

D.C. Tax Revision Commission Policy Options
Policy Option #53: Regularly Review and Sunset
Legislated Tax Expenditures

MEMORANDUM

Proposal: Regularly review legislated tax expenditures and sunset some

Tax Type: Property

Origin: Councilmember Mary Cheh/Mike Bell

Commission Goal: Transparency

Current Law

A tax expenditure is a policy that gives preferential treatment to a selective group of taxpayers. There were 38 D.C. property tax expenditures in 2012. These included exemptions, abatements and credits among other programs. The D.C. Tax Expenditure Report estimates that D.C. lost \$1.3 billion in property tax revenue from these expenditures in 2012. Tax exemptions account for 95% of lost revenue. Congress also enacts property tax expenditures that affect D.C.'s tax base but these are beyond the scope of this review.

Proposed Change

Regularly review all D.C. property tax expenditures for their cost and benefits and integrate tax expenditures into the regular budget process. For additional scrutiny, expenditures could be required to sunset every 10 years (or another set time period). This would force the D.C. Council to affirmatively approve each tax expenditure and its costs.

Reason for Change

Providing a tax expenditure is effectively the same as creating a government spending program. Both provide a service at a cost. But while spending programs must be approved annually in the budget, a tax expenditure may never be reexamined or altered. Creating a review system would require that tax expenditures receive the same scrutiny as spending programs.

Pros

- Would provide more transparency to the D.C. tax system.
- If current or future tax expenditures are deemed inefficient or poorly designed it could raise new tax revenue (or prevent the loss of tax revenue).

Cons

- Would create a burden for the D.C. government that could require additional staff and funding.

Revenue Impact

There is no revenue estimate for this option.