November 7, 2001
Council of the District of Columbia
PUBLIC HEARING ON BILLS 14-34, 14-113, 14-308, AND 14-329

Testimonies of Dr. Julia Friedman, Deputy Chief Financial Officer, Office of Research and Analysis, before the Committee on Finance and Revenue

Bill 14-34, "District of Columbia Public School Teacher Income Tax Exemption Amendment Act of 2001"
Good morning Chairman Evans and distinguished members of the committee. I am Julia Friedman, Deputy Chief Financial Officer for Research and Analysis. I am pleased to present testimony on Bill 14-34, the "District of Columbia Public School Teacher Income Tax Exemption Amendment Act of 2001."

Bill 14-34 proposes to exclude wages earned by permanent, full-time DC Public School teachers from the definition of gross income for District income tax purposes. The bill would not exclude teachers' non-education-related income from the tax, and it does not seem to apply to teachers at charter schools.

To qualify for the proposed tax exemption a person must:
1. Be a full time teacher excluding temporary and day-to-day substitutes:
2. Be a District resident; and
3. Have been employed as a full time teacher by the District's Public Schools for a full academic year prior to the year for which exemption is claimed.

We would face significant costs in administering this exemption. The District's individual income tax return, form D-40, would need to be revised and enforcement mechanisms established. Likewise, the schools would have to determine eligibility for the exemption and report the exempt income separately on teachers' W-2s. Coordination with the Internal Revenue Service and the Social Security Administration to ensure proper processing of the schools' W-2s would also be necessary.

This bill would result in a loss of revenue of $7.25 million in FY 2002; $6.67 million in FY 2003; and $5.88 million in both FY 2004 and FY 2005. Funds are not available in FY 2002 to cover the loss of revenue from this bill. Revenue reductions for FY 2003-2005 need to be budgeted.

This concludes my testimony on Bill 14-34. I would be happy to respond to any questions you may have.

Bill 14-113, "Small Business Personal Property Tax Amendment Act of 2001"
Good morning Chairman Evans and distinguished members of the committee. I am Julia Friedman, Deputy Chief Financial Officer for Research and Analysis. I am pleased to present testimony on Bill 14-113, the "Small Business Personal Property Tax Amendment Act of 2001."

It is our understanding that Bill 14-113 is intended to replace the personal property tax "deductible" amount of $50,000 for each owner of personal property with an exemption from the tax for each business with DC gross receipts of less than $350,000 for the year in question. However, we believe the proper code section to be amended in the legislation is DC Code § 47-1522(a), and not § 47-1508(a). Current law provides the same $50,000 deduction to all businesses regardless of size. Bill 14-113 would replace this with an <u>exemption</u> from the tax for very small businesses.

Roughly two-thirds of DC businesses have DC gross receipts of less than $350,000. We have concluded that this bill is revenue neutral.

Additionally, it is the position of the Office of Tax and Revenue (OTR) that the bill should be amended to provide an applicability date of July 1, 2002. The tax year runs from July 1 to June 30. Businesses pay the personal property tax in July at the start of the personal property tax year. OTR's concern is that if the legislation goes into effect before July 1, 2002, and there is no applicability date indicating that the change in the law is applicable to Tax Year (TY) 2003 (beginning July 1, 2002) and thereafter, OTR could be faced with the complication of District taxpayers seeking partial refunds or entire refunds from taxes paid in July 2001 for TY 2002. Moreover, an applicability date of July 1, 2002 will afford OTR enough time to revise forms for TY 2003 and mail them in time for taxpayers to file between July 1, 2002 and July 31, 2002.

This concludes my testimony on Bill 14-113. I would be happy to respond to any questions you may have.

Bill 14-308, "Alternative Fuel Vehicle Act of 2001" (Joint hearing with the Committee on Public Works and the Environment)
Good morning Chairman Evans, Chairman Schwartz and distinguished members of the committees. I am Julia Friedman, Deputy Chief Financial Officer for Research and Analysis. I am pleased to present testimony on Bill 14-308, the "Alternative Fuel Vehicle Act of 2001."

Bill 14-308 would provide non-refundable income and franchise tax credits for the purchase of alternative-fuel vehicles and for construction or expansion of alternative fuel dispensing facilities. Additional credit would be allowed for vehicles that meet the most stringent available emissions standard or produce zero emissions.

For 2002-2006, the amount of the credit allowed for vehicles under the proposal is 50% of the additional cost that is due to the capacity of the vehicle to use alternative fuel, plus 25% of the additional cost for vehicles that meet stringent emission standards. For alternative fuel dispensing facilities, the allowable credit for calendar years 2002-2004 would be 40% of the additional cost due to their capacity to dispense alternative fuels; for 2005 and 2006, the credit would be 30% of additional costs incurred.

Under the proposed legislation, the total amount of credit allowed to all taxpayers is limited on a first-come basis to $2 million for fleet vehicles, $500 thousand for personal vehicles, and $500 thousand for alternative fueling facilities. To obtain the credit, the taxpayer would be required to apply and qualifying applicants would receive the credit until the annual limit for the relevant category is exhausted.

Bill 14-308 would result in foregone tax revenue of $2.25 million for FY 2003, $3.0 million per year for FY 2004-2007, and $0.75 million for FY 2008. Some of this $15 million total loss could extend into subsequent fiscal years due to the bill's provision for carrying forward unused credits. There would be some offsetting revenue gain due to the bill's required reduction, by the amount of the credit, of the basis for depreciation of vehicles and facilities. The revenue gain would be about $1.17 million over FY 2004-2014.

The legislation further requires that taxpayers be given documentation to prove they qualify and have been approved for the credit. The Office of Tax and Revenue would not need additional resources to carry out these administrative requirements.

As you know, revenue reductions for FY 2003-2005 would need to be budgeted.

Thank you for the opportunity to testify today. I would be happy to respond to any questions you may have.

Bill 14-329, "Civil Rights Tax Fairness Act of 2001"
Good morning Chairman Evans and distinguished members of the committee. I am Julia Friedman, Deputy Chief Financial Officer for Research and Analysis. I am pleased to present testimony on Bill 14-329, the "Civil Rights Tax Fairness Act of 2001."

Bill 14-329 would exempt from income tax some types of damages awarded by a court or by agreement with an employer arising from unlawful discrimination. Punitive damages, back wages, and future wages awarded in such cases would remain taxable, although the bill provides that damages consisting of back wages and future wages would be averaged over the period of back and future wages involved.

We anticipate that the revenue lost due to this bill would be minimal. There would be some administrative costs associated with its enforcement which my colleague, Herb Huff, would like to address.

This concludes my testimony on Bill 14-329. I will be happy to answer any questions you might have.