

## Tax Revision Commission Recommendations

### Revised Chairman's Mark

For consideration 7/17/24

These recommendations are divided into two sections.

- The first section is recommendations that could be implemented relatively soon. Estimated revenue impacts are given to show that on net, this package would not affect the District's four-year fiscal plan.
- The second section is recommendations that will take more time to implement, including Business Activity Tax. Because these are bigger changes, revenue estimates are necessarily rougher and subject to change in the process of policy development and implementation. Given this uncertainty, this section is not calibrated to be revenue-neutral, but rather articulates priority strategies for using BAT revenue to reduce other business taxes.

### I. Recommendations to implement immediately

Policy description		Estimated annual revenue impact (a)	Comparison to January Chairman's Mark
<b>Support families and make the tax system more progressive and racially equitable</b>			
<i>Income tax reductions</i>			
1	Broaden Child Tax Credit to include all children to age 17, without regard to family size or requiring Social Security number	-\$30 million	This would expand Council-passed \$420 credit to all DC resident children. Aspirationally, recommend increase to \$1,000 (as proposed in Chairman's Mark) if/when fiscal situation allows – see Recommendation #36 below.
2	Make seniors and young adults eligible for childless worker Earned Income Tax Credit (EITC) benefits & eliminate EITC marriage penalty for childless workers	-\$7 million	Unchanged from Chairman's Mark
3	Index income tax brackets for inflation beginning 2025	-\$5 million	Unchanged from Chairman's Mark. Note that estimated revenue loss rises to -\$9 million by FY2027.
4	Convert income tax deduction for 529 educational savings plans to a credit; increase deduction for public school teacher expenses	-\$0.1 million	Unchanged from Chairman's Mark

Policy description		Estimated annual revenue impact (a)	Comparison to January Chairman's Mark
<i>Property tax and other reductions</i>			
5	Expand the Schedule H circuit breaker: Extend eligibility to homeowners with up to \$100,000 in income and renters up to \$85,000; increase credit amount to \$2,500 for homeowners and \$1,500 for renters; simplify by equalizing credit across age groups; equalize senior homestead credit to \$2,500; allow homeowners to claim credit via the property tax	-\$20 million	Unchanged from Chairman's Mark
6	Allow DC residents to request traffic fine reduction based on ability to pay as measured by SNAP eligibility	-\$10 million	Scaled back from Chairman's Mark
7	Reduce to 0% the deed recordation tax for qualified first-time homebuyers	-\$6 million	Unchanged from Chairman's Mark
8	Enhance property tax deferral program for seniors	minimal	Unchanged from Chairman's Mark
	<b>Subtotal</b>	<b>-\$78 million</b>	
<b>Job creation and competitiveness</b>			
9	Personal property tax: Reduce rate, increase threshold, and eliminate requirement that most businesses must file if they don't owe	-\$40 million	Chairman's Mark proposed full repeal based on enactment of BAT.
10	Repeal basic business license fees	-\$6 million	Council-passed budget included enactment of BEST Act, which reduces the cost of license fee repeal
11	End denial of occupation and business licenses for non-DMV "CleanHands" debt up to \$2,000	-\$3 million	Council-passed budget increased threshold to \$1,000; revenue impact reflects additional cost.
12	Enact SALT cap workaround to reduce federal tax for eligible business owners	\$0	Unchanged from Chairman's Mark

Policy description		Estimated annual revenue impact (a)	Comparison to January Chairman's Mark
13	Move filing deadline for all income tax extensions to November 15; allow automatic extensions for all filers who don't owe taxes	minimal	Unchanged from Chairman's Mark
14	Reclassify commercial-to-residential conversions at time of permitting	minimal	Unchanged from Chairman's Mark
15	Eliminate quarterly sales tax minimum for street vendors	minimal	New
16	Create public-private working group to review commercial property assessment practices	minimal	Unchanged from Chairman's Mark
	<b>Subtotal</b>	<b>-\$49 million</b>	
<b>Broaden, rebalance, and modernize the tax base</b>			
<i>Modernize and repeal unwarranted loopholes</i>			
17	Eliminate preferential tax rate for electric vehicles and other high-mileage vehicles	\$13 million	The Mayor proposed and Council approved eliminating the EV exemption and replacing it with a preferential rate. This recommendation is to eliminate the preferential rate and tax EVs and other high-mileage vehicles at the standard 6% rate.
18	Apply 10 percent assessment cap to all homestead properties regardless of owner's age by eliminating special 2 percent seniors' cap	\$5 million	Unchanged from Chairman's Mark. Note: estimated impact increases over time to \$15 million by 2029
19	Eliminate income tax exclusion for survivor's benefits	\$4 million	Unchanged from Chairman's Mark.
20	Decouple from federal capital gains tax break for non-DC "qualified small business stock" payoffs & eliminate tax break for Incomplete Non-Grantor Trusts	\$5 million	Unchanged from Chairman's Mark.

Policy description		Estimated annual revenue impact (a)	Comparison to January Chairman's Mark
<i>Other measures to broaden, rebalance, and modernize tax base</i>			
21	Increase residential property tax on expensive single-family homes, condominiums, and multifamily properties	\$36 million	Council-passed budget includes a \$6 million property tax increase on high-value single- and two-family homes and condos. This recommendation reflects the Chairman's Mark recommendation (\$42 million) net of Council action.
22	Convert UB exemption to a credit	\$14 million	Chairman's Mark envisioned repeal of UB tax. This change retains the UB tax and aligns it with the individual income tax rate structure.
23	Increase corporate franchise minimum tax, simplify and limit UB exemption, and increase/clarify filing threshold	\$26 million	Discussed by Commission but not part of Chairman's Mark (see <a href="#">Proposal B-3, "Simplify and update the business franchise tax"</a> ).
24	Increase income tax floor on itemized deductions to 7.5% of AGI	\$26 million	Unchanged from Chairman's Mark.
25	Raise cigarette tax to \$5.50	\$0.1 million	Unchanged from Chairman's Mark.
	<b>Subtotal</b>	<b>\$130 million</b>	
<b>Simplify the tax system and make it more accountable and responsive to taxpayers</b>			
<i>Simplification &amp; timing changes</i>			
26	Eliminate Schedule L and Schedule N (little-used tax credits)	minimal	Unchanged from Chairman's Mark.
27	Allow homestead recipients to claim eligibility retroactively up to three years	minimal	Unchanged from Chairman's Mark.
28	Adjusted calendar for commercial property assessments to allow for more recent income data	minimal	Unchanged from Chairman's Mark.

Policy description		Estimated annual revenue impact (a)	Comparison to January Chairman's Mark
<i>Accountability and responsiveness changes</i>			
29	Appoint Expenditure Commission to review DC spending	minimal	Previously discussed by Commission but not explicitly listed in Chairman's Mark.
30	Strengthen Office of the Taxpayer Advocate	minimal	Unchanged from Chairman's Mark.
31	Require economic, small business, and distributional statements for tax legislation	minimal	Unchanged from Chairman's Mark.
32	Require additional reporting of data on fines and fees	minimal	Unchanged from Chairman's Mark.
33	Work with IRS to allow DC residents to participate in Direct File program	minimal	New
<b>NET TOTAL</b>		<b>\$3 million</b>	
(a) Estimated revenue impact, relative to current-law baseline, in the first year of implementation (based on implementation date of FY25 in most cases). Estimates are preliminary, reflect current revenue projections which are likely to change, and do not include potential administrative costs.			

## II. Recommendations to Implement in Future Years

Policy Proposal		Notes
<b>Support families and make the tax system more progressive and racially equitable</b>		
34	Increase Child Tax Credit to \$1,000	Total impact estimated at \$77 million. Recommendation is that if/when funds available, build on proposal #1 above.
<b>Advance economic competitiveness, entrepreneurship, and job creation</b>		
<i>Reduce/repeal certain business taxes in favor of business activity tax (see Recommendation 40 below) – revenue impact contingent on actual receipts from BAT</i>		
35	Repeal personal property tax (tax on business equipment, etc)	Second step of two-step repeal (see Recommendation 9 above) – total impact = \$77 million
36	Return payroll tax to 0.23% (funding only Paid Family Leave) or to level allowed by revenues	Potential business tax reduction of up to \$355 million
37	Additional business tax reductions: e.g., reduce UB and/or CFT rates; enact business tax incentives.	If BAT revenues exceed forecast.
<i>Phase-in differential taxation of land and buildings</i>		
38	Tax commercial buildings at lower rate than land	Set rates to be revenue-neutral. Implement after commercial market stabilizes
<b>Broaden, rebalance, and modernize the tax base</b>		
<i>Broaden and update taxes on business entities and consumption</i>		
39	Create business activity tax (BAT) - a low-rate, broad base “value-added tax” on gross receipts, minus the sum of purchases from other businesses, rent, and capital expenditures, with a \$200,000 threshold. Creditable against DC corporate franchise tax & UBT. Applicable to nonprofits at a lower rate. All revenue used to reduce other business taxes.	Similar to Chairman’s Mark, but with addition of nonprofits to the base. Rough estimate is that 0.9% tax, sales factor apportionment, include nonprofits @0.5%, could raise \$275 million.

40	Create data excise tax - tax on businesses that are extracting data from over 150,000 DC residents, at rate of \$2/participant/year	Similar to Chairman's Mark. At a rate of \$4/participant/year, rough estimate is potential revenue of \$26 million.
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