

DC Tax Revision Commission Hearing  
November 12, 2013  
Testimony of Ruth Caplan  
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Washington DC, 20016

**Background and Summary:** I live in what some would call a tony neighborhood – Cleveland Park. I couldn't afford to buy a house in this neighborhood today, but am surrounded by young families who can and do. Many have nannies and send their children to private schools. They have moved here because they can afford to avoid the long, stressful commute into the city. When I contrast this with the many households barely hanging on in other neighborhoods, it is clear to me that issues of tax fairness must be addressed. Low and moderate income households should not bear an outsized burden. Higher income households need to make a larger contribution. This won't solve all the problems, but it is a step in the right direction.

Further, all businesses operating in the District should be subject to taxation.

Before addressing specifics, I would like to be clear that I support increasing the overall tax revenue so that the city has the needed resources to address chronic problems facing the under-served.

**Income Tax Brackets and Tax Rates:** According to the Fiscal Policy Institute, residents earning \$22,000 - \$62,000 pay 10-11% of their income on property, sales and income taxes combined, after federal offsets. Contrast this to the 6% paid by the highest 1% of households.

Tax brackets should be revised to address the unfair burden on middle income households by adding more brackets between \$40,000 and \$350,000 and by adding at least one additional bracket above \$350,000. Rates should then be lowered for those in the \$22,000-\$62,000 range and raised for those earning above \$350,000 for a net increase in total income tax revenues.

In addition, I support raising the standard deduction and personal exemption because this would give the greatest relief to low and moderate income residents.

*How he would ~~the~~ rates need to be.*

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**Unincorporated business tax:** There is a large, unacceptable loophole in DC's tax system. While DC has an unincorporated business tax, it excludes professional services such as law firms, doctors and accountants. Highly paid lawyers abound in this city. They operate as partnerships, avoiding DC's corporate tax. Similarly, sole proprietor businesses are not taxed in DC. Although I don't have statistics, my guess is that most reside outside of DC so Maryland and Virginia get the benefit of the income taxes they pay, which DC is not able to collect.

This is grossly unfair. The loophole exempting professional services and sole proprietor businesses should be eliminated.

**Sales Tax:** This is a highly regressive tax. Even with the exemption for food and prescription drugs, the poor must spend most of their income on taxable purchases, whereas those with higher incomes make investments and add to their savings.

While a higher tax on luxury items and lower general sales tax would be one approach, this can be problematic in DC because of the ease with which consumers make these purchases in other jurisdictions. A better way to address this problem is to provide low income households with a uniform tax credit, or rebate for those not paying taxes, to make the sales tax less regressive.

**Estate Tax:** If DC should decide to eliminate the estate tax or raise the threshold to \$2 million or even as some suggest to \$5.25 million, the income tax on higher income households should be raised to compensate for this loss of income which has been estimated by the Fiscal Policy Institute to be between \$4 million if the threshold is raised to \$2 million and \$38 million if eliminated altogether. The city needs to consider carefully whether such a move would be fair to younger families with high income. I, for one, think this would be grossly unfair to younger families but the only way to keep the overall system fair if the estate tax is eliminated or the threshold raised.