rate is the lowest in the metropolitan region (and the effective owner-occupied residential property tax is substantially lower), while the commercial property tax rate is the highest.

The Commission did not recommend policy changes to the District's property tax. However, the Commission submitted a memo to the new Chief Financial Officer, Jeffrey DeWitt, with suggestions on areas to improve property tax administration.

The Commission did not recommend a cut in the commercial property tax rate because, although the District's rate is comparatively high, the Commission believed there are more efficient ways to improve the District's competitiveness.

The Commission decided that REFORM of the individual income tax is a BETTER MEANS to offer tax relief to District residents.

The Commission did not recommend a reduction in the District's residential property tax rate, largely because the rate is already the lowest in the region. The District also provides substantial property tax relief to its residents, including through the recent significant expansion of the District's circuit breaker program (Schedule H), which provides relief to low-income renters and homeowners whose property taxes claim a too-large share of their income. The Commission believed the best way to assist low- and middle-income residents is through changes in the income tax rather than the residential property tax. The Commission also did not support an option to raise the residential rate as an offset to a reduced commercial property tax rate.

What the Commission Did Not Recommend

Lower the tax rate on commercial property

The District has the highest commercial property tax rate in the greater Washington region. Rates vary among localities–property taxes are generally local taxes rather than state taxes–with neighboring Maryland jurisdictions taxing commercial property at roughly $1.22 to $1.42 per $100 of assessed value and Virginia communities taxing property at just more than $1 per $100 of value.

Commercial property taxes account for a large portion of the District's business taxes. The Commission wanted to reduce business taxes to increase the District's competitive position; however, the Commission discovered that reducing the commercial property tax to match neighboring jurisdictions would be prohibitively expensive. Each one-cent reduction in the top commercial property tax rate ($1.85) loses nearly $6 million in tax revenue annually. Therefore, cuts to align the District's top rate with that of Maryland ($1.42) would lose approximately $258 million. Paring the District's lower rate ($1.65) would also lose additional millions of dollars. By contrast, a reduction of the District's business franchise tax rate to 8.25 percent (Maryland's rate) would lose $57 million.

Considering this through the lens of greater economic growth, the Commission decided that a cut in the commercial property tax would be less effective, dollar-for-dollar, than significantly reducing the business franchise tax. In other words, businesses are more likely to move than buildings.

Dr. Daphne Kenyon, the principal of policy-consulting firm D. A. Kenyon & Associates in Windham, New Hampshire, presented a paper on property taxes to the Commission. She reviewed the economic literature to determine who bears the burden of the commercial property tax. "According to that literature, 55 percent to 100 percent of commercial property tax differentials of a jurisdiction over its neighbors are absorbed by owners of land and buildings, and from 0 percent to 45 percent of the tax differentials are absorbed by those renting commercial properties."[24] In other words, a reduction in commercial property taxes in the District would mainly relieve property owners, including many foreign investors, rather than District-based businesses located in the buildings.

Create a payment in lieu of taxes (PILOT) program

Many District properties face no property tax thanks to a variety of exemptions, most of them based on the status of the owner (e.g., a qualifying nonprofit organization). Such exemptions leave other properties and their owners shouldering a larger share of the tax burden. Some jurisdictions have addressed this by creating a payment in lieu of taxes (PILOT) program. Under a PILOT program, the owners of exempt properties are required to negotiate a payment based on the services provided to them by their local government. The enforcement of this requirement is unclear—perhaps merely moral suasion.

For example, Boston estimates how much city tax revenue is used to fund public services, such as fire protection or public works that directly benefit exempt organizations. Boston calculated this share as 25 percent. The city then negotiates PILOTs with individual organizations based on the premise that each should pay a PILOT equal to 25 percent their hypothetical property tax payment. The organization is allowed to negotiate a lower payment by demonstrating that it provides government-like services that are adequate substitutes for tax payments.

The Commission did not recommend creating a PILOT program for the District. The Commission was concerned about the opaque and arbitrary nature of such programs and anticipated unnecessary administrative burdens for both nonprofit organizations and the DC Office of Tax and Revenue. Instead, the Commission recommended a local services fee as a simpler, more transparent, and less expensive means to achieve the same goals.

Reduce the residential property assessment limitation from 10 percent to 5 percent

If a taxpayer owns a home as a principal residence and, therefore, qualifies for the homestead deduction, then the taxable assessment of that property cannot rise by more than 10 percent annually. This limitation protects homeowners from dramatic property tax hikes from year to year. Concerned that reduction in the limitation would be inequitable since it had no bearing on a resident's ability to pay, the Commission did not recommend reducing the limit to 5 percent. In fact, some of the District's most affluent residents living in the city's most valuable properties would gain the most by a reassessment proposal.

The reduced assessment limitation also would exacerbate equity problems since new homeowners would pay substantially more in property taxes than long-term residents in similarly valued property.

The Commission decided that reform of the individual income tax is a better means to offer tax relief to District residents.

Change the residential property minimum taxable assessment

The taxable assessment of residential property must always be at least 40 percent of the current assessed value of the property, regardless of annual limitations on the assessed value. The 40 percent minimum currently affects few taxpayers. During a period of substantial increases in property values, however, the provision's impact on assessments could become extensive.

The Commission did not recommend increasing the minimum taxable assessment to 50 percent. While an increase might improve the fairness of the property tax, 10 percentage points would affect few properties and raise less than $1 million in tax revenue.

The Commission also did not recommend eliminating the minimum. There is merit in protecting residents from substantial one-year property tax increases, but the long-term effect of this policy can be disruptive and harmful by creating significant horizontal inequity between homeowners of like residential property. For example, two taxpayers with similar property values

[24] Kenyon, Daphne A., Ph.D., "Real Property Tax Classification in Washington, D.C.," Oct. 24, 2013, p.24.

might pay very different property taxes solely based upon how long each resident lived in his or her house.[25] In addition, this form of tax relief is poorly targeted: A long-term resident receives a tax benefit regardless of ability to pay.

Eliminate the classifications for vacant and for blighted property

Real property in the District is separated into four classes for taxation. In addition to residential (Class 1) and commercial (Class 2), there are classes for vacant buildings (Class 3) and blighted buildings (Class 4). These latter two classes are taxed at higher rates as an incentive for owners to use their buildings productively and to prevent buildings from falling into disrepair and negatively affecting other properties in their neighborhoods. Although other state and localities do not use such classifications, the Commission recommended keeping them. Repealing the classifications would require the District to increase regulatory enforcement in place of the taxes, and that might prove more burdensome and less effective.

Tax land and buildings at different rates

Total assessed property value is reached by combining the value of land with the value of the building(s) on the property. Taxing land at a higher rate than buildings could reduce the tax penalty for improving the value of buildings. It also might serve as an incentive for new construction and penalize owners of valuable land who fail to develop it. Although taxing land and buildings at different rates is a centuries-old idea, no major jurisdiction currently does this. (Pittsburgh ended its system in 2001.) The Commission decided against such a system on grounds that the benefits were not great enough, particularly in light of added administrative challenges, including the need to value land and buildings separately.

Changes to the deed recordation and deed transfer taxes

Deed recordation and transfer taxes (deed taxes) are imposed when taxable properties in the District are sold or transferred. For all real property other than residential properties valued at less than $400,000, the rate for each tax is 1.45 percent of total consideration or fair-market value. The combined deed tax rate for a transfer of residential property valued at $500,000 or for any commercial property would, therefore, be 2.9 percent. For residential properties valued at less than $400,000, the rate for each tax is 1.1 percent of total consideration or fair-market value, for a total of 2.2 percent.

The Commission considered several changes to deed taxes, among them increasing or decreasing the rate. Ultimately, the Commission decided to make no recommendations. Professor Rodney Green, executive director of the Center for Urban Progress at Howard University, noted that his research found that while deed taxes are higher in the District than in neighboring jurisdictions, they have a minimal effect on transactions. Writing specifically about commercial property, Professor Green said deed taxes "seem like an attractive source of tax revenues with few negative local economic consequences."[26]

[25] Lowering the assessment limitation to 5 percent, from 10 percent, would engender greater inequity in residential property tax assessments. Under such a system, the minimum would become even more important in maintaining a fair tax system.

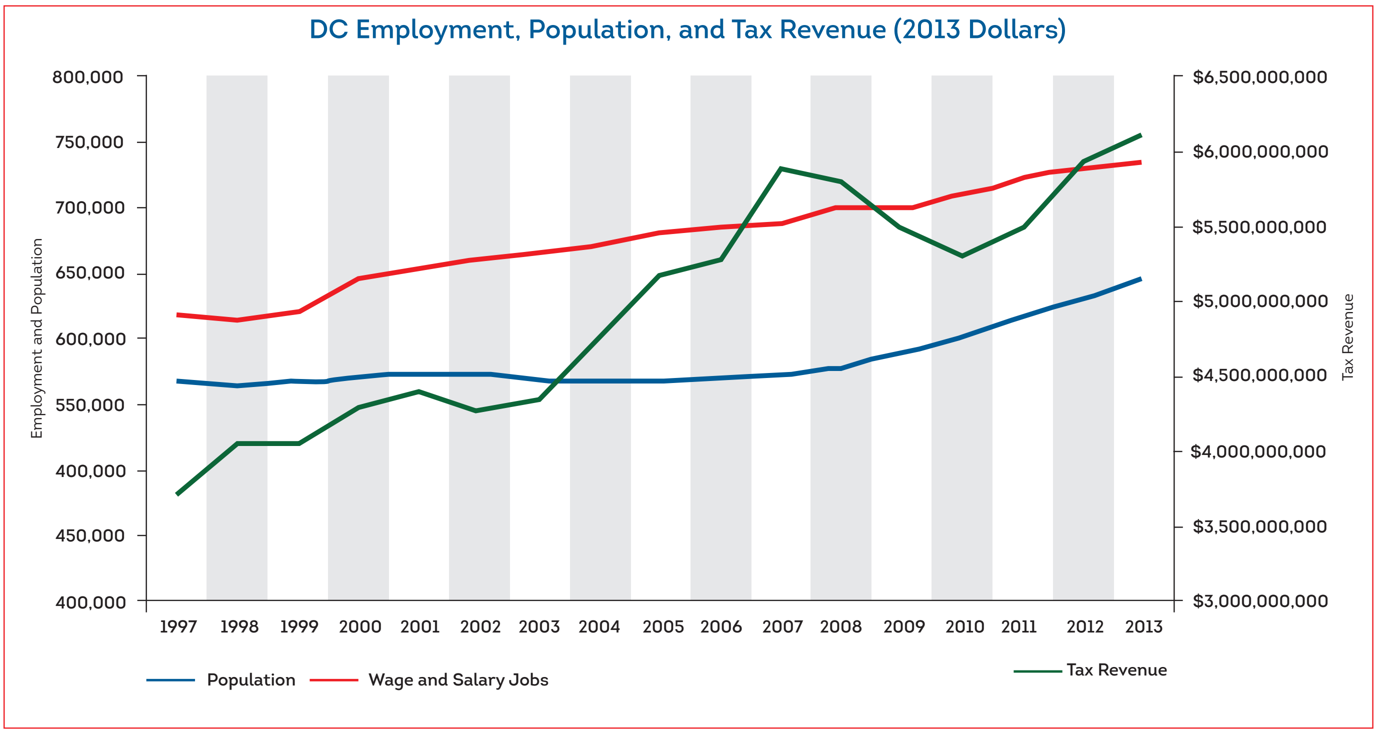
[26] Green, Rodney D., Ph.D. and Judy Mulusa, Ph.D., "The Deed Recordation and Real Property Transfer Taxes in the District of Columbia: A Comparative Analysis of Their Rates, Rationale, Structure, and Implementation with policy Options," Howard University Department of Economics, July 3, 2013, p.3.

ECONOMIC OVERVIEW

Introduction

The District of Columbia's economic picture is largely bright. Despite recent losses in federal jobs, overall employment continues to grow. In addition, the District is attracting more and more people to live in the city. This growth in population and employment contributed to a relatively stable and growing tax revenue base.

In 2013, the District's job and population growth exceeded that of the rest of the region and the nation. Both are projected to increase over the next few years despite the continued retrenchment of the federal government and significant regional competition.



Source: Office of Revenue Analysis and Bureau of Labor Statistics

The District's path to financial stability was set in the late 1990s when it handled its finances so well that it was able, in 2001, to move out from under the management of the District of Columbia Financial Control Board. The District's tax revenue growth has far outpaced the growth in employment and in population. At present, the District's budget is balanced–and in surplus–with tax revenues projected to grow at over 3 percent annually for the next few years.

	1997	2013	Percent Change
Employment	619,050	744,375	20%
Population	568,250	644,775	14%
Gross Local Tax Revenue (2013 Dollars)	$3.7 billion	$6.1 billion	65%

Source: Office of Revenue Analysis

SECTION 1: EMPLOYMENT

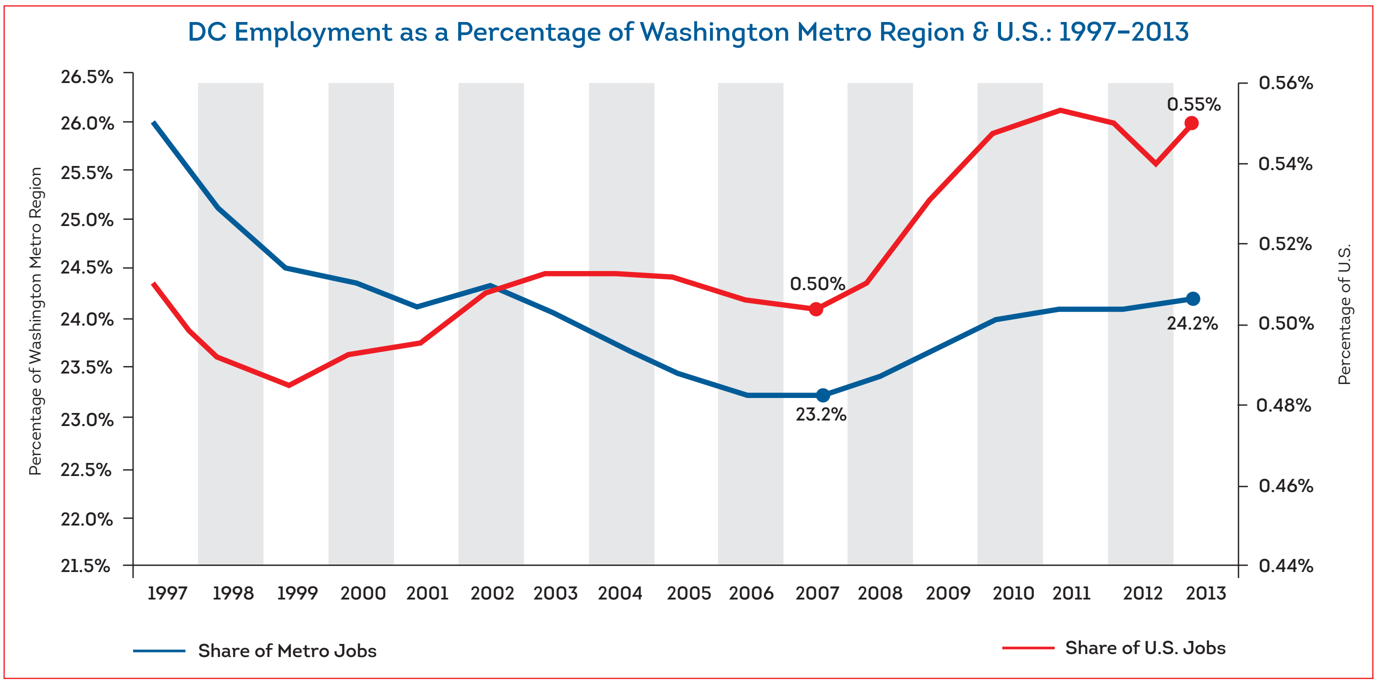
As the following chart illustrates, there are approximately 850,000 jobs in the District, of which 745,000 are wage and salary jobs.

Employment in DC: 2013	
Sector	**Total Jobs (Full-time and Part-time)**
Wage and Salary (except military) (a)	745,000
Proprietor (b)	82,400
Domestic (b)	7,500
Military (b)	18,500
Total	853,400

Source: Bureau of Labor Statistics and Office of Revenue Analysis; (a) 2013 BLS, (b) 2012 ORA

District residents hold approximately 255,000 of the 850,000 jobs; nonresidents (i.e., commuters) hold the remaining 595,000. The total number of employed residents in the District is approximately 340,000, including 80,000 who reverse commute to jobs in Maryland and Virginia.[27]

The District is the largest employment center in the Washington metropolitan region. There have been periods in which the District's percentage of jobs in the region has declined (notably from 1997 to 2006) but, recently, the percentage of regional jobs has stabilized at approximately 24 percent. The District's percentage of national employment declined through 1999 and then grew until 2011.



Source: Office of Revenue Analysis

During the past 15 years, the District's relative employment growth has been uneven. At times its growth has lagged behind that of surrounding suburbs, although it has exceeded the nation's employment growth. From 1997 to 2013, employment in the District, the Washington metro region, and the United States expanded by 19 percent, 30 percent, and 13 percent, respectively.

As the next table shows, the District since 2007 has enjoyed higher employment growth than both the Washington suburbs and the nation. In the last two years, the District's employment growth was slowed by federal employment cuts and tightened spending on federal contractors but still grew at a relatively strong pace.

[27] U.S. Bureau of Labor Statistics.

Employment Growth					
	1997-2007	2007-2010	2010-2011	2011-2012	2012-2013
DC	11.6%	2.5%	2.0%	1.2%	1.8%
Washington Suburbs	30.1%	(2.0%)	1.2%	1.1%	1.6%
United States	12.7%	(5.5%)	1.2%	1.7%	1.6%

In January 2014, the George Mason University Center for Regional Analysis projected strong employment growth for the District for the next five years, though at a slightly lower rate than for the rest of the Washington metropolitan region. This analysis predicts that the District will see 10 to 16 percent growth in regional jobs.

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Projected Employment Growth in DC		
Year	New District Jobs	DC's Percentage of Regional Job Growth
2014	9,700	16%
2015	11,300	17%
2016	9,300	14%
2017	6,500	12%
2018	4,600	10%

Source: George Mason University Center for Regional Analysis

Employment–By Major Sectors

Since 1997, federal government employment has declined from 31 percent of the District's jobs to 27 percent, and local government employment has declined from 7 percent to 4 percent. During the same period, private sector has increased from 62 percent to 69 percent of the District's employment. The decline in the share of employment coming from the federal government is the result of faster job growth in the private sector employment. Federal government employment in the District did grow over this time period, from 192,000 to 205,000 jobs, but at a slower pace than that of private sector employment.

Employment in DC: 1997 vs. 2013 (a)				
Sector	1997		2013	
	Total Jobs (1,000s)	Percentage of Jobs	Total Jobs (1,000s)	Percentage of Jobs
Federal Government	192	31%	205	27%
Local Government	41	7%	35	4%
Legal	29	5%	30	4%
Professional Services	48	8%	78	11%
Employment Services	12	2%	15	2%
Business Services	27	4%	31	4%
Information	24	4%	17	2%
Finance	28	5%	29	4%
Organizations	42	7%	61	9%
Education	35	4%	58	6%
Health Care	48	8%	66	9%
Food Services	25	4%	45	6%
Accommodations	15	2%	15	2%
Amusement & Recreation	3	1%	7	1%
Retail	18	3%	20	2%
Wholesale	4	1%	5	1%
Construction	9	1%	14	3%
Personal Services	6	1%	8	1%
Other Private (b)	12	2%	5	1%
Total	618	100%	744	100%

Source: Office of Revenue Analysis (1997) and Bureau of Labor Statistics (2013)
(a) Annual average wage and salary employment data.
(b) Other includes manufacturing, transportation, and utility employment.

Private sector employment in the District expanded by 113,000 jobs from 1997 to 2013, or 27 percent. Employment in professional and business services, nonprofit organizations and associations, health care, education, and food services grew strongly during this period. In contrast, employment in information services and other private sector segments (manufacturing, transportation, and utilities jobs) declined.

Changes in DC Employment

Sector	Total Change in Jobs (1,000s)						
	1990-1997	1997-2000	2000-2002	2002-2008	2008-2011	2011-2013	Total 1997-2013 (b)
Federal Government	(28)	(8)	9	1	18	(7)	13
Local Government	(16)	(1)	(1)	2	(6)	-	(6)
Legal	(1)	5	1	1	(6)	-	1
Professional Services	6	6	3	11	5	5	30
Employment Services	4	1	(2)	2	1	1	3
Business Services	(3)	4	4	-	(2)	(2)	4
Information	(2)	1	-	(3)	(3)	(2)	(7)
Finance	(5)	5	(2)	(2)	(1)	1	1
Organizations	3	3	5	8	1	2	19
Education	2	6	(5)	10	4	3	23
Health Care	-	3	3	1	7	2	18
Food Services	(3)	3	1	6	5	5	20
Accommodations	(1)	-	(1)	1	-	-	-
Amusement & Recreation	-	2	-	1	-	-	3
Retail	(8)	(1)	-	1	-	2	2
Wholesale	(2)	-	-	-	-	-	1
Construction	(5)	2	1	1	(1)	1	5
Personal Services	(1)	-	-	1	-	1	2
Other Private (a)	(8)	(1)	(2)	(3)	(1)	-	(7)
Total (b)	(66)	32	14	40	22	18	126

Source: Office of Revenue Analysis
(a) Other includes manufacturing, transportation and utility employment.
(b) Numbers do not total exactly due to rounding.

From 1990 to 1997, District employment floundered. Federal and local government employment fell sharply, as did retail and other private employment.

From 1997 through 2011, both private and federal government employment in the District grew steadily. Starting in 2011, however, federal employment in the District and Washington region declined. This contraction was offset fully by job gains in the private sector. From 2011 through 2013, the private sector created 18,000 jobs, while employment in the federal government declined by 7,000 jobs.

SECTION 2: POPULATION

Since 2009, the District's residential population has grown more than 2 percent annually, adding 12,000 to 14,000 new residents a year.

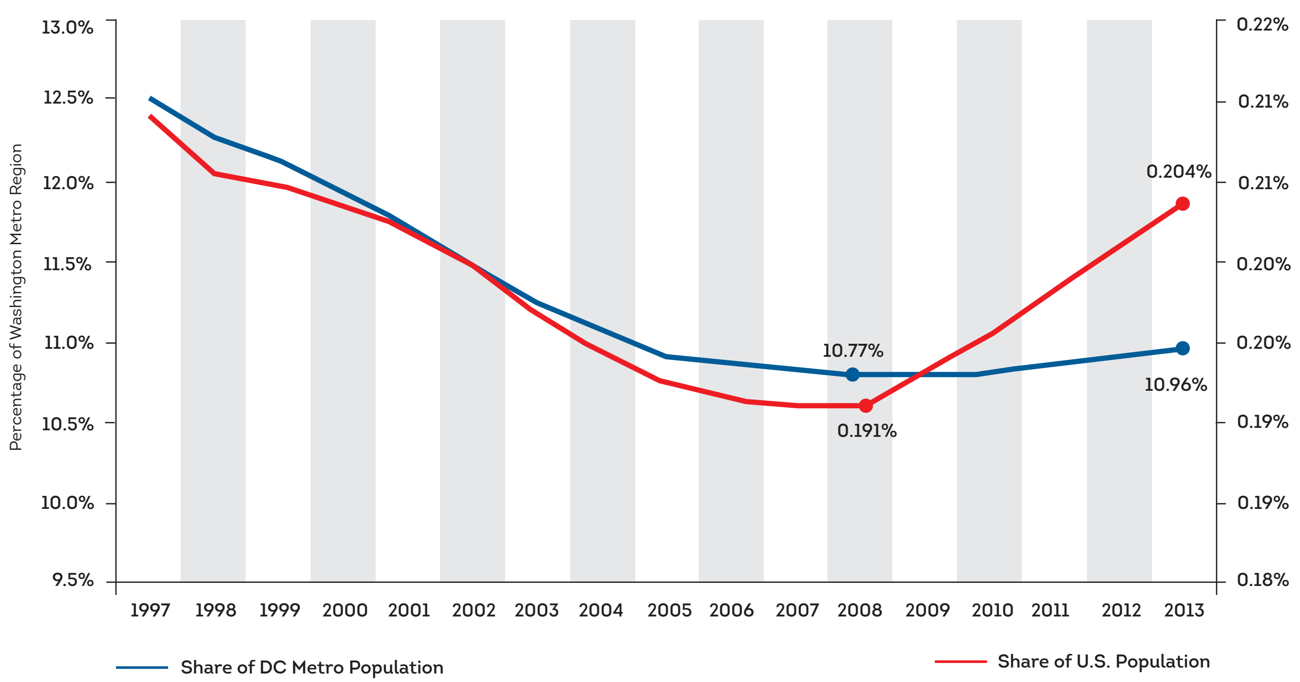
DC Population

Year	Population Estimate	One-Year Change	Percentage Change
2000	572,046	-	-
2005	567,136	(4,910)	(0.9%)
2006	570,681	3,545	0.6%
2007	574,404	3,723	0.7%
2008	580,236	5,832	1.0%
2009	592,228	11,992	2.0%
2010	604,989	12,761	2.2%
2011	619,020	14,031	2.3%
2012	633,427	14,407	2.3%
2013	646,449	13,033	2.1%

Source: Office of Revenue Analysis

The population growth was smaller than that of the Washington suburbs and the nation until 2008. The increase in the District's population since then has been relatively strong due to greater domestic migration from other states and natural growth (increasing numbers of births in tandem with stable numbers of deaths) as demonstrated in the graph that follows.

DC Population as a Percentage of Washington Metro Region & U.S.: 1997–2013



Source: Office of Revenue Analysis

From 1997 to 2013, the District, the Washington metro region, and the United States saw their populations grow 14 percent, 31 percent, and 16 percent, respectively. Since 2010, the District's population has grown the fastest.

Population Growth					
	1997-2007	2007-2010	2010-2011	2011-2012	2012-2013
DC	1.0%	5.2%	2.3%	2.3%	2.1%
Washington Suburbs	18.9%	5.4%	1.9%	1.5	1.4%
United States	10.5%	2.7%	0.8%	0.7%	0.7%

Source: Office of Revenue Analysis

For 2013, approximately 35 percent of the District's population growth was natural increases (births less deaths). The District also grew from net migration, including net migration from Virginia. The District lost residents to Maryland but fewer than in recent years.

Net Domestic Migration of Taxpayers to/from DC				
Year	Maryland	Virginia	Other 48 States	Total Domestic
2006	(3,009)	331	3,079	401
2007	(2,522)	199	2,541	218
2008	(1,655)	336	2,215	896
2009	(704)	338	4,450	4,084
2010	(946)	539	5,302	4,895
2011	NA	NA	NA	6,907*
2012	NA	NA	NA	6,050*
2013 Total Migration	NA	NA	NA	6,319*

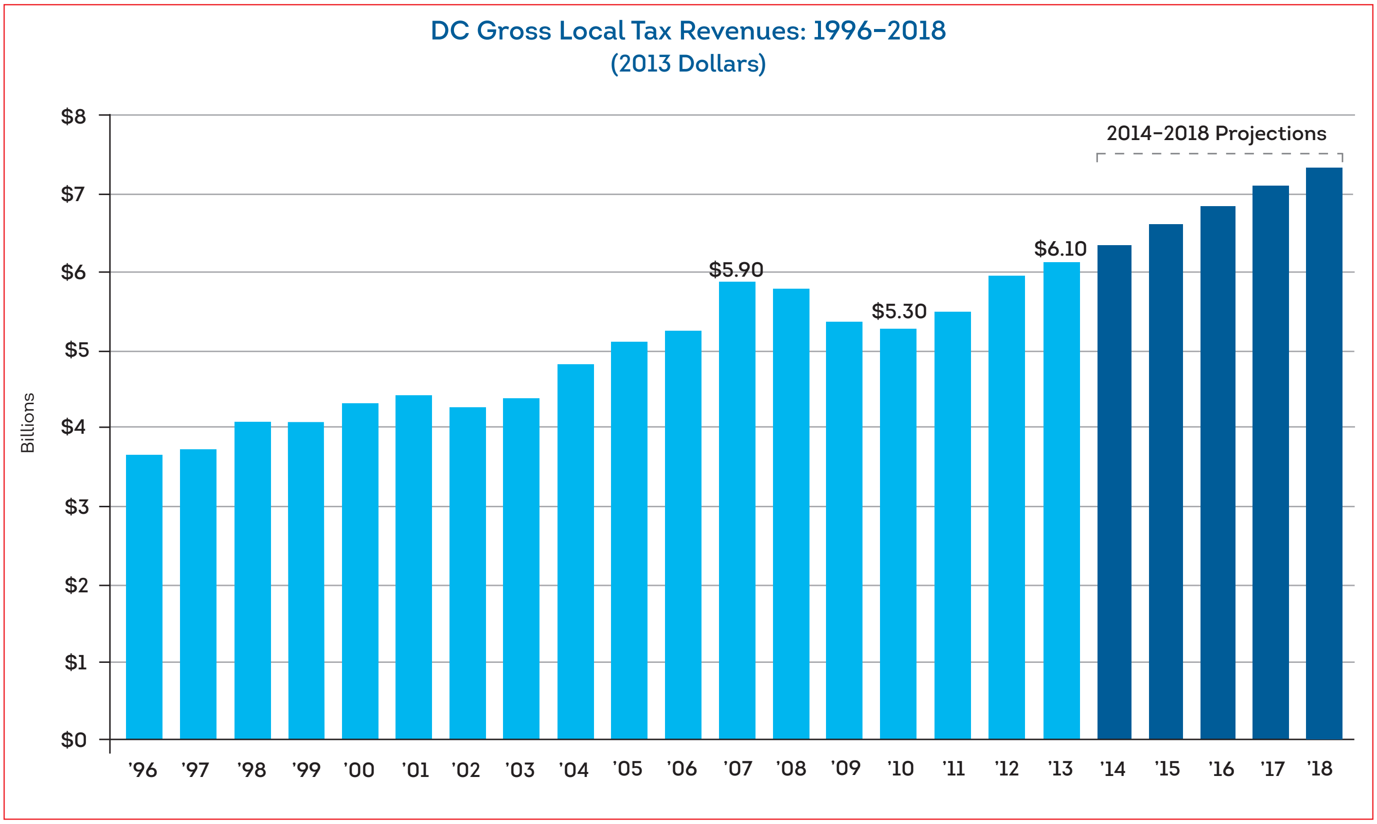
Source: Buschman use of IRS data and Office of Planning, DC Government

*Including net foreign migration, total net migration was 8,769 in 2011, 8,953 in 2012, and 9,177 for 2013.

SECTION 3: GROSS LOCAL TAX REVENUES

From 1997 to 2013, the District's local gross tax revenues enjoyed relatively stable growth, and they are projected to increase 2.5 to 3 percent annually from 2014 to 2018.

In constant 2013 dollars, the District's gross local tax revenues have grown $2.4 billion since 1997 even though the District lowered several major tax rates during this period.



Source: DC Office of Chief Financial Officer

The District's local tax revenue makes up only 58 percent of the city's General Fund Operating Revenue. Non-tax local revenues make up 10 percent and federal payments and grants make up the rest. Tax revenue rose to 61 percent of total operating revenue but declined in the past few years as federal stimulus spending and other federal programs have grown in response to the Great Recession.

Sources of DC General Fund Operating Revenue: FY 1997, 2006, 2013						
	1997		2006		2013	
	Millions	Percentage of Total	Millions	Percentage of Total	Millions	Percentage of Total
Local Source Revenue	$2,803	64%	$5,239	71%	$7,104	68%
Total Gross Taxes (Before Earmarks)	$2,522	58%	$4,516	61%	$6,100	58%
Total Non-Tax	$281	6%	$723	10%	$1,004	10%
Federal Payments & Grants	$1,554	36%	$2,155	29%	$3,277	32%
Federal Payments	$666	15%	$354	5%	$555	6%
Grants	$888	21%	$1,801	24%	$2,722	26%
All Revenue Sources	$4,357	100%	$7,394	100%	$10,381	100%

Source: Office of the Chief Financial Officer, 2013 Comprehensive Annual Financial Report

Since the Great Recession, federal grants have risen by approximately $900 million. If Congress cuts federal payments to the District (e.g., the college tuition fund, District court system) or federal grants to the District (e.g., Medicaid, Temporary Assistance to Needy Families), then the District would need to find new revenue sources to fund these programs at their current levels.

Major DC Tax Types in FY 2013		
	Revenue ($ millions)	Percent of Total Gross Tax Revenue
Real Property Tax	$1,914	31%
General Sales Taxes	$1,137	19%
Individual Income Tax	$1,641	27%
Business Income Tax	$453	7%
Deed Taxes	$361	6%
Estate Tax	$40	1%

Source: Office of Revenue Analysis

The District collects a diverse range of tax revenues, including those traditionally collected by states (e.g., individual income taxes and sales taxes) and those traditionally collected by localities (e.g., real property taxes).

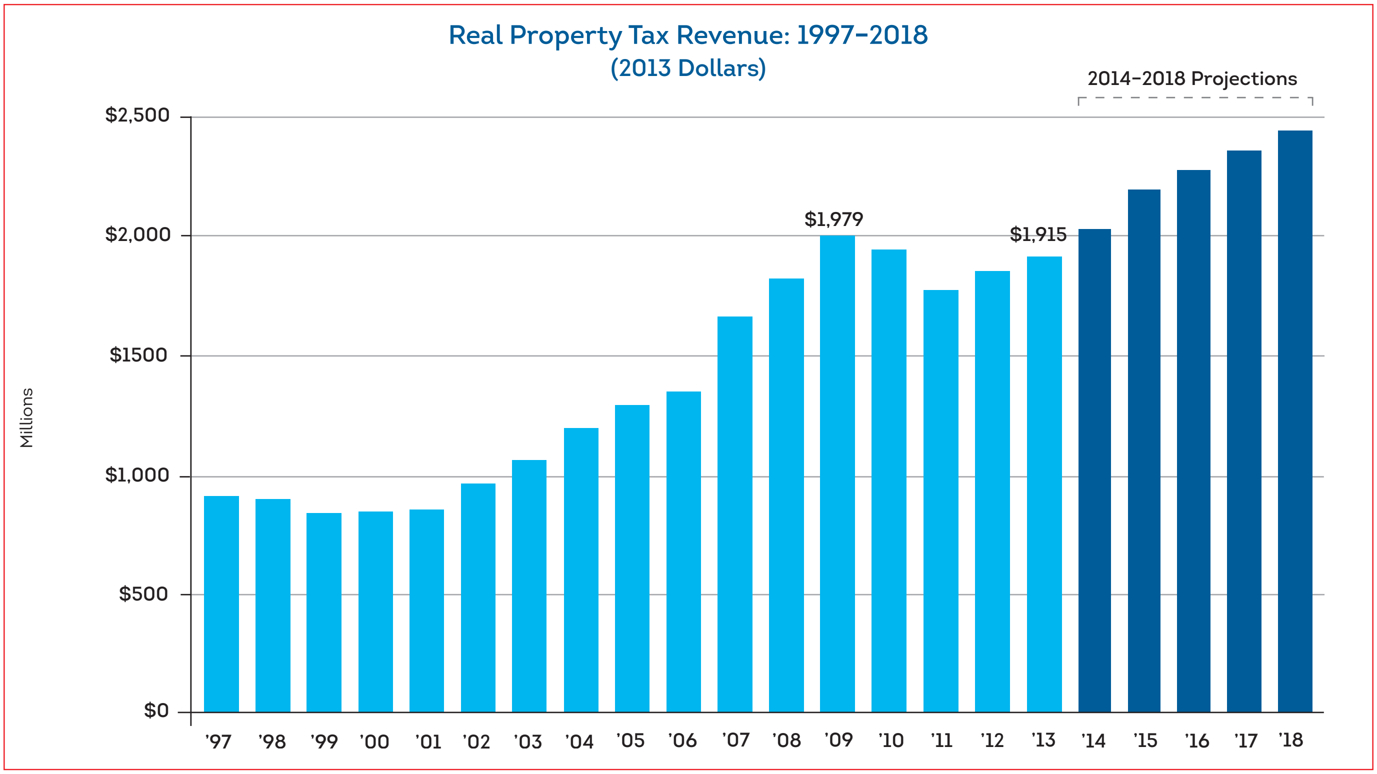
All tax revenues have grown over the past 15 years, but real property tax revenue has grown the most. It now accounts for 31 percent of total gross local tax revenues–up from 24 percent in 1997. While income tax revenue declined as a percentage of total local tax revenues, it grew on a constant dollar basis during this period.

Tax Type as Percent of Total Gross Local Tax Revenues: 1997-2018				
Tax Type	1997	2010	2013	2018 (projected)
Real Property	24.0%	37.0%	31.0%	33.0%
Individual Income	30.0%	22.0%	27.0%	27.0%
Sales	19.0%	20.0%	19.0%	19.0%
Business Franchise	5.7%	4.2%	4.9%	4.8%
Unincorporated Business Franchise	1.5%	2.3%	2.5%	2.6%
Deed	2.9%	4.2%	5.9%	5.0%
Estate	1.1%	0.8%	0.7%	0.5%

Source: Office of Revenue Analysis

Real Property Tax Revenues

Real property tax revenues grew from 24 percent of total local gross revenues in FY 1997 to 37 percent in FY 2010 (based on January 2009 assessments). This reflected a robust real estate market (both a rapid growth in property values and substantial new development throughout the District) and a decline in individual income tax revenue during the Great Recession. Real property tax revenues then dropped to 31 percent in 2013 as property values fell in the aftermath of the Great Recession and individual income tax revenue recovered. Real property tax revenues are projected to increase again to 33 percent of total local tax revenues in FY 2015 by the Office of Revenue Analysis.



Source: DC Office of the Chief Financial Officer

Residential property accounted for 54 percent of the District's total estimated property value in FY 2013 (based on an assessment date of January 2012) and 31 percent of total gross local property tax revenue. Commercial property accounted for 46 percent of the total estimated values for FY 2013 and 68 percent of total gross local real property tax revenue.

The average effective residential property tax rate ranged from $0.25 per $100 for senior-owned homes to $0.77 per $100 for non-owner-occupied homes. Commercial properties averaged an effective tax rate of $1.78 per $100.

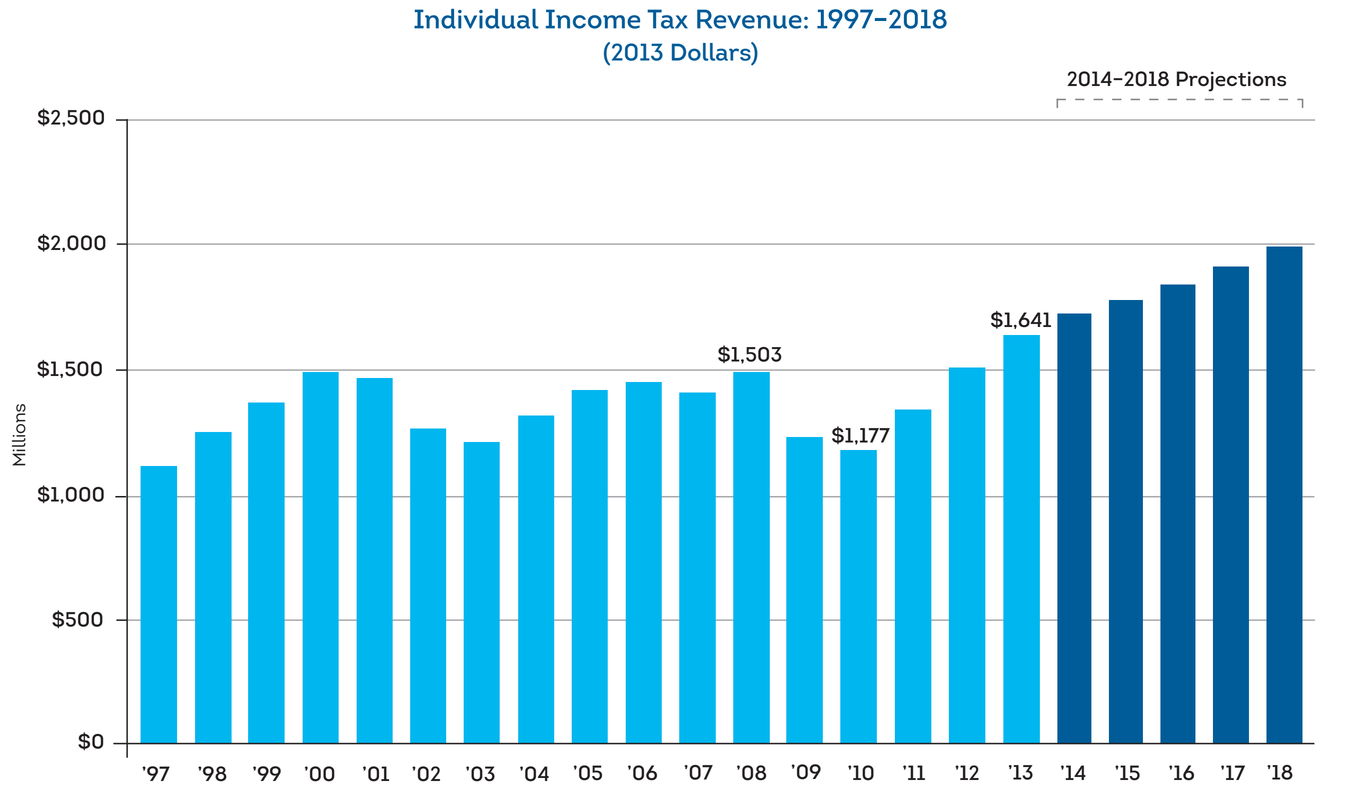
Real Property Assessed Value and Tax Rate by Class, Tax Year 2010

Class of Property	Number of Properties	Assessed Value ($ million)	Effective Tax Rate (per $100)
Residential	170,615	$88,163	$0.64
Homestead	95,377	$51,066	$0.55
Non-Senior	76,177	$42,904	$0.61
Senior	19,200	$8,162	$0.25
Non-Homestead	75,238	$37,097	$0.77
Commercial	9,089	$65,969	$1.78
Vacant/Abandoned	73	$23	$1.06
Total	179,777	$154,154	$1.13

Source: Office of Revenue Analysis, November 2013 Data Book

Individual Income Tax Revenues

Individual income tax revenues have grown considerably since 1997. However, individual income tax revenue as a percent of total local tax revenue declined from 30 percent in 1997 to 25 percent in 2012. It increased to 27 percent in 2013 and is projected to stay at 27 percent through 2018.[28]



Source: DC Office of the Chief Financial Officer

As described in the population section of this chapter, the District's population has grown by roughly 13,000 residents annually for the past few years, with approximately 8,500 net new residents moving to the District annually. Current projections show this growth rate continuing for the next two or three years.

The individual income tax revenue stream is divided between stable revenue that comes from the withholding of taxes for wage and salary employees and a less stable stream of non-withholding tax payments, primarily capital gains tax payments.

Approximately 80 percent, or $1.3 billion per year, of individual income tax revenue comes from the withholding of wage and salary income for District residents. This revenue from withholding has increased every year since 1997. It is very stable.

On the other hand, the non-withholding portion of the individual income tax revenue is volatile. This revenue category has ranged from a low of $42 million in FY 2010 to a high of $388 million in FY 2007. These taxes are paid on a quarterly basis, paid with the final return, or netted against other income for refund.

There were 58,357 tax filers in FY 2013 with nominal incomes of $100,000 or more. This constituted 16 percent of all filers and 74 percent of the city's individual income tax revenue. In 2004, the 28,924 filers with nominal incomes of $100,000 or more constituted 10 percent of all filers and 59 percent of the District's income tax revenue.

The number of tax filers in all income groups increased at all income levels from 2010 to 2013.

[28] Feb. 26, 2014 Revenue Projection, DC Office of the Chief Financial Officer.

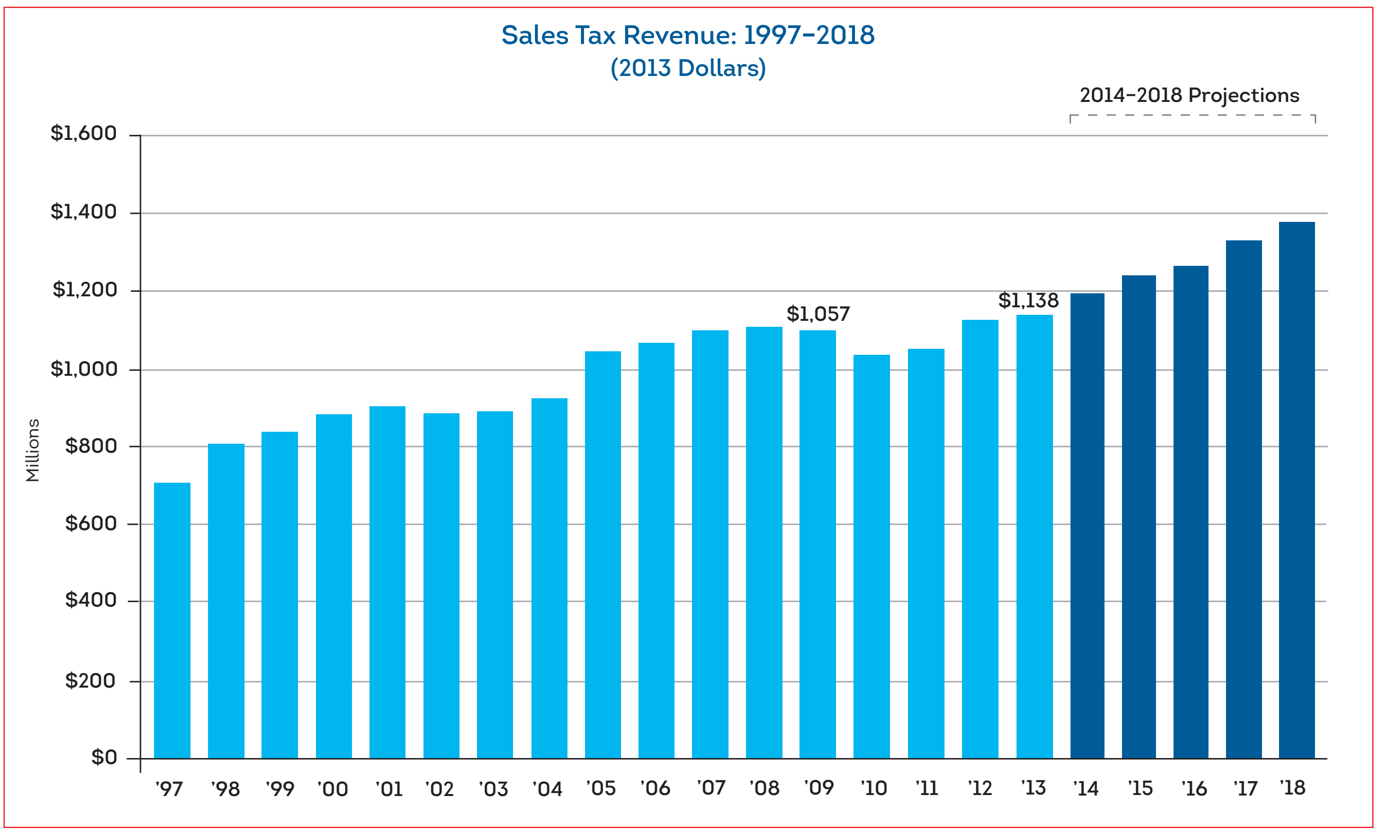
Change in the Number of DC Taxpayers: 1997-2013				
Income Group	Total Change in Filers			
	2012-2013	2010-2013	2003-2013	1997-2013
Below $10,000	3,002	7,593	2,374	(14,685)
$10,001 to $25,000	1,451	7,114	(3,179)	(10,321)
$25,001 to $50,000	1,341	4,275	2,492	11,024
$50,001 to $75,000	2,562	2,562	15,732	24,102
$75,001 to $100,000	1,910	5,418	12,598	16,809
Above $100,000	4,046	16,408	31,143	40,985
Total Increases	14,312	47,573	61,160	67,914

Source: DC Comprehensive Annual Financial Reports, FY 2006 and FY 2013

Sales Tax Revenues

Sales tax revenues include the general sales tax and several special sales taxes, such as restaurant, liquor, hotel, parking, and tobacco.

Sales taxes remained at 19 percent of total local revenues from 1997 to 2013 and are projected to continue at this level through 2018. However, from FY 2005 to 2012, sales tax revenue declined from 20.3 percent of total local revenues to 18.7 percent, mainly from a decline in general sales tax receipts.



Source: DC Office of the Chief Financial Officer

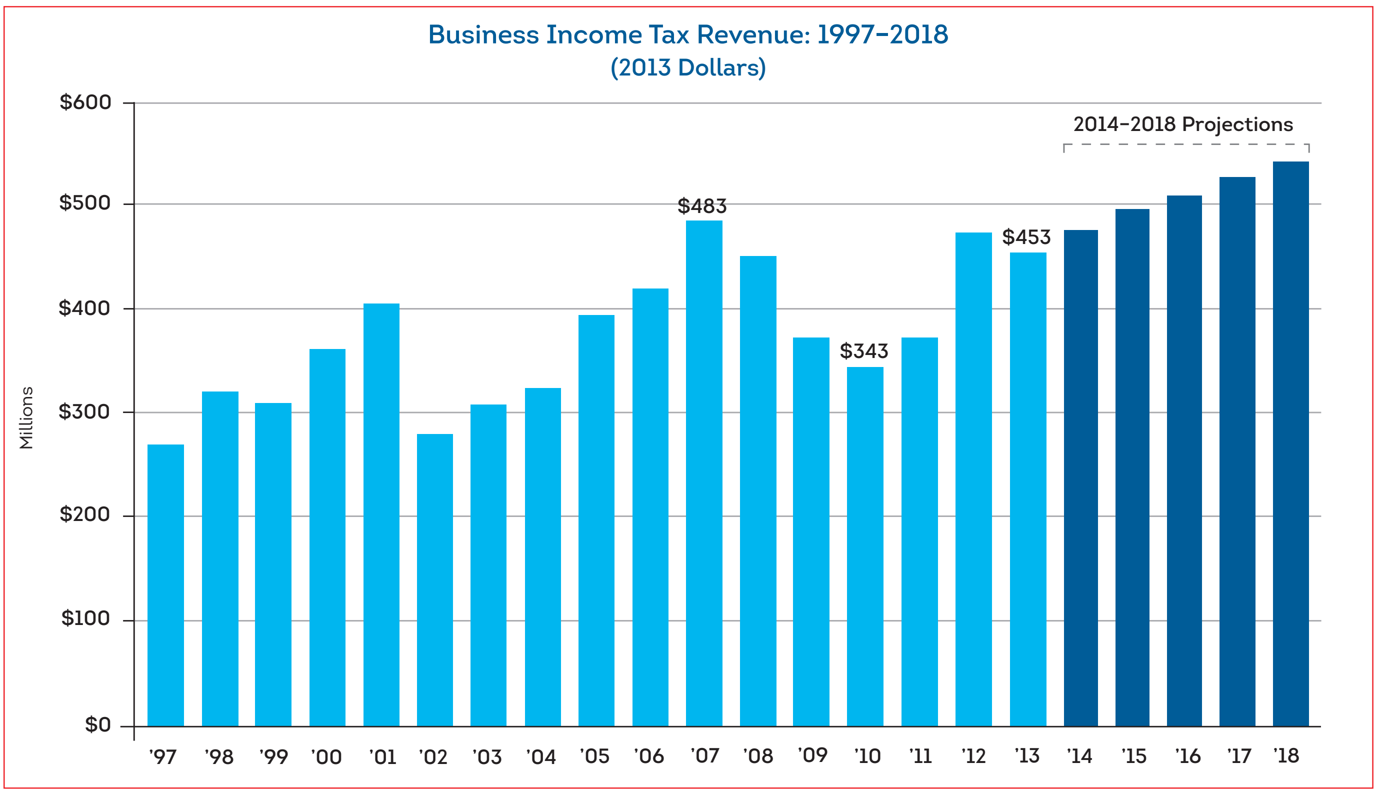
DC Sales Tax Revenue		
Tax Type (tax rate)	Revenue FY 2013 (in millions)	Revenue Growth: 2008-2013 (a)
General Tax (5.75%)	$449	(2%)
Restaurant and Other Taxes (10%)	$351	22%
Liquor Tax (10%)	$49	100%
Hotel Tax (14.5%)	$225	10%
Parking Tax (18%)	$62	67%
Other Tobacco	$1	N/A
Total	$1,138	12%

Source: Office of Revenue Analysis
(a) CPI increased 8.9 percent from 2008 to 2013

Business Income Tax Revenues

Business income tax revenues include revenue from both the District's business franchise tax (BFT) and the District's unincorporated business franchise tax (UBFT). From 1997 to 2013, BFT revenue declined from 5.7 percent of total gross local tax revenues to 4.8 percent, while UBFT revenue increased from 1.5 percent to 2.6 percent.

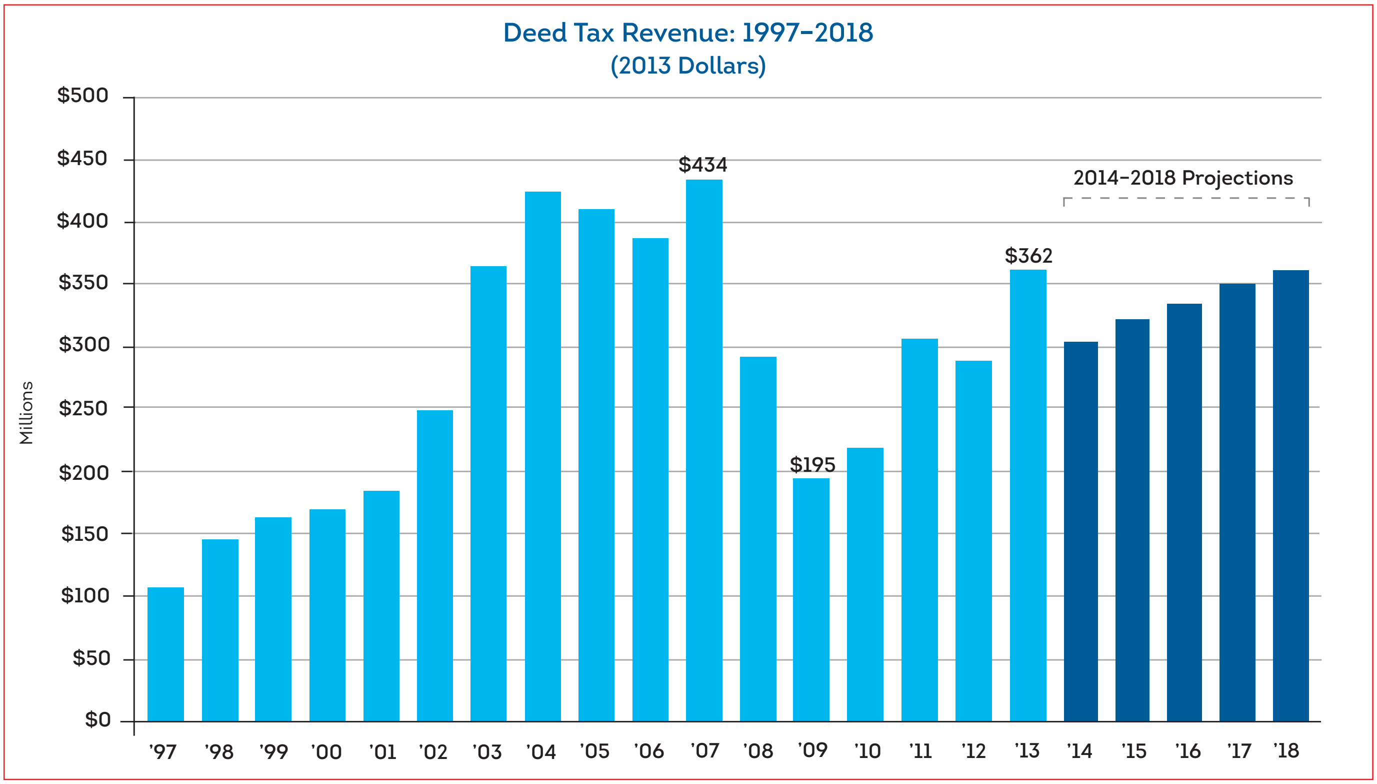
Of the approximately 42,500 business income tax filers in FY 2011, some 28,000, or 66 percent, paid a minimum business income tax of $250 (gross receipts less than $1 million) or $1,000 (gross receipts greater than $1 million). Payers of the minimum tax accounted for 2.7 percent of the $360 million of total business income taxes paid in FY 2013. The other 34 percent, or 14,500 business income tax filers, paid 97.3 percent of the total business income taxes in the District.



Source: DC Office of the Chief Financial Officer

Deed Tax Revenues

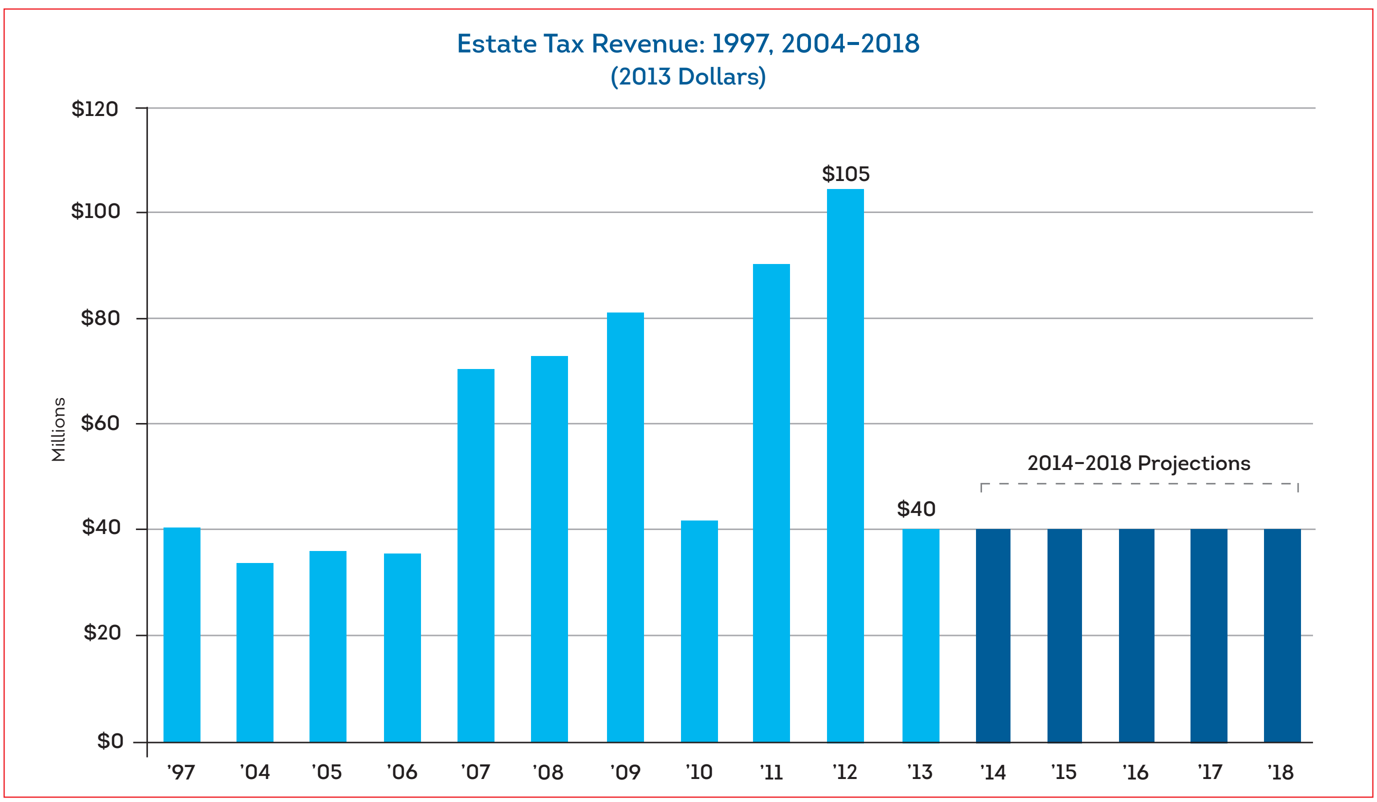
The District's deed recordation and transfer tax revenues have ranged from $108 million in FY 1997 to $434 million in FY 2007 to $195 million in FY 2009 (in constant 2013 dollars). The following bar graph shows the volatility of deed tax revenue in the District.



Source: DC Office of the Chief Financial Officer

Estate Tax Revenues

The District's estate tax is also a volatile source of revenue, ranging from $33 million in FY 2004 to $105 million in FY 2012 to $40 million in 2013 (in constant 2013 dollars). This reflects the fact that the estate tax falls on a small number of estates each year and that tax collections in any year can be affected by the settlement of just a handful of large estates.



Source: DC Office of the Chief Financial Officer

TAX OVERVIEW

THE DISTRICT'S TAX SYSTEM

Introduction

The District of Columbia took in $6.1 billion in tax revenue in fiscal year 2013.[29] Among the District's taxes are those traditionally collected by states (e.g., individual income taxes and sales taxes) and those traditionally collected by localities (e.g., real property taxes).

The District is often described as a "high-tax" jurisdiction due to some high statutory tax rates and large per capita tax revenue. But other District tax rates are the *lowest* in the Washington region. Thus, different District taxpayers, both residents and businesses, face very different tax burdens.

This chapter analyzes the District's overall tax system and then examines specific taxes.[30] Throughout this review, the District's taxes are compared with the *combined* state and local taxes of other jurisdictions, including those in the greater Washington region.

The chapter begins by describing the District's per capita tax revenue (total tax revenue divided by population), which serves as a broad measure of tax burden. The District has the second-highest per capita tax revenue among states. However, the tax liability of a typical District resident is average or even low when compared with similar residents in other Washington region jurisdictions,[31] in part because nearly half of the District's total tax revenue comes from business taxes. The first section of this chapter puts this tax burden into context.

The chapter's second section examines the tax distribution as a share of District residents' income. Distribution tables show that District taxes as a share of income increase from the lowest-income quintile to the middle-income quintile, making the system progressive in this range. But the tax burden then falls from the middle-income group to the highest-income group, making this range of the District's tax system regressive. The rise and fall of tax liabilities over income ranges suggest that the District's middle-class residents are disproportionally burdened.

The third section of this chapter details the major District taxes examined by the Commission. Those taxes by total revenue are:

DC Taxes Studied by the Commission		
DC Tax	**FY 2013 Revenues**	**Percent of FY 2013 Tax Revenue**
Real Property (Residential and Commercial)	$1,914,840,000	31.4%
Individual Income	$1,640,899,000	26.9%
General Sales and Use	$1,137,892,000	18.6%
Business Franchise	$298,983,000	4.9%
Unincorporated Business Franchise	$154,297,000	2.5%
Deed Recordation	$208,568,000	3.4%
Deed Transfer	$152,889,000	2.5%
Estate	$39,700,000	0.6%
Personal Property	$54,878,000	0.9%
Ballpark Fee (Gross Receipts)	$29,234,000	0.5%

Source: Office of Revenue Analysis, Office of the Chief Financial Officer

[29] All District revenue numbers in this chapter are from the Office of the Chief Financial Officer's Feb. 26, 2014, revenue estimate.
[30] This chapter relies heavily on the expert papers and presentations delivered to the Commission. Those papers and presentations are available on the Commission's website, www.dctaxrevisioncommission.org.
[31] "Tax Rates and Tax Burdens 2012: Washington Metropolitan Area," Office of Revenue Analysis, December 2013.

Many individuals and businesses are NOT INCLUDED in the District's tax base, shifting a GREATER BURDEN to existing taxpayers.

The District's taxes are divided in this section between taxes paid by residents (income, estate, residential property, deed, and sales) and taxes paid by businesses (business franchise, gross receipts, personal property, commercial property, and deed). This section describes the base and rate for the major taxes paid by District residents and businesses—and compares them with similar taxes in Maryland, Virginia, and throughout the country.

Some of the comparisons are favorable. For example, the District has the lowest residential property tax and general sales tax rates of any jurisdiction in the Washington region. But other comparisons are unfavorable. The District's business franchise tax rate is the third highest in the United States, surpassing the rates in Maryland and Virginia. (However, neighboring jurisdictions in Virginia levy a broad gross receipts tax on business income that can be substantial, while the District does not.) The District's commercial property tax rate is the highest in the Washington region.

This section of the report also highlights who is *not* paying District taxes. There are two large gaps in the District's tax base. The first stems from the Home Rule Act, which prevents the DC Council from imposing "any tax on the whole or any portion of the personal income…of any individual not a resident of the District."[32] In other words, the District cannot directly or indirectly tax the income of commuters. The Home Rule Act exempts partnerships of professionals (such as doctors, lawyers, engineers, and accountants) from the city's unincorporated business franchise tax.[33] The second gap results from the large number of government agencies and departments, educational institutions, and nonprofit organizations that are exempt from District property taxes. These gaps mean that District residents and private businesses that pay taxes must shoulder a greater burden.

Overall, the Commission found three major areas of concern in the District tax system:

1. Middle-class residents pay a relatively large share of their incomes in District taxes.
2. The District's business franchise tax and commercial property tax rates are the highest in the region and among the highest in the nation (although a comparison of the burden from all business taxes is less clear). These tax rates may fuel a perception problem.
3. Many individuals and businesses are not included in the District's tax base, shifting a greater burden to existing taxpayers.

[32] DC Code § 1-206.02.
[33] *Bishop v. District of Columbia*, 401 A.2d 955 (D.C. 1979).

COMPARISON OF DC TAX RATES

Regional Comparison of Major Tax Rates			
	DC	Maryland	Virginia
Top Individual Income Tax Rate	8.95%[34]	8.95%[35]	5.75%
Business Franchise Tax Rate	9.975%	8.25%	6.00%
General Sales Tax Rate[36]	5.75%	6.00%	6.00%[37]
Top Estate Tax Rate	16.00%	16.00%	No Tax

Residential Property Tax Rate Comparison						
	DC	Montgomery County	Prince George's County	Alexandria	Arlington County	Fairfax County
Tax Rate per $100	$0.85	$1.068-$1.641	$1.431-$2.921	$1.033	$0.958	$1.096-$1.213

Source: DC Fiscal Policy Institute

Commercial Property Tax Rate Comparison[38]							
	DC	Bethesda	Silver Spring	Alexandria	Rosslyn	Tysons	Reston
Tax Rate per $100	$1.65/$1.857	$1.201	$1.271	$1.033	$1.118	$1.085	$1.085
Total Tax Rate[39]	$1.762/$1.879	$1.246	$1.316	$1.038	$1.334	$1.480	$1.477

Source: Downtown DC Business Improvement District

[34] The District's top individual income tax rate is scheduled to expire on Dec. 31, 2015, and fall to 8.5 percent.
[35] Maryland's top individual income tax rate combines the state's top income tax rate (5.75 percent) and the county's flat income tax rate (3.2 percent) in both Montgomery County and Prince George's County. Other Maryland counties have a lower county income tax rate.
[36] This is the sales tax rate for most goods and some services. The District, Maryland, and Virginia also have special sales tax rates for specific transactions. The District's special tax rates, for example, cover restaurant meals (10 percent), transient accommodations (14.5 percent), and private parking (18 percent).
[37] This is the sales tax rate in Northern Virginia. The Virginia state sales tax rate is 5.3 percent. The counties and cities in the Northern Virginia Transportation Authority add 0.7 percent to the sales tax rate.
[38] The commercial property tax rate in the District is split: The first $3 million of assessed value is taxed at $1.65 per $100 and the value above that threshold is taxed at $1.85 per $100.
[39] The "total tax rate" includes other commercial property taxes such as the Business Improvement Tax, Stormwater Tax, Transportation Tax, Metro Silver Line Special Assessment Tax, and Tysons Service District Tax. Taxes owed vary by jurisdiction. Rates provided by the Downtown DC Business Improvement District, March 2014.

SECTION 1: THE DISTRICT'S PER CAPITA TAX REVENUE

The District Collects a High Level of Tax Revenue Compared With States

Traditionally, there are two methods for measuring and comparing combined state and local tax revenue: per capita and as a percentage of personal income. When applied to the District, both measurements suggest that tax revenues are high relative to states.[40]

The District collected $8,687 in per capita tax revenue in fiscal year (FY) 2011,[41] a total that exceeded nearly every state's combined state and local per capita tax revenue that year.[42] The total also was well above the national average of $4,298. Maryland's per capita tax revenue was also above the national average at $4,982, ranking 11th in the country. Virginia's per capita tax revenue was $3,971, below the national average and the 28th highest among the states.

Measured as a percentage of personal income, the District's revenue is the seventh highest relative to the combined state and local tax revenues of states.

FY 2011 Comparison of Total State & Local Tax Revenue		
	Per Capita	Percentage of Personal Income
DC	$8,687 (2)	11.8% (7)
Maryland	$4,982 (11)	9.8% (29)
Virginia	$3,971 (28)	8.6% (46)
U.S. Average	$4,298	10.3%

Source: Census Bureau
Note: State rank is in parentheses.

Why is the District's Per Capita Tax Revenue Comparatively High?

The District's per capita tax revenue is a function of the District's relatively rich tax base–high per capita income, strong property values (particularly commercial property), and substantial levels of consumption by tourists and commuters–and the District's relatively high effective tax rates.[43] But, out of context, per capita tax revenue can mislead.

The District is a city and, as such, it should be compared to a city, not a state. An urban area typically has a richer tax base and higher spending demands than a rural community. And while the District's population is 100 percent urban, a typical state is only 80.7 percent urban.[44] Thus, all states have a per capita tax revenue statistic that is averaged across both urban and rural areas. For example, Pennsylvania's per capita tax revenue is determined by averaging the tax bases and effective tax rates across Philadelphia, Harrisburg, all other urban localities, and all rural areas throughout the state. Unfortunately, there are no publicly available studies that calculate the state and local per capita tax revenue for Philadelphia (or any other urban locality).

Furthermore, a state's per capita tax revenue adds all taxes levied by states and localities, not just taxes on residents. For example, Alaska posted the highest per capita tax revenue of any state in FY 2011 because of tax revenue from severance taxes, which are imposed for the extraction of natural resources.[45] Alaska does not have an individual income or sales tax, so its direct taxes on residents are comparatively low. The District does not have natural resources, but it does have the nation's capital, which generates significant business activity and business taxes. Indeed, business taxes bring in nearly half of the District's tax revenue. [46] This helps explain how the District has high per capita tax revenue but a relatively low tax burden for some residents. In fact, the DC Office of Revenue Analysis (ORA) estimates that a typical three-person family earning $50,000 pays $3,579 in major District taxes (income, property, sales, etc.). That is well below the District's per capita tax revenue of $8,687. [47]

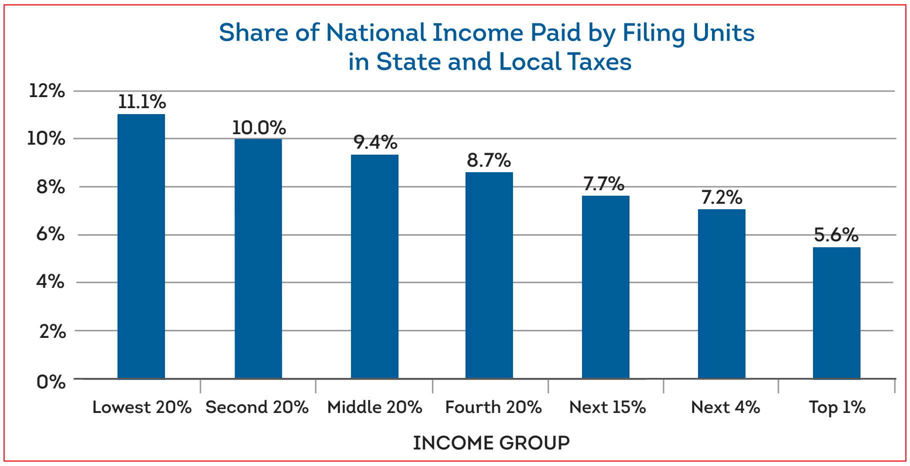
Thus, per capita tax revenue fails to adequately reflect the tax burden on District residents.

[40] We compare the District to the combined state and local tax revenue of states because the District collects both types of taxes. The per capita and percentage measurements are from the U.S. Census Bureau as presented by the Tax Policy Center's website.
[41] This is the most recent year that comparison data are available from the U.S. Census Bureau.
[42] Alaska is the only state with higher per capita tax revenue than the District.
[43] Yilmaz, Yesim and Robert Zahradnik, "Measuring the Fiscal Capacity of the District of Columbia–a comparison of revenue raising capacity and expenditure need Fiscal Year 2005," October 2008.
[44] 2010 Census.
[45] O'Sullivan, Sheila, Lynly Lumibao, Russell Pustejovsky, Tiffany Hill and Jesse Willhide, "State Government Tax Collections Summary Report: 2012," U.S. Census Bureau, April 11, 2013.
[46] Calculations by Norton Francis for FY 2012. These data are available in his paper prepared for the Commission, "Business Franchise Taxes in the District of Columbia."
[47] "Tax Rates and Tax Burdens 2012: Washington Metropolitan Area," Office of Revenue Analysis, December 2013.

SECTION 2: HOW MUCH DO DISTRICT TAXES COST RESIDENTS?

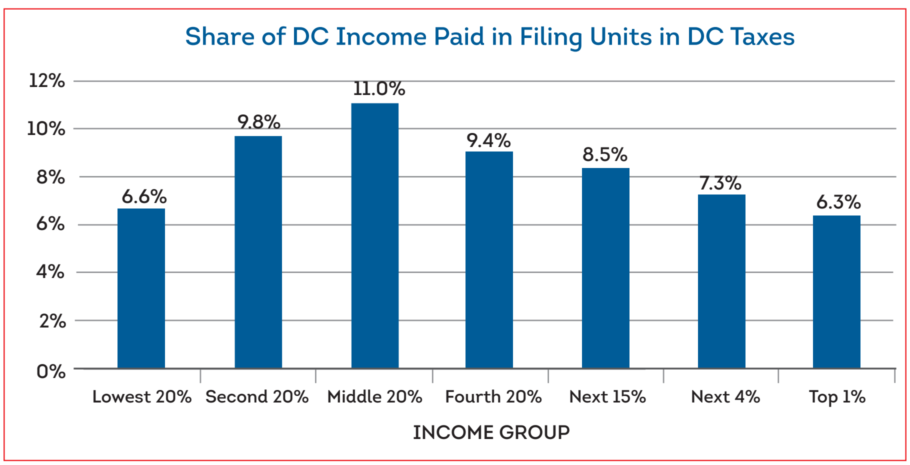
The Institute on Taxation and Economic Policy (ITEP), a non-partisan research organization, calculates the share of income paid in state and local taxes by different income groups. ITEP estimates both the cost of taxes paid directly by individuals (e.g., sales taxes) and the cost of business taxes passed through to individuals via higher prices.[48]

ITEP concludes that "nearly every state and local tax system takes a much greater share of income from middle- and low-income families than from the wealthy" and, therefore, most tax systems are regressive.[49] In fact, on a national average, the lowest income quintile pays 11.1 percent of its income in state and local taxes, the highest share of any income group.[50] Each successive income group pays a smaller share of income in state and local taxes, with the middle 20 percent paying 9.4 percent and the top 1 percent of earners paying 5.6 percent.



Source: Institute on Taxation and Economic Policy

The District, however, is cited by ITEP as having one of the "least regressive" tax systems in the nation.[51] District residents in the lowest-income quintile pay 6.6 percent of their income in District taxes. Furthermore, taxes as a share of income rise from the lowest-income quintile to the middle-income quintile, making the tax system progressive at these levels.



Source: Institute on Taxation and Economic Policy

However, tax liabilities as a share of income then fall from the middle-income group to the highest income group. The middle quintile pays 11 percent of its income in District taxes, while the top 1 percent group pays 6.3 percent. The rise and fall of tax liabilities over the income range disproportionately burdens the District's middle-class residents. Indeed, the tax burden for middle-class residents is relatively large when compared both to that of the District's high-income residents and that of middle-income residents in other states.

48 ITEP uses a micro-simulation model that calculates by income group the revenue yield and incidence of federal, state, and local taxes. The model comprises five areas: the personal income tax model (including special rates for capital gains, exclusions of various income, deductions, credits, etc.), the consumption tax model (including more than 250 base items), the property tax model (both residential and business), the corporate income tax model, and local taxes (an aggregation of statewide revenue). Federal deductions for state and local taxes are subtracted from the tax burden. The micro-simulation model uses income data from 2010 and tax laws as of Jan. 2, 2013. The full report, including the study's methodology, is available at: http://www.itep.org/whopays/

49 Institute on Taxation and Economic Policy, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Fourth Edition, January 2013, p. 2.

50 The ITEP study is limited to non-elderly taxpayers because many states offer special consideration to older taxpayers. Please see p. 18 of the ITEP report for more detail.

51 "Who Pays?" p. 5.

A comparison of tax distributions is inherently difficult because no two jurisdictions have the same income distribution. That said, the lowest three income quintiles are relatively uniform, especially within the District, Maryland, and Virginia.

The tax burden for District residents in the lowest-income quintile (below $22,000) is comparatively low. In only two states (Montana and Delaware; neither state has a sales tax) is the share of income paid to state and local taxes for this income group lower. District residents in this group pay a far smaller share of their income in taxes (6.6 percent) than do residents in the lowest-income quintiles in Maryland (9.7 percent) and Virginia (8.6 percent).

Tax Distribution Comparison

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
DC	6.6%	9.8%	11.0%	9.4%	8.5%	7.3%	6.3%
Maryland	9.7%	9.5%	9.9%	9.1%	8.0%	8.3%	6.4%
Virginia	8.6%	8.2%	8.2%	7.9%	6.9%	6.7%	4.9%
U.S. Average	11.1%	10.0%	9.4%	8.7%	7.7%	7.2%	5.6%

Source: Institute on Taxation and Economic Policy
*Note: Income groups are not the same in each state.

By contrast, the tax burden for District residents in the middle-income quintile (between $38,000 and $62,000) is comparatively high. In only three states (New York, Hawaii, and Arkansas) is the share of income paid in state and local taxes for this income group higher than in the District. These District residents pay a greater share of income in state and local taxes than comparable residents in Maryland (9.9 percent) and Virginia (8.2 percent).

SECTION 3: DESCRIPTION AND COMPARISON OF MAJOR DISTRICT TAXES

Major District Taxes Paid by Residents

Individual Income Tax

The District has eight filing statuses, compared with six in Maryland, three in Virginia, and five on the federal tax return. All District taxpayers, regardless of filing status, use the same four individual income tax brackets—with rates increasing as income rises. By contrast, many states and the federal income tax use different tax brackets for single filers and married couples filing jointly.

DC Individual Income Tax Rates

Taxable Income	Tax Rate
$0 to $10,000	4%
$10,001 to $40,000	6%
$40,001 to $350,000	8.5%
$350,001 and above	8.95%

A District resident pays a 4 percent tax on his or her first $10,000 of taxable income (i.e., after deductions and exemptions), 6 percent on taxable income between $10,001 and $40,000, 8.5 percent on taxable income between $40,001 and $350,000, and 8.95 percent on all taxable income above $350,000. The 8.95 percent rate and bracket are scheduled to expire on Dec. 31, 2015, at which time all taxable income above $40,000 will be taxed at 8.5 percent.

In a paper for the Commission, Professor Robert Buschman of Georgia State University examined the District's individual income tax. He found that the "current [income tax] structure is steeply progressive at the low end of the income scale."[52] The relatively high 8.5 percent tax rate that District residents pay on a relatively low amount of taxable income (above $40,000) is, in part, why middle-class residents have such a disproportionate tax burden.

The District's individual income tax brackets have changed significantly during the past 15 years. Tax rates were lowered and tax brackets were broadened. In 1999, the first $10,000 of taxable income was taxed at 6 percent, taxable income between $10,001 and $20,000 was taxed at 8 percent, and taxable income greater than $20,000 was taxed at 9.5 percent.

[52] Buschman, Robert D., "The District of Columbia Individual Income Tax: Structure, Competitiveness, and Potential Improvements," July 2013, p.IV.

The number of income brackets varies across states. Seven states have just one tax bracket, a flat rate; the state of Hawaii has the greatest number of tax brackets with 12. Maryland has eight income tax brackets and Virginia has four. The highest state marginal income tax rate is currently in California, where taxpayers pay a 13.3 percent tax on all taxable income above $1 million. On the other end of the spectrum, seven states have no state income tax.[53]

The top marginal state income tax rate in Maryland is 5.75 percent. It applies to all taxable income above $250,000 for single filers and $300,000 for married couples filing jointly.[54] Additionally, residents in Maryland (as in many other states) pay a local income tax. For example, both Montgomery County and Prince George's County residents pay an additional flat 3.2 percent county income tax on all taxable income, creating a combined 8.95 percent top rate in these Maryland counties. Virginia's top state marginal income tax rate is 5.75 percent on all taxable income above $17,000. Virginia levies no local individual income taxes.

The District offers a standard deduction of $4,100 for all filers and a $1,675 personal exemption. Married couples filing jointly, head of household filers, taxpayers ages 65 and older, and blind taxpayers receive two personal exemptions from the District for a total exemption of $3,350. The District limits itemized deductions as income increases; a taxpayer earning more than $200,000 in adjusted gross income (AGI) must reduce his or her itemized deductions by an amount equal to 5 percent of AGI over $200,000. For tax years beginning in 2013, there also is a federal limitation on itemized deductions (see chart). Thus, the itemized deductions of District residents with an AGI above the federal threshold will be reduced twice. The District does not phase out personal exemptions.

Comparison of Standard/Itemized Deductions and Personal Exemptions[55]

	DC	Maryland	Virginia	Federal[56]
Standard Deduction	$4,100	$2,000 (single, head of household); $4,000 (married)	$3,000 (single); $6,000 (married)	$6,100 (single); $8,950 (head of household); $12,200 (married)[57]
Itemized Deduction Limitation	After federal limitation, reduced by 5% of AGI above 200,000	Reduced by 3% of AGI above $178,150 but not more than 80% (in lieu of the federal reduction)[58]	Follows federal reduction	Reduced by 3% of AGI above $250,000 but not more than 80% of deductions
Personal Exemptions	$1,675 (married, head of household, aged, and blind receive two)[59]	**Exemption by AGI Group**[60] $0-$100,000 = $3,200 $100,000-$200,000 = $600-$2,400 $200,000 and above = $0	$930	$3,900 (per person)[61]
Personal Exemption Phase-out	No phase-out	Limits described in text above[62]	No phase-out	Reduce by 2% for each $2,500 above $250,000 (AGI)[63]

[53] Two additional states limit the income tax to dividends and interest income.
[54] Individuals filing as head of household and qualifying widows/widowers use the same income tax brackets as married couples filing jointly.
[55] All the numbers are for tax year 2013.
[56] The federal AGI thresholds for the itemized deduction limitation and personal exemption phase-out are for single filers. The threshold for married couples filing jointly is $300,000. Both the itemized deduction limitation and personal exemption phase-out are annually adjusted for inflation. Certain itemized deductions are not reduced by the federal adjustment (e.g., medical and dental expenses).
[57] Taxpayers ages 65 and older or blind may add $1,200 to their standard deduction. The $1,200 is increased to $1,500 if the taxpayer is also unmarried and not a surviving spouse.
[58] Maryland ignores the federal adjustment and only reduces deductions with its adjustment. In tax year 2013, the threshold was $178,150 for all taxpayers except for those choosing to file as married filing separately ($89,075).
[59] Married couples filing jointly and head of household filers, as well as taxpayers ages 65 and older and blind taxpayers, receive two personal exemptions for a total exemption of $3,350. All other filers (e.g., single filers) and all eligible dependents (including dependents of married couples/head of household and aged/blind taxpayers) receive one exemption.
[60] All AGI totals for the Maryland personal exemption phase-out are for single filers. Married couples filing jointly have higher AGI thresholds.
[61] All taxpayers and dependents, regardless of filing status or age, receive one federal personal exemption.
[62] Maryland's single residents who earn more than $100,000 in AGI get a $1,600 exemption, while residents earning more than $200,000 get no exemption. For Maryland's married residents, the limits apply at $150,000 and $250,000.
[63] Dollar amounts for the standard deduction, personal exemption, and EITC, both federal and for the District and states, are for tax year 2013. All of these amounts are annually adjusted for inflation. For example, in tax year 2014, the federal personal exemption is set to increase by $50 to $3,950.

The District has an Earned Income Tax Credit (EITC) that piggybacks the federal EITC. The federal formula is based on income, marriage status, and family size (i.e., number of children). For example, the maximum federal credit for a worker with three children is $6,044 while the maximum credit for a worker with no children is $487. The District EITC is 40 percent of the federal credit and is refundable. Thus, the District's maximum EITC for a worker with three children is $2,418 and the maximum benefit for a childless worker is $195.[64]

Twenty-six states have an EITC. The District's EITC is the most generous refundable credit in the nation. Maryland has a refundable 25 percent EITC and Virginia has a 20 percent EITC that is not refundable.[65] The District's EITC is one reason why residents in the lowest-income quintile have a relatively low tax burden, in contrast to the District's middle-income residents.

The District has relatively few additional individual income tax credits (seven) compared to Maryland (33) and Virginia (34).[66] Five of the District's credits are for low-income residents. The others are a credit for income taxes paid to other states and the District employee first-time homebuyer credit (which provides an incentive for District government employees to purchase homes in the District).[67]

Commuters who work but do not reside in the District pay no District income taxes. The 40-year-old Home Rule Act, which retained a layer of federal government oversight on the District's operations, states that the Council cannot "impose any tax on the whole or any portion of the personal income, either directly or at the source thereof, of any individual not a resident of the District."[68] If it could impose such a tax, the District would most likely follow the example of other jurisdictions and tax commuters' income at a lower rate than that of residents. The DC Office of Revenue Analysis (ORA) estimated in 2012 that a 3 percent tax on non-resident income could raise $1.2 billion in annual revenue for the District.

Estate Tax

The District imposes a maximum tax rate of up to 16 percent on estates that are worth more than $1 million and do not pass at death to a surviving spouse or charity.

Estate Tax Comparison

	DC	Maryland	Virginia	Federal
Estate Value Exemption Threshold	$1 million	$1 million	--	$5.25 million[69]
Top Estate Tax Rate	16%	16%	--	40%

The District's estate tax formula is tied to an obsolete federal law. Under prior law, the federal estate tax provided a graduated credit for state estate taxes that offset up to 16 percent of an estate's value against the federal tax. As a result, the District and most states had an estate tax with a graduated rate schedule that replicated the credit formula–including the top tax rate of 16 percent. In effect, a taxable estate owed tax to the state, but it was fully reimbursed by the federal government. This allowed states to collect revenue without imposing an additional tax burden on their residents.

The federal estate tax credit was eliminated in 2005 following a gradual phase-out that began in 2001. Some states only imposed an estate tax to the extent of the credit. These states eliminated their estate tax when the federal government eliminated the credit. The District and 14 states, including Maryland but not Virginia, retained the tax. The District also kept its rate schedule tied to the now-defunct federal credit. That rate schedule has 21 graduated brackets that peak at 16 percent on taxable estates at values over $10,040,000.

[64] The District also offers non-custodial parents a child-based DC EITC. To get this credit, a taxpayer must be between the ages of 18 and 30 and be compliant with a court order for child support payments. Because the eligibility diverges from the federal program, taxpayers choosing to claim this credit must fill out an additional form (Schedule N, "Non-Custodial Parent EITC Claim"). Fewer than 10 filers claimed this credit in tax year 2010.
[65] Maryland also has a non-refundable 50 percent EITC. Eligible Maryland residents may choose the more beneficial EITC.
[66] Buschman, p. iii.
[67] Buschman, p. 25.
[68] DC Code § 1-206.02
[69] This threshold is $5.34 million for tax year 2014. The federal threshold is adjusted annually for inflation.

The revenue from the District's estate tax varies wildly. Taxing just one or two valuable estates can produce a significant amount of revenue. For example, in FY 2012, the District's estate tax accounted for more than $100 million in revenue, but in FY 2013 it accounted for just $39 million in revenue.

Maryland also taxes estates worth more than $1 million with a top rate of 16 percent.[70] Virginia is one of 31 states with no estate tax. For tax year 2013, the federal estate tax had a $5.25 million threshold. The federal exemption is adjusted annually for inflation. A 40 percent federal tax rate is imposed on an estate's value after the exemption.

Residential Property Taxes

Residential property in the District is taxed at $0.85 per $100 of assessed value. The rate applies to 100 percent of assessed value. If total property tax collections from residential properties are projected to grow by more than 7 percent in the upcoming budget year then the rate is lowered so that total revenue growth remains below the 7 percent threshold. The residential property tax rate was lowered from $0.96 to $0.85 per $100 of assessed value between 2002 and 2008. Residential property accounts for fully 94 percent of all properties in the District, but only 55 percent of total assessed property value.[71]

While all states have some form of residential property taxation, the rates and base vary widely, making comparisons difficult. Some jurisdictions have very high property tax rates, but apply that rate on only a fraction of a property's assessed value.[72] For example, the city of Columbia, South Carolina, taxes residential property at $49.31 per $100, but the tax applies to just 4 percent of the property's assessed value.[73] Other jurisdictions have far lower statutory tax rates, but levy the tax on most or all of a property's assessed value.

The residential property tax rates in the neighboring jurisdictions of Maryland and Virginia (also applied to 100 percent of assessed value) are universally higher than in the District. In Maryland the rates depend on the specific locality. For example, the residential property tax rates per $100 of assessed value in Montgomery County range from $1.068 to $1.641. In Prince George's County, they range from $1.431 to $2.921. In Virginia, the residential property tax rate per $100 of assessed value in Alexandria is $1.033, in Arlington County it is $0.958, and in Fairfax County it ranges from $1.096 to $1.2131.[74]

District residential property taxes are further reduced by restrictions on the assessment of taxable property value and direct tax credits. For example, in tax year 2013 the taxable value of each District owner-occupied residence (including condominiums) was reduced through a $69,100 homestead deduction.[75] Thus, an eligible property with an assessed value of $400,000 has a taxable value of $330,900. Neighboring jurisdictions in Maryland and Virginia do not offer a homestead deduction, though many other large cities do.

Residential Property Tax Rate Comparison						
	DC	Montgomery County	Prince George's County	Alexandria	Arlington County	Fairfax County
Tax Rate per $100	$0.85	$1.068-$1.641	$1.431-$2.921	$1.033	$0.958	$1.096-$1.213

Source: DC Ficsal Policy Institute

Residential property eligible for the homestead deduction automatically receives a 10 percent limit on the increase in its annual taxable assessed value. When property values increase, this may further reduce a property's taxable value as a percentage of its assessed value. When a property is sold, its taxable assessed value is reset to the market value. As a result, two homes with the same assessed value can have very different property tax liabilities depending on when they were purchased. However, District law requires the taxable value of residential property to always equal or exceed 40 percent of the current assessed value of the property. The assessment limitation took effect in tax year 2002 as District property experienced large increases in market value; the assessment process also transitioned from a triennial assessment to an annual assessment at that time. The limitation–originally 25 percent–was lowered to 10 percent in 2007, and the taxable assessment floor began in

[70] In March 2014, the Maryland House of Delegates and Senate voted to gradually raise the state's estate tax threshold from $1 million to the federal exemption (projected to be $5.9 million) in 2019. The governor is expected to sign the legislation.
[71] Kenyon, Daphne A., "Real Property Tax Classification in Washington, DC," Oct. 24, 2013, p.6.
[72] Property taxes are traditionally local taxes rather than state taxes.
[73] "Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison," Office of Revenue Analysis.
[74] All rates for Maryland and Virginia come from the DC Fiscal Policy Institute, "Revenue: Where DC Gets Its Money," Feb. 7, 2013.
[75] The District's homestead deduction is adjusted annually for inflation. In tax year 2014 the homestead deduction is $70,200.

tax year 2011. Maryland also caps annual increases in a property's taxable assessment at 10 percent, but some counties have a lower growth cap. Virginia does not have an assessment limitation.[76]

The District has a property tax relief program targeted to low-income residents that assists both homeowners and renters when their property tax bill or rent exceeds a percentage of their household income. This refundable tax credit (Schedule H) is referred to as a "circuit breaker" because, much like a circuit breaker does with electricity, it protects taxpayers from a property tax "overload." In 2013, Schedule H was substantially expanded. The income ceiling for eligible residents was raised from $20,000 to $50,000, and the maximum credit was increased from $750 to $1,000 (with annual adjustment for inflation). These changes take effect in tax year 2014. Maryland has a circuit breaker program, but Virginia does not.

District residents older than age 65 and residents with disabilities with adjusted gross income below $125,000 also have their property tax payments reduced by 50 percent. (The FY 2014 budget raised the income threshold to $125,000 from $100,000.) Some jurisdictions in Maryland (e.g., Montgomery County) and Virginia (e.g., Alexandria) also provide targeted property tax relief to seniors and residents with disabilities.

These tax-relief programs create lower effective property tax rates for eligible properties. According to Michael Bell, a research professor at the George Washington University Institute of Public Policy who wrote a paper on property taxes for the Commission, non-homesteaded properties have a median effective tax rate of 0.85 percent, equal to the statutory rate. However, homestead properties in the District (i.e., properties benefiting from both the homestead deduction and the assessment limitation) have a median effective tax rate of 0.63 percent, well below the statutory rate. Furthermore, homeowners ages 65 and older who benefit from homestead policies and the senior tax credit have a median effective tax rate of 0.23 percent. The actual effective tax rates in each group vary, though. For example, according to Bell, effective tax rates range from a low of 0.07 percent to a high of 0.85 percent for the District's 18,000 elderly property taxpayers.[77]

District and Maryland residents do not pay a personal property tax—the tax is limited to business-owned property. However, Virginia residents pay a personal property tax. Notably, resident personal property includes cars. In fact, the tax is generally referred to as the "car tax." For example, the car tax in Arlington County is $5 per $100 of assessed value and the tax in Fairfax County is $4.57 per $100 of assessed value. Virginia's car tax is, in part, why many low- and middle-income families have a lower tax burden in the District than in neighboring Virginia jurisdictions.[78]

Deed Recordation and Deed Transfer Taxes (Deed Taxes)

Deed taxes are imposed when taxable properties in the District are sold, transferred, or refinanced. The deed *recordation* tax is imposed on the recording of all deeds to real estate in the District (and is a tax on the buyer). The deed *transfer* tax is imposed on each transfer of real property (and is a tax on the seller).

The basis of both taxes is the amount paid for the property, including cash, property other than cash, mortgages, liens, and a security interest in non-residential property. If there is no consideration or the consideration is nominal, the tax is based on the fair market value of the property.

For residential property valued at $400,000 or greater, the rate for each deed tax is 1.45 percent of total consideration or fair market value. Therefore, the combined deed tax rate for a transfer of residential property valued above $400,000 is 2.9 percent. For residential properties valued at less than $400,000, the rate for each tax is 1.1 percent of total consideration or fair market value—for a total tax rate of 2.2 percent. The District dedicates 15 percent of deed tax revenue (both residential and commercial) to the Housing Production Trust Fund, which funds a variety of affordable housing programs.

Maryland's deed taxes vary by jurisdiction from 1.5 percent to 2.45 percent. The combined rate in Virginia jurisdictions is 0.433 percent. Despite the wide gap in tax rates, Rodney D. Green, the executive director at Howard University's Center for Urban Progress, concluded in his paper for the Commission that deed taxes are one-time taxes that have only a "modest impact" on sales and economic development.[79]

[76] Sjoquis, David L., "The Residential Property Tax Credit: An Analysis of the District of Columbia's Assessment Limitation," July 11, 2013, p.4.
[77] Bell, Michael E. and Daniel Muhammad, "Overview of Real Property Taxes in the District of Columbia," July 15, 2013, p.46.
[78] Gajdeczka, Aleksandra, "Taxes on DC Families Remain Lowest in the Region," DC Fiscal Policy Institute, February 2011.
[79] Green, Rodney D., "The Deed Recordation and Real Property Transfer Taxes in the District of Columbia," July 3, 2013, p. 33.

Sales Tax

The general sales tax rate in the District is 5.75 percent. In 2010, the tax increased to 6 percent—with a three-year sunset provision—to temporarily stem revenue losses arising from the recession. It was returned to its current rate during the Commission's deliberations in October 2013.

California has the country's highest state general sales tax rate, 7.5 percent, while five states do not levy any sales tax. Many states also have local sales taxes. Tennessee's 9.44 percent rate is the highest combined state and local rate.[80] In Maryland, the general sales tax rate is 6 percent; there are no local sales taxes in the state. The sales tax rate in Virginia is 5.3 percent. Counties and cities in Northern Virginia levy an additional 0.7 percent sales tax, bringing the total sales tax rate in these jurisdictions to 6 percent.[81]

Sales Tax Rates: Regional Comparison		
DC	Maryland	Northern Virginia
5.75%	6%	6%

The District taxes certain purchases at higher rates, such as restaurant meals (10 percent), rental vehicles (10 percent), transient accommodations (14.5 percent), and private parking (18 percent). Maryland taxes restaurant meals and parking at 6 percent, and the hotel tax is 15 percent in Montgomery County and 16 percent in Prince George's County. Virginia taxes restaurant sales at 8.3 percent, parking at 6 percent, and its hotel tax is 8 percent in Fairfax County and 9 percent in Arlington County. The sales tax rates on restaurant meals, hotels, and parking in major cities such as New York, Boston, and San Francisco fall into the same range as the District.[82]

Special Sales Tax Rate Comparison						
	DC	MD	VA	New York City	Boston	San Francisco
Restaurant Meal Tax Rate[83]	10.0%	6.0%	8.3%	8.875%	7.0%	8.5%
Hotel Tax Rate[84]	14.5%	15.0%[85]	9.0%[86]	14.375%[87]	14.95%	17.0%
Parking Tax Rate[88]	18.0%	6.0%	6.0%	18.375%	6.25%	25.0%

Source: Tax Foundation; various government websites

The District's general sales tax applies to the purchase of nearly all goods, with some specific exemptions. Two of the biggest exemptions are grocery-type food and non-prescription drugs. Most states with a sales tax, including Maryland, do not tax grocery food. Virginia is among 14 states that tax grocery food, but it does so at a lower 2.5 percent rate than its general sales tax. The District joins 11 states, including Maryland and Virginia, that exempt non-prescription drugs from the sales tax.

The District also taxes some services. An analysis by ORA shows that the District applies its sales tax to 74 of 183 services listed by the Federation of Tax Administrators (FTA). The list of services is used by FTA as a metric for the breadth of a state's sales tax base, but it is not exhaustive. The District taxes far more services than its neighboring states: Maryland taxes 49 services on the FTA list and Virginia taxes 29. Over the past 20 years, the District has expanded its sales tax to laundry services, select telecommunications services, courier services, and employment services.[89]

[80] Drenkard, Scott, "State and Local Sales Tax Rates Midyear," Tax Foundation, Aug. 28, 2013.
[81] The additional 0.7 percent sales tax applies in the counties and cities of the Northern Virginia Transportation Authority, which includes: the City of Alexandria, Arlington County, City of Falls Church, City of Fairfax, Fairfax County, Loudoun County, City of Manassas, City of Manassas Park, and Prince William County.
[82] Fox, William F., "Sales Taxes in the District of Columbia," Sept. 24, 2013, p. 33-35. Some special taxes in major cities were researched by the Commission staff for deliberations.
[83] Professor Fox provided the restaurant meal tax rates for Maryland and Virginia. Tax rates for New York City, Boston, and San Francisco come from the Tax Foundation, "Meals Taxes in Major U.S. Cities," March 1, 2012.
[84] Professor Fox provided all hotel rates in his paper to the Commission, p. 35.
[85] The hotel tax rate in Montgomery County is 15 percent. The hotel tax rate in Prince George's County is 16 percent.
[86] The hotel tax rate in Arlington County is 9 percent. The hotel tax rate in Fairfax County is 8 percent.
[87] New York City also has an additional $3.50 tax per room.
[88] Professor Fox provided the parking tax rates for Maryland and Virginia. The rates for New York City, Boston, and San Francisco were compiled from government websites.
[89] Fox, William F., "Sales Taxes in the District of Columbia," Sept. 24, 2013, p. 14.

Like most states, the District does not include professional services in its sales tax base. In presenting a paper on sales taxes to the Commission, Professor William F. Fox, director of the Center for Business and Economic Research at the University of Tennessee, Knoxville, noted that only Hawaii, New Mexico, South Dakota, and Washington state tax professional services such as accounting, legal advice, and dental work.[90]

The increasing number of online purchases has created another hole in the District's sales tax base. The District cannot require out-of-state retailers to collect a sales tax for online purchases made by its residents if these retailers do not have a physical presence in the District. Only multi-state retailers with a physical presence in the District, such as Target, must collect the sales tax. The physical-presence test was established in a U.S. Supreme Court case, and changes to the law require an act of Congress.[91] District residents are required to pay a use tax on goods purchased online from retailers not collecting a sales tax, but very few people (in the District and states) pay the use tax. One study estimated that the inability to tax online transactions cost the District $35 million in sales tax revenue in 2012.[92]

Major District Taxes Paid by Businesses

Business and Unincorporated Business Franchise Taxes

Business Income Tax Rates: Regional Comparison		
DC	Maryland	Northern Virginia
9.975%	8.25%	6%

Source: Office of Revenue Analysis, Office of the Chief Financial Officer

The District imposes a business franchise tax (BFT) on corporations (including S corporations) that carry on a trade, business, or profession in the District or receive income from District sources. The District BFT rate is 9.975 percent–higher than the business income tax rate in Maryland (8.25 percent) and Virginia (6 percent) and higher than the top rate in all but two states: Pennsylvania (9.99 percent) and Iowa (12 percent). At the same time, some states such as Virginia add a broad gross receipts tax to their business income tax, but the District does not. Four states do not have a business income tax or a gross receipts tax. The District's BFT rate was scheduled to fall from 9.975 percent to 8.5 percent between 1999 and 2004. However, in 2002, it was permanently returned to 9.975 percent.

The District also imposes an unincorporated business franchise tax (UBFT) on partnerships and sole proprietors with more than $12,000 in annual income. The UBFT rate is also 9.975 percent. States can tax the owners of unincorporated businesses via the individual income tax, but the District is precluded from doing so (unless the owners are District residents). The UBFT is levied on all businesses operating in the District regardless of whether the business owners reside in the District.

Notably, the UBFT excludes professionals (such as doctors, lawyers, engineers, accountants, and architects) and trades and businesses in which more than 80 percent of gross income is derived from the personal services actually rendered by the individuals or partners. In contrast, Maryland and Virginia require that pass-through entities engaged in business in those states report the income of partners or owners. The partners then file individual or corporate tax returns. Maryland levies a 1.5 percent surtax on nonresidents.[93]

For both the BFT and UBFT, the minimum tax payable–regardless of deductions and credits–is $250. If a business's gross receipts exceed $1 million, the minimum tax is $1,000. The DC Office of Revenue Analysis (ORA) reports that in 2009, 66.9 percent of business franchise taxpayers and 65.4 percent of unincorporated business taxpayers paid the minimum tax.[94]

The District uses a three-factor formula (sales, property, and payroll) with a double-weighted sales factor to determine a multi-state corporation's business franchise tax payment. Maryland and Virginia generally use a double-weighted sales factor as well, but each changes the formula for the benefit of specific industries. For example, Maryland uses a single-sales factor for manufacturers and Virginia is phasing in a single-sales factor for retail companies.[95] As of 2010, 22 states used the double-weighted sales factor, five allowed for greater than the double-weighted sales factor, four states used a single-sales factor, and 13 states used the traditional three-factor formula for their corporate income tax.[96]

[90] Fox, p. 15.
[91] The U.S. Supreme Court added the "physical presence" requirement in Quill v. North Dakota, 540 U.S. 298, 1992.
[92] Fox, p. 17.
[93] Francis, Norton, "Business Franchise Taxes in the District of Columbia," Oct. 7, 2013, p. 26.
[94] "District of Columbia Data Book: Revenue and Economy," DC Office of Revenue Analysis, September 2013. In 2009 the minimum tax payment was $100 for all corporate franchise taxpayers and unincorporated business taxpayers. The two-tiered minimum tax took effect in tax year 2012.
[95] Francis, p. 17.
[96] The Oxford Handbook of State and Local Government Finance, New York: Oxford University Press, 2012, p. 339.

The District has only four tax credits for business franchise taxpayers. Both Maryland and Virginia have a broader range of credits, but both states also have a wider spectrum of industries (e.g., agriculture and mining). A notable recent District tax credit is the Qualified High Technology Company (QHTC) Credit.[97] The credit exempts a QHTC from five years of business franchise taxes after the company achieves profitability, and lowers the company's BFT rate to 6 percent (from 9.975 percent) when the five-year period ends.

Unfortunately, there is little information about effective business income tax rates because the business income tax—with deductions, credits, and other tax expenditures that affect what a business ultimately pays—is difficult to calculate across types of business.[98] As noted, a majority of District businesses pay the minimum tax, not the statutory rate.

States often add other significant taxes to supplement their business income tax. A study presented to the Commission on regional business tax comparisons described some of these supplements and illustrated how they can increase the business tax burden substantially. The study concluded that, although the District has a higher business income tax rate than Virginia and Maryland, the "tax burden in the District for C-corporations is not significantly different from its Maryland and Virginia neighbors." This is, in part, because "the gross receipts tax in Virginia in some situations eliminated the tax savings of the Commonwealth's 6 percent [business] income tax rate."[99]

Despite this, many view the business franchise tax rate negatively. The study that concluded the District's business tax burden is not significantly different from its neighbors also explained that the "District's reputation as a high tax jurisdiction may be fueled in part by its almost 10 percent business franchise tax rate." An uncompetitive rate may discourage some from choosing the District as a location for their business.[100]

Gross Receipts and Personal Property Taxes

District businesses subject to the BFT or UBFT also pay a gross receipts tax, called the ballpark fee, if they have at least $5 million in annual District gross receipts. Businesses with less than $5 million in gross receipts do not pay the tax. The ballpark fee is $5,500 for a business with $5 million to $8 million in gross receipts, $10,800 for a business with $8 million to $12 million, $14,000 for a business with $12 million to $16 million, and $16,500 for a business with gross receipts over $16 million.

Virginia localities in the Washington region also have a gross receipts tax: the Business, Professional, and Occupational License (BPOL) tax. Unlike the District's gross receipts tax, the Virginia BPOL tax does not exempt businesses with less than $5 million in gross receipts and does not have a maximum annual tax payment. As a result, the Virginia BPOL tax is significant for some businesses and negates the benefits of the state's lower business income tax rate. However, specific industries—such as software developers in Fairfax County—are exempt from the tax. Maryland also has a gross receipts tax, but only heavy equipment rental companies and certain utilities pay it.[101]

District businesses also pay personal property taxes. District residents are excluded from this tax. A District business pays $3.40 per $100 of assessed property value; the first $225,000 of taxable value is excluded from the tax. The personal property tax varies by locality in Maryland and Virginia. In Maryland, the personal property tax rate is $1.898 per $100 of assessed property value in Montgomery County and $2.40 per $100 in Prince George's County. Maryland residents are excluded from this tax. In Virginia, the personal property tax rate is $4.57 per $100 in Fairfax County and $5 per $100 in Arlington County. Residents in Virginia pay the personal property tax and are subject to the same rates as businesses.

Both the ballpark fee and the personal property tax raised less than 1 percent of District tax revenue in FY 2013. The Commission did not receive expert papers on these taxes, but it factored these taxes into the overall deliberations on business taxes.

[97] A high-technology company is considered "qualified" if it has two or more employees in the District and derives at least 51 percent of gross revenues earned in the District 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.
[98] Oxford Handbook, p. 333.
[99] Aceituno, Robert and Karen Yingst, "Case Studies of Business Taxes in the District of Columbia: A Comparison with Neighboring Jurisdictions," September 2013, p. 1.
[100] Aceituno and Yingst, p. 1.
[101] Aceituno and Yingst, p. 1.

Commercial Property Tax

The tax rate for commercial property in the District is graduated. The first $3 million of assessed value is taxed at $1.65 per $100 and the value above that threshold is taxed at $1.85 per $100.[102] Both rates apply to 100 percent of a commercial property's assessed value. If commercial property tax collections are projected to grow by more than 10 percent in the upcoming budget year, the rate on assessed value below $3 million is lowered so that total revenue growth remains below the 10 percent threshold. The District's commercial property tax rates have dropped over the past 15 years. In 1999, the commercial property tax rate was $2.15 per $100 of assessed value. The graduated rate took effect in tax year 2009.

Commercial property tax rates are also levied on 100 percent of a commercial property's assessed value in Maryland and Virginia. Because the commercial property tax is imposed locally, jurisdictions within each state have different tax rates. However, the rate is lower in all neighboring jurisdictions than it is in the District. In Maryland, for example, the rate per $100 in Bethesda is $1.201 and in Silver Spring it is $1.271. In Virginia, the rate per $100 is $1.033 in Alexandria, $1.118 in Crystal City and Rosslyn, and $1.085 in Tysons and Reston.[103]

Commercial Property Tax Rate Comparison

	DC	Bethesda	Silver Spring	Alexandria	Crystal City/ Rosslyn	Tysons/Reston
Tax Rate per $100	$1.65/$1.85	$1.201	$1.271	$1.033	$1.118	$1.085

Source: DC Business Improvement District

When other supplemental commercial property tax rates are added to the base commercial tax rate, the District still has the highest commercial property tax rate of any regional jurisdiction—but the difference is somewhat smaller, according to estimates by the Downtown DC Business Improvement District. When including these taxes, the District's top rate rises to $1.879 per $100. In Maryland, the total rate per $100 is $1.246 in Bethesda and $1.316 in Silver Spring. In Virginia, total commercial rates per $100 are: Alexandria $1.038, Crystal City $1.299, Rosslyn $1.334, Tysons $1.480, and Reston, $1.477.[104]

A Minnesota Taxpayers Association study found that the District's effective commercial property tax rate for property valued at $25 million is 1.986 percent. This puts the District 22nd among the 50 cities studied and above the average rate of 1.874 percent. The study did not analyze the property taxes of the District's neighboring jurisdictions.[105]

In presenting a paper on property taxes to the Commission, Daphne Kenyon, a principal of the policy-consulting firm D. A. Kenyon & Associates in Windham, N.H., found that the District's relatively high commercial tax is borne mostly by building owners. Kenyon writes, "According to [the] literature, 55 to 100 percent of commercial property tax differentials of a jurisdiction over its neighbors are absorbed by owners of land and buildings and from 0 to 45 percent of the tax differentials are absorbed by those renting commercial properties."[106] In the short run, however, tenants with triple-net leases (which require taxes to be passed through to the tenants) may bear the burden of higher commercial property taxes.

Commercial property accounts for only 5 percent of all properties in the District, but 44 percent of total assessed property value.[107] The District's commercial property tax base is notable for the amount of property that is *not* taxable. The District's total tax-exempt property had a combined value of $84.7 billion in fiscal year 2013, and nearly 90 percent of this property was commercial.[108]

That meant the District had more tax-exempt commercial property value (roughly $76 billion of the total $84.7 billion) than taxable commercial property value ($70.3 billion). Property owned by the federal government accounts for much of that total, but hospitals, educational institutions, and qualifying nonprofit organizations also own tax-exempt properties. Including

[102] The District also has higher property tax rates for property classified as "vacant" or "blighted."
[103] Maryland and Virginia's commercial property tax rates were compiled by the Downtown DC Business Improvement District (BID), March 2014.
[104] All rates come from the DC Downtown BID, March 2014. Additional local taxes include the Business Improvement Tax, the Stormwater Tax, the Transportation Tax, and the Silver Line Special Assessment. These taxes are not levied in every jurisdiction.
[105] Minnesota Taxpayers Association and Lincoln Institute of Land Policy, "50-State Property Tax Comparison Study," April 2012.
[106] Kenyon, Daphne A., "Real Property Tax Classification in Washington, DC," Oct. 24, 2013, p. 24.
[107] Kenyon, p. 6.
[108] Total tax-exempt property value is provided by the 2013 Comprehensive Annual Financial report, p. 172. Michael Bell calculated the percentage of commercial property within all tax-exempt property in his paper with Daniel Muhammad, "Properties Exempt from Paying Real Property Taxes in the District of Columbia," July 15, 2013.

both residential and commercial property, the District annually loses between $100 million (assuming 25 percent of currently exempt non-federal and non-foreign and non-District government property is taxed) and $1.5 billion (assuming all exempt property is fully taxed) of property tax revenue from exempt property.[109]

Taxable and Tax-Exempt Property in the District in FY 2013		
DC Property	**Estimated Value**	**Percentage of Total**
Residential	$81.4 billion	34.4%
Commercial	$70.3 billion	29.8%
Tax-Exempt	$84.7 billion	35.8%
Total	$236.4 billion	100%

Source: Office of Revenue Analysis, Office of the Chief Financial Officer

Deed Recordation and Deed Transfer Taxes (Deed Taxes)

Deed taxes are imposed when commercial property is sold, transferred, or refinanced. The combined deed tax rate for all commercial property is 2.9 percent. The deed recordation tax must also be paid on the increased value when commercial property is refinanced. The District dedicates 15 percent of deed tax revenue to the Housing Production Trust Fund, which funds a variety of affordable housing programs. Maryland's deed taxes vary by jurisdiction, from 1.5 percent to 2.45 percent. The combined deed tax rate in Virginia jurisdictions is 0.433 percent. However, the District's deed taxes are well below those of New York City, where the rate exceeds 8 percent.[110] Professor Green concluded in his paper for the Commission that these one-time taxes have only a "modest impact" on transactions and economic development.

[109] Bell, p. 3.
[110] Green, p. 3.

CONCLUSION

After a lengthy review, with the help of experts, elected officials, and members of the public, the Commission identified three major problems with the District's tax system:

1. Middle-class residents bear a disproportionate tax burden.
2. The District's high business taxes could hinder future economic and job growth.
3. Many individuals and businesses are not included in the District's tax base, which shifts a greater burden to existing taxpayers.

On Dec. 18, 2013, the Commission unanimously approved the package of tax reform measures that it believed would address these challenges and is fiscally responsible.

The Commission's recommendations are a roadmap to a more fair, competitive, and efficient tax system. They benefit District residents and businesses while maintaining fiscal integrity. The Commission strongly believes that this package of reforms would build on the success of the past and allow residents and businesses in the District to prosper in the face of future challenges.

All expert presentations and papers, written testimony, and public letters delivered to the Commission are available on the Commission's website: dctaxrevisioncommission.org.

APPENDICES

More and more people are CHOOSING the District of Columbia as a place to live, rather than merely work. The current population and private employment strength translates into a relatively STABLE AND GROWING revenue base.

FOUR-YEAR REVENUE ESTIMATE: FY 2015 – FY 2018

	Revenue Impact (in millions)			
	FY 2015	FY 2016	FY 2017	FY 2018
RECOMMENDATIONS				
Sales Tax				
1 Expand the sales tax to eight new services (construction services, barbers and beauticians, health clubs and tanning studios, water consumption at home, bowling alleys and billiard parlors, storage of household goods/mini storage, carpet and upholstery cleaning, and car washes)	$28.2	$29.3	$30.4	$31.5
2 Add use tax line to personal income tax return for mail order or online purchases	1.0	$1.0	$1.1	$1.1
3 Unify taxation of tobacco products (tax all tobacco products at approximately 80%)	7.0	6.9	6.8	6.6
4 Increase the general sales tax rate from 5.75% to 6%	20.5	21.3	22.1	23.0
Individual Income Tax				
5 Create a middle-class tax bracket, increase the standard deduction/personal exemptions, expand the EITC for childless workers, and other reforms	(116.9)	(110.9)	(116.7)	(119.9)
Estate Tax				
6 Raise threshold to $5.25 million (federal level) from $1 million	(13.9)	(13.9)	(13.9)	(13.9)
Business Taxes				
7 Reduce Business Franchise Tax/Unincorporated Business Franchise Tax rate from 9.975% to 8.25%	(57.0)	(59.9)	(62.6)	(65.4)
8 Exempt passive investment vehicles from Unincorporated Business Franchise Tax	(4.4)	(4.4)	(4.4)	(4.4)
9 Apportion national business pre-tax income using single weighted sales formula	20.0	21.0	22.0	22.9
10 Levy a local services fee on all non-government employers at $25/employee per quarter	45.0	45.5	45.9	46.2
Total Revenue Increase (all black numbers)	121.7	125.0	128.3	131.4
Total Tax Relief (all red numbers)	(192.2)	(189.1)	(197.6)	(203.6)
Total Net Package	(70.5)	(64.1)	(69.3)	(72.2)
Current Funding for Commission Recommendations ($18 million per year)	36.0	18.0	18.0	18.0
Need for Future General Fund Revenue	(34.5)	(46.1)	(51.3)	(54.2)

*Includes FY 2014 and FY 2015 funding of $18 million per year

DISTRIBUTION TABLE FOR INDIVIDUAL INCOME TAX PACKAGE FOR TAX YEAR 2015

Federal Adjusted Gross Income	Returns	Average Tax	Average Tax Change	Number of Returns with Increase	Number of Returns with Decrease	Number of Returns with No Change
MARRIED-JOINT AND HEAD OF HOUSEHOLD FILERS						
	Current Law		Commission's Recommended Package			
Less than $ -10,000	361	($846)	$0	0	1	360
$ -10,000 to $ - 1,000	160	($263)	$0	0	0	160
$ - 1,000 to $ 0	185	($216)	$0	0	1	184
$ 0 to $ 10,000	6,272	($831)	($16)	2	674	5,596
$ 10,000 to $ 25,000	24,527	($1,243)	($228)	8	21,818	2,701
$ 25,000 to $ 50,000	27,571	$526	($484)	80	26,564	927
$ 50,000 to $ 75,000	13,772	$2,181	($529)	124	13,273	375
$ 75,000 to $ 100,000	8,758	$3,482	($690)	295	8,231	232
$ 100,000 to $ 200,000	19,856	$6,881	($671)	3,504	15,914	438
$ 200,000 to $ 350,000	10,944	$14,726	$148	6,554	4,213	177
$ 350,000 to $ 500,000	3,096	$24,985	$456	2,055	987	54
$ 500,000 to $ 1 M.	2,560	$42,098	$645	1,482	1,017	61
Greater than $ 1 M.	1,366	$167,138	$617	708	618	40
All Taxpayers	119,425	$6,281	($337)	14,814	93,309	11,302
SINGLE AND MARRIED FILING SEPARATELY						
	Current Law		Commission's Recommended Package			
Less than $ -10,000	728	($717)	($2)	1	9	718
$ -10,000 to $ - 1,000	935	($193)	($4)	1	54	880
$ - 1,000 to $ 0	1,555	($275)	($7)	2	84	1,469
$ 0 to $ 10,000	21,189	($235)	($172)	256	14,850	6,083
$ 10,000 to $ 25,000	38,718	$114	($352)	37	36,688	1,993
$ 25,000 to $ 50,000	55,870	$1,305	($205)	201	53,230	2,439
$ 50,000 to $ 75,000	40,913	$2,737	($391)	160	39,745	1,008
$ 75,000 to $ 100,000	23,568	$4,339	($557)	33	23,028	507
$ 100,000 to $ 200,000	28,253	$7,462	($580)	101	27,600	552
$ 200,000 to $ 350,000	4,987	$15,097	($469)	144	4,730	113
$ 350,000 to $ 500,000	1,053	$25,213	($15)	528	483	42
$ 500,000 to $ 1 M.	801	$41,878	$28	499	276	26
Greater than $ 1 M.	390	$159,690	$56	206	171	13
All Taxpayers	218,960	$3,169	($350)	2,169	200,948	15,843

Source: Office of Revenue Analysis, Office of the Chief Financial Officer

*These changes are compared against the 2015 tax law, including the 8.95 percent top tax rate.
**Distribution tables exclude dependent and information returns.

TAX REVISION COMMISSION AMENDMENT ACT OF 2014

A BILL

IN THE COUNCIL OF THE DISTRICT OF COLUMBIA

To amend Title 47 of the District of Columbia Official Code; to update existing personal income tax laws; to create separate income tax brackets for single and married individuals filing jointly; to add a middle-income tax bracket; to make permanent the top marginal tax rate; to increase the standard deduction; to increase the personal exemption; to phase out personal exemptions based on income; to increase the maximum earned income tax credit for workers that do not claim qualifying children; to eliminate small individual income tax deductions and exemptions; to reduce the business franchise tax rate; to exempt personal property investment funds from unincorporated business franchise tax; to apportion business income with a single-weighted sales formula; to expand sales tax to more services; to raise the general sales tax; to unify tobacco taxation; to increase the estate tax threshold; and to levy a local service fee.

BE IT ENACTED BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this act may be cited as the "Tax Revision Commission Amendment Act of 2014".

Sec. 2. Title 47 of the District of Columbia Official Code is amended as follows:

(a) Section 47.1801.04 is amended as follows:

(1) Paragraph (43) is amended by inserting the phrase "provided however, "sales" does not include receipts of a tax payer from hedging transactions and from the maturity, redemption, sales, exchange, loan, or other disposition of cash or securities" at the end.

(2) Paragraph (44) is amended to read as follows:

"(44) "Standard deduction" means:

"(A) In the case of a return filed by a single individual or married individual filing a separate return, the amount of $4,000 increased annually by the cost-of-living adjustment (if the adjustment does not result in a multiple of $50, rounded to the next lowest multiple of $50). For the taxable years beginning after December 31, 2014, the amount of the standard deduction as prescribed in section 63(c) of the Internal Revenue Code of 1986;

"(B) In the case of a return filed by a head of household, the amount of $4,000 increased annually by the cost-of-living adjustment (if the adjustment does not result in a multiple of $50, rounded to the next lowest multiple of $50). For the taxable years beginning after December 31, 2014, the amount of the standard deduction as prescribed in section 63(c) of the Internal Revenue Code of 1986;

"(C) In the case of a return filed by married individuals filing a joint return or by a surviving spouse, the amount of $4,000 increased annually by the cost-of-living adjustment (if the adjustment does not result in a multiple of $50, rounded to the next lowest multiple of $50). For the taxable years beginning after December 31, 2014, the amount of the standard deduction as prescribed in section 63(c) of the Internal Revenue Code of 1986; or

"(D) In the case of an individual who is a resident, as defined in paragraph (42) of this section, for less than a full 12-month taxable year, the amounts specified in subparagraphs (A), (B) and (C) of this paragraph prorated by the number of months that the individual was a resident."

(b) Section 47-1803.02(a)(2)(N) is amended by adding a new subsection (iii) to read as follows:

"(iii) This subsection shall apply for taxable years beginning before January 1, 2015."

(c) Section 47-1803.03(b-1) is amended by inserting the sentence "This subsection shall apply for taxable years beginning before January 1, 2015." at the end.

(d) Section 47-1805.01 is amended as follows:

(1) Subsection (e) is amended by striking the phrase "either a joint return or separate returns on a combined indiviual form as prescribed by the Mayor in order to qualify for a similar benefit afforded under this chapter" and insert ing the phrase "a joint return prescribed by the Mayor" in its place.

(2) Subsection (f) is repealed.
(3) Subsection (g) is repealed.

(e) Section 47-1806.02 is amended as follows:
(1) Subsection (b) is amended by striking the phrase "(or domestic partner)" where it appears.
(2) Subsection (c), (d), and (e) are repealed..
(3) Subsection (f) is amended as follows:
(A) Subsection (1)(A) is amended as follows:
(i) Strike the phrase "beginning January 1, 2013".
(ii) Strike the phrase "or," at the end and insert the sentence "For the taxable years beginning after December 31, 2014, the amount shall be the prescribed personal exemption amount in section 151 of the Internal Revenue Code of 1986; or" in its place.
(B) Subsection (2) is amended by striking the phrase "(or domestic partner)".
(4) Subsection (i) is amended as follows:
(A) Strike the phrase "beginning January 1, 2013".
(B) Add the sentence "For the taxable years beginning after December 31, 2014, the amount shall be the pre scribed personal exemption amount in section 151 of the Internal Revenue Code of 1986." at the end.
(5) Add a new subsection (j) to read as follows:
"(j) Limitation on personal exemption –
"(1) In the case of an individual whose adjusted gross income exceeds the applicable amount, the amount of the personal exemption otherwise allowable for the taxable year shall be reduced by 2% for every $2,500 of the excess of the adjusted gross income over the applicable amount.
"(2) For the purposes of this subsection, the term "applicable amount" means $150,000 for a single individual or head of household; $200,000 for married individuals filing jointly and surviving spouses; and $100,000 for married individuals filing separately."

(f) Section 47-1806.03(a) is amended as follows:
(1) Subsection (8)(B) is amended by striking the phrase "January 1, 2016" and inserting the phrase "January 1, 2015" in its place.
(2) Add subsections (9) and (10) to read as follows:
"(9) In the case of taxable years beginning after December 31, 2014 there is imposed on the taxable income of every resident a tax determined in accordance with the following table:
"If the taxable income of a single individual is:...The tax is:
"Not over $10,000...4% of the taxable income
"Over $10,000 but not over $40,000...$400, plus 6% of the excess over $10,000
"Over $40,000 but not over $60,000...$2,200, plus 6.5% of the excess over $40,000
"Over $60,000 but not over $200,000...$3,500, plus 8.5% of the excess over $60,000
"Over $200,000...$15,400, plus 8.95% of the excess above $200,000.
"If the taxable income of married individuals filing a joint return, head of household, or a surviving spouse is: ... The tax is:
"Not over $10,000...4% of the taxable income
"Over $10,000 but not over $40,000...$400, plus 6% of the excess over $10,000
"Over $40,000 but not over $80,000....$2,200, plus 6.5% of the excess over $40,000
"Over $80,000 but not over $350,000...$4,800, plus 8.5% of the excess over $80,000
"Over $350,000....$27,750, plus 8.95% of the excess above $350,000.".
"(10) In the case of taxable years beginning after December 31, 2015, there is imposed on the taxable income of every resident a tax determined in accordance with the following table:
"If the taxable income of a single individual is:...The tax is:
"Not over $10,000...4% of the taxable income
"Over $10,000 but not over $40,000...$400, plus 6% of the excess over $10,000
"Over $40,000 but not over $60,000...$2,200, plus 6.5% of the excess over $40,000
"Over $60,000 but not over $200,000...$3,500, plus 8.5% of the excess over $60,000
"Over $200,000...$15,400, plus 8.75% of the excess above $200,000.
"If the taxable income of married individuals filing a joint return, head of household, or a surviving spouse is:...The tax is:

"Not over $10,000...4% of the taxable income
"Over $10,000 but not over $40,000...$400, plus 6% of the excess over $10,000
"Over $40,000 but not over $80,000...$2,200, plus 6.5% of the excess over $40,000
"Over $80,000 but not over $350,000...$4,800, plus 8.5% of the excess over $80,000
"Over $350,000...$27,750, plus 8.75% of the excess above $350,000."

(3) Subsection (c) is amended to read as follows:

"(c) An individual (other than a surviving spouse) not living with a spouse on the last day of the taxable year, for the purposes of this chapter, shall be considered as a single individual.".

(4) Subsection (d) is amended by striking the phrase "(or domestic partner)" where it appears.

(5) Subsection (e) is amended to read as follows:

"(e) If spouses file separate returns, each spouse shall be treated as a single individual for the purposes of this section."

(g) Section 47-1806.04 is amended as follows:

(1) Subsection (e) is amended by adding a new subsection (4) to read as follows:

"(4) This subsection shall apply for taxable years beginning before January 1, 2015.".

(2) Subsection (f) is amended as follows:

(A) Subsection (1) is redesignated (1)(A)

(B) Add new subsections (1)(B), (1)(C), and (1)(D) to read as follows:

"(1)(B) If a return is filed for a full calendar or fiscal year beginning after December 31, 2014, an individual, with a qualifying child, who is eligible for and claimed an earned income tax credit on their federal tax return under section 32 of the Internal Revenue Code of 1986, shall be allowed a credit against the tax imposed by this chapter for the taxable year in an amount equal to 40% of the earned income tax credit allowed under section 32 of the Internal Revenue Code of 1986.

"(1)(C)(i) If a return is filed for a full calendar or fiscal year beginning after December 31, 2014, an individual, without a qualifying child, who is eligible for an earned income tax credit on their federal tax return under section 32 of the Internal Revenue Code of 1986 (without regard to the limit in section 32(a)(2)), shall be allowed a credit against the tax imposed by this chapter in an amount equal to the credit percentage of so much of a taxpayer's earned income as does not exceed the earned income amount.

"(ii) The amount of the credit allowable to a taxpayer under subsection (C)(i) of this section for any taxable year shall not exceed:

"(I) The credit percentage of the earned income amount, over

"(II) The phaseout percentage of 21.87% of so much of the adjusted gross income (or, if greater, the earned income) of the taxpayer for the taxable year as exceeds the phaseout amount of $17,235, increased annually by the cost-of-living adjustment.

"(1)(D) For the purposes of this subsection, credit percentage, earned income, earned income amount, and qualifying child shall have the same meaning as section 32 of the Internal Revenue Code of 1986.".

(3) Subsection (g)(1) is amended by striking the phrase "under subsection" and inserting the phrase "under subsection (f)(1)(C) of this section or subsection" in its place.

(h) Section 47-1807.02(a) is amended by adding a new paragraph (5) to read as follows:

"(5) For taxable years beginning after December 31, 2014, a tax at the rate of 8.25% upon the taxable income of every corporation, whether domestic or foreign."

(i) Section 47-1808.01 is amended as follows:

(1) Paragraph (4) is amended by striking the word "or" at the end.

(2) Paragraph (5) is amended by striking the period at the end and inserting the phrase "; or" in its place.

(3) Add a new paragraph (6) to read as follows:

"(6) A trade or business which arises solely by reason of the purchase, holding, sale of, or the entering, maintaining, or terminating positions in, stocks, securities, or commodities for the taxpayer's own account. This clause shall not apply to:

"(A) A taxpayer that holds property, or maintains positions, as stock in trade, inventory, or for sale to customers in the ordinary course of the taxpayer's trade or business; or

"(B) A taxpayer that acquires debt instruments in the ordinary course of the taxpayer's trade or business for funds loaned, or services rendered; or

"(C) A taxpayer that holds any of the following that is not traded on an established securities market:

"(i) Stock in a real estate investment trust; or "(ii) A partnership interest."

(j) Section 47-1808.03(a) is amended by adding a new subsection (5) to read as follows:

"(5) For taxable years beginning after December 31, 2014 a tax at the rate of 8.25% upon the taxable income of every unincorporated business, whether domestic or foreign."

(k) Section 47-1810.02 is amended as follows:

(1) Subsection (d) is amended by striking the phrase "(d-1), all" and inserting the phrase "(d-1) and (d-2), all" in its place.

(2) Add a new subsection (d-2) to read as follows:

"(d-2) Apportionment of business income-

"(1) All business income shall be apportioned to the District by multiplying the income by the sales factor.

"(2) This subsection shall be applicable for the taxable years beginning after December 31, 2014.".

(3) Subsection (g)(3) is amended to read as follows:

"(g)(3)(A) Sales, other than sales of tangible personal property, are in the District if the taxpayer's market for the sales is in the District. The taxpayer's market for sales is in the District:

"(i) In the case of rental, lease, or license of real property or tangible personal property, if and to the extent the property is located in the District;

"(ii) In the case of the sale of a service, if and to the extent the service is delivered to a location in the District; and

"(iii) In the case of intangible property,

"(I) That is rented, leased, or licensed, if and to the extent the property is used in the District, provided that intangible property utilized in marketing a good or service to a consumer is used in the District if that good or service is purchased by a consumer who is in the District; and

"(II) That is sold, if and to the extent the property is used in the District, provided that:

"(a) A contract right, government license, or similar intangible property that authorizes the holder to conduct a business activity in a specific geographic area is used in the District if the geographic area includes all or part of the District;

"(b) Receipts from intangible property sales that are contingent on the productivity, use, or disposition of the intangible property shall be treated as receipts from the rental, lease, or licensing of such intangible property under subsection (A)(iii)(I) of this subsection; and

"(c) All other receipts from a sale of intangible property shall be excluded from the sales factor.

"(B) If the state or states of assignment under subsection (A) cannot be determined, the state or states of assignment shall be reasonably approximated.

"(C) If the taxpayer is not taxable in a state in which a sale is assigned under subsection (A) or (B), or if the state of as signment cannot be determined under subsection (A) or reasonably approximated under subsection (B), such sale shall be excluded from the sales factor.

"(D) The Chief Financial Officer may prescribe regulations as necessary or appropriate to carry out the purposes of this section

(l) Section 47-1810.04(c) is amended by adding a new subsection (2-i) to read as follows:

"(2-i) For taxable years beginning after December 31, 2014, the apportionment provisions of § 47-1810.02(d-2) shall apply."

(m) Section 47-2001 is amended as follows:

(1) Subsection (b-1) is repealed.

(2) Subsection (h-3) is amended to read as follows:

"(h-3) "Other tobacco products" means any product containing, made or derived from tobacco that is intended or expected to be consumed, other than a cigarette. Other tobacco products do not include any product that has been approved by the United States Food and Drug Administration for sale as a tobacco cessation product, as a tobacco dependence product, or for other medical purposes, and is being marketed and sold solely for such an approved purpose.".

(3) Subsection (i-1) is repealed.

(4) Subsection (n)(1) is amended as follows:

(A) Paragraph (T) is amended by striking the word "and" at the end.

(B) Paragraph (U) is amended by striking the period at the end and inserting "; and" in its place.

(C) Add new paragraphs (V), (X), (Y), (Z), (AA), (BB), and (CC) to read as follows:

"(V) The sale of or charge for the service of water consumption through direct selling establishments;

"(W) The sale of or charge for the service of the storage of household goods through renting or leasing space for self-storage, including: rooms, compartments, lockers, containers, or outdoor space; except general merchandise warehousing, and storage and coin-operated lockers;

"(X) The sale of or charge for the service of barber, beautician, or personal services, including: cutting, trimming, shampooing, weaving, coloring, waving, shaving, or styling hair; skin care services; nail care services; massage; hair removal; permanent and nonpermanent makeup; ear piercing; hair replacement (except for offices of physicians); scalp treating services; saunas; and tattoo services; except for training in hair styling or the cosmetic arts;

"(Y) The sale of or charge for the service of carpet and upholstery cleaning including the cleaning or dyeing of used rugs, carpets, upholstery, and rug repair;

"(Z) The sale of or charge for the service of health clubs and tanning studios:

"(i) For the purposes of this paragraph "health clubs" include fitness and recreational sports facilities featuring exercise and other active physical fitness conditioning or recreational sports activities, including but not limited to: swimming, skating, or racquet sports; except health resorts and spas where recreational facilities are combined with sleeping accommodations; and

"(ii) For the purposes of this paragraph, "tanning studios" include sun tanning salons and spray tanning salons;

"(AA) The sale of or charge for the service of car washing including: cleaning, washing, waxing, polishing, or detailing automotive vehicles; except for coin operated self-service carwashes;

"(BB) The sale of or charge for the service of bowling alleys and billiard parlors:

"(i) For the purposes of this paragraph "bowling alley" includes amusement and recreation through candle-pin, duck-pin, five-pin and ten-pin bowling; and

"(ii) For the purposes of this paragraph, "billiard parlor" includes billiard or pool parlors or rooms engaged in providing recreational and amusement services through billiards or pool; and

"(CC) The sale of or charge for the service of construction contractors including contractors engaged in: new single-familyhousing; new multifamily housing; new housing for-sale builders; residential remodeling; industrial building; commercial and institutional building; poured concrete foundation and structures; framing; masonry; glass and glazing; roofing; siding; other foundation, structure and building exteriors; electrical and other wiring installation; plumbing heating and air-conditioning; other building equipment; drywall and insulation; painting and wall covering; flooring; tile and terrazzo; finish carpentry; other building finishing; site preparation; and all other specialty trades.".

(5) Subsection (n)(2)(J) is amended by inserting the phrase "and other tobacco products as defined in § 47-2401(5A)" after the word "tobacco"

(n) Section 47-2002(a) is amended as follows:

(1) Strike the word "5.75%" and inserting the phrase "5.75%; beginning October 1, 2014, the rate of such tax shall be 6%" in its place.

(2) Subsection (4A) is amended by inserting the word "and" at the end.

(3) Subsections (5) and (6) are repealed

(o) Section 47-2202 is amended by striking the phrase "5.75%, except for the period beginning October 1, 2009, and ending September 30, 2012, the rate shall be 6%," and inserting the phrase "5.75%; beginning October 1, 2014, the rate of tax imposed by this section shall be 6%" in its place.

(p) The title of Chapter 24 is amended to read "Tobacco Tax".

(q) Section 47-2401 is amended as follows:

(1) Paragraph (1) is repealed.

(2) Paragraph (2) is amended by inserting the phrase "or other tobacco products" after the word "cigarettes".

(3) Paragraph (5) is amended by striking the phrase "cigars,".

(4) Paragraph (5A) is amended to read as follows:

"(5A) The term "other tobacco product" means any product containing, made or derived from tobacco that is intended or expected to be consumed, except cigarettes. Other tobacco product does not include any product that has been approved by the United States Food and Drug Administration for sale as a tobacco cessation product, as a tobacco dependence product, or for other medical purposes, and is being marketed and sold solely for such an approved purpose.".

(5) Paragraph (8) is amended by inserting the phrase "or other tobacco products" after the word "cigarettes".

(6) Paragraph (8A) is repealed.

(7) Paragraph (10) is amended by inserting the phrase "or other tobacco products" after the word "cigarette".

(8) Add a new Paragraph (11) to read as follows:

"(11) The term "wholesale price" means the price for which a licensed wholesaler sells other tobacco products. The wholesale price includes the applicable federal excise tax, freight charges, or packaging costs, regardless of whether they were included in the purchase price, but excludes any discount, trade allowance, rebate, or other reduction."

(r) Section 47-2402 is amended by inserting "of cigarette tax" at the end of the title.

(s) Section 47-2402.01 is amended as follows:

(1) The title is amended to read "Tax on other tobacco products".

(2) Subsection (a) is amended to read as follows:

"(a)(1)The tax rate for other tobacco products shall be equal to the cigarette tax as defined in this chapter on a pack of 20 cigarettes; expressed as a percentage of the wholesale price of cigarettes.

"(2)(A) Beginning March 31, 2015, and on March 31st of each year thereafter, the Mayor shall calculate the average whole sale price of a package of cigarettes from the best information available and shall recompute the tax rate on other tobacco products on the basis of the then cigarette tax on a pack of 20 cigarettes as defined in this chapter.

"(B) The Mayor shall provide notice of any change in the tax rate for the other tobacco products on or before September 1st of that year, and the change shall be effective as of the following October 1st.

"(3) All funds generated pursuant to this subparagraph shall be deposited in the Community Health Care Financing Fund, established by [§ 7-1931(a)]."

(3) Subsection (b)(1) is amended by striking the phrase "weight-based excise".

(t) Section 47-2403 is amended as follows:

(1) Subsection (a)(1) is amended by inserting the phrase "or other tobacco products" after the word "cigarettes" where it appears.

(2) Subsection (a)(5) is amended by inserting the phrase "or other tobacco products" after the word "cigarettes".

(3) Add a new subsection (6) to read as follows:

"(6) Possession of tobacco products by licensed wholesalers for sale outside of the limits of the District or for sale to other licensed wholesalers as provided for in § 47-2402.01(g); sales of tobacco products by licensed wholesalers to other licensed wholesalers as provided for in § 47-2402.01(g); and possession by authorized licensed retailers and vending machine operators of tobacco products on which the tax rate for any other state or jurisdiction has been paid, for sale in such other state or jurisdiction; provided, that such authorized licensed retailers and vending machine operators are licensed under the laws of such other state or jurisdiction to engage in the business of selling tobacco products therein."

(4) Subsection (b) is amended by inserting "or other tobacco products" after the word "cigarettes" where it appears.

(u) Section 47-2404(3)(B) is amended by inserting the phrase "or other tobacco product" after the word "cigarette" where it appears.

(v) Section 47-2405 is amended as follows:

(1) The title is amended by inserting "and other tobacco products" at the end.

(2) Subsection (a) is amended to read as follows:

"(a) Any person, other than a consumer, who transports cigarettes not bearing District cigarette tax stamps or other tobacco products over the public highways, roads, streets, waterways, or other public space of the District, shall have in his actual possession invoices or delivery tickets for such cigarettes or other tobacco products, which show the true name and address of the consignor or seller, the true name and address of the consignee or pur chaser, and the quantity and brands of the cigarettes or other tobacco products so transported."

(3) Subsection (b) is amended to read as follows:

"(b) If the cigarettes or other tobacco products are consigned to or purchased by any person in the District, such purchaser or consignee must be a person authorized by this chapter to possess unstamped cigarettes or untaxed other tobacco products in the District. If the invoice or delivery ticket specifies that the cigarettes or other tobacco products are to be delivered to any person in any state or jurisdiction other than the District, such person must be licensed under the laws of such other state or jurisdiction to engage in the business of selling cigarettes or other tobacco products therein. Any cigarettes or other tobacco products transported in violation of any of the provisions of this section shall be deemed contraband cigarettes and other tobacco products and such cigarettes or other tobacco products, the conveyance in which such cigarettes or other tobacco products are being transported, and any equipment or devices used in connection with, or to facilitate, the transportation of such cigarettes or other tobacco products shall be subject to seizure and forfeiture as provided for in § 47-2409."

(w)Section 47-2408 is amended as follows:

(1) Subsection (b)(3)(B) is amended by inserting the phrase "or other tobacco products" after the word "cigarettes".

(2) Subsection (b)(4) is amended to read as follows:

"(b)(4) Stop any conveyance that the Mayor has knowledge or reasonable cause to believe is carrying more than 200 cigarettes or other tobacco products with a value exceeding the wholesale price of 200 cigarettes and, upon presenting appropriate credentials to the operator thereof, examine the invoices or delivery tickets for such cigarettes or other tobacco products and inspect the conveyance for contraband cigarettes or other tobacco products."

(3) Subsection (c) is amended by inserting the phrase "or other tobacco products" after the word "cigarettes" where it appears.

(4) Subsection (g) is amended by inserting the phrase "or other tobacco products" after the word "cigarettes".

(x) Section 47-2422(a) is amended by inserting the phrase "or other tobacco products" after the word "cigarette".

(y) Section 47-2425(b) is amended by inserting the phrase "or other tobacco products" after the word "cigarettes" where it appears.

(z) Section 47-3701 is amended as follows:

(1) Paragraph (4)(B) is amended to read as follows:

"(4)(B) For a decedent dying after December 31, 2001, but prior to January 1, 2003:"

(2) Paragraph (4)(C) is amended to read as follows:

"(4)(C) For a decedent dying after December 31, 2002, but prior to January 1, 2015:"

(3) Paragraph (5) is amended as follows:

(A) Subparagraph (A) is amended by striking the phrase "decedent whose death occurs prior to January 1, 2008," and inserting the phrase "decedent dying prior to Janaury 1, 2008, or after December 31, 2016," in its place.

(B) Subparagraph (B) is amended by striking the phrase "decedent whose death occurs on or subsequent to January 1, 2008," and inserting the phrase "decedent dying after December 31, 2007, but prior to January 1, 2017," in its place.

(4) Paragraph (6) is amended as follows:

(A) Insert the phrase "For a decedent dying prior to January 1, 2015," at the beginning.

(B) The current paragraph is redesignated (6)(A).

(C) Add a new subparagraph (B) to read as follows:

"(B) For a decedent dying after December 31, 2014 "Internal Revenue Code" means the Internal Revenue Code as in effect on the date of the decedent's death, provided however, that if the federal estate tax is not in effect at the time of the decedent's death, it means the Internal Revenue Code as in effect immediately before the federal estate tax ceased to be in effect.".

(5) Paragraph (12) is amended as follows:

(A)Subparagraph (A) is amended to read as follows:

"(A) For a decedent dying prior to January 1, 2008, the meaning defined in section 2051 of the Internal Revenue Code of 1954."

(B) Subparagraph (B) is amended by striking the phrase "decedent whose death occur on or subsequent to } January 1, 2008, the meaning defined in section 2501" and inserting the phrase "decedent dying after December 31, 2007, but prior to January 1, 2017, the meaning defined in section 2051" in its place.

(C) Add a new subparagraph (C) to read as follows:

"(C) For a decedent dying after December 31, 2016, the meaning defined in the Internal Revenue Code.".

(6) Paragraph (13) is repealed.

(7) Add paragraphs (14), (15), and (16) to read as follows:

"(14) "Taxable situs" means:

"(A) With regard to real property, the place where the property is situated;

"(B) With regard to tangible personal property, the place where the property is customarily located at the time of the decedent's death; and

"(C) With regard to intangible personal property, the domicile of the decedent at the time of the decedent's death, except that intangible personal property used in a trade or business in the District, shall have a taxable situs in the District regardless of the domicile of the owner.

"(15) "Value" means value as finally determined for federal estate tax purposes, or otherwise defined under the Internal Revenue Code.

"(16) "Zero Bracket Amount" means $5,000,000 increased by an amount equal to $5,000,000 multiplied by a cost of living adjustment for the calendar year. The cost-of-living adjustment, as used in this paragraph, for a calendar year is the percentage (if any) by which the CPI, as defined in sections 1(f)(4) and (5) of the Internal Revenue Code, for the preceding calendar year exceeds the CPI for the calendar year 2010. If any amount as adjusted under the preceding sentence is not a multiple of $10,000, such amount shall be rounded to the nearest $10,000."

(aa) Section 47-3702 is amended as follows:

(1) Subsection (a) is amended by striking the phrase "resident dying on or after April 1, 1987, subject" and inserting the phrase "resident decedent dying after March 31, 1986, but prior to January 1, 2015, subject".

(2) Add a new subsection (a-1) to read as follows:

"(a-1) A tax is imposed on the Taxable estate of every resident decedent dying after December 31, 2014, as follows:

"(1) The rate of tax shall be 16%, except that:

"(A) The rate of tax on the Taxable estate between $0 and the Zero Bracket Amount shall be 0%;

"(B) The rate of tax on the Taxable estate between the Zero Bracket Amount and $7,500,000 (if any) shall be 12%; and

"(C) The rate of tax on the Taxable estate between the greater of the Zero Bracket Amount or $7,500,000 and $10,000,000 (if any) shall be 14%.

"(2) If any real or tangible personal property of a resident has a taxable situs outside the District, the amount of the tax due under this section shall be reduced by the proportion that the value of such real or tangible property outside the District bears to the amount of the gross estate of the decedent."

(3) Subsection (b) is amended by striking the word "If" at the beginning and inserting the phrase "For a decedent dying prior to January 1, 2015, if" in its place.

(4) Subsection (c) is repealed.

(bb) Section 47-3703 is amended as follows:

(1) Subsection (b) is amended by striking the word "The" at the beginning and inserting the phrase "For every nonresident decedent dying prior to January 1, 2015 the" in its place.

(2) Add a new section (b-1) to read as follows:

" (b-1) For every nonresident decedent dying after December 31, 2014 the tax shall be an amount computed by multiplying the tax determined under Section 3702 of this section by a fraction, the numerator of which is the value of that part of the gross estate that has its taxable situs in the District and the denominator of which is the value of the decedent's gross estate.".

(3) Subsection (c) is repealed.

(cc) Section 47-3705(a)(2) is amended to read as follows:

"(2) A personal representative shall not be required to file a return:

"(A) For a decedent dying after December 31, 2001, but prior to January 1, 2003, if the gross estate does not exceed $675,000.

"(B) For a decedent dying after December 31, 2002, but prior to January 1, 2015, if the gross estate does not exceed $1,000,000.

"(C) For a decedent dying after December 31, 2014, if the gross estate does not exceed the Zero Bracket Amount."

(dd) Section 47-3723 is repealed.

Sec. 3. Section 7 (D.C. Official Code § 42-2506) of The Government Employer-Assisted Housing Amendment Act of 1999, effective May 9, 2000 (D.C. Law 13-96; D.C. Official Code § 42-2503); as amended by Sec. 2012 of The Fiscal Year 2007 Budget Support Act of 2006 (D.C. Law 16-192; D.C. Official Code § 42-2503) is amended by adding a new subsection (c) to read as follows:

"(c) This section shall apply for taxable years beginning after October 1, 2006, but beginning before January 1, 2015.".

Sec. 4. The District of Columbia Unemployment Compensation Act, approved August 28, 1935 (49 Stat. 947; D.C. Official Code § 51-101 *et. seq.*) is amended as follows:

(a) Section 3 (D.C. Official Code §51-103) is amended by adding a new subsection (o) to read as follows:

"(o)(1) Commencing January 1, 2015, each employer liable for contributions or payments in lieu of contributions required by this section, other than the District and its instrumentalities, or the federal government as exempted in § 51.101 *et seq.*, shall remit a local service fee equal to $25 multiplied by (i) the total number of employees listed on the quarterly calendar filing or, at the election of the employer, (ii) the average number of employees for the quarter as reported monthly on the quarterly calendar filing multiplied by 1.5. The first 4 employees of each employer subject to the local service fee shall be exempt. The local service fee shall be paid quarterly, but shall be separate and distinct from contributions or payments in lieu of contributions.

"(2) All local service fee payments collected shall be deposited into the Local Service Fee Fund established by § 51-114(e).

"(3) Contributions payable pursuant to this subsection shall be due and paid by each employer to the Director in accordance with such regulations as shall be established by the Director and shall not be deducted in whole or in part from the wages of individuals in such employer's employ."

(b) Section 14 (D.C. Official Code § 51-114) is amended by adding a new subsection (e) to read as follows:

"(e)(1) There is created a special fund in the General Revenue Fund of the District of Columbia government that shall be separate and distinct from the District Unemployment Fund, to be known as the Local Service Fee Fund.

"(2) Notwithstanding any contrary provisions of this subchapter:

"(A) All local service fee payments collected from employers shall be deposited into the Local Service Fee Fund.

"(B) All funds deposited into the Local Service Fee Fund, and any interest earned on those funds, shall revert to the unrestricted fund balance of the General Fund of the District of Columbia at the end of a fiscal year.".

Sec. 5. Fiscal impact statement.

The Council adopts the fiscal impact statement in the committee report as the fiscal impact statement required by section 602(c)(3) of the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 813; D.C. Official Code §1-206.02(c)(3)).

Sec. 6. Effective date.

This act shall take effect following approval by the Mayor (or in the event of veto by the Mayor, action by the Council to override the veto), a 30-day period of Congressional review as provided in section 602(c)(1) of the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 813; D.C. Official Code § 1-206.02(c)(1)), and publication in the District of Columbia Register.

COMMISSION PROCESS AND SCHEDULE

The DC Tax Revision Commission was authorized by the DC Council on Sept. 14, 2011, through an amendment to DC Code Section 47-460. Please see the Appendix. The DC Council asked the Commission to analyze the District's tax system and to propose innovative solutions to meet the District's revenue needs.

Over the course of 2013, the Commission conducted a comprehensive review of the major taxes in the District and considered ways to improve fairness, broaden the tax base, increase DC's competitiveness, encourage business growth, and promote simplification, as directed by the Commission's authorizing legislation.

The Commission balanced improving DC's tax system and maintaining DC's fiscal integrity. The Commission also sought to prepare the District's tax system for the challenges of the future (including potential reductions in federal spending) and to ensure that DC attracts a vibrant range of residents and businesses.

Experts in state and local tax policy assisted the Commission's work. They analyzed DC's taxes, compared them with other localities and states, both regionally and nationally, and provided suggestions for reform. Mayor Vincent Gray, members of the DC Council, and the public also offered policy suggestions.

In September 2013, the Commission's staff assembled a list of 63 wide-ranging policy ideas for the commissioners to consider during public deliberations. The staff identified pros and cons for each idea, and the commissioners deliberated. Some policy ideas were in conflict with others. The District's Office of Revenue Analysis (ORA), the revenue-estimating arm of the Office of the Chief Financial Officer, worked closely with the Commission, including in providing revenue estimates for each of the policy options.

On Dec. 18, 2013, the Commission unanimously approved a set of recommendations aimed at moving the District forward and helping its residents and businesses prosper.

Commission Meeting Schedule

May 2014	Commission publishes final report
Feb. 12, 2014	Commission presents recommendations at DC Council hearing
Dec. 18, 2013	Commission votes on final recommendations[111]
Dec. 9, 2013	Commission discussion of final recommendations
Dec. 3, 2013	Commission deliberations: Consensus on recommendations
Nov. 18, 2013	Steve Swaim: *DC economy and revenue outlook* Commission deliberations: Review
Nov. 12, 2013	Public Hearing
Nov. 4, 2013	Stephen Cordi, Deputy CFO, Office of Tax and Revenue Gregory Syphax, Chair, Real Property Tax Appeals Commission Linda Tanton: *Tax Administration*
Oct. 30, 2013	Commission deliberations: Real property taxes
Oct. 21, 2013	Commission deliberations: Business taxes
Oct. 7, 2013	Commission deliberations: Individual income taxes and estate tax
Sept. 30, 2013	Commission deliberations: Sales taxes

[111] Recommendations sent to Mayor Gray and DC Council by letter on Dec. 23, 2013.

Sept. 16, 2013	Councilmember Mary Cheh Robert Aceituno and Karen Yingst (CBM): *Regional Tax Competitiveness with Business Case Studies*
June 24, 2013	Public Hearing
June 17, 2013	William Fox: *Sales taxes* Rick Rybeck: *Infrastructure financing* Mike Bell: *Property tax expenditures*
June 3, 2013	LaTanya Brown-Robertson: *An Analysis of Neighborhoods in DC* Mike Bell: *Exempt properties* Rodney Green: *Deed recordation and deed transfer taxes*
May 20, 2013	Councilmember Tommy Wells Mike Bell: *Introduction to the real property tax* David Sjoquist: *Residential property tax caps* Daphne Kenyon: *Property tax classification*
May 6, 2013	Norton Francis: *Business franchise taxes* Robert Buschman: *Individual income tax*
April 15, 2013	Councilmember Muriel Bowser Sally Wallace: *Fiscal architecture* Richard C. Auxier: *Tax comparisons*
March 4, 2013	Councilmember David Grosso Garry Young: *Economic competitiveness*
Feb. 4, 2013	Councilmember Jack Evans Robert Cline: *Competitiveness of state tax systems* Jeff Chapman *(presented for Robert Zahradnik): State tax incentives* Jeffrey Oakman and Lindsay Clark: *History of economic development in DC*
Jan. 7, 2013	Stephen Fuller*: Regional economic trends in the Washington region* Carol O'Cleireacain: *National, state and local trends in fiscal policy* Jason Juffras: *D.C. tax expenditures*
Dec. 3, 2012	Public Hearing
Nov. 19, 2012	Steve Swaim: *DC economy and tax base* David Zipper and Jenifer Huestis Boss: *D.C. Technology Sector Enhancement Act*
Oct. 1, 2012	Yesim Yilmaz: *DC fiscal structure* Steve Swaim: *DC revenue system* Jim Spaulding: *DC operating and capital budget*
Sept. 10, 2012	Councilmember Jack Evans Darryl Gorman: *Office of Boards and Commissions*
Aug. 6, 2012	Mayor Vincent Gray Councilmember Phil Mendelson DC CFO Natwar M.Gandhi

EXPERT PRESENTATIONS AND PAPERS

The DC Tax Revision Commission received numerous presentations and papers from tax policy experts, economists, and business professionals throughout its tenure. The experts and their presentation topics are listed below. If the expert delivered a paper to the Commission in addition to his or her public presentation, a "(P)" is listed next to the presentation's title.

All presentations and papers are available on the Commission's website: dctaxrevisioncommission.org.

Robert Aceituno and Karen Yingst
CPAs, Councilor Buchanan & Mitchell, P.C
Case Studies of Business Taxes in the District of Columbia; A Comparison with Neighboring Jurisdictions (P)
Sept. 16, 2013

Richard C. Auxier
Research Analyst, DC Tax Revision Commission
District of Columbia Tax Comparisons (P)
April 15, 2013

Michael E. Bell
Research Professor, The George Washington Institute of Public Policy
Real Property Tax Expenditure in DC (P)
June 17, 2013

Michael E. Bell
Research Professor, The George Washington Institute of Public Policy
"Properties Exempt from Paying Real Property Taxes in DC (P)
June 3, 2013

Michael E. Bell
Research Professor, The George Washington Institute of Public Policy
Overview of Real Property Taxes in the District of Columbia (P)
May 20, 2013

LaTanya N. Brown-Robertson
Associate Professor of Economics, Bowie State University
An Analysis of Neighborhoods in the District of Columbia (P)
June 3, 2013

Robert Buschman
Senior Research Associate, Andrew Young School of Policy Studies, Georgia State University
The District of Columbia Individual Income Tax: Structure, Competitiveness, and Potential Improvements (P)
May 6, 2013

Stephen M. Cordi
Deputy Chief Financial Officer, DC Office of Tax and Revenue
Presentation of the Office of Tax and Revenue
Nov. 4, 2013

William F. Fox
Chancellor's Professor and Director, Center for Business and Economic Research, University of Tennessee, Knoxville
Sales Taxes in the District of Columbia (P)
June 17, 2013

Norton Francis Senior Research Associate, Urban-Brookings Tax Policy Center
Business Franchise Taxes in the District of Columbia (P)
May 6, 2013

Stephen Fuller Director, Center for Regional Analysis, School of Public Policy, George Mason University
Regional Economic Trends in the Washington, DC Region
Jan. 7, 2013

Rodney D. Green Executive Director, Center for Urban Progress, Howard University
The Deed Recordation and Real Property Transfer Taxes in DC (P)
June 3, 2013

Jason Juffras Fiscal Analyst, Office of Revenue Analysis
District of Columbia Tax Expenditures
Jan. 7, 2013

Daphne A. Kenyon Principle, D. A. Kenyon & Associates
Real Property Tax Classification in Washington, DC (P)
May 20, 2013

Carol O'Cleireacain Senior Fellow, Brookings Institution
National, State & Local Trends in Fiscal Policy
Jan. 7, 2013

Jeffrey Oakman and Office of Revenue Analysis
Lindsay Clark *Tax Policy and Economic Development in DC (P)*
Feb. 4, 2013

Richard Rybeck Director, Just Economics, LLC,
Funding Long-Term Infrastructure Needs for Growth, Sustainability & Equity (P)
June 17, 2013

David L. Sjoquist Professor of Economics, Georgia State University
The Residential Property Tax Credit: An Analysis of the DC Assessment Limitation (P)
May 20, 2013

Jim Spaulding Office of the Chief Financial Officer
General Fund Expenditure Trends, FY 2001 – FY 2011, and Looking Forward
Oct. 1, 2012

Stephen Swain Financial Economist, Office of Revenue Analysis
Overview of the District's Economy and Tax Base
Nov. 19, 2012

Stephen Swaim Financial Economist, Office of Revenue Analysis
Update on DC's Economy and Revenue Outlook
Nov. 18, 2013

Stephen Swain Financial Economist, Office of Revenue Analysis
DC Revenue System
Oct. 1, 2012

Linda L. Tanton	Tax Administration Review Consultant *Review of the DC Office of Tax and Revenue (P)* Nov. 4, 2013
Sally Wallace	Chair, Department of Economics, Georgia State University *Fiscal Architecture of the District of Columbia (P)* April 15, 2013
Yesim Yilmaz	Director of Fiscal/Legislative Analysis, Office of Revenue Analysis *DC Governance Structure and Fiscal System* Oct. 1, 2012
Garry Young	Director, The George Washington Institute of Public Policy *The District of Columbia and Economic Competitiveness* March 4, 2013
Robert Zahradnik	Director of Research, Pew Center on the States *Creating Fiscally Sound and Economically Effective Tax Incentives* Feb. 4, 2013 (Presented by Jeff Chapman)

LIST OF PUBLIC TESTIMONY

The District Tax Revision Commission received testimony from public officials, tax policy experts, economists, business professionals, and individual citizens during its three public hearings.

The individuals who testified before the Commission are listed below by public hearing date. If they submitted written testimony, a "(P)" is listed next to their name. If the individual represented an organization and submitted that organization's name to the Commission, the organization is listed next to the individual's name.

All written testimony delivered to the Commission is available on the Commission's website: dctaxrevisioncommission.org.

Public Hearing: Nov. 12, 2013

G. Lee Aikin (P)
Thais Austin (P)
David Jonas Bardin (P)
Kari Bedell, *Executive Director, Greater Washington Society of CPAs* (P)
Janet Brown (P)
Orelia Busch (P)
Ruth Caplan (P)
Tanja Castro, *DC Building Industry Association* (P)
John Cavanaugh, *President and CEO, Consortium of Universities* (P)
Peter Fisher, *Vice President for State Issues, Campaign for Tobacco-Free Kids* (P)
Matt Gardner, *Institution on Taxation & Economic Policy* (P)
Campbell Johnson, *Chair, Urban Housing Alliance* (P)
Solomon Keene, *President, Hotel Association of DC* (P)
Andrew Kline, *General Counsel, Restaurant Association of Metropolitan Washington* (P)
Keshini Ladduwahetty (P)
Barbara Lang, *President and CEO, DC Chamber of Commerce* (P)
Jesse Lovell (P)
Robert Malson, *President, DC Hospital Association* (P)
Beth Marcus (P)
Elizabeth C. McNichol, *Center on Budget and Policy Priorities* (P)
Brianne Nadeau (P)
Bonita Pennino, *American Heart Association* (P)
Katalin Peter (P)
Robert Pohlman, *Coalition for Nonprofit Housing and Economic Development* (P)
Jessie Posilkin (P)
Ed Rehfeld (P)
Andrea Rosen (P)
Rick Rybeck, *Just Economics, LLC* (P)
Jim Schulman (P)
David Schwartzman, *DC Citizens for Tax Justice* (P)
Gerald Schwinn (P)
Stuart Solomon, *Federal City Council* (P)
Dick Suisman, Chair, *Our Nation's Capital* (P)
Ericka Taylor (P)
Dan Wedderburn, *DC for Democracy* (P)
Rob Wohl (P)

Public Hearing Testimony: June 24, 2013

G. Lee Aikin (P)
G. Thomas Borger, *Chairman, Borger Management, Inc.* (P)
David J. Chitlik, *Senior Director, Apartment and Office Building Association* (P)
Jerry N. Clark (P)
Marie Drissel, *Member of the 1998 DC Tax Revision Commission* (P)
Alma Hardy Gates (P)
Ferdinand Hogroian, *Legislative Council, Council on State Taxation* (P)
Campbell Johnson, *Chair, Urban Housing Alliance* (P)
Jeremy Koulish (P)
Sally Kram, *Director of Public & Government Affairs, Consortium of Universities of the Washington Metro Area* (P)
Edward Krauze, *CEO, DC Association of Realtors* (P)
Kesh Ladduwahetty (P)
Barbara B. Lang, *President & CEO, DC Chamber of Commerce* (P)
Rabbi Gilah Langer, *Jews United for Justice* (P)
Lora J. Leavy (P)
Jesse Lovell (P)
Beth Marcus (P)
Jim McGrath, *Chairman, DC Tenants' Advocacy Coalition* (P)
Tom Murphy, *Former Mayor of Pittsburgh, PA* (P)
Edward Rehfeld (P)
Dianah Shaw, *DC Association of Realtors* (P)
Chad Shuskey, *Senior VP for Research & Visual Communications, DC Economic Partnership* (P)
Micheal Tacelosky, *DC Tobacco Free Coalition* (P)
Benjamin B. Terner (P)
Mitch Wander (P)
Dan Wedderburn, *Chair of Government Reform Committee, DC for Democracy* (P)
Howard White (P)
Neil Williams (P)

Public Hearing Testimony: Dec. 3, 2012

David Jonas Bardin, *former member of board of directors, DC Water and Sewer Authority* (P); Supplemental statement (P)
George W. Beatty (P)
Cheryl Cort, *Policy Director, Coalition for Smarter Growth* (P)
Jim Dinegar, *CEO, Greater Washington Board of Trade*
Marie Drissel, *Member of 1998 DC Tax Revision Commission* (P)
Campbell Johnson, *Urban Housing Alliance* (P)
Sally Kram, *Director of Government and Public Affairs, Consortium of Universities of the Washington Metropolitan Area* (P)
Barbara B. Lang, *President & CEO, DC Chamber of Commerce* (P)
W. Shaun Pharr, Esq., *Senior Vice President of Government Affairs, Apartment and Office Building Association of Metropolitan Washington* (P)
Simon Rakoff, *Fortify Ventures LLC*
James Rooney, *Avenir Corporation* (P)
Bart Uze, *Legal Counsel, Ryan, LLC* (P)
Dan Wedderburn, *Chair of the Tax Reform Committee, DC for Democracy* (P)
Gerry Widdicombe, *Director of Economic Development, Downtown Business Improvement District* (P)

LIST OF LETTERS

The DC Tax Revision Commission received numerous letters from the public and public officials during its tenure. The letters listed are available on the Commission's website: dctaxrevisioncommission.org.

Letter from Mayor Vincent Gray on the Technology Sector Enhancement Act of 2012. (Oct. 14, 2012)

Letter from Mayor Vincent Gray on the inaugural DC Tax Revision Commission meeting. (Aug. 3, 2012)

Letter from Councilmember Jack Evans requesting inclusion of "Technology Sector Enhancement Act of 2012" in the Commission's research agenda. (Sept. 21, 2012)

Letter from 13 high-income-earning individuals expressing their support for more progressive income tax brackets. (Dec. 2, 2013)

Letter from Jon Bakija, Department of Economics, Williams College, sharing his research on the impact of state-level estate and inheritance taxes on the migration of high-wealth individuals. (Nov. 15, 2013)

Letter from David Bardin, attorney, asking the Commission to consider a local services tax. (June 24, 2013)

Letter from David Bardin, attorney, related to the DC Water and Sewer Authority. (Oct. 24, 2012)

Letter from Kari Bedell, Executive Director, Greater Washington Society of CPAs, sharing results of a membership survey on doing business in the District; Full survey results. (Sept. 25, 2013)

Letter from John Capozzi , consultant, recommending a review of an annual payment in lieu of taxes (PILOT) provision for the District's private universities. (November 2012)

Letter (and attachment) from the Consortium of Universities of the Washington Metropolitan Area in response to the May 29, 2013 report on tax-exempt properties and specifically the proposal to implement a payments in lieu of tax (PILOT) program in the District (Oct. 18, 2013)

Letter from Karen Conway, University of New Hampshire, and Jonathan Rork, Reed College, on how differences in tax policies between states affect resident migration. (Nov. 18, 2013)

Letter from the District Building Industry Association on the commercial property tax. (Dec. 4, 2013)

Letter from William E. Davis, on behalf of a collection of prominent District estate tax practitioners (pro bono), providing alternatives for improving the District estate tax. (Aug. 26, 2013)

Letter from William E. Davis, on behalf of a collection of prominent District estate tax practitioners (pro bono), describing major issues with the District estate tax. (July 26, 2013)

Letter from Charles Debnam, Chair of the DC Tobacco Free Coalition, offering feedback and additional information on the proposal to unify how tobacco is taxed. (Nov. 20, 2013)

Letter from Charles Debnam, Chair of the DC Tobacco Free Coalition, recommending changes to how the District taxes cigarettes and other tobacco products. (Aug. 27, 2013)

Letter from Richard Franklin and Michael Savage, members of the DC Bar, advocating for the elimination of the District estate tax. (Sept. 24, 2013).

Letter from John H. Graham IV, President and CEO of the American Society of Association Executives, arguing against the creation of a local services fee. (Nov. 5, 2013)

Letter from Kathy E. Hollinger, President of the Restaurant Association of Metropolitan Washington, providing arguments against increasing the restaurant meals sales tax. (Oct. 18, 2013)

Letter from the International Premium Cigar & Pipe Retailers Association on tobacco taxes. (Dec. 6, 2013)

Letter from Edward Krauze, Chief Executive Officer of the District of Columbia Association of Realtors (DCAR), recommending changes to the District's deed recordation and transfer taxes. (Oct. 22, 2013)

Letter from Dave Oberting, Chair and Executive Director of the District Economic Growth Action Fund, recommending the District increase taxes on products and services used by non-residents so the District can lower the tax burden on residents. (Sept. 11, 2013)

Letter (with attachments) from David Schwartzman of DC Citizens for Tax Justice, advocating for a more progressive tax system. (Sept. 19. 2013)

Letter from Joseph Sternlieb, CEO of the Georgetown BID, proposing DC collect tax data at the neighborhood level to aid neighborhood development organizations. (Sept. 17, 2013)

Letter from Allan Wendt, former U.S. ambassador, recommending an expansion of the exclusion for DC and federal government pensions. (Oct. 2, 2013)

Letter from Robert Zahradnik, Director, State Policy at the The Pew Charitable Trusts, with recommendations for evaluating the District's tax expenditures, including tax incentives for economic development. (Oct. 4, 2013)

AUTHORIZING LEGISLATION

DC Code § 47-461

DISTRICT OF COLUMBIA OFFICIAL CODE

*** Current through Sept. 18, 2013, and through DC Act 19-682 ***

DIVISION VIII. GENERAL LAWS
TITLE 47. TAXATION, LICENSING, PERMITS, ASSESSMENTS, AND FEES
CHAPTER 4. COLLECTION AND DISBURSEMENT OF TAXES
SUBCHAPTER VI. TAX REVISION COMMISSION

DC Code § 47-461 (2013)

§ 47-461. Council findings

The Council of the District of Columbia finds that:

1. Many District residents and businesses are already overburdened by current taxation levels.

2. The health of the District's tax base and its potential for economic growth require the maintenance of a competitive tax burden between the District and neighboring jurisdictions.

3. Present tax policies and laws are in need of evaluation with respect to their equitability, productivity, efficiency, and effect on economic growth.

4. New or broadened revenue sources must be explored as possible substitutes for current uncompetitive rates to meet the District's revenue needs, but they must be evaluated carefully in terms of their equity and their effect on economic growth.

5. The last comprehensive study of District taxes occurred in 1998, and more recent tax changes have been somewhat piecemeal and sometimes made without regard to the system as a whole or knowledge of long-term effects.

HISTORY:

- June 13, 1996, DC Law 11-143, § 2, 43 DCR 2170; enacted, Apr. 9, 1997, DC Law 11-254, § 2, 44 DCR 1575; Sept. 14, 2011, DC Law 19-21, § 7062(a), 58 DCR 6226.

NOTES:

- PRIOR CODIFICATIONS.–1981 Ed., § 47-461.
- EFFECT OF AMENDMENTS.–DC Law 19-21, in par. (5), substituted "in 1998" for "in 1977."
- EMERGENCY LEGISLATION.-For temporary addition of sections 47-461 through 47-464, see § 2-5 of the Tax Revision Commission Establishment Emergency Act of 1996 (DC Act 11-259, April 18, 1996, 43 DCR 2166).
- LEGISLATIVE HISTORY OF LAW 11-143.-Law 11-143, the "Tax Revision Commission Establishment Act of 1996," was introduced in Council and assigned Bill No. 11-383, which was referred to the Committee of the Whole. The Bill was adopted on first and second readings on March 5, 1996, and April 2, 1996, respectively. Signed by the Mayor on April 18, 1996, it was assigned Act No. 11-383 and transmitted to both Houses of Congress for its review. DC Law 11-143 became effective on June 13, 1996.

- LEGISLATIVE HISTORY OF LAW 19-21.–For history of Law 19-21, see notes under § 47-305.02.
- SHORT TITLE.–Short title: Section 7061 of DC Law 19-21 provided that subtitle G of title VII of the act may be cited as "Tax Revision Commission Reestablishment Act of 2011."

§ 47-462. Tax Revision Commission—Established; Submission of recommendations

a. There is established a Tax Revision Commission ("Commission") with the purpose of preparing comprehensive recommendations to the Council and the Mayor which:

1. Provide for fairness in apportionment of taxes;
2. Broaden the tax base;
3. Make the District's tax policy more competitive with surrounding jurisdictions;
4. Encourage business growth and job creation; and
5. Modernize, simplify, and increase transparency in the District's tax code'.

b. Specific functions of the Commission shall include the following:

1. To analyze the District's current tax system in terms of revenue productivity and stability, efficiency, equity, simplicity of administration, and effect upon the District's economy;
2. To propose innovative solutions for meeting the District's projected revenue needs while recommending potential modifications to tax rates;
3. To identify economic activities which are either beneficial or detrimental to the District's economy and which should be either encouraged or discouraged through tax policy;
4. To recommend changes in the District's current tax policies and laws;
5. To establish criteria and a conceptual framework for evaluating current and future taxes;
6. To identify unused and duplicative tax credits and tax abatements and recommend policy changes to improve the way the District utilizes tax expenditures; and
7. To analyze a proposal to tax the capital gain from the sale of common or preferred shares of a Qualified High Technology Company, as defined in § 47-1817.01(5)(A), at the rate of 3% if the:
   a. Shares of the Qualified High Technology Company were held by the investor for at least 24 continuous months; and
   b. Qualified High Technology Company was headquartered in the District of Columbia on the date of sale.

c. The Commission shall submit its recommendations in the form of a report or reports similar in form and scope as those transmitted by the District of Columbia Tax Revision Commission by letter dated June 2, 1998, and entitled "Taxing Simply, Taxing Fairly." The report or reports shall be accompanied by draft legislation, regulations, amendments to existing regulations, or other specific steps for implementing the recommendations.

d. The Commission shall submit to the Council and the Mayor its final report no later than 9 months after the Commission's appointment.

HISTORY:

- June 13, 1996, DC Law 11-143, § 3, 43 DCR 2170; enacted, April 9, 1997, DC Law 11-254, § 2, 44 DCR 1575; Sept. 14, 2011, DC Law 19-21, § 7062(b), 58 DCR 6226; Sept. 26, 2012, DC Law 19-171, § 114(c), 59 DCR 6190; March 5, 2013, DC Law 19-211,
  § 2(a), 59 DCR 13281.

NOTES:

- PRIOR CODIFICATIONS.–1981 Ed., § 47-462.
- EFFECT OF AMENDMENTS.–DC Law 19-21 rewrote subsecs. (a)(1), (b)(6), and (d); in subsec. (a)(2), deleted "and" from the end; added subsecs. (a)(4) and (5); in subsec. (b)(2), substituted "recommending potential modifications to tax rates" for "enabling the possibility that general rates might be reduced"; and, in subsec. (c), substituted "June 2, 1998, and entitled 'Taxing Simply, Taxing Fairly'" for "December 5, 1977, pursuant to Council Resolution 1-149."
  - The 2012 amendment by DC Law 19-171 substituted a semicolon for the period at the end of (a)(3).
  - The 2013 amendment by DC Law 19-211 added (b)(7).

- EMERGENCY LEGISLATION. –See Historical and Statutory Notes following § 47-461.
- LEGISLATIVE HISTORY OF LAW 11-143. –For legislative history of DC Law 11-143, see Historical and Statutory Notes following § 47-461.
- LEGISLATIVE HISTORY OF LAW 19-21. –For history of Law 19-21, see notes under § 47-305.02.
- LEGISLATIVE HISTORY OF LAW 19-171. –Law 19-171, the "Technical Amendments Act of 2012," was introduced in Council and assigned Bill No. 19-397. The Bill was adopted on first and second readings on March 20, 2012, and April 17, 2012, respectively. Signed by the Mayor on May 23, 2012, it was assigned Act No. 19-376 and transmitted to Congress for its review. DC Law 19-171 became effective on September 26, 2012.
- LEGISLATIVE HISTORY OF LAW 19-211. –Law 19-211, the "Technology Sector Enhancement Act of 2012," was introduced in Council and assigned Bill No. 19-747. The Bill was adopted on first and second readings on Sept. 19, 2012, and Oct. 16, 2012, respectively. Signed by the Mayor on Nov. 1, 2012, it was assigned Act No. 19-513 and transmitted to Congress for its review. DC Law 19-211 became effective on Mar. 5, 2013.

§ 47-462. Tax Revision Commission—Established; Submission of recommendations

a. The Commission shall be a nonpartisan body composed of 11 members, including a Chairperson.

b. The members of the Commission shall be appointed as follows:

   1. The Mayor shall appoint five members, of whom:
      A. Three shall be experts in the field of taxation, such as tax lawyers or public finance economists;
      B. One shall be a community representative, such as a leader of a public-interest group, labor union, civic association, or a tenant or housing association; and
      C. One shall be a representative of one or more important sectors of the business community, such as real estate, banking, retail, or high technology.

   2. The Chairman of the Council shall appoint five members, of whom:
      A. Three shall be experts in the field of taxation, such as tax lawyers or public finance economists;
      B. One shall be a community representative, such as a leader of a public-interest group, labor union, civic association, or a tenant or housing association; and
      C. One shall be a representative of one or more important sectors of the business community, such as real estate, banking, retail, or high technology.

   3. The Chief Financial Officer, or his or her designee, shall be an ex officio member of the Commission.

   4. The Chairman of the Council shall appoint one member of the Commission as the Chairperson of the Commission.

c. All appointments shall be made within 60 days of [Sept. 14, 2011]. A vacancy shall be filled in the same manner in which the initial appointment was made.

d. The Commission, by a majority vote, shall select a Director who shall perform the duties required for the day-to-day functioning of the Commission as considered necessary by the members, including appointment of staff, selection of consultants, and the administration of meetings and report production.

e. Each member of the Commission shall serve without compensation. Each member may be reimbursed for actual expenses pursuant to § 1-611.08.F. Members of the Commission shall act with the utmost integrity and professionalism. Each member shall avoid conflicts of interest and may seek the advice of the Office of the Attorney General to ensure that his or her duties are being discharged ethically.

HISTORY:

- June 13, 1996, DC Law 11-143, § 4, 43 DCR 2170; enacted, April 9, 1997, DC Law 11-254, § 2, 44 DCR 1575; Sept. 14, 2011, DC Law 19-21, § 7062(c), 58 DCR 6226; Sept. 26, 2012, DC Law 19-171, § 114(p), 59 DCR 6190.

NOTES:

- PRIOR CODIFICATIONS.–1981 Ed., § 47-463.
- EFFECT OF AMENDMENTS.–DC Law 19-21 rewrote the section, which formerly read:

  "a. The Commission shall be a nonpartisan Commission composed of 17 members drawn from experts in the field of taxation such as tax lawyers and public finance economists; several community representatives such as members of labor unions, public interest groups, civic associations, and tenant and housing associations; and representatives of important sectors of the business community such as real estate, banking, retailing, and public utilities.

  "b. Eight members of the Commission shall be appointed by the Mayor, and nine members shall be appointed by the Council. The Council shall appoint the Chairperson of the Commission from among the Council-appointed members

  of the Commission. All appointments shall be made within 60 days of June 13, 1996. A vacancy shall be filled in the same manner in which its initial appointment was made.

  "c. The Commission, by a vote in which a majority of the members are in the affirmative, may select a Director who shall perform the duties required for the day-to-day functioning of the Commission as deemed necessary by the members, including, but not limited to, appointment of staff and selection of consultants.

  "d. The Commission may appoint task forces composed of representatives from the District of Columbia, the State of Maryland, and the Commonwealth of Virginia.

  "e. Each member of the Commission shall serve without compensation. Each member, however, may be reimbursed for actual expenses pursuant to section 1108 of the District of Columbia Government Comprehensive Merit Personnel Act of 1978, effective March 3, 1979 (§ 1-611.08)."

  The 2012 amendment by DC Law 19-171 substituted "§ 1-611.08" for "section 1108 of the District of Columbia Government Comprehensive Merit Personnel Act of 1978, effective March 3, 2979 (§ 1-611.08)" in (e).
- TEMPORARY AMENDMENT OF SECTION.–For temporary (225 day) amendment of section, see § 2 of Tax Revision Commission Establishment Temporary Amendment Act of 1996 (DC Law 11-224, April 9, 1997, law notification 44 DCR 2582). For temporary (225 day) amendment of section, see § 2 of Tax Revision Commission Establishment Temporary Amendment Act of 1998 (DC Law 12-79, April 9, 1997, law notification 45 DCR 2114).
- EMERGENCY LEGISLATION.–See Historical and Statutory Notes following § 47-461.

  For temporary amendment of section, see § 2 of the Tax Revision Commission Establishment Emergency Amendment Act of 1996 (DC Act 11-435, Oct. 30, 1996, 43 DCR 6184), and § 2 of the Tax Revision Commission Establishment Congressional Review Emergency Amendment Act of 1997 (DC Act 12-30, March 11, 1997, 44 DCR 1902).
- LEGISLATIVE HISTORY OF LAW 11-143.–For legislative history of DC Law 11-143, see Historical and Statutory Notes following § 47-461.
- LEGISLATIVE HISTORY OF LAW 19-21.–For history of Law 19-21, see notes under § 47-305.02.
- LEGISLATIVE HISTORY OF LAW 19-171.–Law 19-171, the "Technical Amendments Act of 2012", was introduced in Council and assigned Bill No. 19-397. The Bill was adopted on first and second readings on March 20, 2012, and April 17, 2012, respectively. Signed by the Mayor on May 23, 2012, it was assigned Act No. 19-376 and transmitted to Congress for its review. DC Law 19-171 became effective on Sept. 26, 2012.

§ 47-464. Tax Revision Commission – Authority

a. The Chairperson of the Commission, or his or her designated representative, who must be a member of the Commission, shall convene all meetings of the Commission. Six members of the Commission shall constitute a quorum. Voting by proxy shall not be permitted.

b. The Commission shall have the authority to create and operate under its own rules of procedure, consistent with this subchapter and Chapter 5 of Title 2 [§ 2-501 et seq.].

c. All recommendations and reports prepared and submitted by the Commission shall be a matter of public record.

d. The Commission, or committees thereof, may, for the purpose of carrying out the provisions of this subchapter, hold hearings, and shall sit and act at such times and places and administer oaths as required.

e. The Commission shall have the authority to request directly from each department, agency, or instrumentality of the

District Government, and each department, agency, or instrumentality is hereby authorized to furnish directly to the Commission upon its request, any information reasonably considered necessary by the Commission to carry out its functions under this subchapter.

f. The Commission is authorized to use space and supplies owned or rented by the District government. The Commission is further authorized to use staff loaned from the Council or detailed by the Mayor for such purposes consistent with this subchapter as the Commission may determine.

g. The Commission's operations shall be funded by annual appropriations, private sector assistance, or both.

h. If a special fund is established by the Commission for the receipt of operating donations from non-government sources, the fund shall be administered in accordance with established funding and auditing procedures of the District government. The expenditure of such donations shall not be subject to appropriation. The Commission shall keep a record, available to the public for inspection, of all such donations and any substantial non-government in-kind contributions received. The record shall include the full name, address, and occupation or type of business of each donor. "Substantial non-government in-kind contributions" shall include any service reasonably valued at more than $ 5,000 which is received from any source other than the District or federal government.

HISTORY:

- June 13, 1996, DC Law 11-143, § 5, 43 DCR 2170; enacted, April 9, 1997, DC Law 11-254, § 2, 44 DCR 1575; Sept. 14, 2011, DC Law 19-21, § 7062(d), 58 DCR 6226; Sept. 26, 2012, DC Law 19-171, § 114(q), 59 DCR 6190.

NOTES:

- PRIOR CODIFICATIONS.—1981 Ed., § 47-464.
- EFFECT OF AMENDMENTS.—DC Law 19-21, in subsec. (a), substituted "Six members" for "Seven members"; and, in subsec. (e), substituted "information reasonably considered" for "information deemed".
  The 2012 amendment by DC Law 19-171 substituted «this subchapter¸ for "this act" in (b), (d), (e), and (f); and substituted "Chapter 5 of Title 2" for "the Administrative Procedure Act, approved Oct. 21, 1968 (§ 2-501 et seq.)" in (b).
- EMERGENCY LEGISLATION.—See Historical and Statutory Notes following § 47-461.
- LEGISLATIVE HISTORY OF LAW 11-143.—For legislative history of DC Law 11-143, see Historical and Statutory Notes following § 47-461.
- LEGISLATIVE HISTORY OF LAW 19-21.—For history of Law 19-21, see notes under § 47-305.02.
- LEGISLATIVE HISTORY OF LAW 19-171.—Law 19-171, the "Technical Amendments Act of 2012," was introduced in Council and assigned Bill No. 19-397. The Bill was adopted on first and second readings on March 20, 2012, and April 17, 2012, respectively. Signed by the Mayor on May 23, 2012, it was assigned Act No. 19-376 and transmitted to Congress for its review. DC Law 19-171 became effective on Sept. 26, 2012.
- REFERENCES IN TEXT.—"This act," referred to in subsections (b), (d), (e), and (f) is DC Law 11-143, which is codified at §§ 47-461 through 47-815.

COMMISSION AND STAFF

The DC Tax Revision Commission was created in 2011 as part of the fiscal year 2012 budget.

Former DC Council Chairman Kwame Brown selected the Commission's chair and four additional members. Mayor Vincent Gray chose the other five Commission members. The Chief Financial Officer also designated an ex-officio member for the Commission.

The Commission met first on Aug. 6, 2012, and met last on Dec. 18, 2013. In total, the Commission held 26 public meetings, including three public hearings.

Anthony A. Williams, Chair
Former Mayor of the District of Columbia; Current CEO and Executive Director of the Federal City Council

David Brunori
Research Professor of Public Policy, Trachtenberg School of Public Policy and Public Administration at the George Washington University

Catherine Collins
Interim Associate Director/Research Associate, George Washington Institute of Public Policy, the George Washington University

Mark Ein
CEO, Venturehouse Group

Teresa Hinze
Executive Director, Community Tax Aid Inc.

Ed Lazere
Executive Director, DC Fiscal Policy Institute

Kim Rueben[112]
Senior Fellow, Tax Policy Center

Pauline A. Schneider
Special Counsel, Ballard Spahr LLP

Stefan Tucker
Partner, Venable LLP

Nicola Whiteman
Vice President of Government Affairs, Apartment and Office Building Association

Fitzroy Lee *(ex-officio member)*[113]
Deputy CFO, Office of Revenue Analysis, OCFO, Government of the District of Columbia

Tracy Gordon[114]
Senior Economist, White House Council of Economic Advisers

2013 D.C. Tax Revision Staff

Gerry Widdicombe[115]
Executive Director

Steven M. Rosenthal
Staff Director

Richard C. Auxier
Research Analyst

Ashley Lee
Administrative Assistant

Elisha Gaston
Law Clerk

112 Kim Rueben joined the D.C. Tax Revision Commission in August 2013. She replaced Tracy Gordon, and voted on the final package of recommendations.

113 Fitzroy Lee, as an ex-officio member, did not vote on the final package of recommendations.

114 Tracy Gordon was an original member of the DC Tax Revision Commission. She resigned from the Commission in July 2013 to join the White House Council of Economic Advisers.

115 Gerry Widdicombe replaced Kevin Clinton as executive director in March 2013.