Government of the
District of Columbia

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Review of Health and Education Tax Expenditures

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We welcome feedback related to the report. Please contact Kevin Hundelt, research assistant at ORA, at (202) 843-4711 or kevin.hundelt2@dc.gov with questions or comments.

Executive Summary

Summary of Tax Expenditure Provisions

The following report reviews DC health and education related tax expenditures, pursuant of the Tax Transparency and Effectiveness Act of DC Law 20-155, the "Fiscal Year 2015 Budget Support Act of 2014." To comply with this requirement, the Office of the Chief Financial Officer (OCFO) must summarize the purpose of each provision, estimate the revenue forgone, examine the impacts on the District's economy and social welfare, and offer recommendations about whether to maintain, revise, or repeal the tax preference. With this law's directive stated, the overarching purpose of this series of reports is to provide a periodic review of all DC tax incentives.

Tax expenditures, also called tax preferences or tax incentives throughout this report, are often described as "spending by another name." Policymakers use various types of tax expenditures, such as abatements or credits, to promote a wide range of policy goals in the District of Columbia. Tax expenditures differ from direct expenditures in several respects. Tax expenditures are not widely used as a health policy tool but are used to support education. This report generally serves to describe and review the tax expenditures in each policy area and briefly discusses them in the context of the District's broader goals and activities in that area.

Health

Eight health-related categorical tax expenditures accounted for over $18 million in forgone revenue in FY 2020. These provisions generally support health care access; health care coverage equality; quality health care in underserved areas; lifesaving procedures (through organ and bone marrow donors); and exemptions for medical goods. Additionally, this report identifies three specific (in prior reports these were called "individual") tax expenditures related to health, including a property tax exemption for organizations advancing better health outcomes of DC residents and the broader community. The three specific tax expenditures totaled $6.8 million in forgone revenue for FY 2020 and when combining both categorical and specific provisions the total was $25.5 million. Each of these tax expenditures generally supports the District's broader health and social policy goals of providing health-related benefits to the public.

Education

Seven education-related categorical tax expenditures accounted for just under $140 million in forgone revenue in FY 2020. These provisions support public charter schools or private universities that educate the public and provide other broad public services; taxpayers who are saving for college, trade school, or registered apprenticeship programs; and non-profits that provide educational services. Additionally, there is a provision to offset public school teacher's out-of-pocket costs on classroom supplies and certifications. Thirteen specific property tax exemptions and abatements related to education are identified for the first time in this report and all involve promoting access to educational opportunities or academic achievement. All these tax expenditures broadly support the District's educational goals.

Recommendations

The results of our review suggest that most of DC's health and education tax provisions have provided positive outcomes for beneficiaries and have been successful in meeting their goals.

Nevertheless, below is a suggested recommendation to improve efficiency in one education programs' structure and administration.

Health-related recommendations:

- There are no specific recommendations for the current health-related tax expenditures.

Education-related recommendation:

1) **Consider increasing the public-school teacher expenses income tax subtraction limit for out-of-pocket classroom supplies costs** based on an analysis showing that in 2018 a DC public-school teacher spent on average $527 more than what could be reimbursed.

Part I: Introduction

Legal Requirement

The following report is published pursuant to a subtitle of D.C. Law 20-155, the "Fiscal Year 2015 Budget Support Act of 2014." Also called "Tax Transparency and Effectiveness," the legislation requires the Office of the Chief Financial Officer (OCFO) to review all DC tax preferences (abatements, credits, and exemptions, among others) on a five-year cycle. To comply with this requirement, the OCFO must summarize the purpose of each provision, estimate the revenue forgone, examine the impacts on the District's economy and social welfare, and offer recommendations about whether to maintain, revise, or repeal the tax preference. The full text of the legislative requirement is presented in the Appendix. This is the fifth of such reports issued to meet the legal requirement.

Overview of Tax Expenditure and Their Evaluation

Tax expenditures are often described as "spending by another name." They are 'preferences' in the tax code that convey a benefit to certain individuals or businesses. As such, the terms 'tax expenditure' and 'tax preferences' will be used interchangeably throughout this report. Policymakers use various specific types of tax expenditures, including tax abatements, credits, deductions, deferrals, and exclusions to promote a wide range of policy goals in education, human services, public safety, economic development, environmental protection, and other areas. Instead of pursuing these objectives through direct spending, policymakers reduce the tax liability associated with certain actions (such as hiring new employees) or conditions (such as being elderly) so that individuals or businesses can keep and spend the money that would otherwise be used to pay taxes. For example, a program to expand access to higher education could offer tax deductions for college savings instead of increasing student loans or grants. Regardless of the approach, there is a real resource cost in terms of forgone revenue or direct expenditures. Tax expenditures decrease the tax base and therefore reduce government resources available for other priorities. Tax expenditures should be reviewed just like government spending to ensure effectiveness and accountability.

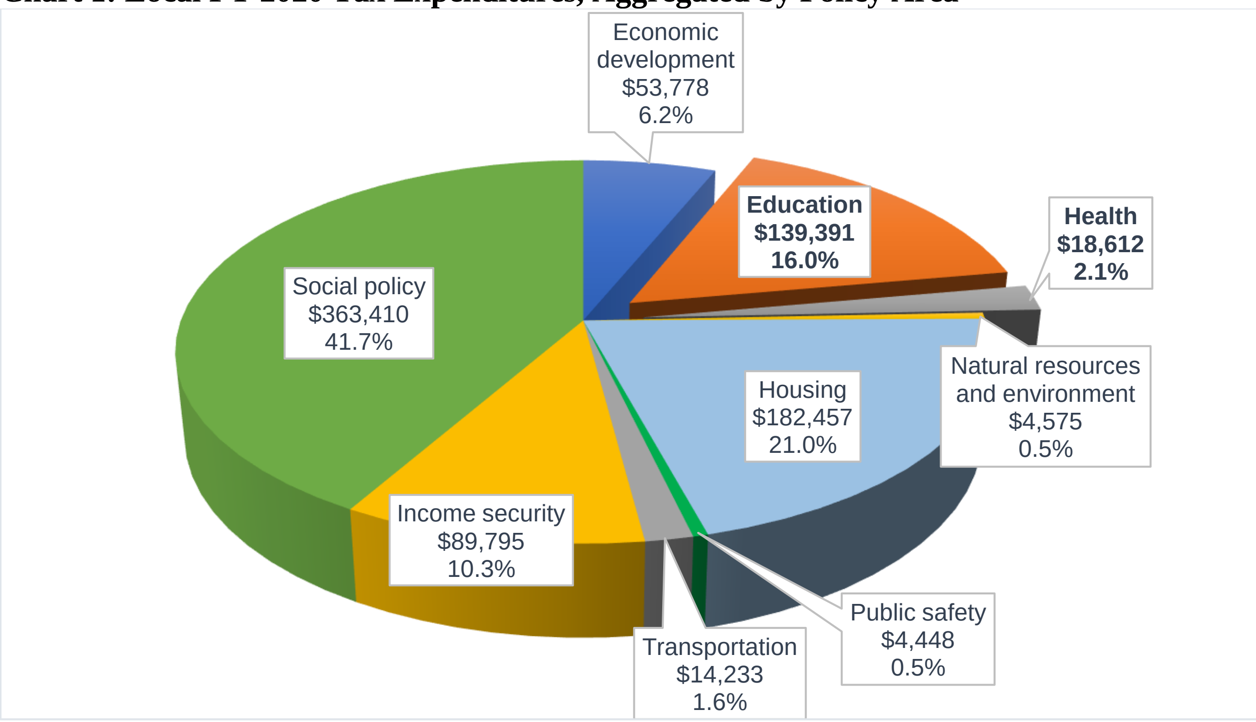
> Tax expenditures decrease the tax base and therefore reduce government resources available for other priorities.

Tax expenditures are frequently used as a policy tool in the District of Columbia. There are 179 tax expenditures established by DC (local) law. An example of a local tax expenditure is the homestead deduction, which allows all DC taxpayers who live in their own home to deduct a certain amount ($75,700 in 2020) from the taxable value of the home. Local tax expenditures warrant regular scrutiny to make sure they are effective, efficient, and equitable, and to highlight the tradeoffs between tax expenditures and other programs.

Tax expenditures differ from direct expenditures in several respects. Direct spending programs in the District receive an annual appropriation and the proposed funding levels are reviewed during the annual budget cycle. By contrast, tax expenditures remain in place unless policymakers act to modify or repeal them; in this respect, they are like entitlement programs. Direct spending programs are itemized on the expenditure side of the budget, whereas revenues are shown in the budget as aggregate receipts without an itemization of tax expenditures. The overarching purpose of this series of reports is to provide a periodic review of all DC tax incentives. The District is one of only a few states that conduct this kind of analysis.

Chart 1 below presents an aggregation of the District's tax expenditures for fiscal year 2020, as presented in the 2020 District Tax Expenditure Report. The policy areas reviewed in this report represent several of the smaller categories of tax expenditures, as can be seen in the pie slices highlighted below. Education-related tax preferences, reviewed in this report along with Health-related tax expenditures, represent the third largest tax expenditure policy area. The policy areas reviewed in this report tend to have fewer tax expenditures and represent smaller amounts of revenue loss in comparison to the total.

Chart 1: Local FY 2020 Tax Expenditures, Aggregated by Policy Area



Source: ORA Analysis.

Note: Chart does not include tax expenditures not assigned to a policy area, such as the exemption of Federal and DC Government property from taxation, or those more akin to base defining measures, such as the exemption of professional and personal services from the sales tax, as well as tax provisions to assist in tax administration. Further, summing tax expenditures does not consider possible interactions among specific tax expenditures, so it does not produce an exact estimate of the revenue that would be gained were any specific provision removed.

Evaluating Health and Education Tax Expenditures

Broadly, the first place to start an evaluation of a tax expenditure is to establish what its intended purpose is and then examine whether it is meeting its intended purpose or goals through assessing its program activity and cost. When interpreting whether a tax expenditure is achieving its goals, a typical evaluation should also include analyses on criteria such as economic efficiency, equity, and administrative simplicity.[1] If there were other performance measures detailed in the tax expenditure's statute, such as a worker residency requirement, then analysis of those outcomes along with its regular programmatic data should be included in the evaluation. However, a key aspect of health- and education-related tax expenditure evaluation, like with other social policies, is quantifying the intrinsic values these tax preferences represent that society desires and potentially benefits from. For example, providing real property tax exemptions to educational institutions, so that society benefits from a better-informed citizenry and a more productive workforce, can be measured in multiple ways, such as university graduation records or career earnings, but there are no industry standards for timeframes and how much could be attributed to this tax expenditure.

Regardless of whether outcomes can be measured, the tax provisions should be evaluated to ensure eligibility requirements are met and the programs are administered effectively.

Further, these tax expenditures represent scarce government resources, and tax exemptions for any group of recipients under a tax structure may increase the burden of taxes on all others paying that tax, by requiring a higher tax rate raise the same revenue. For these reasons, health- and education-related tax expenditures still deserve transparency and scrutiny, even if their goals may differ from other incentivized provisions.

This first report reviewing the District's health and education tax provisions provides an overview of these activities as they are carried out through the District's tax system. We describe these tax provisions in more detail than has been provided up to this point, provide data on revenue forgone and numbers of recipients where available, and present a logic model for each tax provision that serves as a guide for evaluating a provision in terms of outputs (resources used and numbers of people/organizations affected), and outcomes (the relationship of those outputs to broader impacts on society). (See sample logic model below). In most instances, information is supplied for the first three boxes in the logic model covering: 1) the need for the provision, 2) the resources it represents (cost to government), and 3) the number of people or organizations affected. The outcome-related boxes typically provide an example of the type of information that would be needed, and questions that should be asked, for policymakers wishing to fully consider broader outcomes of the policy. The initial output and outcome information reported here provide the building blocks for further research and future evaluations. Boxes for which we do not provide policy-specific information will remain in italics.

Methodology: How this review was conducted

For the current report on the District's health and education tax expenditures, we reviewed the following documents:

- DC Code enacting the provision and accompanying committee reports.
- Tax Expenditure Reports and other relevant ORA reports, such as Tax Facts, for information or data, as well as relevant Fiscal Impact Statements.

[1] Government Accountability Office. (2012). Tax Expenditures: Background and Evaluation Criteria and Questions. (GAO Publication No. 13-167SP). Washington, D.C.: U.S. Government Printing Office. https://www.gao.gov/assets/gao-13-167sp.pdf

- Revenue chapters of the Annual budget.
- DC individual income and franchise tax data and tax forms.
- DC real property tax data and real property tax exemption reports.
- DC sales tax data.
- Finally, where DC taxpayer data is not sufficiently available to estimate revenue forgone from certain provisions, we often rely on federal data sources. For example, we use the national Consumer Expenditure Survey data from the US Bureau of Labor Statistics, to make estimates of a DC sales tax exemption for which we lack data.

Sample Logic Model

The Need: (Purpose of policy)	**Resources/Inputs:** (Revenue spent)	**Outputs:** (How many residents served or per person benefit)

Expected Outcomes or Benefits
(changes in short, intermediate, or long-term measures)

Short-term (Immediate changes)	**Medium-term** (Intermediate changes)	**Long-term** (Long-term changes)

Assumptions:
(Underlying principles about how outputs will affect outcomes.)

Evaluating the success of the District's tax expenditures primarily entails examining how they meet the goals set out for them when they were created. This individual level analysis is the basis of this report and will be detailed in the pages that follow. Another important question to ask when examining tax preferences in a single policy area is whether these tools are also helping the District meet its overall goals and needs in that area. Thus, each section provides a brief overview of the District's policy goals in each area: health and education. This information is presented to provide a broader context within which to view the findings of this report.

Part II: Review of the District's Health Tax Expenditures

Overview of the District's Health Policy Goals

The District has several budget documents and agency or interagency reports relating to accomplishing health goals. The Fiscal Year 2021 Approved Operating Budget Chapters for Health Agencies, released in July 2020 (Congressional submission), contains goals to promote areas of health, wellness, equity, and safety for residents, visitors, and those doing business in the District. Further, the District's Comprehensive Plan, last amended in 2021, contains various elements relating to resident health in the built environment. These and other plans that target health-related goals are listed in the box below.

Table 1: DC Health-Related Plans and Goals

DC Health-Related Plans	Brief Summary of Plan's Health-Related Goals
FY 2021 Approved Operating Budget Chapter (Part 3); Department of Health's Strategic Objectives	• Protect the health of residents and those who do business in DC; • Promote health equity; • Develop an integrated public health information system; • Promote coordination among the health care systems in the District; • Reduce virus and disease-related morbidity and mortality; • Provide regulatory oversight of emergency medical services
The District's Comprehensive Plan; Chapter 11 – Goal 1	• … preserve and enhance public health and safety, … and enhance the well-being of and provide a high quality of life for current and future District residents.
DC Food System Assessment Report 2019	• Improving food security and health in the District; • Improving the District's food procurement and service; • Expanding healthy food access in the District; and • Growing healthy food in the District
Sustainable DC 2.0 Plan: Health	• Provide residents with resources to achieve healthy, active lifestyles; • Provide high quality, safe, and sustainable places to be healthy and active; and • Improve population health by systematically addressing the link between community health and place
District of Columbia's Comprehensive Plan to Expand School-Based Behavioral Health Services	• Create a coordinated and responsive behavioral health system for all students
Healthy Public Building Assessment Act Report 2017	• Establish standard operating procedures for the assessment and remediation for several public building issues like indoor air quality or pests and pesticides designed to protect human health

District of Columbia Healthy Schools Act Report	• Increase healthy meals in school; • Improve student health services; and • Deploy high quality health education programming

Source: ORA Compilation.

The District's health-related services are organized into similar clusters in the legislative and executive branches. The DC Council's Committee on Health provides oversight on matters concerning individual and environmental health, including licensing requirements of health occupations and professions, and health-care inspectors.

On the executive side, the primary agency involved in carrying out the individual and environmental health goals and policies in the District is the Department of Health (DOH or DC Health). DOH's mission is to "promote health, wellness and equity across the District, and protect the safety of residents, visitors and those doing business in our nation's capital."[2] DOH carries out this mission by "identifying health risks; educating the public; preventing and controlling diseases, injuries, and exposure to environmental hazards; promoting effective community collaborations; and optimizing equitable access to community resources."[3] Other agencies involved with the execution of health-related policy goals include the Department of Behavioral Health, Department of Energy and Environment, the Office of Planning, and the Department of General Services.

Summary of Health Goals

The District's varied health goals revolve around promoting healthy lifestyles and a healthy environment for residents and visitors. The goals include improving healthy food access, improving behavioral health, preventing and reducing virus and disease related mortalities, and optimizing community health resources.

The District's health-related tax expenditures are one of several policy tools for implementing health-related goals, and a review of them should be viewed and assessed within the broader context of the District's services in this area.

Health-Related Categorical Tax Expenditures

Categorical tax expenditures, or those which anyone who is eligible may claim, for health comprise the sixth largest policy area of the District's forgone revenue. The total estimated revenue forgone for all health-related categorical tax expenditures in FY 2020 was $18.6 million. Of these, the real property tax exemption for hospitals makes up roughly 83 percent of the total ($15.5 of $18.6 million).

The second largest tax expenditure is the sales tax exemption for medicines, pharmaceuticals, and medical devices representing $2.9 million in forgone revenue. Together, these two health-related categorical expenditures make up 99 percent of the total ($18.4 out of $18.6 million).

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[2] DOH Mission Statement: https://dchealth.dc.gov/page/about-dc-health.
[3] Ibid.

The eight health-related categorical tax expenditure provisions generally support the District's goals by:

- Reducing the cost of property owned by nonprofit hospitals to support their health missions;
- Lowering the cost of health saving medicines, drugs, and medical devices to individuals who need them;
- Providing access to healthcare for District residents regardless of their ability to pay;
- Encouraging District residents to be insured whether it is through a registered domestic partner;
- Assisting District residents with disabilities pay for qualified expenses like healthcare; and
- Promoting lifesaving transplants by exempting paid leave for bone marrow or organ donations from an individual or a firm's gross income.

Table 2: DC Categorical Health-Related Tax Expenditures

Name of Expenditure	Tax	Type of Provision	Date Enacted	DC Code	FY 2020 Revenue Loss Estimate ($000)
Hospital buildings	Real Property	Exemption	1942	§ 47-1002(9)	$15,563
Medicines, pharmaceuticals, and medical devices	Sales	Exemption	1949	§ 47-20005(14) and (15)	$2,871
Health professional loan repayments	Income and Franchise	Subtraction	2006	§ 7-751.11	$90
Health insurance premiums paid for a same-sex spouse or domestic partner	Income and Franchise	Subtraction	2006 and 1992	§ 47-1803.03(a)(15) and § 47-1803.03(a)(2)(W) and § 46-401(b)	$88
DC 529 ABLE Program Trust	Income	Exemption	2016	§ 47-4901 and § 47-4902	Minimal
Paid leave for organ and bone marrow donors	Franchise	Credits	2006	§ 47-1807.08 and § 47-1808.08	No Estimate
Total					**$18,612**

Source: ORA Analysis.

Hospital buildings
Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1002(9)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Revenue Loss	$13,453	$15,216	$15,292	$14,840	$15,211	$15,563	$15,952	$16,351

Source: Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; and estimates for FY2018-2019 from 2018 Tax Expenditure Report; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.

Description: Hospital buildings that belong to and are operated by organizations "which are not organized or operated for private gain" are exempt from real property taxation.[4]

According to an IRS estimate, non-profit hospitals in the U.S. provided $62.4 billion in community benefits in 2011.[5] A majority or 92 percent of these expenses supported activities such as unreimbursed Medicaid costs, financial assistance for impoverished patients, health profession training, research, etc. While only 8 percent went to community health improvement initiatives like community health needs assessments or contributions to community groups. At the same time, hospitals gained over $24.6 billion in benefits from their tax-exempt status in 2011.[6] According to the same study, non-profit hospitals in DC had the fourth highest tax benefit amount per tax-exempt hospital of all states for 2011, approximately $13.5 million compared to the $8.26 million US average.

Exempting non-profit hospitals from the real property tax is standard practice throughout the United States. Both Virginia and Maryland exempt non-profit hospitals from real property taxation (Maryland's exemption is limited to 100 acres of real property).

Purpose: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide health, religious, charitable, social, scientific, literary, educational, or cultural benefits to the public.

Impact: Non-profit hospitals benefit from the exemption, but the public is also intended to benefit from this subsidy to hospital care. During tax year 2020, eleven properties received the hospital building exemption including the George Washington University Hospital, MedStar Georgetown

[4] See D.C. Official Code § 47-1002(9).
[5] Rosenbaum, S., Kindig, D., Bao, J., Byrnes, M., & O'Laughlin, C. (2015). The Value of The Nonprofit Hospital Tax Exemption Was $24.6 Billion In 2011. *Health Affairs*, 34(7). https://www.healthaffairs.org/doi/10.1377/hlthaff.2014.1424
[6] Ibid; total tax benefit estimates were calculated from a 2002 congressional Joint Committee on Taxation report and are not adjusted for inflation; benefits comprise of exemptions from federal and state corporate income tax, local property tax, federal charitable contributions, state and local sales tax, and federal tax-exempt bond financing.

University Hospital, Sibley Memorial Hospital, MedStar Washington Hospital Center, and Providence Hospital.

Hospitals account for 0.79 percent of the total assessed value of tax-exempt property in the District of Columbia.[7] The tax exemptions given to certain properties shift the burden of paying for public services to taxable properties and may result in those properties paying a higher property tax rate.

[7] In tax year 2019, tax-exempt property of hospitals was valued at $806.6 million. The total value of tax-exempt property in the District of Columbia was valued at $102 billion.

Logic Model:

Hospital buildings

The Need: Affordable healthcare access and tax relief for non-profit hospitals providing healthcare in DC.	**Resources/Inputs:** Revenue forgone was $15,210,000 in tax year 2019.	**Outputs:** During tax year 2019, nine property tax filers claimed this exemption.

Expected Benefits
(changes in short, intermediate, or long-term measures)

Short-term: Increased access to health services for DC residents.	**Medium-term:** Increased access to health services for DC residents.	**Long-term:** Increased access to health services for DC residents.

Assumptions:

Medicines, pharmaceuticals, and medical devices
Sales Tax Exemption

District of Columbia Code: D.C. Official Code § 47-20005(14) and (15)
Sunset Date: None
Year Enacted: 1949

(Dollars in thousands)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue Loss	$16,848	$18,945	$19,741	$9,859	$10,421	$2,871	$2,971	$3,089

Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; and estimates for FY2018-2019 from 2018 Tax Expenditure Report; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.

Description: Gross receipts from sales of medicines, pharmaceuticals and medical devices are exempt from the sales tax. Both Maryland and Virginia exempt medicine, pharmaceuticals, and medical supplies from the sales tax, which is also a standard practice nationwide.[8] However, as of January 1st, 2020, D.C., Maryland, and Virginia are among only 10 states that also exempt non-prescription drugs; one state charges a preferential rate of 1 percent.[9]

Purpose: The purpose of the exemption is to reduce the costs of health care. This in turn makes the sales tax more equitable by exempting necessities that absorb a relatively large share of the income of low-income households and avoids adding to the expense of potentially life-saving medicines, drugs, and medical devices. In addition, the exemption protects the elderly and people in poor health, who spend more for medical care, drugs, and medical products.

Impact: The sellers and purchasers of medicines, pharmaceuticals, drugs, and medical devices benefit from this exemption, particularly those with high medical costs such as the elderly and individuals with chronic conditions. Data on consumer expenditures show that out-of-pocket expenditures on drugs and medical care rise along with income.[10] Data from the Consumer Expenditure Survey are used to estimate the amount of forgone sales tax revenue due to this provision.

In a review of the impact of the exemption in Virginia, Virginia's Joint Legislative Audit and Review Commission (JLARC) concluded that the sales tax exemption for medicine and other health products provides significant benefits to the elderly. JLARC stated that, "(A)verage out-of-pocket reductions in tax liability to households with at least one member 65 or older was $66 in 2008, which was above the statewide average ($38) for all households. Their savings were enough to enable them to purchase a year-and-a-half's worth of prescription drugs for common conditions

[8] John Due and John Mikesell, "Retail Sales Tax, State and Local" in The Encyclopedia of Taxation and Tax Policy, Second Edition, Joseph Cordes, Robert Ebel, and Jane Gravelle, eds. (Washington, D.C.: The Urban Institute Press, 2005), p. 337.
[9] Federation of Tax Administrators, "State Sales Tax Rates and Food & Drug Exemptions," available at www.taxadmin.org.
[10] Virginia Joint Legislative Audit and Review Commission. Review of the Effectiveness of Virginia Tax Preferences, report to the Governor and General Assembly of Virginia (January 2012). pg. 33.

such as arthritis or diabetes, according to prices under a major retailer's discount prescription drug program."[11]

In a paper prepared for the DC Tax Revision Commission, University of Tennessee professor William Fox contended that the case for exempting non-prescription drugs is "weak relative to many other types of consumption and the exemption could be eliminated."[12] One reason the case for exempting is weak is because it also benefits higher income consumers who do not need the sales tax exemption. As a result, the overall rate of consumption is, in theory, higher for only this group, much like the exemption for groceries. However, Maryland and Virginia have the same exemption and if this exemption were repealed, then the resulting action would incentivize residents with the means of transportation to cross border shop for these goods.

Sales of medicines, pharmaceuticals, and medical devices account for 0.007 percent of the total sales taxes collected in DC in TY 2019.

[11] Virginia Joint Legislative Audit and Review Commission, pp. 33-34.
[12] Professor William Fox, "Sales Taxes in the District of Columbia," paper prepared for the D.C. Tax Revision Commission, May 2013, p. 7. https://www.dctaxrevisioncommission.org/documents

Logic Model:

Medicines, pharmaceuticals, and medical devices

The Need:
Equitable access to medicines, pharmaceuticals, and medical devices for residents who are low-income, elderly, or dependent on lifesaving drugs and or medical devices.

Resources/Inputs:
Revenue forgone was estimated to be $9,859,000 in tax year 2018.

Outputs:
It is undetermined how many sales tax filers claim this exemption due to a lack of data.

Expected Benefits
(changes in short, intermediate, or long-term measures)

Short-term:
Improved equity for DC low income or elderly residents or residents with medical conditions who depend on medicines, pharmaceuticals, or medical devices.

Medium-term:
Improved equity for DC low income or elderly residents or residents with medical conditions who depend on medicines, pharmaceuticals, or medical devices.

Long-term:
Improved equity for DC low income or elderly residents or residents with medical conditions who depend on medicines, pharmaceuticals, or medical devices.

Assumptions:
-Out-of-pocket expenditures on drugs and medical care rise along with income.

Health professional loan repayments
Taxable Income Subtraction

District of Columbia Code: D.C. Official Code § 7-751.11
Sunset Date: None
Year Enacted: 2006

(Dollars in thousands)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Individual Income Tax Loss	$70	$76	$76	$67	$75	$90	$90	$90
Franchise Tax Loss	$0	$0	$0	$0	$0	$0	$0	$0
Total	**$70**	**$76**	**$76**	**$67**	**$75**	**$90**	**$90**	**$90**

Source: Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; estimates for FY2018-2019 are based on ORA analysis of 2018 Individual Income tax data projections for out years; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.

Description: The DC Health Professional Recruitment Program was established to serve as a recruitment tool for health professionals with student loan debt to the District's underserved areas. Subject to the availability of funds, the program repays the outstanding principal, interest, and related expenses for government or commercial loans obtained by an individual for tuition, fees, and reasonable educational expenses incurred while obtaining a health professional degree. The loan repayments made by the District government are taxable under the federal income tax but are not considered income for purposes of DC income tax.

In return for the loan repayment, the health professional must work for at least two years and a maximum of four years at a non-profit facility located in a "health professional shortage area" or "medically underserved area" in DC designated by the U.S. Department of Health and Human Services. The non-profit facility must offer primary care, mental health, or dental services to DC residents regardless of their ability to pay.

Physicians, dentists, and nurses are among the health professionals who are eligible to apply for the program. Selection is based on professional qualifications and relevant experience, professional achievements, and other indicators of competency. The Department of Health also known as DC Health administers the program. Once an individual signs a contract to serve in the program, they cannot breach or terminate their contract for any reason unless they have passed away, become permanently disabled, submitted a written termination request to the program's director, or repaid all amounts of loan repayments paid to them under said contract.

In 2012, Maryland policymakers enacted legislation to establish "Health Enterprise Zones" where residents experience measurable health disparities and poor health outcomes. A health care practitioner who provides primary care, behavioral health services, or dental health services in a designated zone may apply to the Department of Health and Mental Hygiene (DHMH) for a state income tax credit if he or she (1) demonstrates competency in cultural, linguistic, and health literacy, (2) accepts and provides care for Medicaid and uninsured patients, and (3) meets any other criteria set by DHMH. A practitioner in a Health Enterprise Zone may also apply for a refundable $10,000 credit against the state income tax for hiring workers who help provide health-care services in the zone.

Virginia loan repayment program through the Virginia Department of Health-Office of Health Equity (VDH-OHE) provides non-taxed incentives to qualified medical, dental, behavioral health, and pharmaceutical (pharmacists) professionals in return for a minimum of two (2) years of service at an eligible practice site in one of the federally designated Health Professional Shortage Areas (HPSAs) in a qualified field of practice in Virginia. Virginia State Loan Repayment Program or VA-SLRP requires a dollar-for-dollar match from the community/practice site. The maximum award for a four (4) year commitment is $140,000 and shall be for a qualifying educational loan.[13]

Purpose: The purpose of this provision is to "recruit community-based providers to our neediest neighborhoods by creating an incentive for those health professionals who choose to work where a health care shortage exists."[14]

Impact: Health professionals who agree to work in health professional shortage or medically underserved areas in the District of Columbia benefit from this provision. Low-income residents who receive health care from non-profit entities in the targeted areas should also benefit indirectly from this provision.

During tax year 2018 (the latest year for which data are available), 64 tax filers and program participants claimed the subtraction for a total subtraction of $988,739 from their taxable income. Since the tax expenditure came into effect in TY 2007, there has been a decrease in the number of filers claiming this subtraction, while the total amount subtracted has increased. As shown in Chart 2 below, in TY 2018 fewer than half of the claimants earned over $75,000 but those that did claimed almost three quarters of the total amount subtracted, reflecting the increasing cost of a health professional graduate degree as well as the rising salary demand for health professionals working in the region. In 2020, the average annual wage of dentists or general internal medicine physicians working in the DC metropolitan area were $219,710 and $218,570, respectively.[15]

Further, in TY 2018, 46 percent of the total subtraction amount was taken by claimants with incomes higher than $200,000, though they represented only 22 percent of the participants. There may be various reasons for this trend, including that most of the program participants have become doctors instead of lower paying occupations like registered nurses, clinical social workers, or dental hygienists. It could also be that experienced health professionals make more than they did a decade ago due to inflation, innovation in technology related to healthcare, and the above-mentioned cost factors.

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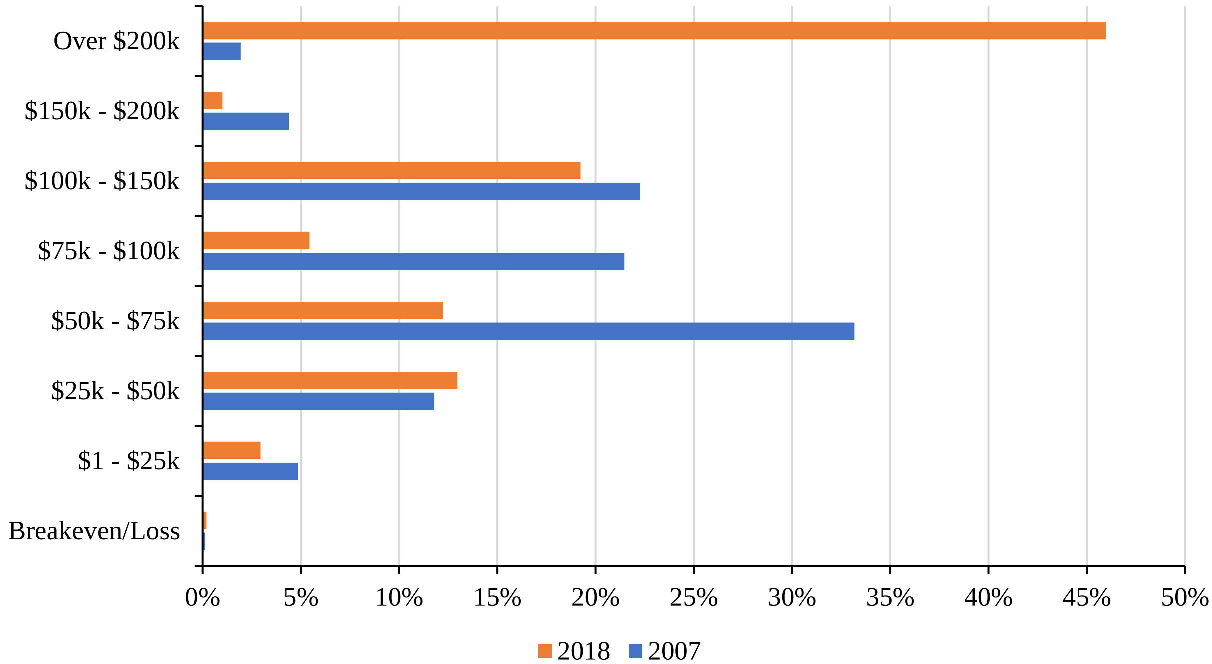
[13] Virginia Loan Repayment Programs available at https://www.vdh.virginia.gov/health-equity/virginia-loan-repayment-programs-2/.

[14] Council of the District of Columbia, Committee on Health, Report on Bill 16-420, the "District of Columbia Health Professional Recruitment Program Act of 2005," October 14, 2005, p. 1.

[15] U.S Bureau of Labor Statistics. Occupational Employment and Wage Estimates, May 2020, for the Washington-Arlington-Alexandria Metropolitan Area. https://www.bls.gov/oes/current/oes_47900.htm

Chart 2: Share of the Total Dollar Amount of Taxable Income Subtracted in 2007 (start of program) to 2018 (latest data available) by Income Group (FAGI) for Filers Claiming their Health Professional Loan Repayments



Source: ORA Analysis of DC Individual Income Tax data.

Health Professional Loan Repayments -- TY 2018					
Income Category (FAGI)	**Number of Filers**	**Share**	**Amount of Taxable Income Subtracted ($)**	**Tax Revenue Forgone ($)**	**Share**
$50,000 or Less	21	33%	159,386	0	0.0%
$50,000 to $100,000	18	28%	174,686	4,891	12.0%
$100,000 to $200,000	11	17%	200,178	9,208	22.5%
Over $200,000	14	22%	454,489	26,815	65.5%
Total	64	100%	988,739	40,914	100%

Source: ORA Analysis of DC Individual Income Tax data.
Note: Tax revenue forgone was calculated using the median effective tax rate from claimants in each income category in TY 2018.

Logic Model:

Health professional loan repayments		
The Need: To address the shortage in community-based health professionals in the District's neediest neighborhoods in terms of healthcare.	**Resources/Inputs:** Revenue forgone was $116,000 in tax year 2018.	**Outputs:** During tax year 2018, 64 tax filers claimed this subtraction.

Expected Benefits (changes in short, intermediate, or long-term measures)		
Short-term: Improved access to health professionals for low-income residents in medically underserved areas in DC.	**Medium-term:** Improved access to health professionals for low-income residents in medically underserved areas in DC.	**Long-term:** Improved access to health professionals for low-income residents in medically underserved areas in DC.

Assumptions:
-Incomes and thus forgone revenue amounts for health professionals working at non-profit entities in medically underserved areas in DC will steadily increase overtime due to the constrained supply of health professionals, rising costs of medical school and certifications, and general inflation.

Health insurance premiums paid for a domestic partner
Franchise and Individual Taxable Income Subtraction

District of Columbia Code:	D.C. Official Code § 47-1803.03(a)(15) and § 46-401(b); § 47-1803.02(a)(2)(W)
Sunset date:	None
Year enacted:	1992; 2006

(Dollars in thousands)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Franchise Tax Loss	minimal	minimal	minimal	minimal	minimal	minimal	minimal	minimal
Individual Income Tax Loss	$24	$93	$97	$76	$71	$88	$92	$96
Total	**$24**	**$93**	**$97**	**$76**	**$71**	**$88**	**$92**	**$96**

Source: Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; estimates for FY2018 based on ORA analysis of 2018 Individual Income tax data; estimate for FY2019 from the 2018 Tax Expenditure Report; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.

Description:

Corporate Franchise Tax: Since 1992,[16] a corporation, unincorporated business, or partnership in DC could deduct from their gross income all health insurance premiums paid on behalf of an employee's domestic partner and family members, provided that the benefits are offered to all full-time employees who are DC residents. Prior to 2013, the federal government did not allow any deductions or exclusions on behalf of domestic partners or same-sex spouses, so such deductions were only allowed for DC taxes. However, in 2013 a US Supreme Court ruling allowed the IRS (federal government) to recognize same-sex marriage for tax purposes, which includes[17, 18] tax deductions or exclusions for same-sex spouses only. The ruling does not apply to registered domestic partnerships, civil unions, or similar formal relationships that are also recognized under DC law (unless the domestic partner is a qualified tax dependent).

After the 2013 ruling, DC, which automatically conforms to many federal income rules, included the subtraction of health insurance premiums paid for same-sex spouses (like it did for an opposite-sex spouse) as a normal calculation of taxable income so that the DC franchise tax subtraction now only represents payments for premiums of an employee's domestic partner.

[16] DC Law 9-114. Health Care Benefits Expansion Act of 1992. https://code.dccouncil.us/dc/council/laws/9-114.html
[17] United States v. Windsor struck down Section III of the Defense of Marriage Act (DOMA).
[18] Treasury and IRS Announce That all Legal Same-Sex Marriages Will Be Recognized For Federal Tax Purposes; Ruling Provides Certainty, Benefits and Protections Under Federal Tax Law for Same-Sex Married Couples (2013). at https://www.irs.gov/newsroom/treasury-and-irs-announce-that-all-legal-same-sex-marriages-will-be-recognized-for-federal-tax-purposes-ruling-provides-certainty-benefits-and-protections-under-federal-tax-law-for-same-sex-married#:~:text=Under%20the%20ruling%2C%20same%2Dsex,and%20gift%20and%20estate%20taxes

Individual Income Tax: In 2006, DC Law 16-59, allowed individual taxpayers to exclude from their gross District income the amount of any health care insurance premium paid for a domestic partner by the taxpayer's employer.[19] Individuals can also exclude from gross personal income the health insurance premiums that employers pay for themselves and other family members, but that exclusion is provided in federal law, to which the District conforms. The estimated individual income tax revenue loss shown above reflects the cost of providing the DC individual income tax exclusion for health insurance premiums paid for a domestic partner.

DC law defines a "domestic partner" as a person with whom an individual maintains a committed relationship characterized by mutual caring and sharing of a mutual residence; who is at least 18 years of age and competent to contract; who is the sole domestic partner of the other person; and is not married.[20] A domestic partner can be of the same sex or the opposite sex.

Neither Maryland nor Virginia offers individuals a similar tax deduction for domestic partners. Other states that do offer individuals a tax deduction or exclusion for their employer paid health benefits provided to their domestic partners include California, Maine, New Jersey, Oregon, Washington, and Wisconsin.[21] After the federal tax rules treated same-sex and opposite-sex marriages equally, states that conform to federal taxable income rules allow the deduction for married spouses.

<u>Purpose</u>: The purpose of the individual and business franchise deduction is to make the tax treatment of health insurance benefits more equitable by providing businesses with the same deduction from DC taxable business income they receive for providing health benefits to other family members of an employee.[22]

<u>Impact</u>: Businesses that offer to pay health insurance premiums on behalf of domestic partners benefit from this provision but the federal equalization of the income tax treatment of same-sex spouses greatly reduced the need for the provision. There were no franchise tax filers who claimed the deduction during tax year 2018 and only 237 individual income tax filers.

Individual income tax filers with incomes over $75,000 accounted for 69 percent of the total amount deducted, as shown in the table below, while tax filers with annual gross incomes over $150,000 constituted over 38 percent of the total amount of income subtracted in tax year 2018.

The number of claimants has dropped since 2009, likely because same-sex marriage was legalized in DC, reducing the appeal of domestic partner benefits for same-sex couples, and the federal government has recognized domestic partners for tax purposes since 2013.

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[19] Domestic Partner Health Care Benefits Tax Exemption Act of 2005, effective March 8th, 2006 (DC Law 16-59; DC Official Code § 47-1803.02(a)(2)(W))
[20] See D.C. Official Code § 32-701(3).
[21] Angelini, J. (2011, November 8). The Federal and State Taxation of Domestic Partner Benefits. Tax Analysts. http://www.taxhistory.org/www/features.nsf/Articles/03CEC7C26C62E94A852579420059DC81?OpenDocument
[22] Council of the District of Columbia, Committee on Finance and Revenue, Report on Bill 16-495, the "Domestic Partner Health Care Benefits Tax Exemption Act of 2005," October 12, 2005.

The deduction for health insurance premium costs may lead employees to seek – and employers to provide -- more of their compensation in terms of health benefits than they would otherwise offer, creating an efficiency loss.

Health Insurance Premium Paid for a Same-Sex Spouse or Domestic Partner -- TY 2018					
Income Category (FAGI)	**Number of Filers**	**Share**	**Amount of Taxable Income Subtracted ($)**	**Revenue Forgone ($)**	**Share**
$25,000 or Less	12	5.1%	10,706	-	0.0%
$25,001 to $50,000	34	14.3%	96,582	1,835	3.8%
$50,001 to $75,000	28	11.8%	128,460	4,239	8.8%
$75,001 to $100,000	28	11.8%	129,336	4,915	10.2%
$100,001 to $150,000	47	19.8%	222,853	10,920	22.7%
$150,001 to $200,000	35	14.8%	193,660	10,264	21.4%
Over $200,000	53	22.4%	335,936	21,836	45.4%
Total	237	100%	1,117,533	48,054	100%

Source: ORA Analysis of DC Individual Income Tax data.
Note: Tax revenue forgone was calculated using the median effective tax rate from claimants in each income category in TY 2018.

Logic Model:

Health insurance premiums paid for a same-sex spouse or domestic partner		
The Need: Provides horizontal equity between married individuals and those in domestic partnerships by allowing a similar tax treatment of health coverage for residents who receive health insurance through their DC registered domestic partner's employer.	**Resources/Inputs:** Revenue forgone was \$75,992 in tax year 2018.	**Outputs:** During tax year 2018, 237 tax filers claimed this subtraction.

Expected Benefits
(changes in short, intermediate, or long-term measures)

Short-term:	**Medium-term:**	**Long-term:**
Improved health coverage for domestic partners specifically gay and lesbian couples with no employer-based health insurance and increased horizontal equity between married couples and domestic partners.	Improved health coverage for domestic partners specifically gay and lesbian couples with no employer-based health insurance.	Improved health coverage for domestic partners specifically gay and lesbian couples with no employer-based health insurance.

Assumptions:
-Legalized same sex marriage has dropped the number of same-sex domestic partnerships seeking this tax benefit.
-The passage of the Affordable Care Act has dropped the number of domestic partners needing to be on their partner's employer-based health insurance.

DC ABLE Program Trust
Capital Gains Tax Exemption

District of Columbia Code: D.C. Official Code § 47-4901 - § 47-4902
Sunset Date: None
Year Enacted: 2016

(Dollars in thousands)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Revenue Loss	N/A	N/A	minimal	minimal	minimal	minimal	minimal	minimal
Number of Users	N/A	N/A	8	49	91	138	181	225

Estimates for FY2015-2016 are not applicable since the program did not begin until FY 2017; estimates for FY2017-2022 are from the OCFO's Office of Finance and Treasury. The source for the number of users comes from the OCFO, Office of Finance and Treasury. The FY 2021 and 2022 numbers of users are estimated by a three-year average annual growth rate.

Description: The District's ABLE program was established under the federal Stephen Beck, Jr. Achieving a Better Life Experience (ABLE) Act of 2014. The DC ABLE program offers an income tax exemption on the earnings of deposits made to ABLE savings accounts for eligible individuals[23] to spend on qualified disability expenses such as healthcare, education, housing, and transportation. As of 2018, any individual can contribute up to $15,000 of after-tax dollars a year to any ABLE (also known as 529A) account. The federal legislation amends Section 529 of the Internal Revenue Service Code to create tax-free savings accounts for persons with disabilities which are established and maintained by states. Persons with a disability would lose access to means-tested public benefits like Supplemental Security Income (SSI) or Medicaid if they possessed a savings account worth more than $2,000 unless the savings are held in an ABLE account.[24]

Both the states of Virginia and Maryland have ABLE programs as well as forty-one other states with their own distinct regulations, tax deductions, and residency requirements.[25]

Since the passage of the Tax Cuts and Jobs Act of 2017, two adjustments to states' ABLE programs have been implemented: ABLE beneficiaries can roll over their 529 accounts into their 529A accounts up to the annual maximum contribution until January 1, 2026 in the event the beneficiary is later diagnosed with a disability; and ABLE beneficiaries who work and earn income, but do not participate in an employer's retirement plan, are incentivized to save additional amount in their 529A accounts up to the federal poverty level (currently $12,760 in continental U.S.) in addition to the maximum annual contribution.

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[23] The law defines "eligible individual" as an individual who during the taxable year is entitled to benefits based on blindness or disability under title II or XVI of the Social Security Act, and the blindness or disability occurred before the age of 26, or a disability certification with respect to such individual is filed with the OCFO for such taxable year, as defined in federal ABLE act.
[24] The ABLE savings account is not treated as personal assets towards this $2,000 cut off so long as the account does not exceed $100,000.
[25] The ABLE Nation Resource Center compares plans by state, available at https://www.ablenrc.org/select-a-state-program/

Purpose: The purpose of the exemption, according to the law's committee report, is to provide eligible District residents with a disability a way to pay for certain expenses and save money for the future without losing their eligibility for public benefits such as SSI.

Impact: Like the 529 college savings plan, the ABLE Program Trust benefits the account users whose withdrawals for qualified expenses, as well as investment gains from contributions, are tax exempt. According to the law's purpose, the program appears to be meeting its expected goal of helping young residents with disabilities save for future qualified disability expenses, maintain their public benefits eligibility, and provide access to wealth for said persons.

A lack of data precludes us from determining the amount of tax-exempt capital gains from the taxable contributions for these accounts. However, it is believed that the forgone tax revenue from these exempt capital gains is minimal. As of calendar year 2020, the OCFO holds over $1.26 million in 138 DC ABLE accounts.

Logic Model:

529 ABLE Program Trust

The Need:
To support residents with disabilities by allowing tax-exempt savings to pay for qualified disability expenses.

Resources/Inputs:
Revenue forgone was not estimated in previous tax years due to the minimum amount of income gain from this program.

Outputs:
During tax year 2020, 138 accounts benefited from the capital gains tax exemption.

Expected Benefits
(changes in short, intermediate, or long-term measures)

Short-term:
Improved health and financial outcomes for residents with disabilities.

Medium-term:
Improved health and financial outcomes for residents with disabilities.

Long-term:
Improved health and financial outcomes for residents with disabilities.

Assumptions:

Paid leave for organ and bone marrow donors
Corporate and Unincorporated Business Franchise Tax Credits

District of Columbia Code: D.C. Official Code § 47-1807.08 and § 47-1808.08
Sunset Date: None
Year Enacted: 2006

(Dollars in thousands)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Corporate Tax Revenue Loss	no estimate	no estimate	no estimate	no estimate	no estimate	no estimate	no estimate	no estimate
Unincorporated Business Tax Revenue Loss	$0	$0	$0	$0	$0	$0	$0	$0
Total Revenue Loss	**no estimate**	**no estimate**	**no estimate**	**no estimate**	**no estimate**	**no estimate**	**no estimate**	**No estimate**

Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; and estimates for FY2018-2019 from 2018 Tax Expenditure Report; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.

Description: A business that provides its employees with a paid leave of absence to serve as organ or bone marrow donors may claim a non-refundable credit equal to 25 percent of the regular salary paid during the leave of absence, not to exceed 30 days for an organ donation and seven days for a bone marrow donation.

To qualify for the credit, the leave provided by the business must be in addition to any medical, personal, or other paid leave provided to the employee. In addition, the credit does not apply if the employee is eligible for leave under the U.S. Family and Medical Leave Act of 1993. The credit does not reduce the minimum tax liability for a business, and the business also cannot deduct the amount equal to the salary or wages paid to the employee during the same tax year that they claim the 25 percent credit for.

Neither Maryland nor Virginia offers employer incentives to encourage organ or bone-marrow donations. However, Virginia allows organ and tissue donors to take personal income tax deductions of up to $5,000 (10,000 for joint filers) or the actual amount paid, whichever is less, for unreimbursed medical expenses that have not been claimed as a medical deduction on the taxpayer's federal income taxes. In addition, Virginia allows taxpayers to deduct from their taxable income the fee paid for an initial screening to become a bone-marrow donor, provided that the individual was not reimbursed for the fee and did not claim a deduction for the fee on his or her federal return. Maryland provides up to 30 days (in any 12-month period) of paid leave to state employees for organ donation.

Purpose: The purpose of the credit is to increase the number of private employers who allow their employees paid leave to serve as organ and bone marrow donors.

Impact: Employers who provide their employees with paid leave to serve as organ or bone marrow donors are the intended beneficiaries of this provision, which should also generate indirect benefits by expanding the number of organ or bone marrow donors.

The revenue loss for FY 2015 - FY 2022 cannot be estimated, because ORA follows the policy of the U.S. Internal Revenue Service providing that, “Statistical tabulations prepared at the state level may not be released for cells containing data for fewer than 10 returns. Data for geographic areas below the state level such as county may not be released with cells containing data from fewer than 20 returns.”[26] This policy is intended to protect the confidentiality of individual tax records.

[26] U.S. Internal Revenue Service, Publication 1075, “Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities” (September 2016), p. 125. https://www.irs.gov/pub/irs-pdf/p1075.pdf

Logic Model:

Paid leave for organ and bone marrow donors

The Need:
To increase the support and existence of organ and bone marrow donations for people in need.

Resources/Inputs:
Revenue forgone was not estimated in previous tax years due to the low number of income tax filers taking the credit and the tax privacy laws in place.

Outputs:
In any previous year, there were no publicly recorded number of tax filers claiming this credit.

Expected Benefits
(changes in short, intermediate, or long-term measures)

Short-term:
Improved health outcomes for organ and bone marrow donors and their recipients.

Medium-term:
Improved health outcomes for organ and bone marrow donors and their recipients.

Long-term:
Improved health outcomes for organ and bone marrow donors and their recipients.

Assumptions:

Specific Health-Related Tax Expenditures

Specific tax expenditures are provisions resulting from legislation passed to provide a tax benefit for a specific taxpayer, in contrast to categorical provisions that are available based on eligibility (and outlined in the previous section). All the provisions here are related to real property tax exemptions or abatements. Unlike the above-mentioned categorical benefit for all non-profit hospitals and health care facilities, these taxpayers' premises may be owned by for-profit entities that are not eligible for exemptions or their mission has been deemed health service related by District policymakers.[27]

Several expired health tax expenditures provisions are included in Appendix 2 as a reference because they are still in the DC Official Code and have expired within five years of this report or serve as an example in shaping future specific health tax expenditures. Four tax expenditures in this section are still active: They are Children's National at Walter Reed, the American College of Cardiology, and the American Red Cross real property tax exemptions and a tax rebate for Whitman-Walker Clinic, Inc.

Projects that receive a property tax exemption must file an annual use report in accordance with DC Official Code § 47-1007 documenting that they continue using the property for its intended, tax-exempt purpose. In a search of exempt organizations that filed their reports electronically, none of the properties in Table 3 were identified, however, this could mean they are still filing their reports by mail or in person. The total estimated forgone revenue for all specific health-related tax expenditures in FY 2020 is $6,892,348. The section that follows describes the District's four active specific health-related tax expenditures identified thus far.

[27] Previously, specific provisions that are health-related have not been compiled in the District, and this list represents the first attempt to categorize them. As such, it is a work in progress and additional provisions may be added in the future as appropriate.

Table 3: Listing of Active Health-Related Specific Tax Expenditures

Name of Tax Expenditure	Expenditure Type	DC Code	Address	Square Suffix Lot (SSL)	FY20 Revenue Forgone ($)
Children's Hospital Research and Innovation Campus tax exemptions	Real Property, Deed recordation and transfer tax exemption	§ 47–1099.10	7125 & 7144 13th Pl NW	2950 0824 & 0826	$3,275,021
American College of Cardiology and American College of Cardiology Foundation	Real Property Tax Exemption	§ 47-1059	2400 N St NW	0024 0113	$1,524,895
Use of property by agencies of the United States or American Red Cross	Real Property Tax Exemption	§ 47-1006	430 17th St NW	0172 0800	$1,993,403
Whitman-Walker Clinic, Inc.: Lot 129, Square 241	Real Property Tax Rebate	§ 47-4664	1525 14th St NW	0241 0129	$99,030
Total					**$6,892,348**

Source: ORA Analysis using DC Real Property Tax data.

Children's Hospital Research and Innovation Campus tax exemptions
Real Property, Deed Recordation, and Transfer Tax Exemption

District of Columbia Code:	D.C. Official Code § 47–1099.10
Sunset Date:	None
Year Enacted:	2021

Description: This law exempts real property, deed transfer, and deed recordation taxes for Lots 824 and 826 on Square 2950 that is owned by Children's National at Walter Reed, LLC, a subsidiary of the nonprofit corporation Children's National Medical Center (Children's National). The exemptions apply to 93.3 percent of the properties or campus that would have been entitled to an administrative exemption because of Children's National's nonprofit tax status and the properties' future use being for public health purposes including research. However, Children's National took advantage of two federal tax credits to help fund the construction of the campus which required the need to create two LLCs that do not have nonprofit status to ground lease each property, thus creating the need for the legislative exemption. The law also requires the developer to spend a certain percentage of its total project budget with certified and local business enterprises and to report spending to the Department of Small and Local Business Development.

Purpose: According to the law's committee report,[28] the purpose of this exemption is to provide tax relief to Children's National which is a nonprofit corporation.

Impact: Children's National and its subsidiary benefit from this tax expenditure. Patients of the hospital, as well as community members using the campus and those who gain from the health research done there also benefit from this tax expenditure indirectly. According to the law's Tax Abatement Financial Analysis report, the estimated value of the deed recordation, transfer, and real property tax exemptions for these properties for FY 2020 was $3,275,021.[29] [30]

[28] DC Council Committee on Business and Economic Development's Report on Bill 23-577, the "Children's Hospital Research and Innovation Campus Equitable Tax Relief Act of 2020." https://lims.dccouncil.us/Legislation/B23-0577
[29] The property tax exemption for Children's National at Walter Reed, LLC is counted in the DC OCFO Tax Expenditure Report under the E8 "miscellaneous" property category.
[30] See OCFO (2020) Tax Abatement Financial Analysis of Children's Hospital Research and Innovation Campus Equitable Tax Relief Act of 2020. https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/TAFA%20--%20Childrens%20Hospital%20Research%20and%20Innovation%20Campus.pdf

American College of Cardiology and American College of Cardiology Foundation
Real Property Tax Exemption

District of Columbia Code:	D.C. Official Code § 47-1059
Sunset Date:	None
Year Enacted:	2004

Description: The American College of Cardiology (ACC) and the American College of Cardiology Foundation are 501(c)(6) and 501(c)(3) non-profits that operate out of the same building at 2400 N Street NW (SSL 0024 0113). The ACC is a national medical association that grants credentials to cardiovascular specialists who meet their qualifications and offers a variety of educational programs to its members, lobbies for health policy, and supports cardiovascular research. According to its website, the ACC was founded in 1949 and presently has over 54,000 members worldwide. The ACC foundation is the owner of the association's headquarters at 2400 N Street NW since it acquired the lot on June 1st, 2005. According to the law, it is exempt from all real property taxation so long as the property continues to be owned and occupied by the ACC or its foundation and is not used for commercial purposes.

Purpose: The committee report for this law is unavailable to determine the purpose of this property tax exemption. However, it is assumed that the purpose of this exemption is to provide the same property tax relief nonprofits receive when they own the land that provides a social service.

Impact: The ACC serves a health need that many District residents benefit from such as scientific research on cardiovascular topics and educational training for cardiovascular specialists that the District government does not provide. However, the tax exemptions given to certain properties shift the burden of paying for public services to taxable properties and may result in those properties paying a higher property tax rate.

Based on the latest assessment value (in TY 2020), and if this property were to be used for commercial purposes, an estimation of the applicable tax would be $1,524,895 for 2020.[31]

[31] "Properties Exempt from Taxation in TY20 for Tax Types: DC, EO – E9, and US." Office of Tax and Revenue, OCFO. Washington, DC. Pg. 120. Accessed March 4, 2021, here.

Use of property by agencies of the United States or American Red Cross
Real Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1006
Sunset Date: None
Year Enacted: 1945

Description: The American Red Cross (ARC), established in 1881, is a congressionally chartered non-profit humanitarian organization that provides emergency assistance, disaster relief, and disaster preparedness education in the United States. The real properties used and occupied by the ARC in the District are exempt from taxation. This includes the ARC's headquarters on the block of 430 17th St NW, or lot 800, square 172, as well as all other ARC-used properties in the District. Taxability of the ARC has come into question in the past, but the courts have upheld their tax-exempt status each time.[32] Many other states such as Virginia, New Jersey, Utah, etc. have passed property tax exemptions specific to the ARC in their respective jurisdictions.

Purpose: Since this law was passed prior to the District's right to self-government, there is no committee report of record to understand the original purpose of this exemption. However, it is assumed the purpose of this exemption is to provide tax relief to a nonprofit-charitable organization providing social and health related services to the residents of the U.S. that the U.S. government does not provide.

Impact: The ARC benefits from this property tax exemption as well as those who receive assistance or educational services from the organization. Because the ARC is a congressionally chartered entity it has a tax-exempt status and thus is included in the non-profit tax exemption category. Based on the latest assessment value, and if this property were to be used for commercial purposes, an estimation of the applicable tax would be $1,993,403 in TY 2020.[33]

[32] Department of Employment v. U.S. (87 SCt 464), 1966 and U.S. v. City of Spokane (734 FSupp 919), 1989.
[33] "Properties Exempt from Taxation in TY20 for Tax Type: DC, EO – E9, and US." Office of Tax and Revenue, OCFO. Washington, DC. Pg. 150. Accessed October 22, 2021, here.

Whitman-Walker Clinic, Inc.: Lot 129, Square 241
Real Property Tax Rebate

District of Columbia Code:	D.C. Official Code § 47-4664
Sunset Date:	None
Year Enacted:	2015

Description: Real property taxes paid for lot 129, square 241 or 1525 14th St NW are rebated to the Whitman-Walker Clinic, Inc. (WWC) to the extent of WWC's share of the property tax for its occupancy of the space. Further stipulations made in the law (L20-155) granting the property tax rebate dictates that WWC show it is liable to pay its share of the property tax under its lease agreement with the property's owner. Further, WWC must apply annually for the rebate by September 15th of each calendar year and confirm that the property tax was paid.

According to the law, the abatement started in Tax Year 2015, when WWC began occupying the space located in the Logan Circle neighborhood and, according to WWC's website, it continues to occupy the space. According to the law's fiscal impact statement, the WWC planned to move into and lease the entire building from the owner, an LLC, once renovations to the building were completed in 2014. The 1525 14th St NW facility is one of several locations within the WWC's network, WWC, now known as Whitman-Walker Health, is a federally recognized 501(c)(3) tax-exempt primary care health center that serves the DC metropolitan area and specializes in LGBT health and HIV care.

Purpose: According to the provision's legislative committee report, the purpose of the rebate is to provide real property tax relief to the clinic, in the form of a rebate.

Impact: The WWC and its clients benefit from this tax expenditure. Because WWC is a non-profit organization it is eligible for a tax exemption based on the larger categorical tax exemption status for charitable organizations in the District. Because the premises are owned by a for-profit entity, the taxes are not exempt and WWC has a special provision to request a rebate. Based on the latest assessment value (in TY 2020), and if this property were to be used for commercial purposes, an estimation of the applicable tax would be about $99,030.[34] This tax exemption is included in the reporting of tax exemptions for charitable organizations and thus is not included here in the totals for specific health-related tax provisions.

[34] "Properties Exempt from Taxation in TY20 for Tax Type: DC, EO – E9, and US." Office of Tax and Revenue, OCFO. Washington, DC. Pg. 150. Accessed October 22, 2021, here.

Summary of Health-Related Tax Expenditures and Recommendations

Overall, tax expenditures are not widely used for health policy in the District. Of the five health-related categorical tax provisions, the property tax exemption of hospital buildings is the largest in terms of revenue forgone. In FY 2020, five organizations claimed property tax exemptions totaling an estimated $16 million in forgone revenue (out of $18.6 million in health-related categorical forgone revenue). The second largest health-related tax expenditure is the sales tax exemption for medicines, pharmaceuticals, and medical devices. The sales tax exemption is estimated to cost the District about $3 million in forgone revenue in FY 2020, though the exact number of beneficiaries is unknown.

Three smaller provisions include income tax subtractions for health professional loan repayments and health insurance premiums paid for a same-sex spouse or domestic partner, as well as a capital gains tax exemption for DC 529 ABLE savings accounts for DC residents with a disability. Finally, other health-related tax provisions for FY 2020 include the specific property tax expenditures for the Children's National Hospital at Walter Reed, the American College of Cardiology Foundation, the American Red Cross, and the Whitman-Walker Clinic, Inc., each of which is similar in nature to the categorical property exemption for hospitals but do not meet the specific definition to qualify.

All of these health-related tax provisions appear to be meeting their goals, according to the legislative purposes set out for them. The total amount of tax revenue forgone due to health-related tax expenditures for FY 2020 when combining both categorical and specific provisions was $25.5 million.

Part III: Review of the District's Education Tax Expenditures

Summary of the District's Education Goals and Overview of Education Management

The District's education-related tax expenditures are one of several policy tools for implementing education-related goals, and a review of them should be viewed and assessed within the broader context of the District's work in this area. Most of the District's efforts towards its education goals are achieved through direct funding and implementing programs rather than providing tax relief. District government education-focused agencies tend to target students from kindergarten to 12th grade (K-12) and have goals that include improving teacher and staff recruitment and retention, improving college and career readiness, closing the achievement gap, and reducing chronic absenteeism. However, most education-related tax expenditures target higher education, and include improving college and career readiness, supporting college enrollment, and establishing a model of urban student success. A cursory review of plans for public higher education includes a focus on graduating transformative urban leaders, career readiness, and supporting enrollment for higher education.

The District's work on education is organized into similar clusters in the legislative and executive branches. For Council Period 24, the DC Council's Committee of the Whole is responsible for oversight on most education focused agencies such as DC Public Schools, DC Public Charter School Board, the State Superintendent of Education, University of DC (UDC), and UDC Community College. The Committee on Recreation, Libraries, and Youth Affairs is responsible for public libraries and the Committee on Labor and Workforce Development is responsible for overseeing agencies related to workforce-development, including the specific education and training of individuals for employment.

On the executive side, the Deputy Mayor for Education and the Mayor, who work jointly with DC Public Schools, other agencies, and independent entities, are responsible for carrying out education services and policies. These agencies and independent entities include the Office of the State Superintendent of Education, Department of Employment Services, DC Public Charter Schools, State Board of Education, DC Public Libraries, Workforce Investment Council, and UDC (including UDC Community College).

Categorical Education-Related Tax Expenditures

Education-related categorical tax expenditures, or those which anyone who is eligible may claim, comprise the third highest amount of forgone revenue, compared to all other policy areas, at $139 million in FY 2020. Of these, the real property tax exemption for certain education non-profit organizations (such as universities or libraries) makes up roughly 96 percent of the total ($133.9 of $139 million). The second and third largest education-related tax expenditures include the individual income tax deduction for college savings (529) plan contributions ($2.5 million) and the real property tax rebate for public school charter schools ($2.3 million), totaling just under $5 million in FY 2020.

The seven education-related categorical tax expenditures generally support the District's goals by:

- Reducing the cost of property owned by nonprofit educational organizations to support their educational missions;

- Supporting parents in saving for college, qualified trade school, registered apprenticeship programs, or private K-12 school; and
- Supporting public and charter school-teachers by reducing the costs of out-of-pocket expenses related to their teaching positions.

Table 4: Categorical Education-Related Tax Expenditures

Name of Tax Expenditure	**Tax**	**Type of Provision**	**Date Enacted**	**DC Code**	**FY 2020 Revenue Loss Estimate ($000)**
Educational Institutions	Real Property	Exemption	1942	§ 47-1002(10)	$133,392
College Savings (529) Plan Contributions	Income	Subtraction	2001	§ 47-4501 - § 47-4512	$2,535
Public Charter School Tax Rebate	Real Property	Rebate	2005	§ 47-867	$2,279
Libraries	Real Property	Exemption	1942	§ 47-1002(7)	$453
Educational Institutions	Deed Recordation & Transfer	Exemption	1962 & 1980	§ 42-1102(3) for deed recordation tax § 47-902(3) for transfer tax	$272
Higher Education Institutions	Real Property	Exemption	2016	§ 47-1002(10A)	$145
Public School Teacher Expenses	Income	Subtraction	2006	§ 47-1803.03(b-2)	$57
Total					**$139,421**

Source: ORA Analysis.

Educational institutions
Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1002(10)
Sunset Date: None
Year Enacted: 1942

Deed Recordation and Transfer Tax Exemption

District of Columbia Code: D.C. Official Code § 42-1102(3) for the deed recordation tax
D.C. Official Code § 47-902(3) for the transfer tax
Sunset Date: None
Year Enacted: 1962 (deed recordation tax) and 1980 (transfer tax)

(Dollars in thousands)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Property Tax Revenue Loss	$104,455	$124,128	$124,748	$126,946	$130,119	$133,392	$136,727	$140,145
Deed/Rec. Revenue Loss	$518	$1,424	$1,467	$259	$265	$272	$279	$286

Source: Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; and estimates for FY2018-2019 from 2018 Tax Expenditure Report; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.

Description: Buildings belonging to and operated by schools, colleges, or universities "which are not organized or operated for private gain, and which embrace the generally recognized relationship of teacher and student," are exempt from real property taxation. This includes private and parochial schools but not for-profit schools.

Exempting educational institutions from the real property tax is standard practice throughout the United States. Both Virginia and Maryland exempt educational institutions from real property taxation.

Organizations that are exempt from real property taxation in the District of Columbia pursuant to DC Official Code § 47-1002 are also exempt from the deed recordation tax and transfer taxes. Educational institutions are among the groups covered under § 47-1002 that qualify for this blanket exemption. A qualified organization that sells a property is exempt from the deed transfer tax and one that buys a property is exempt from the deed recordation tax. The other party in the transaction owes the corresponding tax if not an exempt organization.

Purpose: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, social, scientific, literary, educational, or cultural benefits to the public. The purpose of the deed recordation and transfer tax exemption is to extend the real property tax exemption for educational institutions to the other two taxes related to real property, e.g. the deed recordation tax and the transfer tax. As a result, there is uniform treatment under the real property, deed recordation, and transfer taxes for educational institutions.

Impact: Educational institutions benefit directly from the exemption, which is also expected to provide broader societal benefits such as a better-informed citizenry and a more productive workforce.[35] During tax year 2020, 472 properties received the educational institutions property tax exemption.

Educational institutions account for 7 percent of the total assessed value of tax-exempt property in the District of Columbia.[36] The tax exemptions given to certain properties narrow the real property tax base thus shifting the burden of paying for public services to either income, taxable sales, or taxable properties which may result in those properties paying a higher property tax rate. However, educational institutions provide benefits to many District residents that would otherwise have to be provided by the District government or not provided at all.

[35] Estimating the amount of public financial benefits these tax expenditures incur like increased tax revenue or lower government spending on health, crime, and welfare is difficult because there is little relevant data available and professional consensus as to how much these benefits are attributed to exempt taxes has not been established.
[36] In tax year 2019, tax-exempt property of educational institutions was valued at over $7.2 billion. The total value of tax-exempt property in the District of Columbia was valued at $102 billion.

Logic Model:

Educational institutions (property tax exemptions)

The Need:
Provide tax relief to non-profit educational institutions such as public charter schools and universities.

Resources/Inputs:
Property tax revenue forgone was $133,392,000 in tax year 2020. Deed and transfer tax revenue was $272,000 in tax year 2020.

Outputs:
During tax year 2020, 472 properties received this property tax exemption, though it is unknown how many education entities sold or transferred property.

Expected Benefits
(changes in short, intermediate, or long-term measures)

Short-term:
Improved educational services to DC residents.

Medium-term:
Improved educational services to DC residents.

Long-term:
A more informed and productive workforce/citizenry.

Assumptions:

College savings (529) plan contributions
Individual Taxable Income Subtraction

District of Columbia Code: D.C. Official Code § 47-4501 - § 47-4512
Sunset Date: None
Year Enacted: 2001

(Dollars in thousands)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Revenue Loss	$1,066	$1,163	$1,163	$2,550	$2,836	$2,535	$2,535	$2,535
Number of Filers	5,354	5,768	6,607	7,594	8,341	9,087	9,834	10,581

Source: Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; and estimates for FY2018-2019 based on ORA analysis of 2018 Individual Income tax data projections for out years; and estimates for FY2020-2022 from 2020 Tax Expenditure Report. DC Individual Income Tax data for number of filers, FY 2019-2022 are estimated numbers.

Description: The District of Columbia College Savings Plan allows residents to create college savings accounts to benefit from incentives for qualified tuition programs provided by section 529 of the US Internal Revenue Code.[37] Contributions to a college savings account must be spent on "qualified higher education expenses, and elementary and secondary tuition," which include college or trade school[38] tuition, fees, books, supplies, and equipment.[39] Anyone can open a college savings account on behalf of a child. At the end of FY 2020, the DC plan had 31,445 accounts with an average balance of $25,896. Fueled mainly by market performance and contributions, assets of the DC College Savings Plan rose to $814.3 million as of September 30, 2020, from $691.9 million at the end of FY 2019. This represents an increase of 17.7 percent.[40]

The earnings in a college savings account are exempt from federal income tax, as is the distribution of funds in the account to pay for qualified higher education expenses. DC conforms to those federal rules when applying the local income tax.

DC also allows account owners to take a local taxable income deduction of as much as $4,000 each year for single filers, or $8,000 for joint filers. If the account owner contributes more than the maximum amount in a tax year, the excess amount may be carried forward, subject to the annual limit, for five years. The estimate of forgone revenue shown above reflects the loss resulting from the local taxable income deduction.

[37] According to CollegeSavings.org, programs like section 529 plans were first started by states such as Florida and Michigan in the late 1980s to help alleviate financial strain on families from rising college tuition rates and gained popularity nationwide after the federal government created Section 529 of the Internal Revenue Code in 1996.
[38] Trade schools (also known as vocational or career schools) that are eligible for federal student aid via Title IV of the Higher Education Act of 1965 can receive 529 plan funds (see 26 U.S.C. § 529(e)(5)).
[39] See Section 529(c)(3) of the Internal Revenue Code for the statutory definition of "qualified higher education expenses."
[40] DC 529 College Savings Plan, Fiscal Year 2020 Annual Report, available at www.dccollegesavings.com.

College savings plans are offered in 49 states, 34 of which offer state tax deductions or credits to those who contribute to the plans, in addition to the federal tax incentives.[41] In Maryland, a taxpayer can deduct up to $2,500 in annual account contributions per child, while in Virginia a taxpayer can deduct up to $4,000 in annual account contributions per child. Both states also allow residents to exclude the earnings on their 529 account investments from state income tax.

The passage of the federal Tax Cuts and Jobs Act in 2017 included tuition for Kindergarten through 12th grade public, private, and religious school as qualified expenses for 529 plans, as well as post-secondary education costs.

After the passage of the federal SECURE Act of 2019, 529 plans can now be used to pay for the costs of apprenticeship programs registered with the US Department of Labor as well as to pay off student loans up to $10,000 per child.[42]

Purpose: No Council committee report on the authorizing legislation was located; such a report would have helped establish the precise purpose of this tax expenditure. However, it is assumed the purpose of this provision is to increase access to higher education by helping individuals and families save for higher education on a tax-favored basis. According to the US Senate's committee report on the law establishing section 529, the program's purpose was to encourage persons to save to meet post-secondary educational expenses.[43]

Impact: Families and others who pay for higher education benefit from the subtraction, as do the students whose educations are financed, at least in part, by the tax-favored college savings accounts. Moreover, there is a general benefit to society from having a more educated citizenry and productive workforce.

During tax year 2018 (the last year for which data are available), 7,594 tax filers claimed this subtraction. As shown in the charts below, tax filers with annual incomes above $150,000 accounted for 93.8 percent of the total amount subtracted; and 77 percent of the total number of filers using the program that year.

Higher-income families stand to benefit more from college savings plans because they have the resources to save for college and face higher marginal tax rates that increase the value of tax deductions and exclusions. Urban Institute researchers have questioned whether the plans have an impact on college savings because higher-income families would likely set aside funding for higher education even without the tax incentives.[44] Furthermore, education tax policy experts have

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[41] College Savings Plans Network compare plans by state, available at http://plans.collegesavings.org/planComparisonState.aspx

[42] Carrns, A. (2020). New Law Expands Uses for 529 College Savings Accounts. The New York Times. https://www.nytimes.com/2020/01/10/your-money/529-college-savings-accounts.html

[43] H.R. 3488 – 104th Congress (1995-1996): Small Business Job Protection Act of 1996. Senate Report No. 281 (1996) Pg. 106. https://www.congress.gov/104/crpt/srpt281/CRPT-104srpt281.pdf

[44] Maag, E. & Fitzpatrick, K. (2004). Federal Financial Aid for Higher Education: Programs and Prospects. Urban Institute. pp. 24-25. https://www.urban.org/author/elaine-maag/publications

pointed out that low- to middle-income families may be penalized by the college financial aid system if they contribute too much to their 529 accounts.[45]

The bar charts below (e.g. Charts 3, 4, & 5), illustrate that residents with incomes at $150,000 or more make up the majority of recipients, and are receiving most of the benefits of this tax expenditure as compared to low- and middle-income earners; however, as a share of income the benefits are more evenly distributed. For example, if a low-income filer claiming this deduction can and chooses to deduct the full amount allowed, then they would receive more tax relief on their tax bill than those with higher incomes. Mapping the geographic distribution of forgone tax revenue shows that most tax relief is concentrated in Wards 3, 4, and 6 where many of the District's highest earners reside (see Map 1).

The law does not make any distinction as to the allocation of benefits to one income group over others. As previously noted, most of the benefits of this provision accrue to filers with higher incomes who may be more likely to save money for their child's college without the incentive. And while the cap on yearly contributions limits the benefits filers can receive, an income eligibility limit would further reduce the gap of accrued benefits to higher income filers. However, there is no precedent for such limits as no other state program has a limit as of the writing of this report. As an alternative, policy makers could study the feasibility of implementing incentives for low- and moderate-income households to participate in this program, such as a matching contribution system with income limits. Another policy option is automatic enrollment for low- and moderate-income families. According to a 2012 randomized experiment in Oklahoma, 99 percent of its treatment group (low- and moderate-income infant caregivers) had accepted automatic enrollment in the state-owned 529 account and 16 percent of another treatment group offering information on the participant-owned 529 account with incentives had opened an account, compared to 0 and 1 percent of the control groups, respectively.[46] Recent studies have also shown in other states when eligible low-income families are automatically enrolled, positive short-term effects are produced for those families.[47]

One more possible solution to encourage greater use among low- and moderate-income filers would be to turn this deduction into a tax credit which would be independent of a filer's income and allowed with the standard deduction.

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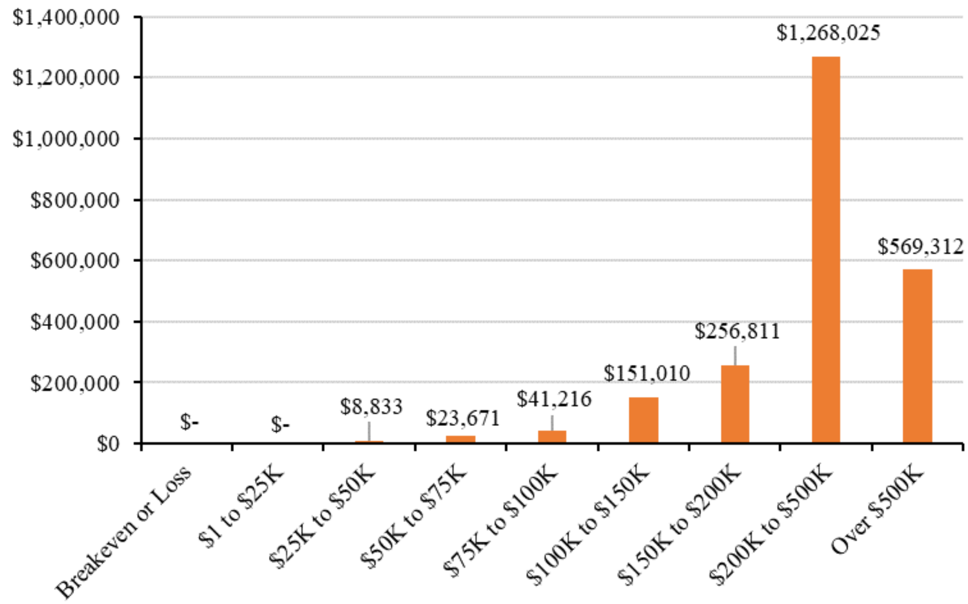
[45] Dynarski, S. & Scott-Clayton, J. (2016). Tax Benefits for College Attendance. Education Policy Initiative Working Paper – Gerald R. Ford School of Public Policy. Pp. 15-16. https://www.edpolicy.umich.edu/files/02-2016_tax-benefits-college.pdf

[46] Nam, Y. & Kim, Y. & Clancy, M. & Zager, R. & Sherraden, M. (2013). Do Child Development Accounts Promote Account Holding, Saving, And Asset Accumulation for Children's Future? Evidence from a Statewide Randomized Experiment. Journal of Policy Analysis and Management. 32(1), 6-33. https://doi.org/10.1002/pam.21652

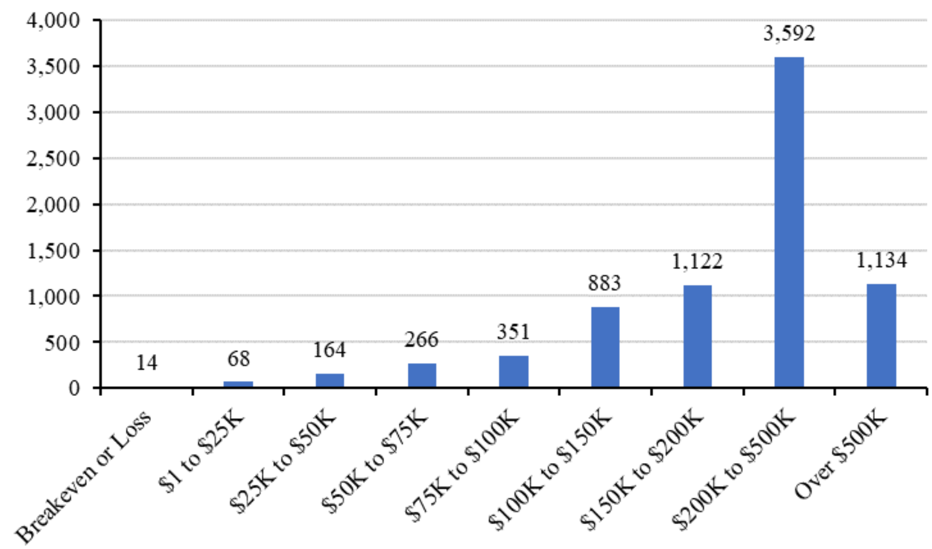
[47] Emery-Arras, M. (2020). Children's Savings Account Programs Can Help Families Build Savings and Envision College. Government Accountability Office. Pg. 9-11, 27-30. https://www.gao.gov/assets/gao-21-10.pdf

Chart 3: Income Tax Revenue Forgone from the DC 529 College Savings Program by Income Group (FAGI), TY 2018



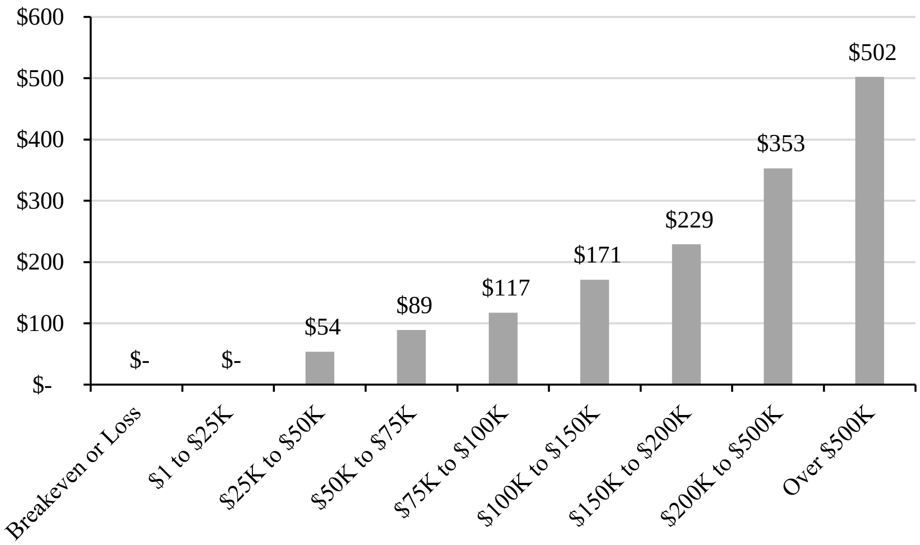
Source: ORA Analysis of DC Individual Income Tax data.
Note: Tax revenue forgone was calculated using the median effective tax rate from claimants in each income category in TY 2018.

Chart 4: Number of Filers Claiming DC 529 College Savings Plan Contribution Deductions by Income Group (FAGI), TY 2018



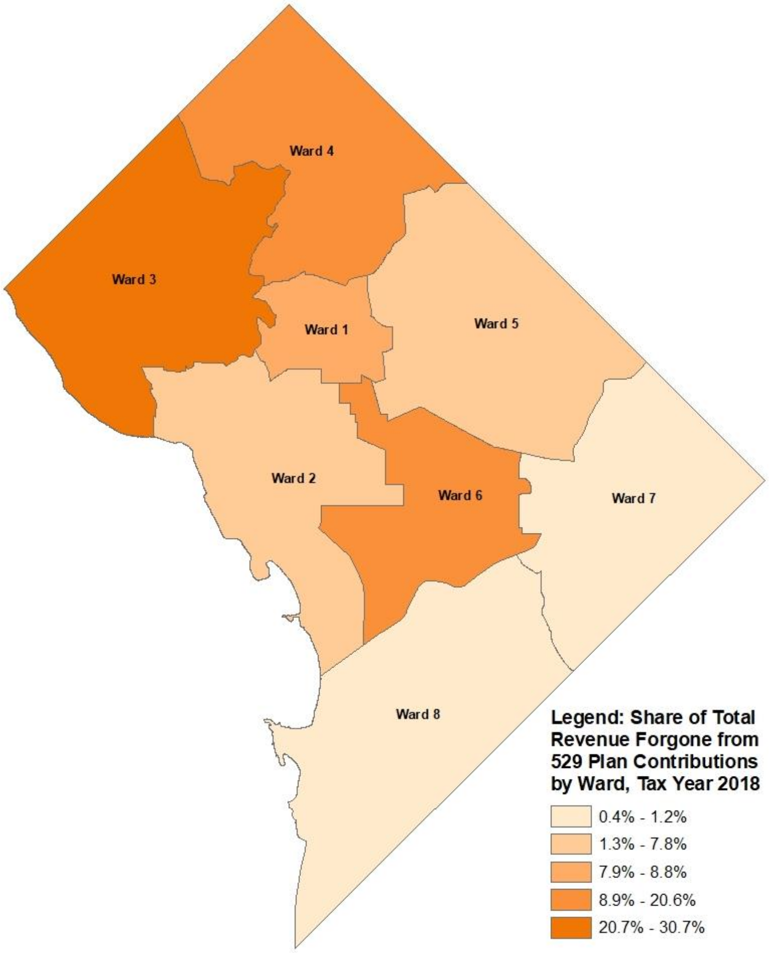
Source: ORA Analysis of DC Individual Income Tax data.

Chart 5: Average Amount of Tax Dollars Forgone per Filer per Income Group (FAGI), TY 2018



Source: ORA Analysis of DC Individual Income Tax data.
Note: Tax revenue forgone was calculated using the median effective tax rate from claimants in each income category in TY 2018.

Map 1: Share of the Total Tax Revenue Forgone from the DC 529 College Savings Plan Contributions Income Tax Subtraction by Ward, TY 2018



Source: ORA Analysis of DC Individual Income Tax data.
Note: Tax revenue forgone was calculated using the median effective tax rate from claimants in each income category in TY 2018.

Logic Model:

College savings (529) plan contributions

The Need:
To incentivize more residents to save money for their children's education.

Resources/Inputs:
Revenue forgone was $2,550,000 in tax year 2018.

Outputs:
During tax year 2018, 7,594 tax filers claimed this subtraction.

Expected Benefits
(changes in short, intermediate, or long-term measures)

Short-term:
Improved savings for families who might not otherwise save enough for higher education expenses.

Medium-term:
Additional resources available to finance college, apprenticeship, or private K-12 education.

Long-term:
Higher education attainment for District residents, a more productive workforce, a more informed citizenry, etc.

Assumptions:

Public charter school tax rebate
Property Tax Rebate

District of Columbia Code: D.C. Official Code § 47-867
Sunset Date: None
Year Enacted: 2005

(Dollars in thousands)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue Loss	$1,321	$1,173	$1,205	$1,335	$1,379	$2,279	$2,320	$2,392

Source: Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; and estimates for FY2018-2019 from 2018 Tax Expenditure Report; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.

Description: A public charter school that leases a school facility from an entity that is subject to the District's real property tax is entitled to a rebate equal to the school's pro-rata share of the lessor's tax on the property, provided that the school is liable under its lease for that share of the tax, and the lessor paid the tax. Public charter schools must apply for the rebate by filing Form FP-305 with the Office of Tax and Revenue.

Purpose: The purpose of the rebate is to put public charter schools that lease their facilities on an equal footing with other public schools that own their facilities and are exempt from taxation on the real property.

Impact: Public charter schools that lease their school buildings benefit from this provision. For tax year 2020, 32 rebates were issued to 10 charter schools (there are often multiple plots of land per school) for a total of $2,278,678. Most public charter schools use District owned property or property owned by an exempt entity and so do not have a tax liability.

During the 2019-2020 school year there were 123 public charter schools managed by 62 independently run nonprofit organizations with 43,485 students.[48] The DC Public Charter School Board approved applications for five new charter schools in the 2020-2021 school year and one new public charter school to open in the 2021-2022 academic year.[49] There is a limited number of public-school facilities not in use at any given time so the issue of available space requires charter schools to be able to rent facilities from for-profit landowners.

The rebates are processed by an Office of Tax and Revenue (OTR) program specialist who only receives information on the property when the school sends the lease and rebate application, and usually does not have other relevant information (such as whether the school recently moved from a different leased property, purchased its own building, etc.). Because OTR is not mandated to track or report on this rebate, it has not been storing information in a way that can be easily accessed for analyzing and evaluating the provisions, for the purposes of this report.

[48] District of Columbia Public Charter School Board, Annual Report 2020, p. 3.
[49] Ibid, p. 27 & 35.

Logic Model:

Public charter school tax rebate		
The Need: To provide tax relief for public charter schools who are leasing space on taxable properties for their teaching facilities.	**Resources/Inputs:** Revenue forgone was $2,278,678 in tax year 2020.	**Outputs:** During tax year 2020, 10 independent public charter schools claimed this property tax rebate.
Expected Benefits (changes in short, intermediate, or long-term measures)		
Short-term: Improved access to education for students in the District.	**Medium-term:** Improved access to education for students in the District.	**Long-term:** A more informed and productive workforce/citizenry.
Assumptions:		

Libraries
Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1002(7)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Revenue Loss	$427	$425	$427	$418	$428	$453	$465	$476

Source: Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; and estimates for FY2018-2019 from 2018 Tax Expenditure Report; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.

Description: Library buildings that belong to and are operated by organizations that are not organized or operated for private gain, and are open to the public generally, are exempt from real property taxation.

Purpose: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, social, scientific, literary, educational, or cultural benefits to the public.

Impact: Non-profit libraries benefit from the exemption, but there may be a wider social benefit because the libraries are open to the public and thereby provide opportunities for learning and enrichment to the general populace. In tax year 2020, the Folger Shakespeare Library and the American Society of International Law's DeFord library are the only libraries that qualify for this exemption. Folger Shakespeare library is currently under renovations until 2022 and will be closed to the public until then. District public libraries are already exempt as District government owned or rented facilities.

Logic Model:

Libraries		
The Need: To provide tax relief for libraries owned by non-profit organizations and increase access to educational services for DC residents.	**Resources/Inputs:** Revenue forgone was $453,000 in tax year 2020.	**Outputs:** During tax year 2020, 2 properties claimed this tax exemption.

Expected Benefits (changes in short, intermediate, or long-term measures)		
Short-term: Increased access to educational programming and library materials for DC residents.	**Medium-term:** Increased access to educational programming and library materials for DC residents.	**Long-term:** Increased access to educational programming and library materials for DC residents.

Assumptions:

Higher educational institutions
Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1002(10A)
Sunset Date: None
Year Enacted: 2016

(Dollars in thousands)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Revenue Loss	N/A	$0	$101	$105	$110	$145	$148	$153

Source: Estimates for FY2015 from 2014 Tax Expenditure Report; estimates for FY2016-2017 from 2016 Tax Expenditure Report; and estimates for FY2018-2019 from 2018 Tax Expenditure Report; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.

Description: Buildings belonging to a foundation that are not organized or operated for private gain and are organized and operated exclusively for the benefit of a college or university that directly uses the building under a lease from the foundation with a term of at least one year to provide dormitory, classroom, and related facilities for its students is exempted from real property taxes.

According to the committee report for the enacting legislation, some states across the country do not allow state funded institutions to own property outside of the state. In response to these laws, these institutions establish non-profit foundations.[50] The Higher Education Tax Exemption Act of 2016 allows public and private institutions of higher learning to own property through their foundation in the District and receive a real property tax exemption. Institutions can establish satellite campuses in the District that provides housing and courses to students.

Purpose: The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide educational programing to the public.

Impact: College and university foundations benefit directly from the exemption, which is also expected to provide broader societal benefits such as a better-informed citizenry and a more productive workforce. The only higher education institution currently taking advantage of this exemption is the University of Georgia Foundation. The property is at 608 Massachusetts Ave. NE (Square 865, Lot 60) with an assessment value of $8,170,530 in tax year 2020.

[50] Council of the District of Columbia Committee on Finance and Revenue Committee Report on Bill 21-488, the "Higher Education Tax Exemption Act of 2016." Pg. 2. Accessed via DC LIMS.

Logic Model:

Higher educational institutions

The Need:
To provide affordable student housing and teaching facilities for higher education institutions in DC.

Resources/Inputs:
Revenue Forgone was $145,000 in tax year 2020.

Outputs:
During tax year 2020, one property claimed this tax exemption.

Expected Benefits
(changes in short, intermediate, or long-term measures)

Short-term:
Increased access to higher education services for students in the District.

Medium-term:
Increased access to higher education services for students in the District.

Long-term:
A more informed and productive workforce/citizenry.

Assumptions:

Public school teacher expenses
Individual Taxable Income Subtraction

District of Columbia Code: D.C. Official Code § 47-1803.03(b-2)
Sunset Date: None
Year Enacted: 2006

(Dollars in thousands)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue Loss	$54	$55	$46	$63	$63	$57	$57	$57

Source: FY 2015-2017 estimates are actual forgone revenue dollar amounts based on DC Individual Income Tax and Statistics of Income data analysis; estimates for FY2018-2019 based on 2017 Tax Expenditure Report; and estimates for FY2020-2022 from 2020 Tax Expenditure Report.
Note: From FY 2015 to 2017 actual revenue forgone dollar amounts (total yearly amount of deductions taken multiplied by that year's overall effective income tax rate) replaced their Tax Expenditure Report estimates due to inconsistencies with later year methodology and data source changes.

Description: An individual who has been a classroom teacher in a public school or public charter school in DC for the entire tax year or the year prior may subtract the following expenses from their DC gross income: (1) the amount paid for basic classroom materials and supplies needed for teaching, up to $500 per year, and (2) the amount paid as tuition and fees for post-graduate education, professional development, or licensing and certification requirements, up to $1,500 per year. If the taxpayer claimed a deduction for classroom materials and supplies, or tuition and fees on his or her federal income tax return, then those expenses may not be claimed as a deduction from their DC income tax return.

Maryland offers public school classroom teachers a non-refundable annual tuition tax credit of up to $1,500 for courses necessary to achieve or maintain advanced teacher certification. To receive the credit, the teacher must complete the course with a grade of "B" or better, have a satisfactory performance evaluation, and not have been reimbursed by his or her school system for the tuition paid.[51] Virginia allows a licensed primary or secondary school teacher to deduct 20 percent of unreimbursed tuition costs paid to attend continuing education courses required as a condition of employment, provided that these expenses were not deducted from federal gross income.[52]

Purpose: The purpose of the subtraction is to defray the costs that teachers often absorb for classroom supplies, materials, and professional development, and to enhance the public schools' ability to recruit and retain highly qualified teachers.

Impact: Classroom teachers are the direct beneficiaries of the subtraction, but there may be spillover benefits for society if the provision helps public schools in the DC attract and retain skilled teachers. On the other hand, the subtraction may violate the principle of horizontal equity because other professionals such as child welfare social workers do not receive a similar benefit. Decision-makers might also consider whether an alternate way to pursue the policy goals would be for direct spending for school supplies and professional development, rather than through the tax code.

[51] Description of the Maryland state tax credit available at: https://www.marylandtaxes.gov/tax-credits.php
[52] Description of the Virginia state tax deduction available at: https://www.tax.virginia.gov/deductions

A recent analysis done by the Economic Policy Institute (EPI) on federal data highlights the need to raise the limit on the subtraction for public school teacher expenses. Public school teachers in the District spent on average $527 on school supplies that were unreimbursed in 2018 (adjusted for inflation and cost of living).[53] Factoring in remote education technology and personal protective equipment for online and in-person learning during the Covid-19 pandemic may increase the potential expenses paid out of pocket by teachers. Direct spending, on the other hand, would need close oversight since administrators at underfunded schools may face pressure to use the extra money on other pressing needs within their school, such as rising personnel costs.[54] As such, this report recommends increasing the dollar value limit on the amount of expenses that public school teachers may report. Based on the findings in the EPI report reference above, a starting point could be to increase the limit from $500 to $1,000.[55]

During tax year 2018, 2,295 tax filers claimed the subtraction, the majority of which are low- to middle-income earners. As shown in the table below, tax filers with incomes below $75,000 accounted for 62 percent of the total amount deducted.

Public School Teacher Expenses -- TY 2018

Income Category (FAGI)	Number of Filers	Share	Amount of Taxable Income Subtracted ($)	Revenue Forgone	Share
Breakeven or Loss	11	0.5%	4,400	-	0.0%
$1 to $25,000	196	8.5%	59,832	335	1.1%
$25,001 to $50,000	506	22.0%	163,925	4,426	14.3%
$50,001 to $75,000	662	28.8%	203,236	8,739	28.2%
$75,001 to $100,000	326	14.2%	105,918	5,296	17.1%
$100,001 to $150,000	285	12.4%	98,742	5,036	16.3%
$150,001 to $200,000	142	6.2%	46,663	2,473	8.0%
Over $200,000	167	7.3%	53,982	3,293	10.6%
Total	2,295	100%	736,698	30,941	100%

Source: ORA Analysis of DC Individual Income Tax data.
Note: Tax revenue forgone was calculated using the median effective tax rate from claimants in each income category in TY 2018.

[53] 2011-2012 Schools and Staffing Survey microdata from the U.S. Department of Education's National Center for Education Statistics.
[54] Wallace, M. (2018, April). *Limited School Funding Can Lead to the Misuse of Extra Resources for Low-Income Students: A Closer Look at 'At-Risk' Funds*. DC Fiscal Policy Institute Blog. https://www.dcfpi.org/all/limited-school-funding-can-lead-to-the-misuse-of-extra-resources-for-low-income-students-a-closer-look-at-at-risk-funds/
[55] Further, policy makers may wish to consider increasing equity in this provision by targeting the tax expenditure (or direct spending) towards teachers in high poverty neighborhoods rather than more affluent ones, since teachers in these circumstances tend to spend more on supplies for student needs than in affluent neighborhoods. See https://www.epi.org/blog/teachers-are-buying-school-supplies/

Logic Model:

Public school teacher expenses

The Need:
Defray or limit the out-of-pocket costs public school teachers absorb when providing for their classroom.

Resources/Inputs:
Revenue forgone was $50,095 in tax year 2018.

Outputs:
During tax year 2018, 2,295 tax filers claimed this subtraction.

Expected Benefits
(changes in short, intermediate, or long-term measures)

Short-term:
Reimbursed out-of-pocket classroom and or professional development costs incurred by public school teachers.

Medium-term:
Reimbursed out-of-pocket classroom and or professional development costs incurred by public school teachers.

Long-term:
Better recruit and retain qualified teachers while helping them develop professionally.

Assumptions:
-Classroom expenses and professional development courses will continue to rise in the future.
-Public school teachers will continue to spend part of their salary on classroom material that is not reimbursable.

Specific Education-Related Tax Expenditures

In an initial review, ORA identified 10 provisions largely intended to provide relief to specific public charter and private schools as well as a branch of the public community college in the District.[56] There are also property tax exemptions relating to the promotion of education access or achievement, such as property tax exemptions for the United Negro College Fund, Inc., National Education Association, and the American Academy of Academic Achievement.

Projects that receive a property tax exemption must file an annual use report in accordance with DC Official Code § 47-1007 documenting that they continue using the property for its intended, tax-exempt purpose. A review of the tax-exempt organizations listed in Table 6 showed that three of the 13 properties had filed the annual use report electronically as of Spring 2021. This could mean that other tax-exempt organizations are filing their reports either by mail or in person. The total estimated forgone revenue for all specific education-related tax expenditures in FY 2020 is $6,120,733. Table 6 below presents the 13 specific education-related tax provisions, the type of tax expenditure, the date enacted, the provision in the DC Code, and their estimated revenue forgone for FY 2020. (See Appendix 3 for a table listing the District's specific education-related tax expenditures that are either inactive or redundant and may be considered for repeal from the DC Official Code.)

Table 6: Listing of Education-Related Specific Property Tax Expenditures

Name of Tax Expenditure	DC Code	Address	Square Suffix Lot (SSL)	FY20 Revenue Forgone ($)
National Education Association	§ 47–1036	1201 16th St NW	0196 0035	$1,493,724
KIPP DC—Douglass Property & Shaw Campus	§ 47-1081 & § 47-1085	2620 Douglass Rd SE & 421 P St NW	5872 0950 & 0510 0163	$1,187,253
University of the District of Columbia, Lot 114, Square 676	§ 47-1099.03	801 North Capitol St NE	0676 0114	$862,856
Lowell School	§ 47–1049	7775 17th St NW & 1638 Kalima Rd NW	2745-F 0815 & 2745-F 0817	$690,295
United Negro College Fund, Inc. -- 10-year real property tax abatement	§ 47-4635	1805 7th St NW #100	0441 2012	$427,117

[56] Previously, specific tax provisions that are education-related have not been compiled in the District, and this list represents the first attempt to enumerate them. As such, it is a work in progress and additional provisions may be added in the future as appropriate.

St. Paul on Fourth Street, Inc.	§ 47–1099.07	3015 4th St NE	3648 1068 & 3648 1069	$404,682
Washington Latin Public Charter School property	§ 47–1090	5210 2nd St NW	3327 0002	$265,951
Maime D. Lee, LLC	§ 47–1099.08	5101 Fort Totten Dr NE	PAR -0124-0136 & 0160	$201,053
5601 East Capitol, LLC	§ 47–1099.06	5601 East Capitol St SE	5283 0153	$175,663
Shaed School, LLC	§ 47–1099.05	200 Douglas St NE	3552 0816	$173,455
Meridian Public Charter School — Harrison Campus Property	§ 47-1088	2120 13th St NW	0235 0205	$123,557
American Academy of Achievement	§ 47–1093	1222 16th St NW	0182 0829	$115,127
Total				**$6,120,734**

Source: ORA Analysis compiling information from the DC Code.

Summary of Education-Related Tax Expenditures and Recommendations

Education-related categorical tax expenditures represent the third largest policy area, compared to other policy areas, with $139 million of District revenue forgone in FY 2020. Of these, real property tax expenditures for certain education organizations (such as universities and public charter schools) make up 98 percent of the total ($137 out of $139 mil).

In addition to the real property tax exemptions for education institutions, real property tax rebates for public charter schools that rent their properties, and taxable income subtractions for college savings (529) plan contributions are the next two largest in terms of forgone revenue. Other provisions for education provide real property tax relief to higher educational institution's foundations and non-profit public libraries, as well as relief of deed recordation and transfer taxes for education institutions.

Specific education-related tax expenditures are compiled for the first time in this report. ORA has identified 13 specific tax provisions in the DC Code that are related to Education, representing a little over $6 million in forgone revenue in FY 2020. We present the totals for informational purposes, but do not add the totals of specific tax provisions to the categorical tax provisions for this policy area to avoid double counting because some of the revenue forgone is captured in other categorical provisions.

Many of the education-related provisions are based on the broad premise that certain education should be affordable and one way to offset the costs independent public or private organizations that provide the goods and services face is to reduce their tax burden. Tax relief for educational institutions as a group is one of the largest sources of forgone tax revenue for DC since most of these institutions' properties have high property values. Evaluating these provisions further would require a cost benefit analysis of their contributions to the District's economy and culture.

The recommendation below is for the newer categorical provision focused on public-school teacher expenses. As noted in its section, the provision has been positively impacting the lives of many residents, teachers, and students in the District, but efficiencies in their goals may be achieved if they were slightly reformed.

1) **Consider increasing the public-school teacher expenses taxable income subtraction limit for out-of-pocket classroom supplies costs** based on an analysis showing that in 2018 a DC public-school teacher spent on average $527 more than the current level allowed.

Appendix 1: Legislative Requirement

From DC Law 20-155, page 131 (https://lims.dccouncil.us/Legislation/B20-0750)

Subtitle N. Tax Transparency and Effectiveness
Sec. 7141. Short title. This subtitle may be cited as the "Tax Transparency and Effectiveness Emergency Act of 2014."
Sec. 7142. Definitions.
For the purposes of this subtitle, the term:

(1) "Categorical preference" means a tax preference that sets eligibility criteria and is potentially available to all entities that meet the criteria, subject to any funding limitations.
(2) "CFO" means the Chief Financial Officer of the District of Columbia.
3) "Economic development purpose" means a goal to increase or retain business activity, including attracting new businesses or retaining existing ones, encouraging business expansion or investment, increasing or maintaining hiring, or increasing sales.
(4) "Individual preference" means a tax preference, such as a tax abatement, applied to one entity, project, or associated projects.
(5) "On-cycle tax preference" means a tax preference being reviewed in a current year.
(6) "Tax preference" shall have the same meaning as the phrase "tax expenditures" as defined in section 47-318(6) of the District of Columbia Official Code.

Sec. 7143. Tax preference review.
(a) The CFO shall review all locally adopted tax expenditures on a 5-year cycle and publish annually a report complying with the requirements of this section.
(b) By October 1, 2015, and by October 1 of every year thereafter, the CFO shall submit for publication in the District of Columbia Register a report for on-cycle tax preferences that complies with the requirements of this section.
(d) An on-cycle individual preference shall be analyzed and reported in the following manner:

(1) An individual preference shall be analyzed and reported in groupings of similarly purposed preferences, with the report focusing on collective effects or trends that emerge.
(2) The report shall include the stated purpose of the of tax preferences within the grouping, if clarified in the authorizing legislation. (3) The report shall include the amount of lost revenue due to the tax preferences within the grouping.
(4) The report shall include an assessment of the general effects on the District resulting from the preferences.
(5) The report on groupings of individual preferences shall include recommendations on how to improve similar preferences in the future.
(6) For groupings of individual tax preferences with an economic development purpose, the analysis shall consider the economic impact of the preferences, and where sufficient data are available, take into account factors including:

A) Whether the economic impact of the tax preferences would have been expected without the preferences;
(B) The extent to which the economic impact of the tax preferences was offset by economic losses elsewhere;
(C) The average economic impact for a level of direct expenditures equal to the cost of the tax preferences;
(D) The indirect economic impact of the tax preferences;

(E) The number of jobs created by the preference;
(F) The wages of the jobs created;
(G) The percentage of jobs filled by District residents; and
(H) Whether any terms of the tax preferences have been or are being satisfied.

(e) Except as provided in subsection (f) of this section, on-cycle categorical preferences shall receive a full review that, where sufficient data are available, includes:

(1) The purpose of the tax preference, if clarified in the authorizing legislation;
(2) The tax preference's cost in terms of lost revenue;
(3) An assessment of whether the tax preference is meeting its goals;
(4) An assessment of whether the tax preference is achieving other goals;
(5) Recommendations for improving the effectiveness of the tax preference;
(6) Recommendations for whether the tax preference should be modified, discontinued, or remain in its existent state; and
(7) For tax preferences with an economic development purpose, an analysis that measures the economic impact of the preference, including:

(A) Whether the economic impact of the tax preference would have been expected without the preference;
(B) The extent to which the economic impact of the tax preference was offset by economic losses elsewhere;
(C) The average economic impact for a level of direct expenditures equal to the cost of the tax preference; and
(D) The indirect economic impact effect of the tax preference.

(f) For on-cycle categorical tax preferences that the CFO determines do not merit a full review, the CFO shall instead perform a summary review. In determining which tax preferences are appropriate for a summary review, the CFO shall consider factors including, at a minimum:

(1) The revenue lost due to the tax preference and the number of potential or actual claimants;
(2) Whether the revenue lost due to the preference has increased or decreased since the preference was last reviewed;
(3) Whether the preference has been included in legislative or administrative proposals to modify or repeal; and
(4) Whether the preference is required by the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 774; D.C. Official Code §1-201.01 et seq.).

(g) A report on a categorical preference designated for summary review shall include:

(1) A narrative summary of the preference, including its purpose;
(2) The source and year of statutory authorization;
(3) The fiscal impact of the preference; and
(4) A description of the beneficiaries of the tax preference.

(h) All District agencies, offices, and instrumentalities shall cooperate with the CFO and shall provide any records, information, data, and data analysis needed to complete the reviews and reports required by this section.[57]

[57] http://lims.dccouncil.us/Download/32103/B20-0849-Enrollment.pdf

Appendix 2: Expired Specific Health-Related Tax Expenditure Provisions

Greater Southeast Community Hospital Corporation and Hadley Memorial Hospital
Real Property Tax Exemption

District of Columbia Code:	D.C. Official Code § 47-1050
Sunset Date:	2007 & 2006
Year Enacted:	2002

Description: Lots 3 and 4 of square 5919 were exempted from real property taxes starting between TY 2001 and TY 2007. These lots in Ward 8 housed what was once the Greater Southeast Community Hospital (GSCH) on its grounds but is now the United Medical Center at 1310 Southern Ave SE. Originally opened in 1964, GSCH was owned and operated by the same firm until consistent declines in its facilities, medical care, and staffing in the 1990s aided in the hospital's continual operating loss and ultimately the firm's bankruptcy. Doctors Community Healthcare Corporation (DCHC), an Arizona-based for-profit hospital chain, acquired the hospital in December of 1999 from bankruptcy sale and received a property tax exemption from October 1st, 2000 to September 30th, 2020, so long as the property was used in carrying on the purposes and activities of the hospital. However, in 2008, the hospital was acquired by the DC government via eminent domain and transferred to for-profit operator, Specialty Hospitals of America, LLC (SHA), due to DCHC's failure to provide adequate health care to the residents of the southeast quadrant of the District as manager of the hospital.[58]

Property on parcel 252-0093, called the Hadley Memorial Hospital (Hadley) was also acquired by DCHC in 1992 and was exempted from real property taxes from TY 2001 to TY 2006. Located in Ward 8 at 4601 Martin Luther King Jr Ave SE, Hadley was built in 1952 and was a hospital that had emergency and general medical services but was downsized into a long-term acute care facility and nursing center in 2001. In 2006, the long-term care and nursing hospital was sold to the SHA.

Purpose: According to the initial law's introduction, these abatements were needed to promote the economic stability of each hospital and help ensure the continued provision of quality health care services to the residents of Southeast Washington.[59]

Impact: At the time of the acquisition, 998 individuals were employed at GSCH and DCHC was planning on investing over $84 million into the property to stabilize the financial condition of the hospital. DCHC argued that for operation of the hospital to continue and DCHC's investment into the hospital to succeed, the hospital's taxable lots needed to be exempted for twenty years. Furthermore, DCHC invested over $13 million in Hadley hospital prior to 2001 which employed 365 people.

This real property tax abatement is no longer relevant since DCHC no longer operates either hospital, but they benefited from the exemption when they owned the property. Written in the

[58] B16-913 Introduction by Chairman Cropp (2007), pg. 7
[59] B14-9 Introduction by Councilmember Evans (2002), pg. 1-2

language of the law, DCHC was to comply to an annual certification by the Mayor on the following terms: a Memorandum of Understanding with the DC Office of Local Business Development (now called the Department of Small and Local Business Development); a First Source Employment Agreement with the Department of Employment Services; and a schedule of annual capital expenditures contained in the law's committee report from the Committee of Finance and Revenue (report not available). It is unknown if DCHC complied with any of these terms during its ownership of GSCH or Hadley.

Based on the assessment value for the last year of ownership by DCHC of the GSCH and Hadley in 2007 and 2006, and the commercial use of the facilities, the estimated tax forgone would have been $900,617 for 2007 and $318,384 for 2006.

East of the river hospital tax exemptions

Real Property Tax Exemption

District of Columbia Code:	D.C. Official Code § 47-4614
Sunset Date:	None
Year Enacted:	2008

Description: The two "east of the river hospital tax exemptions" comprised an agreement between the District of Columbia Government and the Specialty Hospital of America, LLC (SHA) to exempt the deed recordation, transfer, and real property taxes of lots 3 and 4, in square 5919 after ownership of those lots was acquired by SHA. These lots house the Greater Southeast Community Hospital (GSCH), now United Medical Center, discussed in the previous entry and located in Ward 8 at 1310 Southern Ave SE. This tax expenditure is separate from the previous tax expenditure written for GSCH, but continues the taxable exemption of the property. The real property tax exemption would have continued if SHA maintained its loan repayment agreement with the DC government, and would have ceased once the loans had been fully repaid. SHA is a New Hampshire based for-profit hospital chain that in late 2007 acquired what was then called the Greater Southeast Community Hospital. However, by 2010, the DC Attorney General filed charges against SHA alleging it defaulted on its loan repayment agreement due to financial mismanagement.[60] SHA subsequently lost ownership of the hospital via foreclosure, and its ownership and operation were seized by the DC Government.

Purpose: According to the law's introduction by then Mayor Fenty, the exemptions' purpose was to provide financial assistance to SHA during its purchase and operation of the GSCH.[61] The financial assistance, according to the document, was necessary because of the circumstance surrounding the hospital at the time. Previous administrations at the hospital had seen its facilities, medical care, and staffing decline over time leading to its bankruptcy and it needed capital investments to bring it back to solvency. The impetus behind the deal was the fear that the hospital, the only one east of the Anacostia river in DC proper, would close leaving some of DC's neediest residents without immediate health care.

Impact: This tax expenditure is no longer in use since SHA was relieved of ownership of the above-mentioned lots by DC Government, which now holds ownership, but during its active period it benefited SHA and the clients it served. During its active period, SHA and its clients benefited from this tax expenditure which cost District residents an estimated $1.88 million in forgone deed recordation and transfer tax revenue, and $4.35 million in forgone property tax revenue from FY 2008 to FY 2011.[62] In 2011, the District settled with SHA for $6 million after being sued for wrongful foreclosure. It is unknown if the District received any money for the back taxes owed.[63]

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[60] Neibauer, M. (2010, April 14). *D.C. takes control of United Medical Center*. Washington Business Journal. https://www.bizjournals.com/washington/stories/2010/04/12/daily33.html

[61] Legislative Information Management System (2008). Bill 17-464 Introduction to the D.C. Council Committee on Health, pg. 1. https://lims.dccouncil.us/Legislation/B17-0464

[62] The Office of the Chief Financial Officer (2008). Bill 17-464 Fiscal Impact Statement: East of the River Hospital Revitalization Tax Exemption Amendment Act of 2007. http://app.cfo.dc.gov/services/fiscal_impact/search.asp

[63] Reed, T. (2014, April 14). *Judge dismisses lawsuit challenging District's United Medical Center foreclosure*. Washington Business Journal. https://www.bizjournals.com/washington/blog/2014/04/judge-dismisses-lawsuit-challenging-districts.html

According to the District Attorney General in files charged, the hospital under SHA control failed to maintain performance measures, making its health contributions to the community of Wards 7 and 8 negligible.[64] Separately, SHA agreed to a Community Benefits Agreement in its initial contract with DC, that included First Source Hiring, Certified Business Enterprise contracting and equity requirements, and green building requirements. SHA was also to create a community advisory board, maintain Southeastern University's (Washington, DC) training for the allied health program, and locate a Primary Care facility on site.[65] It is unclear whether SHA followed through with its community benefits agreement during its ownership of the hospital.

To add more context about the health outcomes of District residents in Wards 7 and 8, a 2016 Georgetown University report (updated in 2020) detailed large negative health disparities, relative to national averages, between white and African American communities in DC.[66] The report specifies that many of these African American communities reside in Wards 7 and 8. According to the 2020 report update, residents in Wards 7 and 8 continue to have a high level of disparate health outcomes relative to residents of Wards 2 and 3.[67]

Based on the assessment value for the last full year of ownership by SHA of the GSC hospital in 2009, and the use being commercial, the estimated tax forgone would be $197,965.51 for 2009.

In terms of lessons learned, it appears that the use of specific tax expenditures in this case to maintain or deliver better health outcomes for underserved residents did not result in the desired outcomes. Further, such specific tax expenditures may benefit from a consideration of alternate options or at least implementing better-defined performance measures that are publicly available. One way to consider alternatives would be to formalize a topic specific pre-tax expenditure evaluation process in addition to a Tax Abatement Financial Analysis (TAFA), scoring a tax expenditure's projected community benefits impact while proposing alternatives that fit the context of the issue or policy goal. Like the TAFA process, when issues or policy goals in the form of a bill arise, a corresponding expert District agency could review the long-term health, environmental, etc. effects of the proposed tax expenditure and explore alternate options. Otherwise, if tax expenditures are the best available policy option, they should include well specified performance-based metrics that are based on accepted standards in the healthcare industry. As with any scenario, it is important that the details of these performance measures be transparent so the public can scrutinize and hold parties accountable.

[64] Neibauer, M. (2010, April 14). *D.C. takes control of United Medical Center*. Washington Business Journal. https://www.bizjournals.com/washington/stories/2010/04/12/daily33.html

[65] LIMS (2008). DC Council Committee on Health report Bill 17-464: East of the River Hospital Revitalization Tax Exemption Amendment Act of 2007, pg. 38. https://lims.dccouncil.us/Legislation/B17-0464

[66] King, C. (2016). *The Health of the African American Community in the District of Columbia: Disparities and Recommendations*. Georgetown University School of Nursing & Health Studies, p. 4. https://www.georgetown.edu/news/report-shows-huge-d-c-health-disparities-makes-recommendations/

[67] King, C. & Cloonan, P. (2020). *Health Disparities om the Black Community: An Imperative for Racial Equity in the District of Columbia*. Georgetown University School of Nursing & Health Studies, p. 3. https://nhs.georgetown.edu/news-story/health-disparities-report/#

Abatement of real property taxes for the temporary Walker Jones/Northwest One Unity Health Center

Real Property Tax Abatement

District of Columbia Code:	D.C. Official Code § 47-4619
Sunset Date:	2021
Year Enacted:	2009

Description: Unity Health Care, Inc. (Unity) is a 501(c)3 nonprofit organization that provides health and human services to DC residents through a network of health centers and medical outreach program. Unity was founded 1985 as the Health Care for the Homeless Project and in 2019 served more than 100,000 patients in DC.[68] For several years Unity's network included a temporary primary care facility in its portfolio called the "Walker Jones/Northwest One Unity Health Care Center" located in Ward 6 at 40 Patterson St. NW. Walker Jones served the surrounding community's primary health care needs until February 23rd, 2018. The lot where Walker Jones once stood (Square 672, Lot 253) no longer exists and is now vacant and reclassified as residential where it will be redeveloped into a multifamily market rate apartment building.

Purpose: According to the law's committee report (L17-351), the purpose of this exemption was to provide the same property tax relief that nonprofits receive when they own the property that is providing a social service. The terms of lease at the 40 Patterson location indicated the clinic was paying the property taxes on a pass-through basis. The original real property tax abatement was supposed to expire after tax year 2013 but it was reapproved twice, in 2012 (L19-0171) and 2016 (L21-0160).

Walker Jones was supposed to be temporary until the area's new clinic was built within the Northwest One Project (a former Sursum Corda neighborhood redevelopment project). This tax expenditure is no longer in use since Unity has vacated the property and can be repealed from the DC Official Code.

Impact: Based on the assessment value of the property for the full tax year before Unity left the premises (in February 2018), an estimation of the applicable commercial property tax would have been $190,849 for 2017.[69]

[68] Unity Health Care, 2019 Annual Report, pg. 5. https://www.unityhealthcare.org/about/annual-reports

[69] The real property tax rates for commercial properties have since changed beginning in FY 2018 via L22-152.

Appendix 3: List of Inactive or Redundant Education-Related Specific Tax Expenditures on the DC Official Code for Potential Repealing

Name of Inactive Provision	DC Code Section	Tax Type	Type of Provision	Date Enacted	Sunset Date	Reason for Repeal
American Association of University Women	§ 47-1041	Real Property	Exemption	1960	None	Moved properties
Appalachian State University, lot 42 in square 871	§ 47-1068	Real Property	Exemption	2005	None	Sold property
DC Teachers Federal Credit Union; lot 809, square 938	§ 47-1053	Real Property	Exemption	2003	None	Moved properties
General Education Board	§ 47-1027	Real Property	Exemption	1903	None	Closed
Howard University	§ 47–1018	Real Property & Personal Property	Exemption	1882	None	Redundant due to educational institutions categorical exemption