The District's Dime
Going Beyond the Budget Book

The DC Fiscal Policy Institute blog
www.dcfpi.org

UPTDATE: November 9, 2015

Latest Revenue Forecast Triggers Tax Cuts for 2016

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The District's revenues are growing, but the new funds will not be available to fund needed services like schools or housing. Instead, based on the budget passed by the DC Council this summer, $27 million in projected revenue increases will go toward income tax cuts for middle- and upper-income residents and for DC businesses starting in 2016. The problem with this plan is that tax cuts will take place before we know if there is enough money for next year to cover the costs of basic city services like schools and health care or affordable housing.

Under the timeline laid out in the FY 2016 budget, any increase in projected revenue collections between February 2015 and September 2015 projections would result in automatic implementation of tax cuts recommended by the Tax Revision Commission. The September revenue forecast from the DC Chief Financial Officer, released last week, reflects a $38 million increase over the baseline estimate from February (the same as the revenue projection from June). The increase is enough to trigger three major tax cuts totaling $27 million, with the remaining $11 million available to trigger other tax cuts in February. **See this chart book for how DC's tax triggers work.**

The $27 million will go to the following tax cuts (see the full Tax Commission list here):

- A reduction in the income tax rate for income between $40,000 and $60,000 to 6.5 percent ($14.2 million).
- A reduction in the income tax rate for income between $350,000 and $1 million, from 8.95 percent to 8.75 percent ($4.7 million).
- A reduction of the corporate and unincorporated business franchise income tax rate to 9.2 percent ($9.7 million).

Devoting all revenue growth tax cuts is problematic because DC may need some revenue growth just to cover the expanding cost of basic services, for things like rising health care costs, growing school enrollment, and Metro needs. In addition, $100 million in services in the fiscal year 2016 budget were funded with one-time sources, including $50 million devoted to the Housing Production Trust Fund. This means that DC will have to find new money to fill big gaps to keep services going next year. Lastly, there may be unexpected expenses, like a lawsuit, and using all new revenues for tax cuts would leave the city without a cushion.

This approach is notably different and riskier than the policy it replaced, which was to make tax cut decisions in February each year, closer to when the next budget must be put together. By February, the mayor and Council have a clearer picture of both the city's revenues and spending needs for the coming year, allowing for better decisions about how much to devote to tax cuts and how much to keep for schools, housing, and other needs.

The mayor and DC Council should consider slowing down future tax triggers over the next year so that we do not hamstring the ability to fund programs in FY 2017 and beyond. This could mean only allowing a portion of revenue growth in 2016 to go toward tax cuts.