



D.C. Tax Revision Commission

MEETING MINUTES

Subject: D.C. Tax Revision Commission Meeting
Date: Dec. 9, 2013
Time: 1:30 p.m. to 3:30 p.m.
Location: Room W250 1101 4th Street, S.W. Washington, D.C. 20024

Members Present:

Anthony Williams (Commission Chair)
Teresa Hinze
Ed Lazere
David Brunori
Pauline Schneider
Kim Rueben
Stefan Tucker
Nicola Whiteman
Mark Ein
Fitzroy Lee
Catharine Collins

Staff:

Ashley Lee
Gerry Widdicombe
Steven Rosenthal
Richard C. Auxier

I. Call to Order (Anthony Williams)

Mr. Anthony Williams, chair of the D.C. Tax Revision Commission (the “Commission”), called the meeting to order at 1:40 p.m., and began by thanking the Office of the Chief Financial Officer (OCFO), the Office of Revenue Analysis (ORA), and the Office of Tax and Revenue (OTR) for their exceptional contributions to the Commission’s efforts. He announced that electronic copies of the materials for the meeting were available on the Commission’s website, and invited guests to see Ms. Ashley Lee for hard copies.

II. Discussion Meeting Agenda

Mr. Williams announced that the meeting would focus on the draft package of tax changes (called the “Chairman’s Mark”) that he prepared and shared with the commissioners before the meeting. This package, a collection of tax policy changes that were proposed during the Commission’s deliberations, was an attempt to outline a consensus set of recommendations. Before discussing Chairman’s Mark, he said Gerry Widdicombe, the executive director of the Commission, would brief the commissioners on tax administration.

III. Review of Tax Administration

Mr. Widdicombe presented the Commission a draft list of tax administration recommendations. The draft list was a compilation of all ideas that had been presented to the Commission. This included proposals from the tax administration experts who briefed the Commission, members of the public and members of the Commission. Mr. Widdicombe said the list would be presented to the incoming Chief Financial Officer (CFO), Jeff DeWitt.

Mr. Ed Lazere asked Mr. Widdicombe how the Commission planned to proceed with the list. He said he was not comfortable with merely forwarding a list of all ideas presented to the Commission without comment to the new CFO.

Mr. Williams suggested the Commission could forward all of the ideas but highlight the proposals that are strongly recommended by the Commission.

Mr. Mark Ein cautioned that the Commission take its time and think critically about its recommendations on such an important subject.

Mr. Lazere agreed and suggested that members of the Commission study the list and offer their comments via email after the conclusion of the day’s meeting.

All commissioners agreed with this idea.

Mr. Williams asked if the Commission members were willing to have an additional meeting to discuss tax administration proposals in more detail.

All commissioners agreed to an additional meeting for this purpose.

IV. Discussion of the Chairman's Mark

Mr. Williams then announced that the Commission would discuss the draft Chairman's Mark. He introduced Steve Rosenthal, staff director of the Commission, who walked the commission members through changes made to the draft Chairman's Mark since the previous meeting.

Mr. Rosenthal noted that the Chairman's Mark still presented two packages, called "Package A" and "Package B." Package A included aggressive tax relief for both individuals and business. Package B had similar tax relief but with offsets that allowed it to have no future revenue cost. Package A had undergone changes to its individual income tax reforms. Additionally, revenue from the local services fee was now allocated to the general fund (in the previous version it was dedicated to infrastructure projects) in Package A. The package now had a total cost of \$131 million. Package B had its proposed business franchise tax rate raised from 7.75% to 8.25%. This brought the total cost of Package B to \$2.3 million.

Mr. Stefan Tucker had a clarification question about the individual income tax brackets in both proposals. His question was answered by Ms. Kim Reuben, who had helped draft the brackets.

Mr. Ein asked why the proposal in Package B called for creating two individual income tax bracket systems—one for married filers and one for single filers.

Ms. Reuben said that creating a two-bracket system was a simple way of addressing the "marriage penalty." She also said that the desire to provide middle-class tax relief, through the creation of a new tax bracket, is what drove many of the resulting decisions about the income tax system.

Mr. Ein said he was uncomfortable with supporting such significant changes to the income tax given that these reforms were created by a subcommittee, and not all Commission members.

Mr. Williams responded that he believed the Commission's decisions to create a subcommittee was a very typical process decision and the right choice given the circumstances. He said the subcommittee was given a tough assignment and he applauded their work.

Ms. Reuben said that the subcommittee was tasked with juggling both tax relief and sensibility. They were forced to make tough choices if they wished to produce a coherent package that achieved the Commission's goals.

Ms. Teresa Hinze asked if a marriage penalty is created by adopting the single set of brackets, as was proposed in Package A.

Ms. Reuben said that was correct.

When asked why the business franchise tax rate in Package B was now 8.25% instead of 7.75%, Mr. Rosenthal said tough choices were made to make that package revenue neutral.

Mr. Ein noted his objection to proposing a 8.25% business franchise rate (instead of the 7.75% rate). He also wanted to be clear that he would not support an 8.25% business franchise tax rate even if it meant the ability to keep an 8.5% top marginal income tax rate in a final recommendation package.

Mr. Williams then asked for the opportunity to make his preferences clear. He said both Package A and Package B included good recommendations that would achieve the Commission's goals. He said Package B was a very progressive plan, and specifically cited the proposals to raise the standard deduction and personal exemption to the federal levels. He said Package A, with more tax relief that could be financed by "triggers" that only occurred when revenue was available, was a good path for the city.

Mr. Ein said that he is concerned that if the Commission approved both Package A and Package B that the Council would only pass Package B because it is revenue neutral. He argued the Commission should put forward tax recommendations that can guide the city for the next 10 years. He strongly supported Package A over Package B.

Ms. Nicola Whiteman said she wished to echo Mr. Ein's remarks. She said the Commission should support a package of reforms that looks to the future and makes necessary investments in both businesses and individuals.

Mr. Lazere said he believes both packages are reasonable. But he stated that the research presented to the Commission did not support the business tax cuts in both packages. He said D.C. is already competitive and that the tax cuts would provide little incentive for additional economic growth. Still, he was willing to support the business franchise tax rate reduction to 8.25%.

Ms. Whiteman disagreed. She said the retrenchment of the federal government should concern D.C. and that the city is already losing businesses to Virginia.

Mr. Lazere asked if the solution to federal retrenchment, a problem for the region and not just the city, was tax cuts.

Ms. Whiteman said she did believe tax cuts were an answer.

Ms. Catharine Collins asked Ms. Whiteman if she meant cuts to the business franchise tax or the commercial property tax.

Ms. Whiteman replied "both." She added that investing in businesses could help grow the economy and create more opportunities such as jobs for residents. She said that investing in businesses will help residents.

Mr. Tucker said he endorsed Package A. He argued it is a better plan for the next 10 years.

Mr. Williams said that given D.C.'s economic uncertainty, he also personally endorses Package A because it delivers strong tax relief. He argued that getting such an ambitious plan implemented would take a great deal of work but that he was dedicated to doing it.

Ms. Reuben noted her preference for keeping the 8.95% income tax rate and bracket. She said that keeping this top rate allowed for the two-bracket system and other reforms that are better tax policy than the one-bracket system options in Package A. She noted that if the Commission adopted the Package B changes to the income tax (including the 8.95% rate) it would have more revenue to fund additional business tax cuts (included in Package A).

Mr. David Brunori said that he favored the business tax cuts in Package A but also supported the individual income tax changes in Package B. He said combining the two was a good compromise.

Ms. Whiteman asked if the Commission was required to propose one package or if the plan was to submit multiple options.

Mr. Widdicombe said the Commission could submit two packages.

Ms. Pauline Schneider warned about proposing a package with a significant cost. She said a costly package had to be funded by either spending cuts or future tax increases. She said the Council would not be encouraged by either choice.

Mr. Lazere agreed that the cost of Package A was too big.

Mr. Ein said that competition had to be addressed. He argued taxes are driving businesses out of D.C. Specifically, he said the top marginal individual income tax rate (8.95%) makes D.C. unfriendly to companies and high-income residents.

Mr. Tucker recommended moving the aggressive deduction and exemption phase outs in Package B to Package A as a means for lowering the cost of Package A.

Ms. Reuben said such a package would unfairly burden single residents.

Mr. Lazere said keeping the 8.95% top marginal income tax rate was critical to any package.

Mr. Brunori asked if the staff were still researching a broader expansion of the sales tax to services.

Mr. Rosenthal said the staff had examined this question but not found any additions to the services list prepared by Professor William Fox that would add meaningful revenue other than professional services (but that this was not being considered by the Commission).

Mr. Fitzroy Lee added that his colleagues at ORA had studied other services but that they all produced little to no revenue and/or caused administrative problems.

Mr. Lazere said that regardless of the final list the Commission needed to send a strong signal to the Council that more services should be taxed. He said the 1998 Commission had not addressed this issue and as a result the Council refuses to take action.

Mr. Williams asked if the Commission wanted to vote on bringing the total cost of Package A below \$100 million.

Ms. Collins said she was uncomfortable with approving a package that cost more than \$100 million. She argued that such a large package would lead to spending cuts, such as education, and these cuts could also hurt competition.

Mr. Ein disagreed. He said the package needed to have a high cost to get the business tax cuts necessary to make D.C. a more attractive city for business. He argued the Commission cannot pass a package that just focuses on fairness.

Ms. Reuben stated that the tax changes in Package B are not just about fairness. She said that there were several changes in Package B that make the tax system simpler and better.

Mr. Tucker proposed a plan that keeps the 8.5% top marginal income tax rate, aggressively phases out deductions and itemizations and sets the business franchise tax rate at 8.25%.

Mr. Lazere said that such a plan punishes residents who earn roughly \$100,000 to \$200,000 for the benefit of the very rich. He said keeping the 8.95% rate, with weaker phase outs, was a far more reasonable plan.

Mr. Williams, noting the meeting was about to end, suggested that the Commission needed more time to address these questions. He recommended an additional meeting.

The Commission members all agreed.

Mr. Lazere asked for the Commission to vote on the final cost of the package.

Mr. Williams said the Commission would not be voting today.

Mr. Lazere said that his preference is for the Commission to approve a cost that does not exceed 50% of projected surplus revenue.

Mr. Brunori asked to note his opposition to the local services fee. He said Chicago had recently considered a similar tax and then quickly repealed it. He said it was bad tax policy and asked if anyone agreed with him.

No other Commission members objected to the fee. Mr. Ein said the local services fee was the least bad option for addressing D.C.'s tax base limitations.

Mr. Williams announced that the Commission would have one final meeting at a to be determined date.

VI. Adjournment

Mr. Williams announced that the meeting was adjourned at 3:25 p.m.