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# WHAT ARE THE TAX AND REVENUE CHANGES IN THE FY 2014 BUDGET?

The adopted fiscal year (FY) 2014 budget includes $73 million in additional revenues, equal to about 1 percent of the city's locally funded budget. The bulk would come from expansion of automated traffic enforcement, a new fee on hospitals that will be used to fund Medicaid services and generate federal matching funds, and improved tax compliance measures. The mayor's budget included no broad tax increases.

The FY 2014 budget includes three tax reductions that will total $8 million in their first year. They include expansion and improvements to the "Schedule H" property tax credit for lower-income homeowners and renters; re-establishment of a tax break for interest earned on bonds issued by other cities and states (legislation to eliminate this tax break was adopted in 2011 but had not been implemented); and expansion of eligibility for a 50-percent property tax credit for senior homeowners. The budget also supported tax abatements for various development projects, including several that had been approved in prior years, at a total cost of $1.3 in lost revenue in FY 2014.

The FY 2014 budget includes a small number of increases in fees or charges for services, including an increase in the Circulator bus fare, a higher fee for residents who park during a street-sweeping restriction, and new parking enforcement staff. These changes would raise $2.3 million in FY 2014.

**SUMMARY OF CHANGES IN THE FY 2014 BUDGET**

- The fiscal year 2014 budget includes $73 million in additional revenues, mostly from expansion of automated traffic enforcement cameras. The budget includes no major tax increases.
- The budget implements improvements in DC's tax credit for low-income residents with high property taxes (Schedule H).
- A second tax cut re-establishes an income tax exemption for interest earned from out-of-state municipal bonds.
- A third tax cut increases the income eligibility for DC's senior 50percent property tax credit, from $100,000 to $125,000.
- The budget also funds several tax abatements for development projects, with a total revenue loss of $1.3 million in 2014.
- The budget includes a number of increases in fees and fines, including Circulator bus fares, the fine for parking in a street-sweeping zone, and additional parking enforcement staff. These changes will add $2.3 million in FY 2014.
- The FY 2014 budget changes how the gas tax is structured to protect its long-term viability, but the change does not raise revenues in 2014.

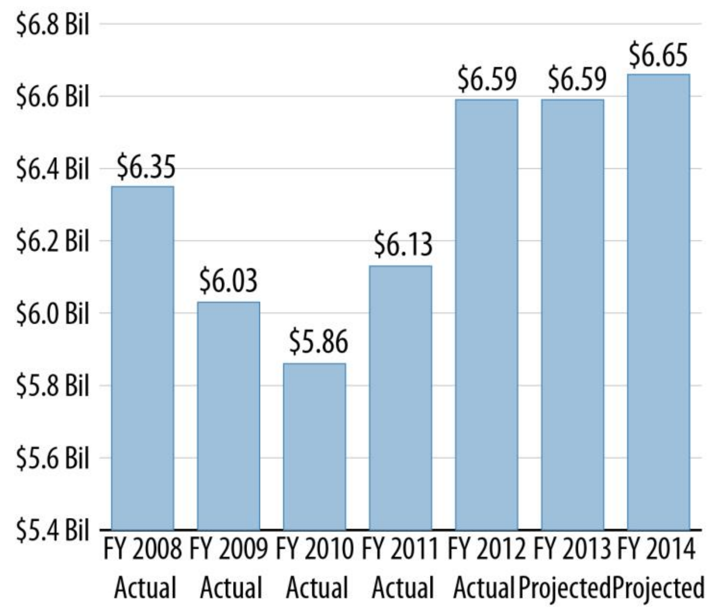
Finally, the budget changes the way the tax on gasoline is structured, to protect the long-term viability of this revenue source, but without raising additional revenue in the near-term.

## DC's Revenues in 2014 Show Recovery from the Great Recession

The District's tax collections have grown sharply in recent years, erasing drops that occurred during the Great Recession, but leaving revenues only modestly above pre-recession levels. DC's tax collections dropped sharply in the Great Recession, falling by nearly $500 million in 2009 and 2010 and leading to substantial cuts in public services. The city's revenue collections started to rise in fiscal year 2011, in part due to a variety of tax and fee increases, but continued to remain below pre-recession levels.

Figure 1

DC Revenue Collections Have Recovered From the Great Recession




Figures are adjusted to equal FY 2014 dollars and do not include special purpose revenues

Projected revenues in FY 2014 total $6.65 billion.[1] Several things are worth noting about the city's expected tax collections:

- **Revenues have recovered significantly from the depth of the recession.** Tax and other revenue collections in FY 2014 will be $800 million, or 14 percent, higher than the low point in the recession in FY 2010.

- **Overall revenue growth since before the start of the recession is modest.** When both the fall in revenues during the recession and the increase in revenues in the recovery are taken into account, average revenue growth since FY 2008 is less than 1 percent per year.

- **Federal cuts are projected to affect the DC economy and tax collections in 2014.** Revenues in 2013 and 2014 (excluding changes adopted in the FY 2014 budget) are projected to be no higher than in 2012, adjusting for inflation. This is due almost entirely to the impact of expected federal budget cuts resulting from sequestration, which will reduce employment and contracting in the DC area and thus create a drag on the economy.

[1] This includes taxes that are used for specific purposes, such as sales taxes used to pay off the Convention Center debt, but it does not "special purpose revenues," special fees tied to certain uses.

## Revenue Increases in the Fiscal Year 2014 Budget

The adopted fiscal year (FY) 2014 budget includes $73 million in additional revenues, equal to about 1 percent of the city's locally funded budget (see **Table 1**). The adopted budget also includes three tax reductions and several tax abatements for various development projects. The revenue changes are described below.

**Expanded Automated Traffic Enforcement:** The FY 2014 budget will generate $44 million by expanding the use of speeding and other automated traffic enforcement cameras to more locations.

**Improved Sales and Income Tax Compliance:** The FY 2014 budget will raise $12 million through a variety of measures to improve compliance with DC's taxes. Some $4.4 million will result from better use of federal matching programs to identify taxable sales and income, and $7.6 million will come from enhanced technology to detect errors or abuse.

**Table 1**
**Revenue Changes in the FY 2014 Budget**

| | Amount (In $ Millions) |
|---|---|
| **Revenue Increases** | |
| Expanded Automated Traffic Enforcement | $44.1 |
| Hospital Provider Fee | $12.4 |
| Enhanced Tax Compliance | $12.0 |
| Increased Circulator Bus Fare | $0.4 |
| Expand Parking Enforcement | $0.6* |
| Increase Commuter Bus Daily Fee | $0.3 |
| Increase Street Sweeping Violation Fee | $1.0 |
| Other | $1.9 |
| | |
| **Revenue Decreases** | |
| Re-establish tax break for out-of-state bonds | $1.7 |
| Expand/Update Schedule H Credit | $5.4 |
| Increase income limit for senior property tax credit | $0.7 |
| Tax abatements for development projects | $1.3 |

* Net increase after staffing costs

**Hospital Provider Fee:** The budget includes a new that fee will be assessed on the gross patient-based receipts of every hospital in the District of Columbia. The funds will be used for Medicaid-eligible outpatient services provided by hospitals. The $12.4 million in local dollars generated by the fee will draw down $29 million in federal matching funds.

**Increased Fee for Violation of Street Sweeping Restrictions:** The budget increased the fee for cars that park on street in violation of street-cleaning parking restrictions, from $30 to $45. This will raise $1 million.

**Expanded Parking Enforcement:** The budget includes funding to hire 30 additional parking enforcement staff, which will raise $600,000 per year after taking into account the added personnel costs.

**Increased Circulator Bus Fare:** The current fare for the Circulator bus will increase from $1 to $1.50 for commuters using a SmartTrip Card and to $2 for those paying in cash. This will go into effect in July 2014 and will bring Circulator fares closer in line with Metro fares. It will raise $400,000 in FY 2014, and $1.7 million in FY 2015, its first full year.

**Increased Commuter Bus Fee:** The budget includes a new $5 daily fee for commuter buses. There currently is no such fee. This will raise $300,000 in FY 2014.

**Other Sources of Revenue:** The FY 2014 budget projects $800,000 in revenue from enhanced food inspection, $700,000 from using refunds owed to a resident or business from one tax to offset other taxes owed by that resident or business, 350,000 from improved surplus property sales practices, and $50,000 from an increase in a fee assessed on healthcare providers.

## Revenue Reductions in the Fiscal Year 2014 Budget

The budget includes three new tax reduction provisions, and it funds tax abatements to several development projects as well as providing a blanket tax exemption to all affordable housing developed under a specific DC program.

**Schedule H Property Tax Relief:** Legislation was adopted in 2012 to improve Schedule H, a tax credit for lower-income residents when rents or property taxes are high relative to income.[2] Schedule H is a property tax credit, but it helps both homeowners and renters because it assumes a portion of a household's rent — 20 percent under the new law — reflects property taxes passed on by the landlord. Schedule H provides assistance to households struggling with rising rents or property taxes, and thus can help DC residents stay in their homes amidst sharply increasing housing costs.

Schedule H has not been updated for 35 years and has several problems that result in very few residents claiming it. The changes funded in the FY 14 budget address many of those problems, including the following:

- **Raising the income eligibility limit from $20,000 to $50,000.** The income eligibility limit for Schedule H has remained $20,000 for 35 years.

- **Increasing the maximum annual credit amount from $750 to $1,000.** The maximum credit amount has also not been adjusted for 35 years, and has remained at $750.

- **Allowing people who share housing to claim Schedule H separately.** Current rules require people or families sharing a home to apply together even if they do not share income or file tax returns together. This often makes it impossible for people to qualify. Of 16 states with similar credits, 14 allow people in shared housing to claim the credit separately based on their income and their share of the rent. The legislation adopted in 2012 follows this practice.

As many as 125,000 will be eligible for the updated Schedule H credit based on income, according to the Chief Financial Officer. Implementing these changes will cost $5.4 million in FY 2014.

**Expanded Income Eligibility for the Senior Property Tax Break:** Under current law, senior homeowners with income under $100,000 qualify for a 50 percent cut in property taxes. That income limit has not been adjusted in a number of years, as is the case for many parts of the DC income tax. The FY 14 budget funds the Age in Place Tax Credit Act, which increases the income

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[2] B19-0164, "The Schedule H Property Tax Relief Act of 2012".

limit for this tax credit to $125,000 and adjusts it for inflation in subsequent years. The practical effect is to provide property tax reductions for seniors with incomes between $100,000 and $125,000. This tax reduction will cost $700,000 in FY 2014.

**Out-of-State Bonds Tax Break**: The FY 2014 budget includes a provision to restore a tax break for interest earned on government bonds issued in other states. The DC Council voted in 2011 to eliminate this tax break for new investments in out-of-state bonds but has delayed implementation since then. The budget thus makes permanent the policy of offering a tax exemption for all such investments, including new ones.

Restoring this tax break makes DC and North Dakota the only jurisdictions with an income tax to offer a blanket exemption for all out-of-state bond investments. It will cost $1.7 million in lost revenue in 2014, rising to nearly $4 million by 2017. Outside of DC, most states offer tax breaks only for bonds issued within the state, as an incentive to invest in that state's infrastructure.

Supporters of the tax break argued that the District offers residents only a limited number of DC bond options, and that this tax break is needed to protect seniors on limited incomes who live off such investments. While a small number of DC households rely on tax-exempt income for a notable share of their income – about 700 households get one-third or more of their income from such bonds – many very high-income residents appear to use out-of-state bonds as a tax shelter. Over three-fourths of tax-exempt income in the District in 2010 went to residents with income of $200,000 or more in income *in addition to their tax-exempt interest income*. In fact, just 81 DC households earned an average of $2 million from tax-exempt interest in 2010, accounting for nearly half of all tax-exempt interest earned in the District.

**Tax Abatements:** The budget would fund the following tax abatements, some of which were adopted in previous years but not funded.

- United Negro College Fund — $340,000 in FY 2014
- Carver 200 Low-Income and Senior Housing — $99,000 in FY 2014
- Elizabeth Ministry Affordable Housing — $7,000 in FY 2014
- Gala Hispanic Theater — $44,000 in FY 2014
- Beulah Baptist Church — $59,000 in FY 2014
- Tregaron Conservancy — minimal impact
- Tibetan Community — $32,000 in FY 2014
- Bryant Mews Homeowners Association — $70,000 in FY 2014
- Basilica of the National Shrine of the Immaculate Conception — $207,000 in FY 2014
- Jubilee Housing Residential Rental Project — $237,000 in FY 2014

The FY 2014 also implements legislation adopted in 2010 that repeals the property tax for affordable housing purchased under the Land Acquisition for Housing Development program, and the budget includes other tax abatements with no costs in FY 2014, either because costs are limited to FY 2013 or because costs will start in FY 2015. The latter includes a tax abatement for the Howard Town Center mixed-use development that will cost $800,000 per year starting in 2016, and Parkside Mixed Income Apartments that will cost about $500,000 per year starting in 2015.

## Changes to the Structure of DC's Gas Tax in the Fiscal Year 2014 Budget

The budget adopts changes to the way the District's motor fuel tax is structured. The tax on gasoline is dedicated to the city's Highway Trust Fund and is used to match federal highway funds.

Under current law, the gas tax is levied as a 23.5 cents tax per gallon, paid at the pump by the consumer. The FY 2014 budget eliminates this tax for gas and diesel fuel and replaces it with an 8.3 percent tax on the wholesale price of gas and diesel fuel, with the goal of raising the same amount of revenue in FY 2014. The change reflects a concern that increasing fuel efficiency of cars may lead to lower consumption, and that a tax based on the number of gallons of fuel purchased thus may decline over time. A tax on the dollar value of gas purchases is likely to be more stable, given the long-term trend of rising gas prices.