D.C. Tax Revision Commission

Recommendation Review Session #1
January 8, 2024
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Minutes

Commissioners in attendance: Tony Williams, Erica Williams, Jodie McLean, Yesim Sayin, Glen Lee, Gregory McCarthy, Carolyn Rudd, Rashad Young, Rahsaan Bernard, Jim Hudson, David Catania

Staff: Nick Johnson (online), Richard Auxier, Becky Strauss, Mike Hegeman

Meeting began at 2:05.

Mr. Williams: Introduced the Chairman's Mark, which is intended to be a departure point for the discussion. We're going to review the Chairman's Mark and then go around the room to get input from each Commissioner on the Chairman's Mark. The next meeting will be on January 17th and all amendments will be added by then.

The Chairman's Mark was crafted to be revenue neutral and wants consensus on the final package. Revenue neutrality is a goal because it would help the Commission stay out of the legislative process, which I have been asked to stay out of. The goals of the mark are to simplify the tax code, increase competitiveness, and support families.

Mr. Auxier: Briefly summarized each proposal in the Chairman's Mark, asking that Commissioners only ask clarifying questions at this time and wait to share their opinions on proposals until after he has finished. Please see the summary of each proposal at the following: https://www.dctaxrevisioncommission.org/proposals.

Proposal #4 - Reduce commercial property tax rates by equivalent of 10 cents; move to system of split-rate "land value" taxation when values stabilize

- Mr. McCarthy - interested in targeting the commercial property tax cut to property types in most need, such as Class B and C commercial properties. Mr. Auxier said that if the Commission wanted to go that way, the staff could change the proposal.
- Ms. McLean - asked if the revenue estimate uses current property assessment values or expected assessment values. Mr. Hegeman clarified that the estimates use expected assessment values.

Proposal #15 - Strengthen the schedule H circuit breaker and set a maximum credit for the senior homestead credit

- Mr. Catania - asked how this offsets the changes in property taxes because of the switch to a split rate property tax schedule. Mr. Hegeman clarified that the split rate property would only apply to commercial properties.

Proposal #16 - Increase from 30 days to 60 days the period to pay automated traffic enforcement tickets before fines double

- Ms. McLean - expressed doubt about this working and concern about who this would benefit, whether they be low income people or people who simply forgot to send in their payment

Proposal #17 - Reduce to 0% the deed recordation tax for qualified first-time homebuyers

- Commissioner - who are qualified first-time homebuyers. Mr. Auxier said they would look that up and get back to them.

Proposal #20 - Limit income tax exemption for muni-bond interest to bonds issued by DC

- Mr. Williams - would like a revenue estimate for grandfathering this in

Proposal #21 - Apply 10 percent assessment cap to all homestead properties regardless of owner's age by eliminating special 2 percent seniors' cap (note: estimated impact increases over time to $15 million by 2029)

- Mr. Young - would like to know how the different proposals impact seniors. Mr. Hegeman said staff are already working on answering this with ORA and will get that information soon.

Proposal #22 - Eliminate income tax exclusion for survivor's benefits

- Unsure which Commissioner asked this - what is the purpose of this? Mr. Johnson explained that this was to treat all income the same rather than give specific benefits to certain groups
- Mr. McCarthy - would like to grandfather this in. Mr. Lee was not sure if that's possible but worth to check into.

Proposal #23 - Decouple from federal capital gains tax break for non-DC "qualified small business stock" payoffs

- Commissioners requested more detail and were referred to online proposal

Proposal #24 - Eliminate tax break for Incomplete Non-Grantor Trusts

- Commissioners requested more detail. and were referred to online proposal

Proposal #25 - Business Activity Tax (BAT) (see https://www.dctaxrevisioncommission.org/resources for more info)

- Mr. Williams - concerned this discriminates against firms with a greater payroll
- Mr. Young/Mr. Catania - concerned with how OCFO will capture business activity. Mr. Johnson responded that it would be captured in the same way the business franchise taxes are currently captured and that it would be subject to less gaming than an income tax. Mr. Lee agreed with Mr. Johnson, and explained that the business activity would be captured by following where the sales are made since DC's apportionment formula only uses sales in its apportionment formula.
- Mr. Young - asked if the $200K minimum threshold was the right amount. Mr. Johnson commented that this came from the New Hampshire tax but agreed there could be more

thought put into determining the threshold. He explained that this is an exemption, not just a threshold and thus would benefit all businesses.

- Mr. Williams - would like a legal opinion on the BAT
- Mr. Catania - asked if the BAT revenue estimate takes into account loss of revenue from the number of businesses that will go out of business because of the tax

Proposal #26 - Update method of applying corporate franchise tax to complex multi-state corporations ("Finnigan rule")

- Ms. McLean - wanted more detail. (see online proposal)

Proposal #27 - Create data excise tax - tax on businesses that are extracting data from over 50,000 DC residents, at rate of $4/participant/year

- Ms. Sayin - did not want to rely on this revenue because it would
- Ms. McLean - which businesses would be impacted by this? Mr. Auxier said that would be on social media firms that don't charge users but instead collect their data.
- Mr. Hudson - why the 50,000 DC resident threshold? Mr. Johnson said the 50,000 DC resident threshold was chosen based off of a calculation from similar legislation proposed in New York that would target the largest social media platforms

Proposal #28 - Increase residential property tax on higher-value properties, both single-family and multi-family, by either (a) increasing the residential property tax rate on the portion of property value in excess of $2 million to $1.04, *or* (b) raising rate to $0.95 on all residential property + raising homestead deduction to $225,000.

- Ms. Sayin - explained that option (b) would be a tax cut for some residents. Mr. Auxier agreed, said that people with the lowest property taxes would have decreased property tax payments while people with the highest property taxes would have even higher property tax payments than option (a)

Commissioners then gave their thoughts on the Chairman's Mark
Mr. McCarthy - liked the package as is. Especially liked supporting low and middle income families and the BAT as it would support businesses. He expressed interest in avoiding the politics of whether the Council will pass recommendations, concerns about litigation, and the concerns about the timeframe and difficulty of implementation.

Mr. Hudson - did not think revenue neutrality was a requirement. Mr. Hudson wanted to know how the CTC fits in with baby bonds. He expressed support for proposal 13, to convert the income tax deduction for 529 educational savings plans for a credit. He expressed concerns about the implementation of the BAT and did not support raising the residential property tax.

Ms. McLean - wants a revenue negative package. She is concerned with the BAT, especially about incentivizing it to push remote workers to move outside of the District, discouraging hiring new employees, harming startups and low margin firms, and why the 1.4% was chosen as it seems very high

compared to New Hampshire. Ms. McLean expressed that she would not vote for the package because it does not include incentives for new jobs. She did not want to pay for commercial property tax cuts by increasing residential property taxes. She did not understand the purpose of extending late fees for traffic fines. Mr. Williams asked if she liked the proposals to lower other business taxes and why she thinks they would not incentivize the creation of new jobs. Ms. McLean said she thought these help existing businesses but don't incentivize new businesses to come to DC.

Ms. Sayin - likes the overall package. Likes the policies that support families. She proposed cutting the commercial property tax rate by 7 cents instead of 10 cents and using the $20 million in revenue for tax incentives created by DMPED.

Ms. Williams - likes the overall package. Likes the BAT as it broadens the tax base and hopes that coupled with the elimination of other business taxes would make it easier for businesses to do business in the District. She expressed interest in shifting some of the revenue used for the commercial property tax cut to increase the CTC for the lowest income families. She was open to shifting money from the commercial property tax cut to the job incentives. She wants households with ITIN's be eligible for the CTC. Prefers option (a) for proposal 28 to increase the residential property tax and wants it to be a marginal tax.

Ms. Rudd - concerned with revenue neutrality but could accept this. She was concerned with the BAT but supports it as it broadens the tax base. She would like to create incentives to create jobs or bring them to DC. She is unsure about the increase in residential property tax.

Mr. Catania - will not support the package because he does not like the BAT. He does not think the Council will reduce or eliminate other business related taxes and only create the BAT to generate revenue. He is also concerned that the BAT will tax labor and not capital as well as that the tax rate is higher than in New Hampshire, the state that has a tax the BAT is modeled off of. Mr. Catania also wants to tax nonprofits, which the BAT does not do. Additionally, Mr. Catania was concerned that the BAT taxes business activity instead of profit. He also thinks the BAT will make the DC tax system more complicated. Mr Catania also wants the package to be revenue neutral but to create a 5% tax trigger where business taxes are cut when revenue estimates overshoot their predictions.

Mr. Young - supports the BAT but does have some concerns, like the threshold for payment and the accuracy of the revenue estimate. Against increasing the residential property tax rate. Does not like triggers but open to using them.

Mr. Bernard - ok with the package. Wants more to support the creation of new businesses. The support for families is enough for him to support but would like to see more. He likes the BAT but still has concerns. He would like nonprofits to pay their fair share of taxes, which Mr. Williams agreed with.

The meeting was adjourned at 4:00 pm.

Submitted by: Mike Hegeman, Senior Research Associate.