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Testimony of Tazra Mitchell, Policy Director, DCFPI
Committee of the Whole Budget Public Hearing
Bill 23-316, Tax Revision Commission Reestablishment Amendment Act of 2019
September 30, 2020

Chairperson Mendelson and members of the Committee, thank you for the opportunity to testify. My name is Tazra Mitchell. I am the Policy Director at the DC Fiscal Policy Institute (DCFPI). DCFPI is a nonprofit organization that promotes budget choices to reduce DC's economic and racial inequities and build widespread prosperity in the District of Columbia, through independent research and policy recommendations.

We can all agree that rigorous, transparent, and regular evaluations of District tax policy is an essential practice for informing smart policy choices. And we can agree that the last Tax Revision Commission process led to some positive improvements to the District's tax code, particularly the expansion of the District Earned Income Tax Credit, which benefits low-income workers. However, DCFPI believes that another Tax Revision Commission is not the solution that we need in this unprecedented moment. Nor is it the process best designed to consistently bolster data-driven policies over consensus-driven policies, which are often less evidenced-based. Good, timely policy is the goal.

Right now, our District is in crisis. Revenues are shrinking. Tens of thousands of our neighbors are out of work, going hungry, and falling behind on rent.¹ And every day, small businesses are announcing that they made the tough call to shut their doors for good. Black and brown residents and businesses are suffering the most. The havoc that the pandemic is wreaking illustrates why revenue changes may be urgently needed before a once-in-a-decade tax commission can put forward its recommendations. We can't afford to delay action when we already know what works: progressive tax policy changes are how we put people first and get our economy back on track.

Today, my testimony will focus on:

- why District leaders should take bold, swift action to save lives and protect livelihoods;
- better policy alternatives to a Tax Revision Commission that are available, such as expanding capacity in the Council Budget Office and holding a revenue hearing earlier in the budget process; and,
- suggestions to improve Bill 23-316 if it moves forward.

We Need Progressive Revenue Changes Now

The District doesn't need another tax commission to suggest how to immediately respond to the pandemic and economic crisis or how to build an inclusive recovery. The primary goal of revenue policy is to raise enough revenue to meet the critical needs of DC residents, and a guiding principle is to do so in a way that asks more from those with the greatest ability to contribute—that is, we should raise revenues in a way that advances equity. We can and should do both. (See more on this in the following sections.)

The solution is to require high-income people and businesses that continue to thrive even during these hard times to contribute more, and voters agree.² There is already ample evidence that the pandemic is thriving on income inequality. High-income people and those with wealth have avoided the worst economic effects of the

recession: they've been less likely to lose their jobs, benefitted from a rebounding stock market, and seen an increase in luxury home values.³ Meanwhile, the District's top earners pay a *smaller* share of their income on total local taxes compared to the middle class⁴—and they're disproportionately benefitting from the federal Tax Cuts and Jobs Act, which turbocharged tax cuts for the wealthy, the supermajority of whom are white.⁵ It is a policy choice to allow this to continue while half of DC children in renter households were in households that didn't get enough to eat, were behind on rent, or both, in July.⁶

These are racialized choices, given the District's history of systemic racism, our stark racial income and wealth divides, and how the pandemic is hitting Black and brown DC residents the hardest. Residents who are Black and low-income would benefit the most from tax increases that target DC's wealthy residents and profitable corporations. That's because they stand to suffer most from a budget that fails to adequately address the child care and housing crises. There are big needs in our city and these challenges will worsen if we fail to center tax, racial, and gender justice in our response.

Better Ideas are Available

While the DC Council needs to improve how it vets tax policy, DCFPI does not believe that the Tax Revision Commission is the process best designed to consistently bolster data-driven policies (including qualitative data of people with lived experiences) over consensus-driven policies, which are often less evidenced-based. Good policy is the goal.

For example, even though the last Tax Revision Commission sought to create a fair and competitive tax system, it recommended to lower the franchise tax from 9.975 percent to 8.25 percent in order to match Maryland's tax rate. Yet, research presented to the Commission showed that a cut to the franchise tax wasn't warranted. DC had outperformed surrounding jurisdictions in business and job growth in the last decade, despite having a higher corporate income tax rate. The recommendation also meant that a business's income would have been taxed at a lower rate than residents with moderate incomes in DC.⁷

An alternative to the Tax Revision Commission is for the DC Council to fund additional capacity in the Council Budget Office to conduct ongoing, nonpartisan research and analysis of recommendations to improve the District's tax system. This would ensure that neutral experts are keeping a pulse on the latest tax research, fairly assessing how District tax policies are meeting their intended goals, and periodically developing evidence-based recommendations that would be timely and available to Council and the public. This office is well-equipped for the role as they already offer fiscal policy research and analysis to members of the Council and the public. And, additional capacity to do this work is even more important given that the DC Council does not have professional, nonpartisan committee staff. This work would be complementary to some of the work that the Office of Chief Financial Officer conducts, such as tax expenditure reviews.

Another complementary idea that DCFPI raised earlier this year⁸ is to improve how the DC Council makes its revenue decisions and put all tax responsibilities—from income and sales taxes to economic development tax policy—in the Committee of the Whole (COW), where every Councilmember serves. Revenue decisions affect the ability to fund Council-wide priorities, and every Councilmember deserves an opportunity to shape those decisions. It makes sense to amend the budget process to include a COW hearing on revenues after budget oversight hearings but before the hearing on the Budget Support Act, which includes policy changes. This would ensure that lawmakers have an early opportunity in the budget process to assess and debate whether changes to the tax system are needed to keep up with growing needs. And, this proposal would ensure that any stakeholders that would have been on the Commission, or any District resident, would have the opportunity to use their voice to help shape the outcome.

Improvements to B23-316

If Council opts to move forward with the Tax Revision Commission, it should update the guiding principles that direct the work of that body. The previous Tax Revision Commission operated in an era of budget surplus, a couple years into the economic recovery; that's not the scenario that we're facing today. The principles that guided the previous Tax Revision Commission's work also provided unwarranted attention on maintaining "competitiveness" with surrounding jurisdictions,⁹ despite the large majority of studies by economists finding that interstate differences in tax levels have little if any effect on relative rates of state economic growth.¹⁰

A better prescription for boosting the District economy would be to amend the criteria to focus more on principles that advance adequacy, inclusive economic growth, and racial equity. Recommendations should ensure there is adequate revenue to meet growing needs so all DC residents can benefit from our city's growing prosperity. Recommendations should be grounded in the understanding that economic growth without broad prosperity is not good enough; it must be inclusive. And, racial equity requires that recommendations ask more from DC's richest households and profitable businesses to pay their fair share, on the whole, so we can have more revenue to invest in things that act as building blocks of economic growth, like schools.

To elaborate, the Tax Revision Commission's recommendations should be evaluated both with an eye towards how they affect residents and the broader community by income *and* race. Assessing if and how a policy would have a disparate impact by race—by disaggregating data by race from a model-based distributional analysis, for example—is paramount to building truly equitable and sustainable tax systems. I think we can all agree that a continued colorblind approach to tax policy is outmoded and ineffective.

Further, any subsequent Tax Revision Commission should be more intentional about soliciting input from the general public, particularly people with lived experiences.

DCFPI is eager to see progress on improving adequacy and equity in our tax code and willing to help in any way we can. Thank you for the chance to testify.

¹ Alyssa Noth and Tazra Mitchell, "[Before the Pandemic, DC's Economy was Booming, but COVID-19 is Increasing Hardship.](#)" DCFPI, September 17, 2020.

² DCFPI and DC Action for Children, "[83 Percent of DC Voters Support Raising Local Taxes on Wealthy Residents.](#)" June 17, 2020.

³ Sam Waxman, "[States Should Tax Wealth to Respond to COVID-19.](#)" Center on Budget and Policy Priorities, September 23, 2020.

⁴ ITEP, "[Who Pays?: District of Columbia.](#)" September 2018.

⁵ ITEP, "[TCJA by the Numbers, 2020.](#)" August 28, 2019.

⁶ Noth and Mitchell (2020).

⁷ Ed Lazere, "[DC Tax Commission Crunch Time.](#)" DCFPI, December 5, 2013.

⁸ Tazra Mitchell, "[A Path to Better Budgeting: Move Tax Policy Responsibilities to the Committee of the Whole.](#)" DCFPI, January 24, 2020.

⁹ The 5 criteria that guided the previous Tax Revision Commission's work were: (1) Provide for fairness in apportionment of taxes; (2) Broaden the tax base; (3) Make the District's tax policy more competitive with surrounding jurisdictions; (4) Encourage business growth and job creation; and, (5) Modernize, simplify, and increase transparency in the District's tax code.

¹⁰ Michael Leachman and Michael Mazerov, "[State Personal Income Tax Cuts: Still a Poor Strategy for Economic Growth.](#)" Center on Budget and Policy Priorities, May 14, 2015.