DC Fiscal Policy Institute

TESTIMONY OF KWAME BOADI, POLICY ANALYST
At the Hearing on Bill 19-512
The Age-in-Place and Equitable Senior Citizen Real Property Act of 2011
District of Columbia Committee on Finance and Revenue
January 9, 2012

Chairman Evans and members of the committee, thank you for the opportunity to testify today on this important issue. My name is Kwame Boadi and I am a policy analyst with the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents.

Currently, DC law provides a 50 percent property tax break on the principal residence of homeowners age 65 and older with incomes of up to $100,000. This provision, including the income eligibility threshold, has not changed since 1992. The bill before the Committee would increase the income eligibility for this deduction to $125,000. This would partially address the impact of inflation since this provision was last changed.

DCFPI believes that as a matter of principle, tax benefits should be adjusted regularly to account for inflation. Such adjustments should be made to income eligibility thresholds and to the size of tax credits and deductions. Without such adjustments, the value of a tax benefit diminishes over time, and the share of the population eligible for the benefit will likely shrink.

While this legislation adheres to the principle of adjusting tax benefits for inflation, the question is whether this should be a top priority for tax reductions, given that the beneficiaries of this legislation would be elderly homeowners with incomes between $100,000 and $125,000. Most DC households headed by a senior have incomes well below this. Half of all DC households headed by an elderly resident have incomes below $40,000, and 80 percent have incomes under $100,000.

It is important to note that many parts of DC's tax code are not indexed for inflation, including several that assist lower-income seniors. To the extent that the DC Council wants to focus on addressing tax benefits that have diminished due to inflation, there are other benefits that should be given higher priority. For example, expanding the "Schedule H" tax credit would go a long way towards achieving this goal. Schedule H offers a tax credit of up to $750 when property taxes are high relative to income. However, the income eligibility limit was set at $20,000 35 years ago and has not been adjusted since. The maximum credit amount of $750 also has not been changed in 35 years. Schedule H benefits renters as well as homeowners, because under Schedule H rules, 15 percent of rent is considered a property tax equivalent. As you know, there is legislation before this committee to increase the Schedule H income threshold and the credit amount, among other things, and DCFPI believes that this should be the priority for reducing property taxes for lower-income seniors and other residents.

In addition to Schedule H, other prominent parts of the tax code are not indexed for inflation, such as the personal exemption and standard deduction in the income tax. These tax benefits also affect a broad range of District residents, and yet have remained static for several years, despite inflation.

Finally, the broader issue of indexing tax benefits for inflation may best be addressed by the Tax Review Commission, which has been charged with making comprehensive changes to the District's tax system. While the problems with Schedule H are clear and warrant immediate change, the issue of indexing a broader range of tax benefits for inflation merits further study, both to set priorities and assess the costs, which could be substantial. DC's economy has changed substantially since the last commission in 1998, but its tax system has not evolved accordingly. DCFPI eagerly anticipates the work and findings of the Commission.

Thank you again, for the opportunity to testify.

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