

**PUBLIC ROUNDTABLE ON
BILL 16-662, “LOCAL SMALL BUSINESS HEALTH-
CARE INSURANCE TAX CREDIT ACT OF 2006”**

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

The Honorable Jack Evans, Chairman

**April 10, 2006, 11:15 a.m.
Room 120, John A. Wilson Building**



**Testimony of
Matthew Braman
Director of Operations
Office of Tax and Revenue**

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

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Matthew Braman, Director of Operations for the Office of Tax and Revenue. I am pleased to present testimony today on Bill 16-662, the “Local Small Business Healthcare Insurance Tax Credit Act of 2006.”

Bill 16-662 adds a new section 1807.08 to Title 47 of the D.C. Official Code (“Code”). New Code section 47-1807.08 allows certain small businesses to claim a credit on their tax returns equal to five percent of the costs incurred during the taxable year to provide health insurance coverage to District resident employees, but not to exceed \$7,500 per year. A “District resident employee” is an individual who has a place of abode or resides or is domiciled in the District at the time the tax is required to be withheld with respect to his or her employment by another, and to every other individual who maintains a place of abode within the District for an aggregate of 183 days or more during the taxable year, whether domiciled in the District or not.

If the credit cannot be fully used in the current year, Bill 16-662 allows the credit to be carried forward until either the balance is used or the expiration of the fifth taxable year after the year in which the costs were incurred.

Small businesses eligible to claim the credit are “small business enterprises,” as defined in section 2302 of the Small, Local, and Disadvantaged Business Development and Assistance Act of 2005, that employ ten or fewer employees.

While the goals of this proposal are worthy, we believe that the loss of revenues from this proposal are not justified considering that District businesses already enjoy certain tax benefits relating to costs they incur to provide their employees with health care coverage. Under current District law, employers may deduct health care costs as a business expense. Furthermore, District law allows for deduction of health care insurance premiums paid for domestic partners and family members of employees who are District residents. D.C. Official Code § 47-1803(a)(1), (b)(15). Is the District going to allow both a deduction and a credit?

Also, the administrative burden on OTR to implement the provisions of Bill 16-662 will be considerable. OTR's Compliance Administration, Information Systems Administration, Returns Processing Administration, Customer Service Administration, and Office of the General Counsel will all be required to take action to accommodate this credit. OTR will need to revise existing tax return forms, in hard copy and online, to create a "tax credit" line. This credit will also have to be referenced in our tax return instructions. Computer programs will need to be designed to program OTR computers to accept and process returns with this new credit. We will also need to print new forms and instructions. We estimate these operational costs will be \$470,000 in the first year of implementation, and approximately \$60,000 each year in ongoing costs. Outreach to District taxpayers to educate them about the new credit and training of our customer service staff will also be critical to effective implementation of this proposal.

Moreover, the bill does not specify for what taxable year costs incurred for health insurance by a taxpayer will first be counted for purposes of claiming the credit. Thus, we strongly recommend that your Committee clarify this matter. Otherwise, Bill 16-662 may generate prior-year tax refunds for certain businesses, depending

on what time of the year they file their tax returns. In these cases, additional OTR staff time and resources will be needed to recalculate tax liabilities, process amended returns and generate refund checks.

Third, the bill's proposed definition of a "District resident employee" is slightly different from the definition of a District resident for income tax purposes as defined in D.C. Code §47-1801.04 (17). This different definition will create significant administrative and enforcement problems. Therefore, we recommend that the bill be amended to define a District resident employee by reference to the above Code section. We have attached suggested language for this purpose.

Fiscal Impact of Bill 16-662

While the bill is not clear about how the tax credit would be applied under Title 47 of the D.C. Code and needs further clarification, a preliminary estimate of the potential exposure to the District's budget and financial plan indicates that the legislation could result in a revenue reduction of approximately \$8 million in FY 2007 and a total of \$38 million for a four-year period of FY 2007 through FY 2010.

Thank you, Chairman Evans, for the opportunity to comment on this bill. I would be happy to answer any questions you or other councilmembers might have at this time.

APPENDIX

Delete paragraph (2) of subsection (a) of section 47-1807.08, and replace it in its entirety with the following:

“(2) ‘District resident employee’ shall apply only to an individual who is a resident of the District within the meaning of § 47-1801.04(17) at the time the tax is required to be withheld with respect to the individual’s employment.”