



**Government of the District of Columbia
Office of the Chief Financial Officer
Office of Tax and Revenue**

TAX PRACTITIONER INSTITUTE

Office of General Counsel

January 2020

INDIVIDUAL INCOME TAX UPDATE



Income Tax Changes

(Tax Year 2019)

Schedule H Credit

- Maximum credit increased from \$1,025 to \$1,200.
- Eligibility limits increased to federal AGI of \$55,000 for non-seniors and \$75,000 for seniors.
- Dependent income is no longer included in the federal AGI the “tax filing unit.”
- A third tier of 5 percent is added for federal adjusted gross incomes of \$52,000-\$55,000 for non-seniors.



Income Tax Changes

(Tax Year 2019)

Early Learning Tax Credit

- Name changed to **“Keeping Childcare Affordable Tax Credit.”**
(The credit will still be claimed on Schedule ELC to the D-40.)
- Income eligibility limit is reduced from \$750,000 to \$150,000
(from \$375,000 to \$75,000 for married filing separately).

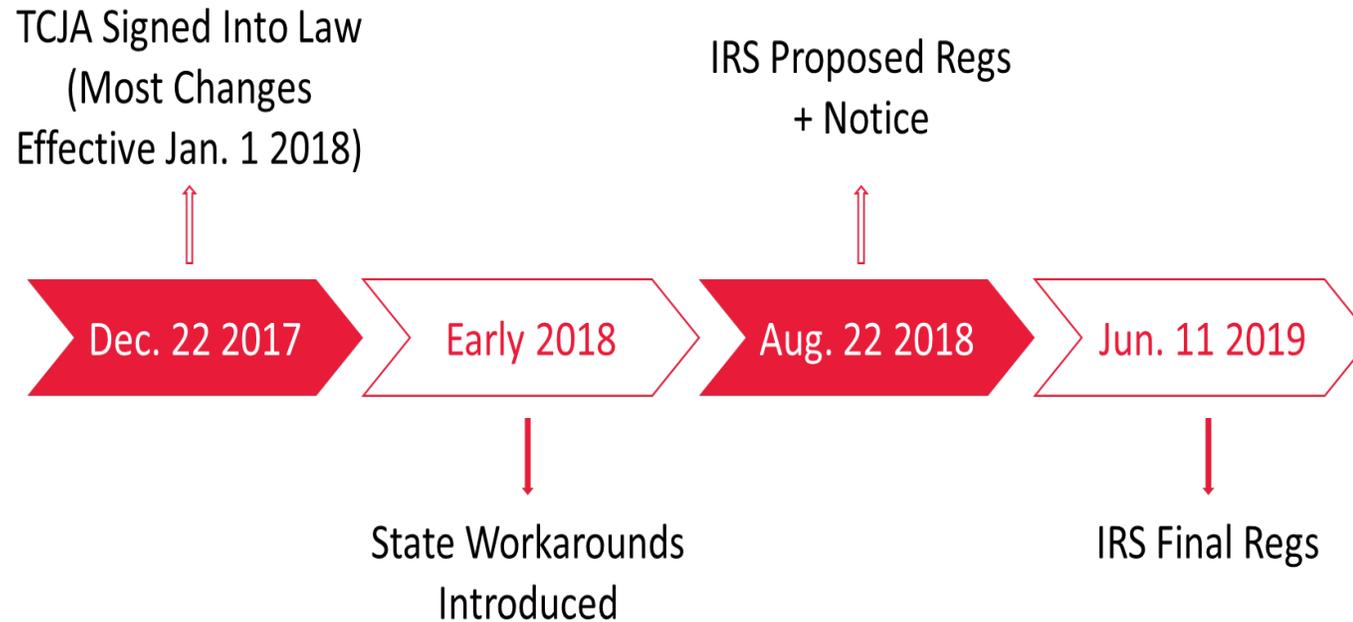


Legislation (*PENDING*)

- **District of Columbia Education Charitable Donations Amendment Act of 2018**



Charitable Contributions - Timeline





TCJA SALT Cap – IRC § 164(b)(6)

- **(6) Limitation on individual deductions for taxable years 2018 through 2025** In the case of an individual and a taxable year beginning after December 31, 2017, and before January 1, 2026—
 - (A) ...
 - (B) [Individual's deduction for the aggregate amount of state and local taxes] for any taxable year **shall not exceed \$10,000** (\$5,000 in the case of a married individual filing a separate return).



State Workaround - Example

- A State provides a credit against state income tax liability for 90% of contributions to the Public Service Funds.
- Under this regime, the taxpayer pays \$2,000 less federal tax and \$1,000 more to the State (through the contribution).
- The State's income tax revenue goes down by \$9,000, but fund contributions increase by \$10,000. Net State revenue increases by \$1,000.
- Federal revenue goes down by \$2,000. Taxpayer wins, state wins, Feds lose.

***QUALIFIED HIGH TECHNOLOGY
COMPANY (QHTC)
UPDATE***



QHTC Sales Tax Changes

(October 1, 2019)

- Sales and purchases by QHTCs are no longer exempt from sales and use tax.
- All QHTC Exempt Purchases Certificate issued before October 1, 2019 are terminated as of that date.



Income Tax Changes

(Tax Year 2019)

Capital Gains Tax Relief

- The tax on capital gain from the sale or exchange of an investment in a Qualified High Technology's (QHTC's) common or preferred stock is 3%.
- The investment must be made after March 11, 2015.
- Has to be held for at least 24 months.
- Publicly traded companies do not qualify.
- Reported on Schedule QCGI.



QHTC Corporation Franchise Tax Changes (Tax Year 2020)

Qualified High Technology Companies (QHTC's)

- Beginning with tax year 2020, QHTCs will no longer receive the preferential 6% rate and will be subject to the applicable corporation franchise tax rate (currently 8.25%).
- QHTCs are, instead, allowed **a new credit.**
 - Equal to the lesser of –
 - \$250,000 or
 - The difference between tax imposed at the rate of 8.25% and the rate of 6%.
 - For a period of 5 taxable years from the later of –
 - December 31, 2019 or
 - The last year the QHTC is eligible to receive the “0% rate.”



QHTC Corporation Franchise Tax Changes (Tax Year 2020)

- Beginning with tax year 2020, the amount of the credits a QHTC can claim for wages paid to qualified employees is reduced.
 - A credit is allowed for 5% of wages paid to a qualified employee and is capped at \$3,000.
 - The qualified employee must be hired after **December 31, 2017**.
 - The wages must be paid during the first 24 calendar months of employment.
- No carryforward is allowed for credits obtained for wages paid to a qualified employee hired on or after October 1, 2019.



QHTCs Information

- Declaratory Orders / PLRs
 - <https://otr.cfo.dc.gov/page/declaratory-orders-tax-law-and-guidance>
 - <https://otr.cfo.dc.gov/page/private-letter-rulings-tax-and-law-guidance>
- QHTC Statistics
- QHTC Certification

SALES AND USE TAX UPDATE



Sales Tax Changes *(January 1, 2019)*

Digital Goods Subject to Sales Tax

- Specifically includes “digital goods” in definition of a taxable retail sale.
- Applies to audiovisual works, audio works, books, codes, applications and games, and any other otherwise taxable tangible personal property electronically or digitally delivered.
- Information Services and Data Processing remain taxable services.

(See OTR Notice 2019-01, Taxation of Digital Goods in the District of Columbia)



Sales Tax Changes *(January 1, 2019)*

Internet Sales Tax Amendment Act of 2018

- “Vendor” definition expanded to include a person or retailer that does not have a physical presence in the District .
- Includes Small Seller Exemption
 - More than \$100,000 gross receipts, or
 - More than 200 sales in the District
 - in the previous calendar year or the current calendar year.
- FAQs
 - Thresholds
 - Foreign Companies



Sales Tax Changes

(April 1, 2019)

Marketplace Facilitators

- Beginning on April 1, 2019, a “marketplace facilitator” is required to collect District sales tax on behalf of its “marketplace sellers”.
- A “marketplace facilitator” is a person that provides a marketplace that lists, advertises, stores, or processes orders for retail sales subject to tax under this chapter for sale by such marketplace sellers, and directly or indirectly collects payment from a purchaser and remits payment to a marketplace seller regardless of whether the marketplace facilitator receives compensation or other consideration in exchange for its services.
- Any agreement between a marketplace facilitator and a marketplace seller regarding the collection and remittance of District sales tax does not relieve either the marketplace facilitator or the marketplace seller from liability for any District sales tax due.



Sales Tax Changes *(October 1, 2019)*

Exemption for Diapers

- The sale of diapers is exempt from sales and use tax.
- “Diaper” is defined as –
 - an absorbent incontinence product
 - that is washable or disposable and
 - worn by a person, regardless of age or sex,
 - who cannot control bladder or bowel movements.



Sales Tax Changes *(October 1, 2019)*

Increased Tax Rate on Soft Drinks

- The sale of soft drinks will be subject to an 8% sales and use tax.
- Sales or charges for soft drinks sold for immediate consumption will remain subject to a 10% sales tax.
- The definition of “soft drink” is expanded to include -
 - beverages with natural or artificial sweeteners that contain -
 - less than 100% juice,
 - less than 50% milk, soy or other milk substitutes,
 - coffee, coffee substitutes, cocoa, or tea.

PERSONAL PROPERTY TAX UPDATE



Personal Property Tax

- District started taxing personal property since 1902 ,DC code chap.15, title 47, 9DCMR Chap 7.
- An annual tax on tangible personal property owned or held in trust in that person's trade or business in District (DC code 47-1522)
- Persons owning leased tangible personal property having a taxable situs in the District shall be subject to the tax and to the filing requirement of [§ 47-1524\(b\)](#)



Personal Property Tax

- Return filing requirements , Sec. 47-1524(b).
- A taxable situs in District.
- Construction Equipment, vehicles, trailers, tools and any tangible property brought into the District on temporary basis.,
- Commercial boats operating in DC waters,
- Real property improvements that do not become an integral part of the realty ,
- Leasehold improvement to be taxed as tangible personal property.



Personal Property Tax

- Tangible personal property tax is a self-assessed tax where taxpayer lists full and true value (acquisition cost) and current value (less straight-line depreciation allowance promulgated).
- Current tax rate is \$3.40/\$100 of taxable value in excess of \$225,000
- District code section 47-1508 lists exemptions
- Exempt organization establishing the right to exemption from personal property tax shall apply online. The exemption if granted is effective July 1st following the date of the initial application (DCMR 9-707.1 through 9-707.5)

SPORTS WAGERING UPDATE



Sports Wagering Lottery Amendment Act of 2018

- Authorizes licensed sports wagering in the District.
- Regulated by DC Office of Lottery and Gaming.
- **10% gross receipts tax** on the sports wagering gross revenue of sports wagering operators collected by OTR on a monthly basis.





Sports Wagering Lottery Amendment Act of 2018

License Types

Class A:

- Major arenas (*Capital One (NHL, NBA), Nationals Ballpark (MLB), Audi Field (MLS), and St. Elizabeth's (WNBA)*)
- Exclusive area: 2 block exclusive
- Geo-fenced app allowed
- \$500,000 license renewed every 5 years (\$125,000 for CBE's)

Class B:

- Bars/Restaurants
- Geo-fenced app allowed (In Venue Only)
- No operations in Class A exclusive areas
- \$25,000 license renewed every 5 years

District Operated Retail and Mobile:

- District-wide gaming app
- Retailer kiosks

REAL PROPERTY TAX UPDATE



Real Property Related Tax Relief

- **Homestead Deduction.** Increases from TY 2019 \$74,850 up to **TY 2020 \$75,700.**
- **Senior Citizen or Disabled Tax Relief.** Income threshold will increase from TY 2019 \$133,100 to TY 2020 \$134,550. For TY 2020, the CY 2018 income must be below the threshold. **Reduces taxes by 50%.**
- **Senior Citizen Cap Credit.** Limits taxable assessment increases to **5%.** The standard is cap is 10%. For the senior cap credit to apply, the property must be receiving both the homestead deduction and the senior citizen or disabled tax relief.
- **Low Income Senior RP Tax Deferral.** Income must be less than \$50,000 (For TY 2020 it's based on the CY 2018 income). General interest rate is 6%, and for long-time seniors 75 years or older it's 0%. File Form FP-110.
- **Lower Income Homeownership Tax Abatement.** Eligible homeowners may receive a real property tax abatement for up to five years and be exempt from paying recordation and transfer taxes. The abatement period for the Lower Income Home Ownership Tax Abatement begins on October 1.



Real Property Related Tax Relief

- **Homeowner/Renter Property Income Tax Credit.** Provides for a refundable credit or offset to income tax liability up to **\$1,200** for CY 2019. Maximum FAGI is \$55,000 (\$75,000 if 70 years old or more). Apply using **Sch. H** and attach to D-40 or send in if no D-40 filing requirement.
- **Lower Income, Long-Term Homeowners Income Tax Credit.** Eases the effect of rising assessments and taxes on low-income residents who have lived in their homes for seven consecutive years or more. **Sch. L** must be filed by December 31 to claim the credit.
- **Small Retailer Property Tax Relief Credit.** Certain qualified corporations and unincorporated businesses engaged in making sales at retail may claim a refundable franchise tax credit up to **\$5,000** based on the amount of real property taxes or rent they pay for a qualified retail location in the District.
- **Trash Credit.** Any real property owners who pay for garbage collection instead of receiving city garbage service may qualify for the credit as an offset on the real property tax bill.



Real Property Modernized Integrated Tax System

- New billing system for real property will be online for the TY 2021 billing.
- Updates and streamlines billing and tax relief applications.
- Modernized operating system versus ITS Cobalt system.
- Data migration.
- Versatility and Adaptability.



COLLECTION UPDATE



Collection Update

- Clean Hands
- Jeopardy Assessments
- Bulk Sales

Q & A