DC Council Must Put Bolder Revenue Options on the Table to Balance the Budget and Build for a #JustRecoveryDC

The pandemic and crushing economic downturn is bringing extreme levels of hardship to DC families. Tens of thousands of workers are jobless and a growing number of small businesses have been shuttered. To ensure we build a just recovery and come out of this crisis stronger than before, it is important for the city's response to protect and strengthen crucial investments in homeless services and housing, health care, social services, and education.

Mayor Bowser's proposed FY 2021 budget staved off deep across-the-board budget cuts that would have deepened the economic downturn, in large part by tapping a portion of the reserves, using surpluses and fund balances, and refinancing our debt, among other tactics. We applaud her for this resourceful leadership. Yet, she could and should have done more to commit to a just recovery. Her budget fails to fund some critical needs, such as a stabilization fund for child care providers and cash assistance for immigrant residents ineligible for federal stimulus payments and unemployment insurance; it underfunds critical services and programs, such as permanent supportive housing for our neighbors who are homeless; it asks too little from our wealthiest residents and too much from others, like city workers who would face a COLA freeze; and, it fails to lay the groundwork to address entrenched structural inequities, many of which the pandemic has amplified.

All options to do more must be on the table, including raising revenues, so communities being hit the hardest by the pandemic—and those who were suffering even before—are not further hurt by underfunding critical programs. DC Council must do more to build a resilient, #JustRecoveryDC that protects the most vulnerable residents, meets human needs, and advances racial justice.

Moving forward, we urge the DC Council to enact a bolder revenue strategy that would protect programs and build a truly just recovery. They should consider the following policy ideas:

- **Make Wealthy Residents Pay Their Fair Share of Income Taxes.** DC residents making $60,000 in taxable income a year and those making $350,000 pay the same income tax rate. And millionaires pay a tax rate that is just slightly higher. This is unjust and bad fiscal policy. Targeting tax increases on the wealthiest taxpayers would increase equity and generate new revenues to fund services that the Mayor underfunded in her budget.

DC could raise $186 million by adding a 3 percentage point surcharge to the top two tax brackets, for example, making those with taxable income of $350,000 or more pay their fair share. These taxpayers would still be better off due to the massive 2017 federal “Trump tax cuts,” which provided the top 5 percent of DC taxpayers tax cuts totaling $500 million. Council could consider “recouping” some of those breaks at the local level, as we know that greater reform is required to make our tax code fairer, including--but not limited to--breaking up the $60,000 to $350,000 tax bracket.

Other mechanisms to make our tax structure more equitable:

- Enacting a tax table benefit recapture in the top two brackets: High-income taxpayers pay the top rate only on the portion of their income that falls in the highest bracket; hence, the reduced rates that are intended to benefit lower- and middle-income taxpayers benefit the wealthy as well. Tax recapture requires high-income earners to pay at the top rate on all their income.
- Reverting to the 2016 non-taxable estate tax exemption level**.** DC’s estate tax, our most progressive revenue source, has been substantially eroded over the past several years, as DC has repeatedly increased the size of estates that are allowed to be passed to heirs completely tax free. The exemption used to be $1 million in 2016; now, it’s more than $5.6 million. Given that the 2017 “Trump” tax cuts doubled the non-taxable federal estate threshold--which is now $11.58 million--DC can revert to a lower threshold and estates could still be better off due to generous federal policy changes.

- **Reverse Certain Tax Changes Enacted through the Tax Triggers**. Over the past several years, DC phased in a number of tax changes through revenue “triggers.” When revenue projections showed that the city’s revenues were rising faster than previously expected, tax cuts were automatically triggered to be adopted. Now that revenues have plummeted, DC should reverse the tax cuts that benefit high-income residents and profitable corporations. For example, this includes reversing the estate tax cut and personal income tax cut for households earning more than $350,000. Reversing these tax cuts could be folded into the policy ideas that are described in the previous section.

- **Repeal the Qualified High Technology Company Tax (QHTC) “Incentive.”** The District should fully repeal the ineffective and poorly targeted QHTC tax break—which would save the District $24 million. The CFO found that many of the companies claiming the tax break are primarily located outside of the District and not contributing to economic growth. The Mayor's budget not only leaves this tax loophole in place, but it expands the maximum QHTC real property or possessory interest tax rebate, costing an additional $1.9 million in FY 2021.

- **Reject Corporate Demands for "Deferred Tax" Deductions.** DC lawmakers should eliminate the Deferred Tax Liability Deduction (a deduction from gross income) in the corporate franchise tax that will begin benefiting corporations when they pay their 2020 tax bill in calendar year 2021**.** This deduction allows publicly traded companies to receive a generous tax break to offset a "paper" expense that some corporations like Amazon must report on their financial statements. Savings are projected to total $7.4 million.

- **Fully Eliminate Tax Breaks for Investments in Opportunity Zones (OZ).** The Council should fully decouple the District's corporate franchise and personal income tax code from the federal law that created new capital gains tax breaks for investments in designated OZs. This change would require capital gains income associated with OZs to be taxed in the normal fashion, as ordinary income. There is already considerable national evidence that the program is turning out to be a windfall for rich investors rather than likely to benefit low-income zone residents it was ostensibly intended to help. Further, OZ programs could fuel displacement and gentrification, and they are under federal investigation for enriching political supporters. The Mayor's budget only blocks tax breaks for investments that are out-of-state and those failing to meet specific criteria. If the federal government wants to give another tax break to investors they can, but it doesn't mean that DC should follow suit.

- **Eliminate the Qualified Supermarket Tax Incentive and Redirect Savings into Food Security Programs.** This program provides poorly targeted exemptions for specific taxes and fees, and the CFO said they haven't been helpful in bringing quality grocery stores to food insecure areas of DC that need them the most—that is, in Wards 7 and 8. Lawmakers should eliminate the tax break and redirect the funding to programs that actually improve food security in food insecure areas, such as a DC Good Food Investment Fund that prioritizes resources for projects located in Wards 7 and 8. The District spent almost $29 million on this incentive between 2010 to 2017.

- **Require Gig Employers Pay Their Fair Share of Taxes by Prohibiting Misclassification that Leaves Employees Vulnerable.** Rather than pay their lawful taxes, gig companies are forcing the public to foot the bill for badly-needed benefits for their workers. To date, ride-hailing giants Uber and Lyft have not paid into DC or federal-level UI programs for these workers. DC should hold these and other companies responsible for unpaid unemployment insurance taxes, ensure that workers receive the highest-level of available benefits under traditional unemployment insurance, and revise the worker misclassification law to clarify the employer obligations gig companies are currently evading.

- **Repurpose Non-Essential Project Funding to More Pressing Needs.** The District should consider delaying non-essential existing capital projects with cash behind them, when possible. This would free up funds that the DC Council could use to boost one-time funding for essential low-income programs. For example, the Mayor's budget includes a $5.43 million cash allotment for the Streetcar, which is non-essential, on top of additional bond funding. The cash dollars could be allocated to more pressing needs on a one-time basis--such as the public housing repairs, a child care stabilization fund, or the Housing Preservation Fund--to help the city recover.

- **Use DC's "Rainy Day Fund" and Redirect Fund Balances:** The District should consider using more of our $1 billion-plus reserves in FY 2021 to address immediate needs. We save for economic storms. Now that we're in one, leaders should use more reserves and waive the local restrictive rules that keep some of the funds off limits. If lawmakers wish to replenish the reserves sooner, they can use new COVID-19 federal funds to reimburse qualifying immediate expenses or they could enact new revenue increases and direct a portion of them into the reserves once the economy hits certain economic recovery triggers. The Mayor's budget uses the entire $213 million in the Fiscal Stabilization Fund in FY 2021 without expectations to refill it that year, but the other three reserves appear to remain full by year's end. We can better balance both the threat of a second wave and address the urgency of the challenges the pandemic is causing.

- **Make Full Use of Federal Coronavirus Relief Funds for Human Needs**. The federal government is providing substantial aid to the District to help address pandemic-induced economic hardship, based on a recent report from the DC Auditor's Office. And, it is possible that we will receive additional funds in the future. The Mayor's budget proposals do not fully allocate all of the new federal dollars, in part because rapid response efforts are changing day to day. The DC Council should work with the Mayor to fully leverage those dollars alongside local funds to both relieve local budget pressures and expand and protect basic human needs (housing, food, healthcare and education).

The current crisis is wreaking the most havoc on those who were already suffering before the pandemic. In a city with striking income and racial disparities, we can't tolerate flat funding or cuts that deepen inequities. A balanced approach that includes new revenue would minimize harm while reducing long-standing, unacceptable disparities in the District. Residents who are Black and low-income will benefit the most from tax increases designed to protect funding for essential services generated by asking wealthy residents to pay the fair share they have escaped for too long. Budgets that fail to adequately protect childcare, housing, health care, nutrition, and paid leave fail to serve the very residents who have experienced the greatest harm during this pandemic.

We strongly urge the DC Council to increase revenues, put people over profits, advance racial justice, and look to the long term prioritization of building a more just and equitable future. Likewise, we urge you to reject fiscally irresponsible calls from DC2021 to enact non-targeted and massive tax cuts for big business and developers that would blow a hole in the budget. There are better ways to support small businesses. We also urge you to reject suggestions from DC2021 members to delay paid family leave implementation or raid the program fund--programs that protect workers and improve community health and wellbeing must be sustained, not dismantled, particularly during a pandemic.

Sincerely,

The Fair Budget Coalition

350 DC

Advisory Neighborhood Commission 7F

Bread for the City

CASA Ruby

CCAN Action Fund

Children's Law Center

Christ House

Committee of Interns and Residents (CIR/SEIU)

Connection COREE

D.C. Early Learning Collaborative,Inc.

D.C. Family Child Care Association

D.C. Hunger Solutions

D.C. Action for Children

D.C. Coalitions Against Domestic Violence

D.C Doors

D.C. Early Learning Collaborative, Inc

D.C. Environmental Network

D.C. for Democracy

D.C. Jobs for Justice

D.C. Nurses Association

D.C. Statehood Green Party

DCFPI

Dupont East Civic Association

Eight Day Church

Empower D.C.

Empower ED

Everyone Home D.C.

Fair Chance

GLAA

Holy Comforter-St Cyprian Roman Catholic Church

Homeless Children's Playtime Project

Jews United for Justice

Legal Aid Society for the District of Columbia

LISC DC

LIUNA Local 11

Mary's Center

Network for Victim Recovery of DC (NVRDC)

Pathways to Housing D.C.

PAVE

Positive Force DC

RESULTS DC

Sasha Bruce Youthwork

SEIU Local 500

SMYAL

TENAC (DC Tenants' Advocacy Coalition)

The DC Center for LGBT Community

The Equal Rights Center

Washington Area Women's Foundation

Washington Legal Clinic for the Homeless

We Are Family Senior Outreach Network