

New Revenue from Online Sales Tax Should Be Used for Resident Needs, Not Business Tax Cuts

By Ed Lazere

The DC Council is moving to implement a Supreme Court decision that expands the ability of cities and states to collect sales taxes on online purchases, creating an important new source of revenue without raising any tax rates. The District should use that additional revenue to make investments that will help DC residents and strengthen the city—including housing, schools, and health care. Unfortunately, the current DC Council proposal would instead use that revenue to cut taxes for owners of DC's largest commercial properties. As the Council moves forward with an important modernization of the sales tax, it should make smart choices about how to use that revenue.

Supreme Court Decision Supports a Broad and Healthy Sales Tax

A recent U.S. Supreme Court decision, *South Dakota v. Wayfair*, 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. Collecting sales tax on online purchases is critical to ensuring the viability of sales taxes as a revenue source for states and localities. It also supports fair treatment between online retailers and local brick-and-mortar retailers by ensuring that both collect sales taxes, rather than creating a tax-free advantage for online sales.

The DC Chief Financial Officer estimates this will raise \$20 million per year¹.

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

The \$20 million in additional sales tax revenue could be used to address a variety of urgent needs of DC residents, including schools, housing, homeless services, and health care. Investing in these areas is crucial for addressing 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:

- Providing rental assistance for 1,000 extremely low-income households.
- Creating Permanent Supportive Housing for over 700 individuals facing chronic homelessness.
- Enabling 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.

- Implementing increases in child care subsidies under the just-passed “Birth to Three for All DC” Act. The increase also would support pay increases for underpaid early childhood education workers.
- Implementing 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.

The choice over how to invest the new online sales tax revenue is an important marker of the District’s commitment to creating a more equitable and inclusive economy. The District’s continuing prosperity and rising tax collections create opportunities to address the city’s large and growing economic and racial inequities, but that can only happen if policymakers focus on equity in choosing how to devote the city’s growing resources.

¹ 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.

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