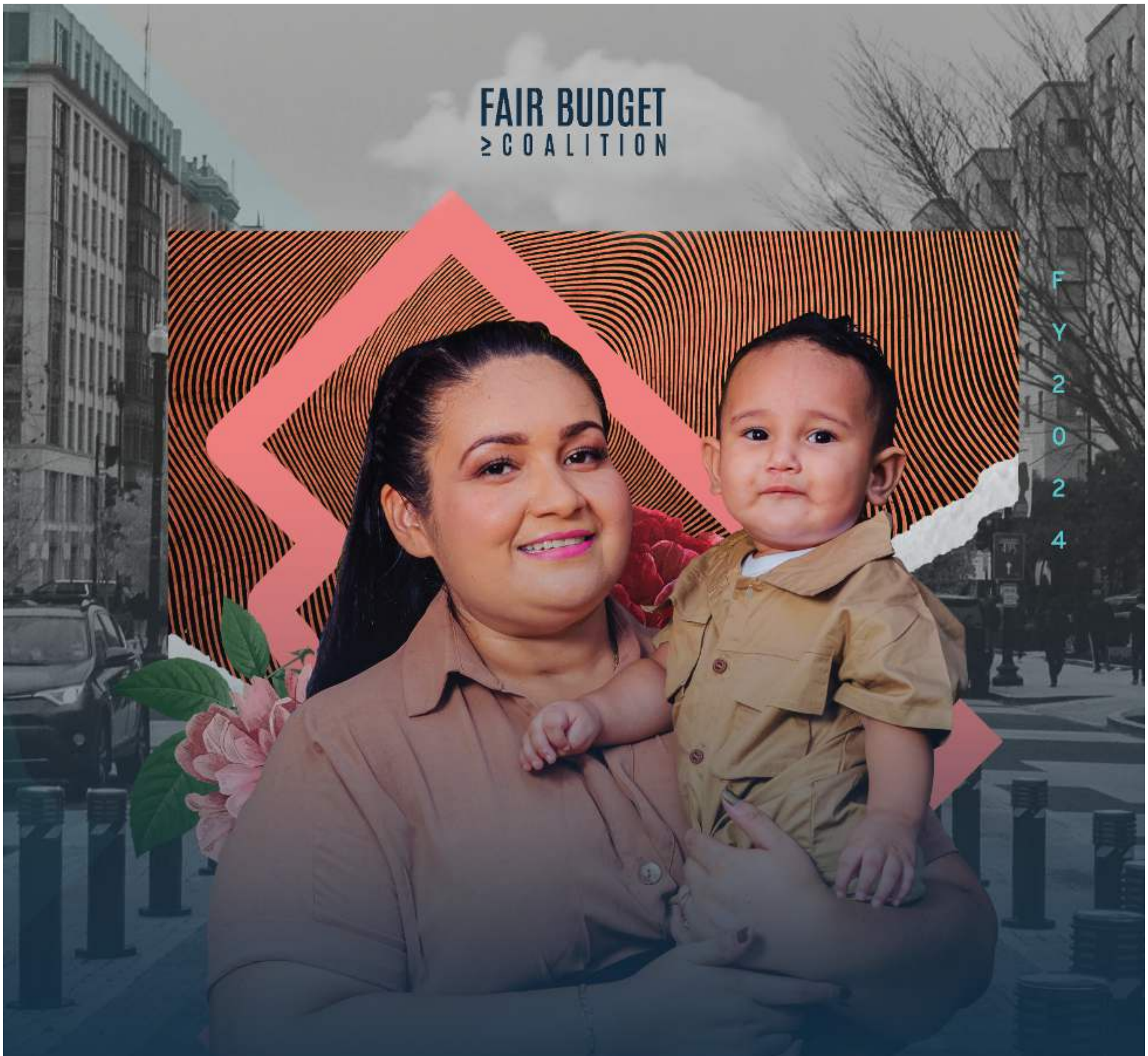

FAIR TAXES & PUBLIC DEALS ISSUE GROUP

F Y 2 4 P L A T F O R M

Fair Taxes and Public Deals Issue Group
FY 2024 Platform

INTRODUCTION

Tax policy can be a significant lever for fighting poverty and building more just and racially equitable communities. When unexamined and unaddressed, state tax policies exacerbate racial inequities. Fair Budget Coalition's Fair Taxes and Public Deals issue group puts forward recommendations to make DC tax and revenue policy more racially and economically equitable, progressive, and sufficient for funding government services that ensure that all communities are able to thrive.[1]

Given that the District's Tax Revision Commission is currently sitting and will not be issuing recommendations until later in 2023, it is all but certain that city policymakers will not be considering tax proposals at this time. For this reason, the issue group does not have formal recommendations as part of the Fair Budget Coalition budget platform for fiscal year 2024.

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[1] The mission statement of the Fair Taxes and Public Deals issue group:

DC has a multi-billion dollar budget, yet each year our city still does not meet the needs of all its residents, especially Black and Brown communities. DC's tax system and public deals disproportionately benefit white wealthy individuals and corporations to the detriment of Black and brown working class people. These policies are not only unfair but also fail to use fiscal policy to address the on-going harms that both federal and local government has inflicted on Black and brown residents over centuries.

Fair Budget Coalition's Fair Taxes and Public Deals Issue Group advocacy focuses on ensuring that DC's tax system and related policies:

- advance racial and economic justice, including by using DC's resources for the benefit of those who need it most;
- become more progressive** and hold wealthy corporations and individuals accountable for paying what they owe;
- raise and dedicate enough revenue to meet marginalized residents' needs, through equitable taxation; and
- prevent public deals (including tax subsidies, contracting, and hiring policy) that enrich corporate interests and siphon city revenue away from addressing the needs of Black and brown communities.

As an issue group, we keep our essential values in mind while working to address these injustices: fairness, justice, racial equity, community wellbeing, progressivity in taxation, and redistribution of wealth.

**Progressive taxation means that tax rates aren't the same for everybody - the people who have more money (income and/or wealth) pay more in taxes as a percentage of their income or wealth than people who don't have as much income or wealth.

Instead, the issue group offers this Tax Platform to lift up some compelling tax policies and revenue options that would advance racial and economic justice. The issue group will work with coalition members and partners to advance these ideas throughout the advocacy cycle and as possible to the Tax Revision Commission.

Many dynamics frame the context for the ideas we present here. First and foremost, DC's most disinvested communities need greater investments to be able to flourish. We face alarming and extreme racialized inequality that limits economic growth. A typical white household in DC has 81 times the wealth of a typical Black household, as a result of historic and ongoing racism, white supremacist government policies, and economic exclusion. DC has a disproportionate concentration of wealth compared to most other states, yet the wealthiest residents still pay a smaller share of their income in taxes than do middle-income earners. They benefited significantly under the federal Tax Cuts and Jobs Act of 2017, with the top 1% reaping an average tax cut of $81,000 in 2019 alone. By contrast, DC income taxes increased, primarily for low- and middle-income taxpayers. The massive tax windfalls to DC's wealthiest individuals and corporations present an opportunity for DC to claw back revenues from these groups.

Lastly, while pandemic impacts have eased for wealthier and predominantly white residents, lower-income Black and brown residents continue to suffer economic effects from the pandemic. District investments for these needs are still urgent and on-going, even as the infusion of federal ARPA money is phasing out. It is extremely unlikely these needs will end at the same time as the one-time federal funding to address them (by the end of 2026). We must find on-going sources of revenue to address the additional demands, for everything from nutrition support to free Metro to mental health and programs for students and families to economic improvements for low-paid workers. To add insult to injury, DC's lack of statehood results in a loss of $3.2 billion in revenues we could otherwise collect. The inability to collect these revenues must not be an excuse by DC leaders to do less for working class Black and brown residents and other marginalized communities.

POLICY OPTIONS TO IMPROVE RACIAL EQUITY AND ECONOMIC JUSTICE IN THE DC TAX STRUCTURE

I. Expand the full Child Tax Credit to marginalized families left out of the federal CTC

DC should create a Child Tax Credit (CTC) for families with low and no incomes including for those who have been left out of the federal CTC, such as immigrant households with an undocumented parent and parents with no work income. Additionally, DC should provide the balance of the full federal credit for the families who cannot receive the full credit because their incomes are too low and who are disproportionately Black and brown. 33 percent of all DC children, the vast majority who are Black, do not receive the full value of the federal CTC.

The CTC improves many child outcomes long into the future. Pandemic assistance to families halved the U.S. child poverty rate from 2020-2021, with almost 90 percent of the drop due to the expanded CTC alone. The federal CTC expansions moved an additional 2.9 million children out of poverty in 2021, more than 65 percent of whom were children of color. The ending of these expansions likewise demonstrated significant reversals of the improvements.

Though the expansion lapsed at the federal level, its successes justify DC implementing similar policy expansions for the benefit of Black and brown families with low incomes. The expansion was particularly beneficial for parents with the lowest or no incomes, who were not previously eligible for the tax credit at all. As well, the tax became fully refundable, meaning that families with smaller tax liabilities could now receive the full value of the credit, rather than simply the amount up to the value of their tax liability. Additionally, the expansion allowed immigrant parents who use an individual taxpayer identification number (or ITIN, for people who are ineligible for a social security number to use in reporting their taxes) to receive the tax credit for their children who have social security numbers.

II. Increase the property tax rate on the highest value homes

DC should introduce some progressivity in its personal property tax structure by raising the property taxes on the highest value homes in the city. Currently, DC taxes homeowners of the most expensive homes at the exact same rate as those with homes with much lower values. This situation represents an unfair, disproportionate burden on the bottom 40 percent of homeowners, who pay a greater percentage of their overall wealth/income in property taxes than do those with the greatest wealth and who are more likely to be Black or other people of color.

A tax on the highest value homes is one method for taxing wealth. Many forms of wealth are more easily protected from taxation or even transferred out of a taxing jurisdiction. By contrast, home values tend to be much easier to determine, making a mansion tax a relatively straightforward mechanism for taxing wealth. Existing research can support DC is making the best policy choices in designing a mansion tax.

The current property tax formulation leaves potential revenue untapped for the city to use to address its substantial housing crisis, which has disproportionately impacted Black and brown residents of the city. Revenue raised through increased property taxes on the most expensive homes could be targeted to preventing Black home foreclosure and increasing rates of Black homeownership, for example.

III. Decrease the value of the exemption for estate taxes

DC should decrease the value of the exemption for the estate tax. Currently, the estate tax exempts $4 million from the value of the estate before taxes are levied, ensuring that the heirs of the wealthiest residents gain, if not maintain, millionaire status. This exemption is overly generous for wealthy–predominantly white–families who least need it and contributes to the ongoing racial wealth gap in the city. As recently as 2016, DC's exemption was capped at $1 million, a still-generous but less egregious amount.

Particularly because the estate tax is one of the few true wealth taxes, it is important that DC make use of it. A lowering of the exemption would help prevent excessive intergenerational wealth transfer, a phenomenon that exacerbates the racial wealth gap. The federal estate tax has never been weaker, and DC should not be following on that inauspicious path.

IV. Automate the Earned Income Tax Credit

DC should make its Earned Income Tax Credit (EITC) heavily or completely automated to ensure that all eligible workers receive the credit. Only about 75 percent of eligible taxpayers claim the EITC, despite the EITC being a strong anti-poverty mechanism and DC having the highest credit in the U.S. Additionally, DC should address the problem that thousands of immigrant workers are excluded from the benefit due to lack of ITINs. By 2026, the DC EITC will fully match the federal credit, making it an extremely valuable support to workers. No low-paid workers should miss out on this financial stabilizer, whether due to lack of awareness, administrative burden, or paperwork error.

V. Implement a progressive ticketing system

Traffic and parking tickets cause financial hardship for Black households with low incomes as fines spiral out of control, first penalizing, then deepening, poverty. Residents face severe negative impacts - loss of the use of the car, loss of employment, and even homelessness - when they cannot pay these fines. Equally disturbing is the racially disparate rate of ticketing by cameras and police in majority Black neighborhoods. For these reasons, policymakers should ensure that fines are not incentivized as revenue-raisers and do not target working class communities.

More broadly, DC should implement a progressive - and fair - ticketing system, which designs fines differentially based on income level. There are several options for structuring such a system, all of which aim for fairness, equitable implementation, and reduced harm through affordability. Such programs offer the possibility not only of a more equitable and just fines system but also of a more positive experience of government by residents with low incomes.

VI. Implement a congestion tax

To address air pollution from car commuters that disproportionately sickens Black and brown residents in neighborhoods located near primary commuter routes into the city,[2] DC should implement an income-calibrated congestion charge for all vehicles entering a defined area. This policy would both increase the rate of commuters using public transportation and provide revenue to subsidize public transit for both commuters and DC residents. Alternatively or additionally, DC could implement a hefty property tax surcharge on downtown office buildings that provide free parking for their employees.

Based on available data on commuting into downtown DC and a projected level of 20 percent working from home in the near future, assuming about 80,000 cars/day, a $10 charge to enter downtown DC by car every workday could generate net revenue equal to $100 million/year (assuming gross revenue twice that level, similar to London's congestion charge). This charge should be calibrated to a driver's income level to avoid a regressive tax on working class

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[2] A recent study showed four times the death rate from air pollution in Wards 7 and 8 compared to Ward 3.

drivers. We are considering, as well, how to avoid disparate harm to low-paid workers living in areas with poor access to public transit.

VII. Perform more audits of high income tax filers and prosecute wealthy tax cheaters

The top 1 percent of U.S. taxpayers comprise the largest share of tax avoidance contributing to the gap between what taxes are owed and what are collected (both by percentage of the total gap (28 percent) and by dollar amount ($168 billion)). This tax evasion plays a statistically significant role in increasing inequality, and means that the wealthiest taxpayers avoid their tax responsibilities through both legal loopholes and illegal means. Further, the tax gap forces federal, state, and local governments to make decisions about critical community needs in a landscape of budget constraints and tradeoffs.

This past summer, Former Attorney General Karl Racine sued a billionaire resident of DC for tax evasion, claiming that he cheated the city of around $25 million in unpaid taxes. This amount alone, for example, could provide almost the entirety of local dollars needed to fund the No Senior Hungry Omnibus for four years, an amount that the Chief Financial Officer deemed unavailable at the time of the bill's consideration for the budget.

VIII. Target tax increases to recoup Tax Cuts and Jobs Act of 2017 cuts for the wealthiest businesses and individuals

As mentioned above, the federal tax cuts of 2017 resulted in huge savings for the wealthiest businesses and individuals in DC. We can grow revenues to address critical needs by raising DC taxes on the wealthiest businesses and individuals. Such increases offer a potential source of recurring revenue for the many necessary investments in holistic community wellness and racial equity. The slight tax increase on the highest earners passed in August 2021, for example, recaptured a small amount of these cuts and resulted in a more progressive income tax structure. Policymakers targeted the added revenue to important racial equity policies: bolstering the DC EITC, providing more support for unhoused residents, and improved incomes for essential early childhood educators. This rate increase for a small percentage of the highest income-earners was a big victory, but a large and urgent need for funding remains to address racialized economic disparities in DC.

IX. Improve accuracy in revenue forecasts to avoid large budget surpluses

We also believe it is important to address the staggering problem of budget surpluses of over $500 million in each of several years in a row. DC should ensure that revenue forecasts are as accurate as possible. The recurring huge surpluses suggest that the Chief Financial Officer is estimating too cautiously. The inaccuracies result in critical programs going under- or unfunded in the budgeting process. Essentially, these surpluses have represented over $1.5 billion-worth of missed opportunities to meet more of the District's critical human needs over the past three years.

Surplus amounts are automatically redistributed to the Housing Production Trust Fund and the "PayGo" fund for capital improvements. The automatic distribution of these funds is an abdication of the responsibility to make thoughtful and accountable spending decisions. The surprise mega-surplus only reinforces the idea that the government is not working for the people who most need it to function well.

Various policy options exist to improve this process, by building flexibility into the budget. By June, when the surplus situation is clear, the Council can convene a pre-designated group of community members with lived experience of economic exclusion and advocates working in the field to prioritize targets for additional spending. Similarly, a “trigger” bill could kick in when revenues are higher than anticipated, triggering a budget increase with specified funding targets. Certainly DC can allocate surplus to any Fair Budget Coalition budget recommendations that are still unfunded after the regular budget process. Given the involvement of directly impacted community members, service providers, policy experts, and organizers in a deeply collaborative process to identify critical budget gaps and needs, the Fair Budget Coalition Budget Platform presents the mayor and DC Council with an outstanding set of priorities. Lastly, surplus funds can be used to fund essential projects until sources of recurring funding can be identified. DC has an undeniable abundance, and we seek to use it for liberatory policy and investments.