D.C. Tax Revision Commission

Tax Administration Professionals Stakeholder Input Session
April 28th 2023
1310 L Street, NW, Washington DC, 20005
Conference Room 148-149
Minutes

Commissioners in attendance: Tony Williams (Chair), Gregory McCarthy, Yesim Sayin, Erica Williams, Carolyn Rudd, Jodie McLean and Glen Lee

TRC staff in attendance: Nick Johnson, Becky Strauss

Participants in attendance:

- Amy Hanauer, Institute on Taxation and Economic Policy
- Teresa Hinze, Community Tax Aid
- Maria Dooner, AU Law School Low-Income Tax Clinic
- Leonore Heavey, Council on State Taxation
- Dian Smith, McDermott, Will & Emery

Mr. Williams called the meeting to order at 3:30 pm.

Amy Hanauer says states with more tax revenue and more progressively raised revenue in 2017-2019 saw better outcomes for children, families, economic growth, unemployment and life expectancy. The District is going in the right direction and is one of the least regressive tax systems of any state. The vast majority of Americans with money live in higher-tax places like New York City or California. The number of millionaires on those tax rolls increased. Population growth in low-tax states is fuelled by low-income people who are far more mobile than the rich.

Teresa Hinz's organization serves low- and moderate-income taxpayers. It's frustrating that when a client is trying to file a tax return, it often won't go through the system because of well-intentioned but onerous fraud control mechanisms. Transparency could be better; when taxpayers have submitted a return, they often don't know what's happened to it. They often receive notices that something is wrong in the mail, but the letter can be vague about what's needed to rectify the situation. Hinz told a story of someone who got a notice that her house was going up for a tax sale for tax underpayment. She received no notice that the previous owner's senior cap was incorrectly transferred to her. She was unknowingly paying too little. It's also hard to request services online in another language. Sometimes laws are passed–like the EITC extension–without thinking through the tax consequences. EITC was expanded so that those without Social Security numbers could qualify, but the reality is that the fraud control measures make this impossible.

Maria Toomer represents low-income people who have tax compliance challenges. Some of her biggest concerns are with fraud review. OTR correspondents can be inaccurate or vague, which she worries is because OTR is understaffed. Her full statement is [HERE].

Leonore Heavey's organization COST put together a rating for state tax administration systems. The

District gets a D-. It got dinged for only allowing 30 days to repeal a proposed assessment. Heavey says there should be a minimum of 45 days, and preferably 60. People in the District move a lot and sometimes they don't get the bill or notice. Once the assessment becomes more finalized, it becomes harder and harder to correct it. It gets dinged for not allowing extra time to file income tax returns after the federal return's due date. There should be at least a month between the two. The District doesn't use equal interest rates when there is an over- or under-payment. If you owe DC a tax, the city charges 10 percent interest. But if the city owes the taxpayer a refund, they give you only 1 percent above the federal discount rate. Indiana and Virginia have the highest score for tax administration.

Dian Smith says the District is an outlier in how it handles the SALT federal cap. Most states have a broadbase SALT workaround where shareholders can elect into the unincorporate income tax and then the tax is paid at the entity/LLC partnership level. That's then considered a business deduction. The individual can get a credit toward their own income taxes. In the District, there is a misunderstanding that an unincorporated business tax would suffice. The problem is that tax can't be applied to professional services, which is a key industry in the District. This tweak would not cost the District anything.

Gregory McCarthy asks if there are any best-practices in filtering policies for ease of tax administrations. Amy says good tax administration costs money. That's why the IRS is investing a huge amount in customer service.

One obvious defect in the DC tax code is the noncustodial earned income tax credit. No one claims it because the rules make it too narrow. We borrowed NY's law. But when NY realized it wasn't working, it was revised. The District hasn't gotten to it yet. Also it's confusing to handle the paperwork of tax credits that require income tests that change year-to-year like the EITC.

Nick Johnson asks how the DC Taxpayer Advocate, which was created a few years ago, be strengthened. Teresa says the office is understaffed. It can offer help case by case, but it's not very helpful for systemic problems. The previous Advocate tried to solve the systemic issue of automatically marking a non-response as evidence of fraud. But she didn't have any power to make that change. The office also doesn't keep as much data as it should.

Mr. Williams adjourned the meeting at 5 pm.