DC Fiscal Policy Institute

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Revenue Options for Fiscal Year 2013

- **FORGO $50 MILLION PAY-GO DRAIN OUT OF OPERATING BUDGET:** Keeping $50 million for programs instead of putting it toward pay-go capital is the right decision given our still fragile economic outlook. The amount we will save on capital expenditures is small compared with the big human consequences and long-term budget impact of taking this money out of the operating budget and not making it available for housing, TANF and homeless programs. Using operating revenues for capital projects is a practice that might be sound when finances are very strong, but doing it when there are budget gaps and financial uncertainty strains resources unnecessarily, especially when borrowing rates are low. The Mayor should opt NOT to dedicate one-quarter of unanticipated revenue to pay-go, which was a provision inserted into the FY 2011 Budget Support Act. Though this is intended to help relieve pressure off the debt cap, it is better to wait until a period of anticipated growth and strong revenues to do so.

- **APPLY $350,000 TAX BRACKET TO HOUSEHOLDS BY REMOVING OPTION FOR COUPLES TO FILE COMBINED RETURNS BUT SEPARATE INCOME :** This is really a technical change to the high income earners' tax last year, as the intention was to target high income households. The Gray administration should apply the 8.95% rate passed last year to households, instead of individuals. Right now, a married couple earning $700,000—with one spouse earning $350,000 and another earning $350,000—faces absolutely no tax increase from the new rate because these high-income earners are allowed to report income separately on their joint tax return. Also Gray administration could opt to restore original proposal and start 8.95% rate at $200,000. The Hart Research poll certainly supports it.

- **PHASE OUT UNNEEDED DEDUCTIONS AND EXEMPTIONS:** The Hart Research poll showed that high income households are willing to contribute more. One way of doing that without a bracket and rate change is to phase out deductions and exemptions for high-income households. Maryland Governor Martin O'Malley, for example, has proposed phasing out the personal exemption for higher-income households. Also DC offers tax breaks that no longer need to be incentivized—such as a tax break for purchasing hybrid vehicles.

- **INCREASE INSURANCE FEES BY 10%:** According to the OCFO, the last time insurance license fees were increased was 1994. This is estimated to raise about $1.5 million in revenue.

- **APPLY SALES TAX TO MORE PURCHASED SERVICES:** DC's sales tax was created at a time when people spent more on goods than services. Today it's the other way around. Instead of purchasing products, which are taxed, to do things themselves many DC residents opt to hire companies to do the services instead. Many of these services are currently exempt from the sales tax. Possible Services to Add:

  • Auto Road Service and Towing • Car Washing • Bowling • Carpet and Upholstery Cleaning • Dating Services • Diaper Service • Health Clubs • Investment Counseling • Packing and Crating • Performing Arts • Pet Grooming • Private Club Memberships • Self Storage • Veterinary Services

- **<u>INCREASE PROPERTY TAX ASSESSMENT MINIMUM FLOOR:</u>** Currently, the property tax assessment floor is 40 percent – which means every home is taxed on at least 40 percent of its full assessed value, even if the homestead deduction and the 10% cap have placed their taxable assessment at a lower value. At this floor, it means a home is paying 34 cents for every $100 of value, or just $1,020 a year for a home worth $300,000. There are a surprising number of homes at the 40% floor. Increasing the property tax assessment floor—or the minimum threshold people must pay--has a similar effect as the rate increase in which homeowners in all home value categories have their taxes increased by around the same percentage. Increasing the floor to 50 percent would raise $2 million and would increase most homeowners' tax payments (who are below the 50 percent floor) by 3-10 percent, rising as the home value also rises. However, these homeowners are also paying very little tax, around $750 a year for owners of the lowest value homes to 3,255 for the highest value homes. An increase in the floor would result in the low-value homeowners paying about $25 extra a year. For high value homes, the increase would be about $324.

OTHER OPTIONS

- **<u>ASSESS RECORDATION TAX ON ENTIRE DEBT REFINANCED IN COMMERCIAL TRANSACTIONS:</u>** This is the practice in some states, but DC has failed to follow it despite interpretations that this is what was intended when the 2000 Tax Clarity Act became law. The issue was raised last year by real estate lawyers who pointed out the Office of Tax and Revenue had not been collecting these taxes when commercial properties refinanced debt. The DC Council's counsel opined that he interpreted the law to say that the tax should be applied to entire debt amount, not just the difference between the old mortgage and the new mortgage.

- **<u>PAYMENT IN LIEU OF TAXES (PILOT) FOR UNIVERSITIES AND HOSPITALS</u>** DC loses out on a large part of its tax base because many of its largest employers and landholders are tax-exempt, such as universities and hospitals. These institutions benefit from many city services but do not contribute directly to the general fund to pay for them. Last year, Councilmember Mary Cheh advocated that a payment-in-lieu-of-taxes be applied to universities in the District.