

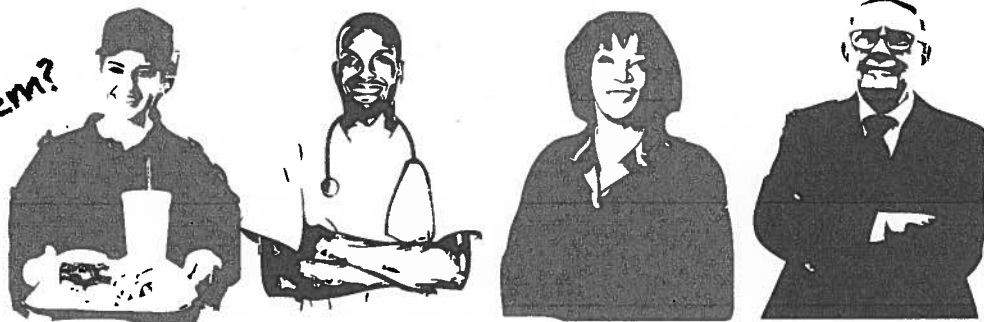
Written Testimony of Kesh Ladduwahetty
for the Tax Revision Commission
June 24, 2013

My name is Kesh Ladduwahetty. I have lived in the District of Columbia for more than 20 years and care deeply about this city.

I will focus today on the issue of fairness. The public believes that we have a fair, i.e. progressive, tax code where as you go up the income scale, you pay more taxes as a share of income. The Commission well knows that in fact we have an unfair, regressive tax code, where the richest 1% of DC residents pay lower taxes (combined sales, property and income taxes) as a percentage of income than the poorest residents earning less than \$20,000. Middle-income earners pay the highest taxes of all as a percentage of income.

Exhibit A shows the unfairness of our tax code.

How Fair
is DC's
Tax System?



Income:	\$12,400	\$45,400	\$143,200	\$2,708,300
DC Tax as % of Income:	7.0%	10.2%	8.5%	6.1%

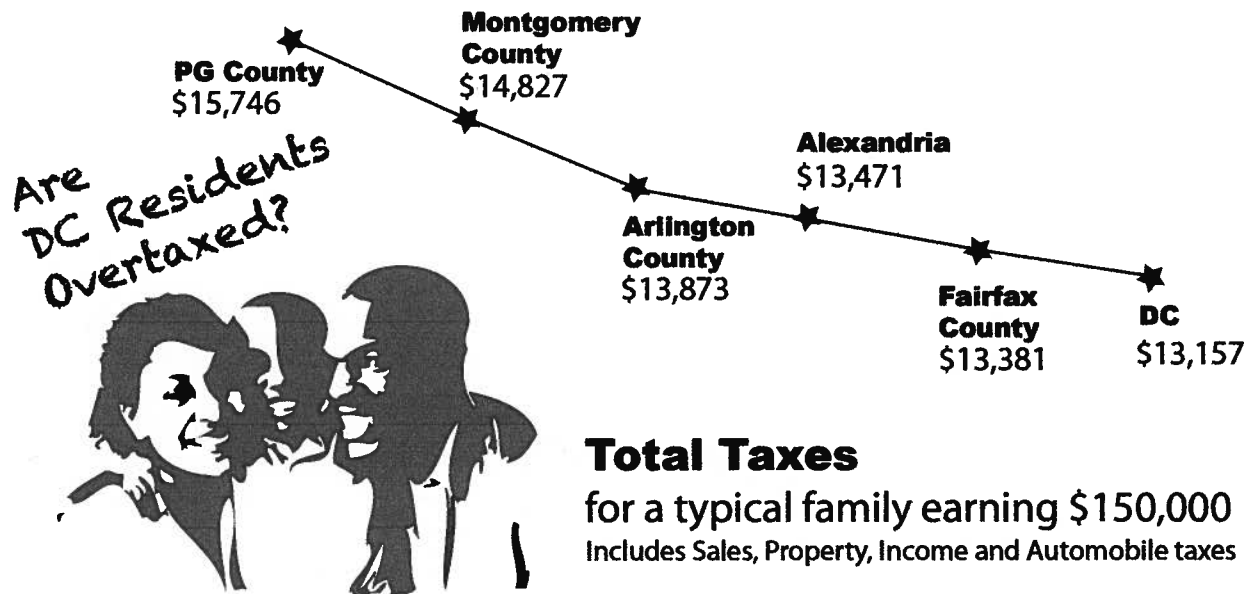
Includes all DC taxes (sales, property, income) and accounts for federal deductions.

Source: Institute for Taxation & Economic Policy (2011 data).

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The public also believes that DC taxes are higher than the surrounding suburbs, and that the tax code incentivizes higher-income families to move out of DC. The reality is that DC has the lowest taxes as a percentage of income in the inner metropolitan area, and this is particularly true of upper-income families.

Exhibit B shows that for higher-income families, DC taxes are the lowest in comparison to the surrounding suburbs.



Source: Chief Financial Officer, Tax Rates & Tax Burdens Report (2011)

Our unfair tax code mirrors our unfair economy. The richest 20% of DC households increased their income by 16% since the mid-1990s, while the middle 20% barely held their ground and the poorest 20% lost 18.5% of their income [Source: Economic Policy Institute, Exhibit C (attached)]. It is bad enough that DC's economy is tilted toward the richest residents, but our tax code makes this uneven playing field even worse. The Commission must reform the tax code to counterbalance our unfair economy.

Our tax system is unfair mostly because sales and property taxes are regressive. Our income taxes are progressive, but only weakly and not enough to counterbalance the regressivity of those other taxes. The solution is to make sales and property taxes less regressive, and to make our income taxes much more strongly progressive.

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Sales taxes: We can make our sales tax less regressive through a refundable sales tax credit for all filers with incomes below a certain level, e.g. median income. We could even combine this with eliminating the exemption of certain items from the sales tax, thereby broadening the sales tax base. This is a targeted approach that makes our tax system more fair while maintaining revenues.

Property taxes: We can make our property taxes less regressive by further raising the income eligibility for the property tax credit. The recent passage of the Schedule H Property Tax Relief Act of 2012 will improve the progressivity of this tax. However, the income eligibility limit of \$50,000 is still low, given the high cost of living in DC. We should consider increasing it even further to \$75,000 - \$100,000. This is another targeted approach that makes our tax system more fair while maintaining revenues.

Income taxes: The income tax is our best tool for creating a progressive tax code. There are two critical reforms that I urge the Commission to consider. 1) Align our tax brackets with the actual income distribution, for example, align our tax brackets at each quintile of income. Additionally, create a tax bracket for the richest 1% of DC residents. 2) Establish marginal tax rates that are meaningfully different, in contrast to today's virtually flat income tax. The marginal tax rate for the lowest 3 brackets should be set below current levels, so as to reduce income taxes for these groups. The marginal tax rates for the richest 20% and richest 1% should be increased above current levels. Since DC tax rates are currently below area suburbs, they can be increased without fear that families will leave DC. Together, these reforms will create a fair, progressive tax code where the marginal tax rate will rise meaningfully with income.

In conclusion, I urge the Commission to reform our unfair, regressive tax system into a fair, progressive one. I also urge the Commission to raise the bar for transparency by publishing a preliminary report, inviting the public to respond in a hearing in the Fall, and seriously weighing this input before publishing your final report.

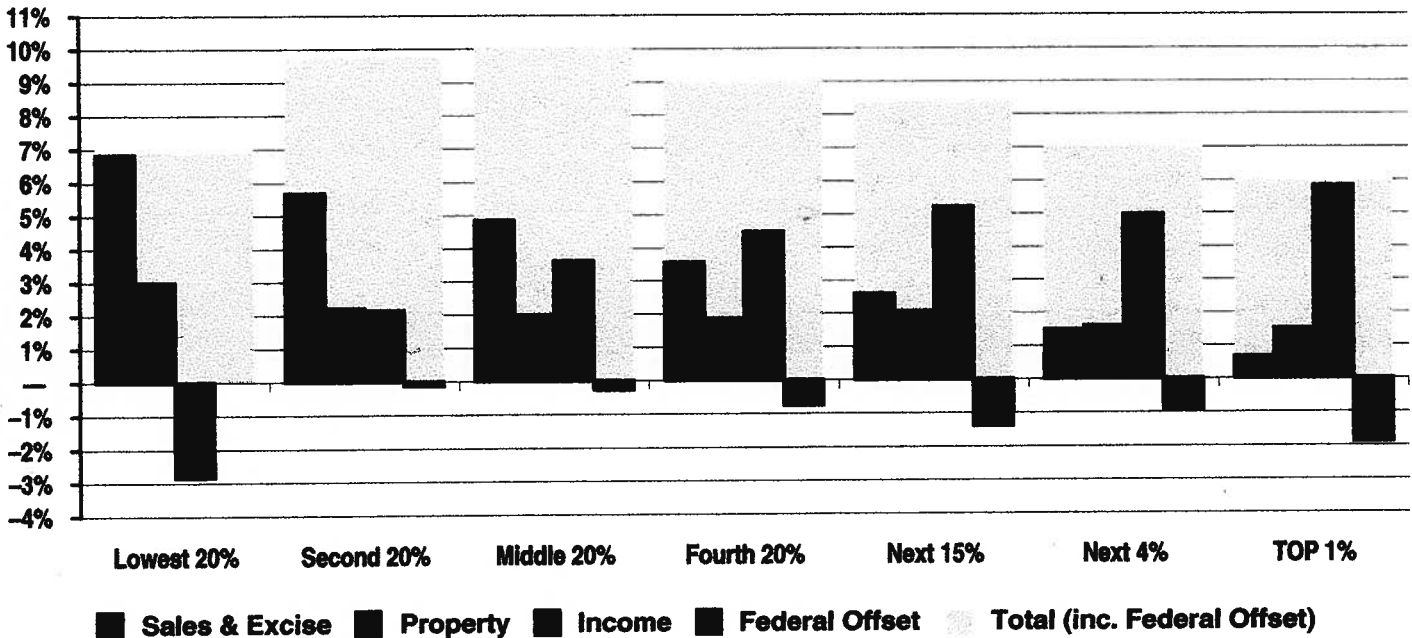
Thank you for your consideration.

Kesh Ladduwahetty
2939 Van Ness Street, NW
Apartment 220
Washington, DC 20008

District of Columbia

State & Local Taxes in 2011

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$20,000	\$20,000 – \$33,000	\$33,000 – \$57,000	\$57,000 – \$97,000	\$97,000 – \$252,000	\$252,000 – \$1,543,000	\$1,543,000 or more
Average Income in Group	\$12,400	\$26,300	\$45,400	\$75,500	\$143,200	\$443,700	\$2,708,300
Sales & Excise Taxes	6.8%	5.7%	4.8%	3.5%	2.6%	1.5%	0.6%
General Sales—Individuals	2.9%	2.4%	2.1%	1.7%	1.3%	0.8%	0.3%
Other Sales & Excise—Ind.	1.2%	1.0%	0.8%	0.5%	0.3%	0.2%	0.1%
Sales & Excise on Business	2.7%	2.3%	1.9%	1.4%	0.9%	0.5%	0.3%
Property Taxes	3.0%	2.2%	2.0%	1.9%	2.1%	1.6%	1.5%
Property Taxes on Families	2.1%	1.4%	1.4%	1.4%	1.7%	1.2%	0.7%
Other Property Taxes	0.9%	0.8%	0.6%	0.4%	0.3%	0.4%	0.8%
Income Taxes	-2.8%	2.1%	3.6%	4.5%	5.2%	5.0%	5.8%
Personal Income Tax	-2.8%	2.1%	3.6%	4.5%	5.2%	4.9%	5.6%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	7.0%	10.0%	10.4%	9.9%	9.9%	8.0%	8.0%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.7%	-1.4%	-0.9%	-1.9%
TOTAL AFTER OFFSET	7.0%	9.9%	10.2%	9.1%	8.5%	7.1%	6.1%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through December 2011

Exhibit B - Supporting Data

Part I: A Comparison of Tax Burdens in Selected Washington Metropolitan Area Jurisdictions

TABLE 2
MAJOR STATE AND LOCAL TAX BURDENS FOR A FAMILY OF THREE RESIDING
IN SELECTED WASHINGTON METROPOLITAN AREA JURISDICTIONS
CALENDAR YEAR 2011

TAX	DISTRICT OF COLUMBIA	MONTGOMERY COUNTY	PRINCE GEORGE'S COUNTY	ALEXANDRIA	ARLINGTON COUNTY	FAIRFAX COUNTY
	0	0	0	35	35	35
Income						
Real Estate	2,040	2,040	2,040	2,040	2,040	2,040
Sales and Use	594	629	621	525	522	470
Automobile	256	205	205	353	428	318
TOTAL	2,890	2,874	2,866	2,953	3,025	2,863
RANK	3	4	5	2	1	6
Income						
Real Estate	1,173	1,531	1,464	1,096	1,098	1,086
Sales and Use	2,347	2,835	3,683	3,429	3,292	3,693
Automobile	835	861	848	724	720	632
TOTAL	4,355	5,227	6,000	5,249	5,110	5,411
RANK	6	5	1	3	4	2
Income						
Real Estate	2,460	3,238	3,165	2,259	2,251	2,249
Sales and Use	2,655	3,134	4,072	3,791	3,639	4,084
Automobile	1,158	1,183	1,161	988	981	850
TOTAL	6,273	7,555	8,400	7,038	6,871	7,183
RANK	6	3	1	5	2	4
Income						
Real Estate	3,872	5,037	4,958	3,561	3,554	3,549
Sales and Use	2,759	3,235	4,203	3,913	3,756	4,215
Automobile	1,281	1,314	1,283	1,093	1,083	942
TOTAL	7,912	9,586	10,444	8,567	8,393	8,706
RANK	6	2	1	5	3	4
Income						
Real Estate	7,568	8,772	8,688	6,237	6,210	6,228
Sales and Use	3,070	3,537	4,595	4,278	4,107	4,608
Automobile	2,041	2,051	1,995	1,721	1,703	1,493
TOTAL	12,679	14,360	15,278	12,236	12,020	12,329
RANK	6	2	1	4	3	5

Note: Numbers may not add to totals due to rounding.

Exhibit C

PULLING APART

INCOME INEQUALITY HAS GROWN IN DISTRICT OF COLUMBIA

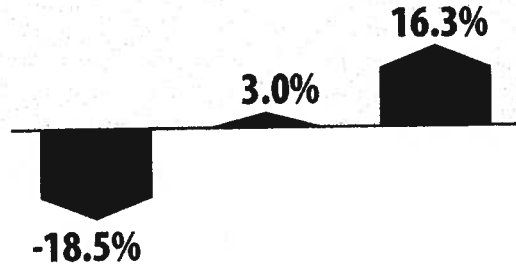
A Lost Decade for District of Columbia's Low- and Middle-Income Households

-18.5%

Change in income by household income group, late 1990s to mid-2000s

Poorest 20% Middle 20% Richest 20%

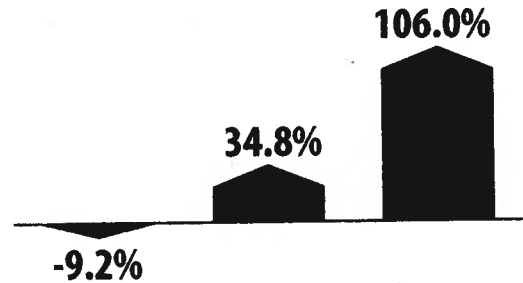
The average drop in incomes among the bottom 20 percent of households over the last decade.



Inequality Worsening Since the 1970s

Change in income by household income group, late 1970s to mid-2000s

Poorest 20% Middle 20% Richest 20%



Incomes of District of Columbia's Richest Households Dwarf Those of Its Poorest

After decades of widening inequality, District of Columbia's richest households have dramatically bigger incomes than its poorest households.

The richest 5 percent of households have average incomes 25.7 times as large as the bottom 20 percent of households and 6.3 times as large as the middle 20 percent of households.



Source: Economic Policy Institute/Center on Budget and Policy Priorities analysis of U.S. Census Bureau data. Income is post-federal tax and includes the value of the EITC and the value of food stamps and housing subsidies. Income is adjusted for inflation (to 2009 dollars) and for household size. Changes shown are significant at the 90% level. For more detail, see *Pulling Apart: A State-by-State Analysis of Income Trends*, November 2012.