August 2, 2021

The Honorable Chairman Phil Mendelson
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Ste 504
Washington, D.C. 20004

Re: The High Income Earner Tax is Too Big a Risk to Long-Term Revenue

Dear Chairman Mendelson,

Before the last vote, the undersigned organizations asked the Council to use the more rigorous tools at its disposal for revamping tax policy and paid leave benefits rather than the blunt instrument of the budget. With the amended budget that passed on first reading on July 22, these recommendations were dismissed by a majority of Councilmembers.

As you prepare for a second vote on August 3, we would like to highlight again the risks associated with the newly passed high income earner tax. Much of the public dialogue has focused on those for whom the additional tax burden is a modest amount. However, there is another class of very high income taxpayers who contribute an outsized portion of the District's income tax and numerous District residents that include their business revenue on their personal returns[1]. The top 100 filers alone paid $163.4 million in income taxes in 2018.[2] The 2,570 residents who had Federal Adjusted Gross Income of $1 million or more accounted for just .6 percent of local tax filers, but 32 percent of all local individual income tax revenue.[3]

If these taxpayers choose not to stay in DC, the tax could have the opposite of its intended effect: It could reduce the revenues available for the programs the Council is seeking to support.

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[1] Pass through entities are those entrepreneurs that file via the individual income tax code rather than the corporate income tax code such as sole proprietors, self-employed residents, or LLCs. IRS Statistics of Income

[2] Office of the Chief Financial Officer

[3] DC Policy Center

To those who have dismissed the argument that tax flight is a myth in a DC context, we highlight the following:

- The studies that are used to back up this claim raise questions: one is from 2011, one is from 2016, none are specifically focused on DC, and most are focused on the move from one metropolitan area to another, not moves within a region;
- The group impacted by the high income earner tax earns its income through their stock and bond holdings rather than wages and salary; they are not bound to the professional nexus in DC; and
- COVID has changed everything, including the certainty that DC's relative attractiveness is inevitable. Many people, especially those with options, have chosen to live elsewhere during the pandemic.[4] We don't know whether they will return or whether the Delta variant or it successors will inspire more dispersion.
- The abrupt nature of the proposal which was made public on a Monday and passed one day later has already inspired individuals to plan to relocate their primary residence.

At this point in time, no one knows how many high income earners will leave the District, which is why we think the Council would be better served by sticking to its initial approach—to convene an expert panel of tax experts through the Council's unanimously passed DC Tax Revision Commission. Thank you for your consideration.

Sincerely,

Angela Franco, President & CEO
DC Chamber of Commerce

Janene Jackson, Executive Director
Opportunity DC

Peggy Jeffers, Executive Vice President
Apartment & Office Building Association of Metropolitan Washington

Elizabeth DeBarros, Interim CEO
Michele Hagans, President
District of Columbia Building Industry Association

Jack McDougle, President & CEO
Greater Washington Board of Trade

Anthony A. Williams, CEO & Executive Director
Federal City Council

cc: The Honorable Mayor Muriel E. Bowser
Members, Council of the District of Columbia
John Falcicchio, Chief of Staff & Deputy Mayor for Planning and Economic Development
Dr. Fitzroy Lee, Interim Chief Financial Officer, District of Columbia

[4] Office of Revenue Analysis, https://districtmeasured.com/2021/07/08/d-c-lost-at-least-17000-more-people-during-the-pandemic-than-in-the-prior-year-according-to-usps-data-on-net-moves-at-least-9000-of-the-loss-appears-to-be-permanent/