

Revenue and Resource Reallocation

Introduction

Recognizing the urgency of the District's needs for supports and services during the public health emergency and the economic crisis, the Council moved to expand the tax base, raise tax rates and charges on certain transactions, eliminate specific tax deductions, and repurpose existing government reserves. Through these changes, the Council [identified \\$93.4 million in new and repurposed resources to be budgeted in FY 2021 and \\$278.2 million across the four-year financial plan](#) – see [Table 1](#).

Table 1: New Resources the Council Makes Available in FY 2021-2024 (in thousands)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2021-2024 TOTAL
QHTC	\$28,159	\$35,545	\$36,580	\$37,644	\$137,928
LOCAL TRANSPORTATION SURCHARGE	\$5,558	\$11,934	\$12,700	\$13,651	\$43,843
COMBINED REPORTING	\$7,443	\$7,443	\$7,443	\$7,443	\$29,772
ESTATE TAX	\$1,784	\$2,408	\$2,457	\$2,510	\$9,159
MONSANTO CO. SETTLEMENT	\$9,960	-	-	-	\$9,960
FUND SWEEPS	\$10,888	-	-	-	\$10,888
FY20 FUNDS CARRIED FORWARD	\$13,400	-	-	-	\$13,400
CIP MODIFICATION	\$11,000	-	\$1,000	\$6,000	\$18,000
SALE OF DISTRICT-OWNED LAND PARCELS	\$5,205	-	-	-	\$5,205
TOTAL	\$93,397	\$57,330	\$60,180	\$67,248	\$278,155

Modify the QHTC Tax Incentive

The Qualified High Technology Company (QHTC) tax incentives program is the largest Economic Development Tax Expenditure provided by the District.¹ The QHTC tax incentives were established by the "New E-conomy Transformation Act of 2000" with the intent of growing the District's technology sector.² The Office of the Chief Financial Officer (OCFO) concluded that gains in the District's high-tech industry and some QHTC payrolls cannot be directly attributed to the QHTC incentives due to their untargeted nature.³ Structural issues within the program also pose fiscal risks for D.C. and make administration and compliance enforcement difficult.

The Council modifies the QHTC tax incentive in the "Fiscal Year 2021 Budget Support Act of 2020" (FY 2021 BSA), which will result in an additional \$28.16 million in tax revenues in FY 2021 and \$137.93 million over the four-year financial plan.

The Council extends the tax exemption delay on capital gains from the sale of an investment in a QHTC to tax years beginning on and after January 1, 2025. The Council also repeals the QHTC personal property tax exemptions, a carry-forward for disadvantaged employee retraining, beneficial income tax rates and exemptions for QHTCs, and tax credits for Qualified Social E-commerce Companies; disallows QHTCs from electing to expense certain depreciable business assets; requires QHTCs to have a minimum of 10 (rather than two) employees; reduces the QHTC income tax credits for retraining qualified disadvantaged employees from \$20,000 to \$10,000; and eliminates a rollover of capital gains from qualified stock.⁴

Local Transportation Surcharge

The District's current motor vehicle fuel tax of \$0.235 per gallon has not changed since FY 2010. Through the FY 2021 BSA, the Council adds a Local Transportation Surcharge of \$0.053 per gallon to motor vehicle fuel in FY 2021, increasing to \$0.103 in FY 2022, which will make the total charge that drivers pay at the pump \$0.338 per gallon starting October 1, 2021. In subsequent years, the rate will be increased based the regional Consumer Price Index. The District's new motor vehicle fuel tax rate remains lower than the rate in Maryland rate and is now equal to Northern Virginia – see [Table 2](#).

Table 2: Regional Motor Vehicle Fuel Tax and Local Transportation Surcharge Comparison (July or October 2021)

	MARYLAND	NORTHERN VIRGINIA	DISTRICT OF COLUMBIA
STATE MOTOR VEHICLE FUEL TAX RATE, PER GALLON*	\$0.367	\$0.262	\$0.235
REGIONAL MOTOR VEHICLE FUEL TAX RATE, PER GALLON	-	\$0.076	-
LOCAL TRANSPORTATION SURCHARGE	-	-	\$0.103
TOTAL RATE	\$0.367	\$0.338	\$0.338

**EFFECTIVE JULY OR OCTOBER 2021, ASSUMING 1 PERCENT INFLATION RATE*

All proceeds from the District's Local Transportation Surcharge revenue will be transferred to the Capital Improvements Program to fund renovation, repair, and maintenance of local transportation infrastructure. The OCFO expects that the "Motor Vehicle Tax Amendment Act of 2020" will generate \$5.56 million in FY 2021 and \$43.84 million over the four-year financial plan.⁵

Combined Reporting Tax Deduction

When the District required combined reporting for multistate businesses, it provided a net deferred tax liability for publicly traded companies beginning in tax year 2015 to offset the impact of potential future tax liabilities. However, in FY 2014 the Council delayed the deduction until 2020.⁶

The Council continues to delay the Financial Accounting Standards (FAS) Section 109 combined reporting tax deduction for multistate, publicly traded corporations. The new delay will last until 2025. The OCFO estimates that the "Combined Reporting Tax Deduction Delay Amendment Act of 2020" will generate \$7.44 million in increased revenue for the District in FY 2021 and \$29.78 million across the four-year financial plan.⁷

Estate Tax

The Council lowers the threshold for the D.C. estate tax from \$5.6 million to \$4 million beginning in FY 2021. Those who inherit assets from a decedent whose estate is worth more than \$4 million may be required to pay the estate tax on the value of the inheritance above that threshold. The OCFO estimates that the "Estate Tax Adjustment Amendment Act of 2020" will provide \$1.78 million in new revenue during FY 2021 and \$9.16 million over the four-year financial plan.⁸

Monsanto Co. Settlement

In May 2020, the Office of the Attorney General (OAG) filed a lawsuit alleging that the Monsanto Co. and two affiliated companies manufactured, promoted, and sold toxic chemicals for over fifty years that polluted the Potomac River and its tributaries.⁹ The results of these actions not only harmed the District's ecosystem and residents, it also cost millions to remediate. The lawsuit was resolved with a \$52 million settlement. The Council directs \$30 million of the settlement to the non-lapsing Clean Land/Brownfield Revitalization fund at the Department of Energy and Environment (DOEE) and \$22 million to the OAG. The enhancements at the OAG include \$12 million for the Litigation Support Fund, \$7.34 million to cover the attorney's fees related to the settlement, and \$640,000 for other initiatives.¹¹

Additional Sources

The District of Columbia has over 260 special purpose revenue funds, dedicated tax funds, and enterprise funds. These funds are supported by revenues from fees, fines, special assessments, charges for services, reimbursements set aside for a specific purpose, and dedicated tax revenue. To fund programs and services in the FY 2021 budget, the Council acts in FY 2020 to sweep \$10.89 million held in reserve funds above the Mayor's proposed sweeps.

The Council identifies \$13.4 million in savings in the FY 2020 budget and carries these resources forward to the FY 2021 Budget and Financial Plan.

The Council also transfers \$11 million in FY 2020 from the Pay-as-You-Go (Paygo) Capital Fund to Local Funds to balance the FY 2021 Budget and Financial Plan. The Council replaced all of these funds in the Capital Improvement Plan (CIP) with borrowed funds, meaning that it will have no impact on the District's support for capital projects.

Finally, the Council recognizes approximately \$5.2 million in new revenue due to the sale of District-owned parcels of land at Fort Totten and Saint Elizabeths campus.

Endnotes

- 1 (Office of Revenue Analysis, 2018)
- 2 Ibid. "New E-economy Transformation Act of 2000," effective April 3, 2001 (D.C. Law 13-256; 48 DCR 730).
- 3 (Office of Revenue Analysis, 2018)
- 4 "QHTC Tax Incentives Modification Amendment Act of 2020," as approved by the Committee of the Whole on July 28, 2020 (Enrolled Version of Bill 23-760).
- 5 "Motor Vehicle Tax Amendment Act of 2020," as approved by the Committee of the Whole on July 28, 2020 (Enrolled Version of Bill 23-760).
- 6 "Fiscal Year 2017 Budget Support Act 2016," effective October 8, 2016 (D.C. Law 20-160; 63 DCR 10775).
- 7 "Combined Reporting Tax Deduction Delay Amendment Act of 2020," as approved by the Committee of the Whole on July 28, 2020 (Enrolled Version of Bill 23-760).
- 8 "Estate Tax Adjustment Amendment Act of 2020," as approved by the Committee of the Whole on July 28, 2020 (Enrolled Version of Bill 23-760).
- 9 District of Columbia v. Monsanto Co., Superior Court of the District of Columbia Case No. 2020 CA 002445 B.
- 10 (U.S. Environmental Protection Agency)
- 11 "Monsanto Settlement Act of 2020," as approved by the Committee of the Whole on July 28, 2020 (Enrolled Version of Bill 23-760).

References

- Office of Revenue Analysis. (2018). Review of Economic Development Tax Expenditures. Retrieved from <https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2017%20Economic%20Development%20Tax%20Expenditures%20111418.pdf>
- U.S. Environmental Protection Agency. Smog, Soot, and Other Air Pollution from Transportation. Retrieved from <https://www.epa.gov/transportation-air-pollution-and-climate-change/smog-soot-and-local-air-pollution>