

First Responder Income Tax Exclusion Amendment Act of 2017, Bill 22-42

Before the

**Committee on Finance and Revenue
Council of the District of Columbia
The Honorable Jack Evans, Chair**

**May 8, 2017 10:00 A.M.
John A. Wilson Building, Room 120**



**Testimony of Elissa F. Borges
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Chief Financial Officer
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Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Elissa Borges, Assistant General Counsel for the Office of Tax and Revenue of the District of Columbia. I am pleased to present testimony today on Bill 22-42, the First Responder Income Tax Exclusion Amendment Act of 2017.

As you are aware, the District imposes an income tax on the taxable income of residents of the District. In general, to determine what is taxable income, the starting point for D.C. taxes is a taxpayer's federal adjusted gross income as set forth in the Internal Revenue Code. D.C. Code § 47-1803.02 then enumerates specific types of income that must be added to federal adjusted gross income to compute the taxpayer's District taxable income. Likewise, D.C. Code § 47-1803.02 enumerates specific types of income that may be excluded from federal adjusted gross income to compute a taxpayer's District gross income. In other words, there are some types of income that the federal government does not tax but the District does. Conversely, there are some types of income that the federal government taxes but the District does not.

Bill 22-42 would amend D.C. Code § 47-1803.02 to enumerate an additional item to be excluded from the computation of District adjusted gross income. Specifically, this bill would exclude the amount received by a taxpayer as annual salary while employed by the District as a member of (i) the Fraternal Order of

Police Metropolitan Police Department Labor Committee (Compensation Unit 3) and (ii) the International Association of Fire Fighters, Washington D.C. Fire Fighters Association Local 36 (Compensation Unit 4).

This change presents a few administrative challenges for the Office of Chief Financial Officer. In particular, the Office of Tax and Revenue does not have the ability to verify which taxpayers are members of the Fraternal Order of Police Metropolitan Police Department Labor Committee (Compensation Unit 3) or the International Association of Fire Fighters, Washington D.C. Fire Fighters Association Local 36 (Compensation Unit 4). To remedy that challenge, the Office of Tax and Revenue recommends that the bill be amended to require the Metropolitan Police Department and the Fire and EMS Department to certify, on an annual basis, the names and social security numbers of their employees who are members of the Fraternal Order of Police Metropolitan Police Department Labor Committee (Compensation Unit 3) or the International Association of Fire Fighters, Washington D.C. Fire Fighters Association Local 36 (Compensation Unit 4).

Further, this bill, as drafted, may present a challenge for the Office of Pay and Retirement Services to administer. Specifically, the bill only exempts “annual salary.” Overtime and other taxable payments made to first responders would still be subject to tax. However, PeopleSoft, the software program used by

the District, computes an employee's gross earnings for a pay period and taxes are withheld on those gross earnings. Therefore, the Office of Pay and Retirement Services would continue to withhold taxes on the gross earnings of first responders, as it does for all District employees, throughout the year for each pay period. The first responder would then be entitled to a refund and would need to file a D.C. income tax return reporting his or her taxable earnings and non-taxable annual salary.

With regard to the bill's applicability, the Office of Tax and Revenue suggests that the bill be amended by providing that the act will become effective *beginning on the tax year following* its inclusion of its fiscal effect in any approved budget and financial plan. Since individuals file tax returns reporting income on a calendar year basis, this would be the most efficient way for the Office of Tax and Revenue to implement this new income tax exclusion and for the first responders to correctly report their D.C. taxable income.

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