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Testimony of Ed Lazere, Executive Director
At the Public Hearing on
Bill 22-914, The Internet Sales Tax Act of 2018
DC Council Committee on Finance and Revenue
October 10, 2018

Chairman Evans and members of the committee, thank you for the opportunity to submit this written testimony. My name is Ed Lazere, and I am the Executive Director of the DC Fiscal Policy Institute. DCFPI is a non-profit organization that promotes budget choices to reduce economic and racial inequality and build widespread prosperity in the District of Columbia through independent research and thoughtful policy recommendations.

The proposed Internet Sales Tax Act takes important steps to ensure that DC's sales tax applies to online retail purchases as broadly as possible, following a recent U.S. Supreme Court decision, *South Dakota v. Wayfair*. That decision eliminated long-standing restrictions against requiring retailers without a local presence to collect sales taxes. The Supreme Court decision is an important step in catching up with the reality that online sales are now commonplace and a growing share of all sales. Levying the sales tax on online purchases is critical to ensuring the viability of sales taxes as a revenue source for states and localities, and it supports fair treatment between online retailers and local brick-and-mortal retailers by ensuring that both collect sales taxes.

DCFPI therefore supports the provisions of the Internet Sales Tax Act to extend the sales tax to online and other remote purchases, in line with what is now allowed following the Supreme Court decision. We support any technical modifications proposed by the DC Chief Financial Officer needed to implement the bill in accordance with the Supreme Court decision and to align the sales tax expansion with DC's current sales tax administrative structure.

The DC Chief Financial Officer estimates this will raise $20 million per year. It is worth noting that DC already receives sales taxes from a notable share of online sales. This is because some online purchases made by DC residents are from companies that have a local presence, like Home Depot. Federal law has always mandated that online retailers collect sales tax when they also have a local presence in a jurisdiction. In addition, some retailers—most notably Amazon—have chosen to collect sales tax on all sales in the U.S., even in communities where they have no local presence.

New Sales Tax Revenue Should Be Used to Fund Services, Not Cut Taxes

Expanding the DC sales tax more completely to online sales will create an important new source of revenue for the District, without having to raise any tax rates. This new revenue thus is an opportunity to make investments that will help DC residents and strengthen the city.

Unfortunately, the Internet Sales Tax Amendment Act would use the new revenue to cut taxes, by reducing the commercial property tax for properties worth more than $10 million.

DCFPI strongly opposes this provision, for two reasons.

First, the commercial property tax was increased in the FY 2019 budget as part of the effort to provide DC's share of a regional $500 million annual investment in Metro's capital needs. DCFPI has long argued that because both residents and businesses benefit from a strong public transportation system, the cost of repairing Metro should be shared broadly, including among businesses and residents.[1] Scaling back the commercial property tax increase would inappropriately reduce the business community's responsibility for repairing Metro. Given that the commercial property tax increase is less than one-fourth of DC's $178 million new commitment to Metro, there is no compelling reason to reduce the business community's obligation.

Second, the $20 million in additional sales tax revenue could be better used to address urgent needs for DC residents, including schools, housing, homeless services, and health care. The District has tremendous needs in all of these areas, particularly to address DC's large and growing economic and racial inequities. The median household income for Black households is just $42,000 per year, and has not increased amidst 10 years of strong economic growth, according to a recent DCFPI analysis.[2] Meanwhile, median white household income is over three times higher—$134,000—and has grown notably over the last decade. The gap in wealth, or net assets, between Black and white residents is even wider. These figures remind us that the District should do more to ensure that all residents share in the city's growing prosperity.

The $20 million in additional revenues could be put to use in the following important ways:

- $20 million would increase the Housing Production Trust Production Trust Fund by 20 percent.
- $20 million would provide rental assistance for 1,000 extremely low-income households.
- $20 million would provide Permanent Supportive Housing to over 700 individuals facing chronic homelessness.
- $20 million would enable over 5,000 residents to access healthcare through the DC Healthcare Alliance program, by eliminating current barriers that make it hard for eligible residents to remain on the program.
- $20 million would nearly cover the cost of implementing the next step in the "Birth to Three for All in DC" Act that was adopted this year by the DC Council, but not funded. The FY 2020 increase under the law would support an increase in child care subsidies and increases in the very low pay of workers in the early childhood education workforce.
- $20 million would be enough to implement the Student Fair Access to School Act, which calls for eliminating punitive and discriminatory school discipline practices and replacing them with more positive student supports.

Thank you for the chance to submit this testimony.

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[1] Triple Whammy: A Sales Tax for Metro, Like Fare Increases and Service Cuts, Would Fall Hardest on Struggling Families, DC Fiscal Policy Institute, Maryland Center on Economic Policy, and Commonwealth Institute for Fiscal Analysis, August 2017.

[2] DC's Growing Prosperity Is Not Reaching Black Households, Census Data Show, DC Fiscal Policy Institute, September 26, 2018