Testimony at D.C. Tax Revision Commission on June 24, 2013 by G. Lee Aikin

Thank you for hearing our testimony and for all your hard work to improve our tax laws. I wish to comment on several aspects of this issue: 1) Restoration of our Deduction and Exemption rates to those we had when granted Home Rule in the early 1970's; 2) Adjustment of the upper tax brackets and rates. 3) Improvements in the D-30 tax form which is currently a small business nightmare; and 4) Modification of the Business Tax rates to make us more competitive with surrounding jurisdictions;

1) **Restoration of our Deduction and Exemption rates** – In early 1970 these rates were roughly the same as those allowed by the IRS 1040 tax form. However, unlike the Federal rates which are adjusted for inflation each year, our rates fell to the tender mercies of our elected representatives who consistently failed to adjust them timely, so that by 1991 they were only ½ the Federal rates. After that they were not changed until I called Councilmember Catania in 2004to look into the idea of "coupling" our rates with the Federal rates. After another year or two, small additions were finally made to these deductions. However, the current situation is such that if a family of 4 were allowed to take the Federal rate for their DC D-40 D & Es, they would pay taxes on $16,400 less income. This is a significant tax reduction for our families and lower income taxpayers. If our D & Es were coupled, this would be an immediate benefit for every single DC taxpayer from lower middle income to the very rich.

2) **Adjustment of the upper tax brackets and rates** – Currently tax rates in the D-40 jump from $40,000 to several hundred thousand. There should be an additional step at the $100,000 to $125,000 level. To compensate for the coupling of our D & Es with the Federal rate, there will probably need to be a modest increase in the upper level tax rates.

3) **Improve the D-30 tax form** – This form as currently constituted needs an unnecessary amount of information. For example, the portion related to general business income and rental income requires a lot of detail that could be provided with inclusion of the Federal Schedules C and E.for DC income. The form is also needlessly technical. For example Schedule F – DC Apportionment Factor which says "Multiply the total income by a fraction. The numerator is the property factor plus the payroll factor plus the sales factor. The denominator is three, reduced by the number of factors without a denominator." No concrete examples as the IRS 1040 instruction booklet gives us poor benighted taxpayers. FOR SHAME. Write this so a high school graduate can understand it or else admit this is a tax lawyer make work boondoggle. In fact I visited a tax preparation service where the resident tax attorney said he couldn't really be much help, but most people in my business income bracket submitted the $100 minimum and did not bother submitting the D-30. A $12,000 gross receipts requirement was placed in 1986, with a $100 minimum tax bill. Last year the minimum was raised to $250. How about adjusting the gross receipts rate for inflation to at least $25,000. Give people with lower income the option of calculating their tax owed with the D-30, or else include it in the D-40.

4) **Modify the Business Tax rates** – On the back of this page is a chart (admittedly several years old) which shows property tax rates in DC and surrounding jurisdictions. You can see that our $1.85 per $100 rate is much higher than most other jurisdictions. Why can't we have different rates in different parts of the city like Montgomery Co. does. Why should upper Georgia Ave. or Anacostia pay at the same rate as downtown. Also, high rates cause high rents and drive many desirable small businesses out of our neighborhoods leaving only high volume liquor stores, bars, and restaurants. Perhaps we should have an ANC petition mechanism for identifying valued neighborhood stores for special lower tax rates provided the building owner passes this on to the store owner.

Thank you for hearing our concerns and good luck making everyone as happy as can be expected.

The idea every DC business everywhere should pay the same tax doesn't make sense. No wonder business property owners neglect property to keep their tax assessments low. Why fix them before there is enough business activity to support a higher rate?

If we raise our D&Es and lower business taxes to fair levels more DC funds will be needed. What are some possible sources? Ask the Federal government for more payment for our untaxable lands? Pay only 2/5ths Federal income taxes since we lack 3/5ths fair representation; this would give residents more taxable income for DC? Revisit the commuter tax issue? Allow much taller buildings in undeveloped areas away from the monumental core and existing low-density neighborhoods? Reduce upper level salaries of DC employees? Should I win I would gladly pay 10% less than the $125,000 Council salary.

*Tax rate source: DC Government report. Part II: A comparison of Tax Rates in the Washington Metropolitan Area as of Jan. 2009, page 35. [I can send you a link if you need it.]

*A new Class 2 rate of $1.65 was added for business property assessed under $3 million for 2012. For tax year 2013, $1.55 has been proposed.

TABLE 11
REAL PROPERTY TAX RATES
PROPERTY TAX YEAR 2008 – 2009 1/2/

JURISDICTION	NOMINAL RATE	ASSESSMENT LEVEL (% OF MARKET VALUE)	EFFECTIVE RATE
DISTRICT OF COLUMBIA	Class One $0.85	100%	$0.85 3/ Residential
Business	Class Two $1.85*	100%	$1.85
	Class Three $5.00	100%	$5.00
MARYLAND 4/			
Charles County	$1.094 5/ ($0.320)	100%	$1.094
Montgomery County	$1.015 ($0.003-$0.679) 6/	100%	$1.015 .913 11/1
Prince George's County	$1.072 ($0.876-$1.067) 7/	100%	$1.072 .96
VIRGINIA			
Alexandria	$0.845	100%	$0.845 2011 .998
Arlington County	$0.848	100%	$0.848
Fairfax	$0.790	100%	$0.790
Fairfax County	$0.920 8/9/10/	100%	$0.890
Falls Church	$1.010	100%	$1.010

1/ Real property tax year in the Virginia area jurisdictions is on a calendar year basis. In the District of Columbia the 2008-2009 real property tax year is October 1, 2008 - September 30, 2009. For the Maryland area jurisdictions, the 2008-2009 real property tax year is July 1, 2008 to June 30, 2009. The rates presented are those in effect for that time period.
2/ Rates are per $100 of value. Special area rates in effect are shown in parentheses.
3/ There is a $64,000 homestead deduction on owner-occupied property.
4/ Local rates shown include the state rate of $0.112 per $100 of assessed value.
5/ Rate shown excludes the municipal taxes; tax rates for these incorporated areas are $0.32 per $100.
6/ Rates shown exclude the municipal and special taxing district taxes. Tax rates for these incorporated areas range between $0.003-$0.679. Rate includes a special tax levy in each fiscal year on all taxable real property for the benefit of all fire & rescue companies of $0.064 per $100 of assessed value.
7/ County and state rates in incorporated areas range from $0.876 to $1.067.
8/ Relatively few residential properties in three areas pay an additional 2.0 cents, 2.6 cents and 4.7 cents per $100 of assessed value for community centers. Those in tax districts with a special assessment for leaf collection pay an additional 1.5 cents per $100 of assessed value.
9/ Loudoun County and Fairfax County have a Route 28 taxing district. Residents of this district are subject to an additional 20 cents per $100 of assessed value.
10/ There is a flat $345 refuse collection fee on some properties.