



D.C. Tax Revision Commission

MEETING MINUTES

Subject: D.C. Tax Revision Commission September 10, 2012 Meeting
Date: September 10, 2012
Time: 3:00 p.m. to 6:00 p.m.
Location: 1101 4th Street, SW, Washington, DC

Members Present:

Anthony Williams	Fitzroy Lee
David Brunori	Teresa Hinze
Catherine Collins	Pauline Schneider
Mark Ein (by phone)	Stefan Tucker
Tracy Gordon	Nicola Whiteman
Ed Lazere	

Invited Speakers:

Jack Evans, D.C. Council Member and Chairman of the Committee on Finance and Revenue
Darryl Gorman, Director of the Office of Boards and Commissions

Staff:

Kevin Clinton
Robert Ebel

I. Call to Order (Commission Chairman)

Mr. Williams, Chairman of the D.C. Tax Revision Commission (the "Commission"), called the meeting to order.

Mr. Williams welcomed members and the public to the second meeting of the D.C. Tax Revision Commission and thanked D.C. Councilmember Jack Evans, Chairman of the Committee on Finance and Revenue, for addressing the Commission.

Remarks by Councilmember Jack Evans:

Councilmember Evans thanked the Commissioners for their service in this important capacity. Councilmember Evans was a big supporter of the 1998 tax revision commission and found it very valuable in his role as Chairman of the Committee of Finance and Revenue and supported the establishment of this Commission as well. The City is in a far better place than it was when the last Commission was in place and is doing as well as any city in the country. The Commission can help the Council by helping to limit ad hoc tax policy for abatements and incentives. The Commission should also make recommendations that are possible to be adopted. The Commission should look long-term so that the recommendations can avoid resulting in winners and losers in the short term which makes it hard to get anything passed. The Commission should look at how the District compares to other jurisdictions from the perspective of competing for businesses and residents. Maryland has increased taxes recently and Virginia has kept taxes very low. The Commission should look at the bizarre results of our tax policy in which, for example, similar houses are taxed at vastly different levels.

Councilmember Evans provided a list of recommended changes to the District's tax system, including interest on out-of-state bonds; the sales tax rate; the income tax rate; the corporate income tax rate; the unincorporated business franchise tax; and the estate tax.

II. Approval of Minutes of August 6, 2012 Meeting

The minutes for the August 6, 2012 meeting were approved subject to the inclusion of technical edits submitted by Ms. Pauline Schneider.

III. D.C. Office of Boards and Commissions Briefing

Mr. Darryl Gorman thanked the Commissioners for their service on behalf of the Office of Boards and Commissions. Mr. Gorman indicated that the Commission could achieve a quorum through electronic means if Commissioners participate in select meetings electronically. The Commission may also establish additional requirements as it relates to how it conducts its business. The Commission requires six members to achieve a quorum.

Mr. Gorman advised the members on ethical requirements of serving on the Commission and noted that when members are serving the Commission they are acting on behalf of the District and are subject to the ethical limitations that apply to employees, including not receiving gifts and providing information that should not be provided to other individuals such as sharing preliminary conclusions with third parties. Ms. Schneider asked whether the Hatch Act applied

to Members of the D.C. Tax Revision Commission based on the new ethics laws. The Commission requested an official opinion from the D.C. Office of the Attorney General on this issue.

IV. Criteria for Judging a Tax System

Mr. Williams asked Dr. Ebel to present the draft document before the Commission entitled “Conceptual Framework and Guiding Principles for Judging the District of Columbia Revenue System”. Dr. Ebel presented a conceptual framework for thinking about the District of Columbia’s fiscal structure as an open economy and the implications of this structure on the standard functions of a tax system including (1) stabilization, (2) the distribution of wealth and income, and (3) the allocation of society’s scarce private resources of land, labor, capital and entrepreneurship.

Dr. Ebel presented a proposed set of guiding principles for designing the District of Columbia tax system, which included (1) certainty, (2) recognition of the District’s changing fiscal architecture, (3) neutrality (efficiency), (4) competitiveness, (5) fairness in apportionment of revenues (equity), (6) accountability, and (7) simplicity in taxpayer compliance and revenue administration. Dr. Ebel noted the consistency of these criteria with the purpose of the Commission as established in local law.

Commissioners discussed whether the Commission should develop a set of recommendations that provide for neutrality as it relates the total amount of revenue raised and that it is important to look at both sources and uses of funds. Members of the Commission noted that the District’s changing fiscal architecture may not be a principle for designing a tax system but rather a lens through which to look at the tax system. Members discussed whether the Commission should focus on changes that are in the realm of possible in terms of political feasibility and there were competing views of this issue. One point raised was that Commissioners should speak up regarding bad taxes even if changing them would be politically challenging. Commissioners discussed the need to minimize market distortions in the tax system. Members discussed the need to be conscious of unintended consequences created by the incentives in the tax system. Commissioners discussed the impact of employees who are highly mobile and have the ability to move into Virginia which has lower taxes; Commissioners also discussed the role that the municipal bond tax and the estate tax play in retiree decisions to locate. From the perspective of low and moderate income citizens there should be a focus on revenue administration. Commissioners discussed the value in identifying tax abatements and assessing their impact on behavior. Commissioners mentioned the fact that the sales tax is lagging behind the economy because of exemptions in the base. When it comes to competitiveness, the analysis should go beyond looking at tax rates but consider the overall set of factors contribute to competitiveness. Commissioners should consider the issue of

complementarity in which the District is taxing what it should be taxing within the overall tax structure. Commissioners also raised the issue of balance in which there is no over-reliance on one tax as compared to the others.

V. D.C. Tax Revision Commission Research Agenda

Mr. Williams asked Mr. Clinton to present the draft document before the Commission entitled “Proposed D.C. Tax Revision Commission Research Agenda”. Mr. Clinton noted that the Research Agenda serves three purposes: to establish the content of the Commission’s research over the term of the Commission; to establish a propose schedule for the Commission to consider the areas under consideration for the research agenda; and to serve as a draft outline for the Commission final report. Mr. Clinton presented the proposed research agenda with the following schedule and topics (the document itself is to be considered part of the meeting minutes):

October: D.C. Fiscal Structure: A Commissioner indicated that It would be interesting to hear how actual revenues have differed from revenue estimates. A Commissioner suggested that it would be interesting to know what services are taxed and what services are not taxed. It may be helpful to have a history of the real property tax rate changes over time including the number of property classes.

November: D.C. Economic Primer: One Commissioner expressed an interest in hearing from the Deputy Mayor for Economic Development as it relates to future plans for the District and how they may contribute to future revenue.

Multiple Commissioners expressed an interest in discussing where tax incentives have worked in other jurisdictions so that we can understand how they may work in D.C. It may be helpful to have an overall assessment of tax incentives and tax abatements. Incentives to be examined include generous incentives provided to technology companies. There should be a separate briefing on tax expenditures and tax abatements.

December: D.C. Comparisons: Commissioners discussed the need to think not just about the level of taxes but also what those taxes provide in the context of services provided by the District and the overall vision for the city. Individuals do not make location decisions based on taxes alone – there are many other factors that factor into those decisions.

January: Frameworks & Models: It may be helpful to have a conversation about sequestration earlier in the process because by January it will be upon us.

February: Income Taxes: A Commissioner suggested that the overall income tax rates and brackets be examined, including the level of the standard deduction and the personal

exemption. A Commissioner asked to look at what states have a capital gains tax and noted that D.C. taxes capital gains at ordinary income tax levels. A Commissioner suggested looking at the process used to determine who is audited. Commissioners suggested looking at the issue of non-resident taxation and commuter taxation. And a Commissioner suggested looking at congestion taxes.

March: Sales Taxes. There were no additional comments related to the proposed research agenda for sales tax.

April: Property Taxes. Commissioners recommended examining the sales taxes paid by not-for-profit organizations. There was a reference to the analysis of congestion pricing for the use of D.C. roads. There was a discussion of the issue of PILOTS for entities that do not pay the property tax and an ensuing discussion about how these entities contribute to the District of Columbia in other ways. There was an interest in discussing the earmarking of taxes not just as it relates to deed and recordation taxes but across the board.

May: Business Taxes. There was a discussion of the gross receipts tax and whether the agenda should note that this has been a success in Ohio. There was a discussion of the need to look at unincorporated business taxes. There was a discussion of the need to look at business registration fees in addition to business taxes.

Other Areas Discussed:

- **Non-Tax Revenues:** The Commissioners did not express an interest in having a separate session and research study on non-tax revenues.
- **Tax Administration:** The Commissioners expressed an interest in considering issues related to tax administration as part of the discussion of each individual tax rather than as its own separate section.
- **Other Tax Issues:** The Commissioners expressed an interest in looking at the utility tax.

VI. Other Business Before the Commission

- a. Delegation of Personnel Authority.** This item was stricken from the agenda.
- b. Public Meeting Schedule.** Commissioners discussed whether public hearings should be combined with the individual Commission meetings or whether they should be held separately and decided to hold public hearings separately.

VII. Adjournment (Commission Chairman). The meeting was adjourned.