PUBLIC HEARING ON

B16-557, "FISCAL YEAR 2007 BUDGET TAX RELIEF PRIORITIES ACT OF 2005"

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

December 12, 2005, 11:00 a.m.
John A. Wilson Building

Testimony of
Julia Friedman
Deputy Chief Financial Officer
Office of Revenue Analysis

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Mr. Chairman and members of the committee. I am Julia Friedman, Deputy Chief Financial Officer for the Office of Revenue Analysis. I am pleased to testify today on Bill 16-557, the "Fiscal Year 2007 Budget Tax Relief Priorities Act of 2005."

The Fiscal Year 2007 Budget Tax Relief Priorities Act of 2005 would increase the District's standard income tax deduction and personal exemption beginning January 1, 2007. Currently, the District standard deduction is $1,250 for married taxpayers filing separately and $2,500 for all others. The proposed legislation would increase these deductions to $2,000 and $4,000, respectively, and would provide for annual cost-of-living adjustments based on the Consumer Price Index for the Washington-Baltimore Metropolitan Statistical Area.

The revenue reduction for this provision is estimated to be $9.2 million in FY 2007 and $56.2 million for the period of FY 2007 through FY 2010. Increasing the standard deduction will reduce tax burdens for taxpayers who do not itemize – who comprise about half of all the District's individual income tax filers. For a married couple at the 9 percent marginal tax level, the tax reduction is $135 in the first year at current tax rates. A single head-of-household with a 7.5 percent marginal tax rate will save about $113 in the first year.

The District's income tax personal exemption amount is currently $1,500. The proposed bill would increase the exemption to $2,400 and also provide for annual cost-of-living adjustments. This provision is estimated to result in a revenue reduction of $21.6 million in FY 2007 and $133.0 million for FY 2007 through FY 2010.

Each individual represented on a tax return receives a personal exemption, and certain filers receive additional exemptions, such as the elderly, those with certain disabilities, and single head-of-households. This policy change will reduce tax burdens for all filers, with relatively more for larger households and those with additional personal exemptions. A married couple with no children at the 9 per-cent marginal tax rate would save $162 in the first year. A single head-of-household with 2 children paying the 5 percent marginal rate would have a tax reduction of $180 in the first year of the policy.

Increasing standard deduction and exemption amounts is a way to reduce the "creep" in the real costs of the income tax. As indicated, the revenue reduction to the District for both provisions of this bill would be $189 million for the period of Fiscal Years 2007 through 2010. The Office of Tax and Revenue estimates that first-year implementation costs would be approximately $150,000.

In addition to these tax relief provisions, Bill 16-557 would increase the homestead deduction from $60,000 to $63,000 beginning October 1, 2007, and would provide for annual cost-of-living adjustments. The estimated cost of this increase is $2.2 million in FY 2008 and a total of $9.8 million for the period of FY 2008 through FY 2010. There would be no impact on the FY 2007 budget since the effective date of the increase begins for FY 2008. The proposal reduces the real property tax for each owner-occupied home by up to $27.60 per year by increasing the value of the homestead credit from $552 to $579.60 annually.

Thank you for this opportunity to comment. I would be glad to answer any questions you or members may have.

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