



Tax Practitioner News

Winter 2002 - Volume VII

**MESSAGE FROM THE
 Acting Deputy Chief Financial Officer**

Dear Tax Practitioner:

The Office of Tax and Revenue looks forward to another successful tax season. We are again committed in our goal of providing timely and quality customer service.

New this tax season is the College Savings Program, which allows District residents to deduct up to \$3,000 for individual filers and up to \$6,000 for married couples filing jointly. This is a new line item on the D-40 tax return. Also, the maximum allowable interest and dividend amount increased from \$400 to \$1,500, allowing more taxpayers to file the D40EZ. The DC Earned Income Tax Credit is again 25 percent of the federal credit.

We continue to encourage District taxpayers to file electronically via efile, Tele-file and the Electronic Taxpayer Service Center (eTSC), which is the District's online tax-filing system. With eTSC, taxpayers may file their returns, pay their taxes and track their refunds online. As for paper returns, our tax forms were redesigned last year and are easier to complete. Instructions are clear and there is more writing space.

Because of our ongoing commitment to customer service, we have come a long way. The chart below compares where we were in 1997, to where we are today.

		THEN (1997)
Processing Time:	Slow.	Average time of 60-90 days
Technology:	Inadequate.	Many functions completed by hand
Customer Service:	Inconvenient.	Disbursed District-wide
Payment Options:	Limited.	Checks and money orders via US Mail only
		NOW (2003)
Processing:	Quick.	Average time of 11-14 days
Technology:	Innovative.	Systems upgrade and infrastructure make D.C. a national model
Customer Service:	Convenient.	Centralized walk-in centers service a diversified public
Payment Options:	Flexible.	Checks, money orders and credit cards via U.S. mail, telephone, Internet, and electronic transfer of funds

Overall, we are enhancing our technology, streamlining our processes and stepping up our efforts to make tax filing easier for our customers.

Sincerely,

OTR Winner of FTA Technology Award

The Office of Tax and Revenue was awarded the 2002 Federation of Tax Administrators (FTA) Award for Outstanding Technology Applications for State Administrations. The award was presented at the President's Awards Luncheon held during FTA's technology conference in Nashville, Tennessee on June 3.

The award recognizes a tax administration on its use of the "highest degree of advanced technology" in providing service to taxpayers.

"FTA is very pleased to present our Outstanding Technology Applications Award to the DC Office of Tax and Revenue," said Harley T. Duncan, FTA's executive director. "Among a dozen agency submissions, our panel of judges thought that the DC Integrated Tax and associated systems reflected a high degree of advanced technology. This effort has resulted in one of the

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Winner of National FTA Technology Award

Federation of Tax Administrators Outstanding Technology Applications



(Continued from Page 1)

best-equipped and modern tax agencies in the United States.”

Developed and implemented over a three-year period, the Integrated Tax System (ITS) is an ambitious system that brings together, in a seamless environment, applications such as taxpayer identification, automated correspondence, case management, returns processing, taxpayer accounting, accounts receivable, and revenue accounting. Some of the benefits include:

- \$25,461,070 in taxes collected online through the DC Electronic Taxpayer Service Center (eTSC) from 344 registered businesses.
- Over 2,500 District individual income taxpayers filed their taxes online during the recent filing season, the first time this service was offered.
- Since its pilot stage, almost 14,000 citizen inquiries have been filed in the new Contact Tracking System, with 12,476 of them closed or referred to another agency for resolution, prompting a 91 percent closure rate.

This award reflects the dedication of our employees who are committed to developing and managing technology systems for District taxpayers. The new technology allows us to be more taxpayer friendly and system friendly. It also allows us to be more efficient at meeting the requests of our taxpayers and generating more revenue for the District. ITS allows users to perform data checks across multiple systems to receive a complete view of a taxpayer’s records. Some of the highlights include:

- **High speed imaging capabilities** capture data from taxpayer records, using high speed document scanning, optical character recognition, document management, and work-flow control hardware and software.

- **Internet-based customer service center**, offering multiple tax services through the eTSC. Through the Internet, businesses and individuals can now conduct tax-related business at the convenience of their computer. Businesses can file returns and pay businesses taxes online, free, 24 hours a day, as well as view their account records. Additionally, new businesses are able to file their tax registration forms online. Since February 2002, District individual income taxpayers now have the option to file their returns online and check the status of their return.
- **Contact Tracking System (CTS)** allows users to manage taxpayer interactions with the agency. All customer contacts with the agency, including phone calls, walk-ins, written correspondence and e-mail, can now be tracked using this application. Implemented as a pilot project in October 2001, CTS allows the user to gather information regarding taxpayer concerns and track the management of customer issues throughout the organization.
- **Executive Dashboard** is a decision support system that provides fast access to timely production information, allowing management to identify production and processing areas needing attention and prioritize and refocus resources accordingly.
- **Data Warehouse** is a significant enforcement tool that provides OTR the ability to ensure that the proper amount due is being collected. The data warehouse is comprised of multi-agency data and records that are matched to ensure that all taxes and other outstanding amounts are properly collected. Because of this capability, OTR administers the District’s “Clean Hands” program to ensure that those doing business with or receiving services from the District are paying monies due to the District.

The Office of Tax & Revenue unveiled Tax Friendly for its 2002 Tax Filing Season.

“Tax Friendly represents quality and timely customer service, which is symbolic of what OTR employees strive daily to provide for the citizens of the District.”

Daniel L. Black, Jr., Acting DCFO



2003 Tax Season Highlights

File Electronically and Early for a Faster Refund

Our Goal is to Provide Taxpayer Friendly and System Friendly Service to all District Taxpayers!

File Online with FREE eTSC! The Electronic Taxpayer Service Center (eTSC), is the fastest way to a quick refund. If you have filed a District return in the past, the District's online tax-filing eTSC system allows individual taxpayers to file their taxes via the Internet for free. Simply, go to www.dc.gov and click on Electronic Taxpayer Service Center.

Touch-Tone Telefile Service:

Let Your Fingers Do the Filing... Simply dial 1-800-743-3320 to use a touch-tone telephone to file your taxes. To qualify, a taxpayer must be single, have no dependents, have income that is less than \$100,000 and must have been a District resident from Jan. 1 through Dec. 31.

eFile: Filing with the use of an Intermediary - eFile offers the taxpayer a full Federal/State Electronic Filing (E-File) program for the filing of individual income tax returns. There are two ways in which taxpayers can file electronically: 1) through a tax practitioner or 2) through a commercial online filing service, which allows taxpayers to transmit their D.C. and federal returns electronically from their home PC for a fee.

Advantages for the Practitioner

- ❑ Save time
- ❑ Reduce the chance of errors and avoid the job of filing a corrected return
- ❑ Receipt verification that your return was received within 48 hours
- ❑ Fast Refunds - refunds are issued in half the time
- ❑ Accuracy of returns - D.C. eFile program has an error rate of less than 1%
- ❑ Convenient - eTSC is now available 24 hours a day, 7 days a week without the use of an intermediary.

Join us for the 4th Annual Tax Practitioner Institute January 8-9, 2003

941 North Capitol Street, N.E.
Washington, DC
4th Floor Training Room
8:30 a.m. - 4 p.m.

"An educational exchange of suggestions from tax practitioners in order to improve service to District taxpayers and to increase our mutual understanding of District taxation issues."



The purpose of the *4th Annual Tax Practitioner Institute* is to facilitate better communication between our agency and the tax practitioner community. Over 300 tax practitioners are expected from the Washington, DC metropolitan area to receive tips and advice on the 2003 tax-filing season. OTR has made great strides to improve all aspects of our operations.

This includes our state-of-the-art Customer Service Walk-in centers and our ability to issue refunds faster. The *4th Annual Tax Practitioner Institute* has been tailored to better suit your needs. We have incorporated your suggestions in our presentations.

Topics will include:

- Alternative Filing
- D-40 and D-40EZ Form Updates
- 25% Earned Income Tax Credit
- 529 College Savings Plan
- Criminal/Civil Enforcement
- Legislative Changes

Registration is available to 400 participants only. Please sign up early. To register, please contact Douglas Schauss at 202-442-8070, via fax at 202-442-6477, or via email at douglas.schauss@dc.gov.

See you there!

▲ POPULAR RESTAURANT OWNER JAILED

James G. Gore, Jr., owner of the popular restaurant, Coco Loco, was sentenced on February 28, 2002, to six months behind bars for tax fraud and was jailed immediately.

Gore collected sales taxes from his restaurant customers, and consistently failed to forward those funds on to the District.

Charges were initially filed against Gore on August 11, 2000, on 16 counts of tax fraud for his failure to file monthly sales tax returns and failure to pay the taxes collected by his restaurant, during the period Dec. 1, 1998 through March 31, 2000.

Additional charges were filed on November 16, 2001, stemming from Gore's continued failure to file and pay sales taxes collected from his customers.

Gore was ordered to serve 45 days in jail, with the balance of the term suspended. He was then ordered to pay full restitution of \$885,848 in sales taxes, interest and penalties owed to the District. He was also ordered to perform 200 hours of community service and placed on three years supervised probation. In addition, he was fined \$1,000 and ordered to pay \$250 to the Crime Victims' Fund.

As president of the corporation, Gore was responsible for the collection of sales tax and the subsequent accounting and submission of those taxes to the District by the corporation.

▲ 25 PERCENT TAX CAP APPROVED

Legislation has been approved for a 25 percent real property tax cap.

This legislation means that where increases in assessments exceed 25 percent, the real property tax bill will show a credit applied against the tax due. This will limit the increase in tax due on large assessment increases.

The net result is that the homeowner pays no property tax on the assessment increase that is above the 25 percent limit. The tax cap applies only to the principal residence of the property owner and does not limit the assessed value determined by the Office of Tax and Revenue.

▲ DISTRICT RESIDENT PLEADS GUILTY TO TAX FRAUD

District Resident William J. White, 43, plead guilty in August to two counts of tax fraud and two counts of false representation.

White was sentenced to four years imprisonment and ordered to perform 500 hours community service and to pay restitution of approximately \$17,000. He was placed on 5 years of supervised probation.

An investigation into Whites tax returns found that he had filed income tax returns for the tax years 1996, 1997 and 1999, claiming refunds of approximately \$1,000 for each year.

These income tax returns contained false information on Form Schedule A – Itemized Deduction, which included false or inflated claims for medical and dental expenses, gifts to charity, job expenses and miscellaneous expenses. As a direct result of the false submissions, White received and cashed refund checks totaling \$3,534.94.

Tax Reminders for a Faster Return

- ❑ Attach a copy of the clients federal return when claiming D.C. Earned Income Tax Credit.
- ❑ Round off dollar amounts to whole dollars.
- ❑ Use Schedule J to calculate your tax if you are filing Married Filing Separately on the same return.
- ❑ Complete you tax return using black ink using all capital letters.
- ❑ Sign your return.
- ❑ Call the Office of Tax and Revenue at (202) 727-4TAX (4829), Monday through Friday, 8:15 a.m. to 4:30 p.m. for assistance.

▲ OTR TAX RULINGS

RECALLED FOR REVIEW

OTR will recall and review all tax rulings administered by OTR regarding income tax, franchise tax, unincorporated business tax, personal property tax, sales tax, employer withholding tax, and gross receipts on their tax return. The tax rulings review process will make certain that OTR policies and actions are consistent with fiscal responsibilities and overall fairness to all District taxpayers as stated under the DC Tax Code and to track the fiscal impact of rulings that are outstanding. This review process will eliminate rulings no longer useful to the taxpayer. Taxpayers mainly affected include business taxpayers already aware that their rulings are not consistent with current District tax law.

If you have any questions or need more information call Janet James Mahon at (202) 442-6200.

▲ DC ESTATE TAX NOTICE

District of Columbia Estate Taxes & Federal Tax Relief Act of 2001

Current District Estate Tax law stipulates that the tax amount due to the District is the maximum credit for state death taxes allowed under Internal Revenue Code §2011, **as it existed on January 1, 1986.**

This means that District Estate Tax law does not conform to the new federal reductions in the amount of the allowable state tax credit that is reduced by 25 percent in 2002, by 50 percent in 2003, by 75 percent in 2004 and by 100 percent in 2005, when the state tax credit is repealed for federal estate tax purposes.

Consequently, the District estate tax return, Form D-76, may be required to be filed even when the federal estate tax return, Form 706, is not required to be filed with the IRS. Form 706 must be prepared in order to complete Form D-76, even though Form 706 is not required to be filed.

Although the current federal exemption filing level is \$1,000,000 (for 2002), a District Estate Tax Return (D-76) must be filed for estates that equal \$600,000 or more. See DC Official Code § 47-3701(6).

The Mayor Williams is proposing a one-time

increase in the unified credit exemption threshold for filing an estate tax return from \$600,000 to \$675,000, effective January 1, 2002.

Further guidance and revised Estate Tax forms will be available on the website, October 2002. Please contact Henry M. Terrell, Esq. at (202) 442-6344 for more information.

▲ TIF BONDS FUND LUXURY HOTEL

City officials have approved \$46 million in Tax Increment Financing (TIF) bonds to fund construction of the Mandarin Oriental Hotel, the District's first five-star luxury hotel on the southwest waterfront.

Scheduled to open in 2004, the Mandarin Oriental Hotel will be located at 1330 Maryland Avenue, SW, a gateway site from Virginia at the foot of the 14th Street Bridge.

The hotel projects consists of a 400-room hotel with approximately 33,000 square feet of associated meeting and banquet space, 2 restaurants, a health spa and fitness center, totaling approximately 10,000 square feet, and approximately 90,000 square feet of public parking space for approximately 200 cars.

"The Office of Tax and Revenue is pleased to have contributed to the many hours of planning and negotiating that made this project a reality," said Deputy Chief Financial Officer Herbert J. Huff on the project.

▲ NEW 529 COLLEGE SAVINGS PLAN

In the fall of 2002, the Government of the District of Columbia launched a 529 college savings program designed to help families, relatives and friends save money for college expenses. The District's Office of Finance and Treasury will administer the plan. Calvert Group, Ltd. of Bethesda, Md., will be the program manager.

The District's new 529 plan takes advantage of federal tax law that permits states to administer college savings plans on a tax-deferred basis. Earnings used for qualified higher education expenses will be free of federal taxes. The District's plan will be available to the city's residents as well as those living outside of Washington, D.C.; residents, however, will receive preferred pricing for participation and certain tax benefits.

▲ VOLUNTARY DISCLOSURE PROGRAM

OTR's Voluntary Disclosure Program invites taxpayers who are not in full compliance with the District's tax laws to come forward on their own free will - without first having been contacted by OTR or any other government agency, (state or federal) - to participate in the program.

If a taxpayer wants to participate in the Voluntary Disclosure Program, he or she must first contact **Nancy Tucker**, Supervisor of Review and Conference at (202) 442-6834 or by facsimile at (202) 442-6882.

The taxpayer must then file all returns that are due and pay the tax and interest. OTR will waive civil penalties, which may be up to 25% of the amount of taxes owed.

Payment Plans:

If any of your clients have difficulty paying their taxes, please contact OTR to negotiate a payment agreement for them. OTR will work with your client to arrange a payment schedule that will meet their needs.

OTR normally requires a down payment with the balance to be paid in 12 equal monthly installments.

Assessors Review Recent Property Sales

Real Property tax assessors conducted real property inspections throughout District neighborhoods in August 2002. For the first three weeks, tax assessors first inspected properties sold between January 2001 and July 2002. These inspections focused on the review of recent property sales to better reflect market value of similar neighborhood properties. These recently sold properties will be used to help determine the value of similar properties in the neighborhood. Tax assessors then began the annual reassessment of all District residential and commercial properties.

OTR's ROLE IN THE MASTER BUSINESS LICENSE PROGRAM

OTR plays a big role in the Master Business License program, (MBL), maintained under the guidance of the Department of Regulatory and Consumer Affairs (DCRA), which streamlines the District's licensing procedures and requires all District businesses with \$2,000 or more in gross receipts, including non-profit organizations, to obtain a MBL.

Requests from the MBL program and DMV are funneled through OTR's data warehouse to ensure that all taxes have been filed and paid timely.

In 1999, the City Council passed the Omnibus Regulatory Reform Act, and the MBL program was born.

DCRA, which oversees the MBL program, has instituted an amnesty period through the end of August 2002, after which businesses that operate without an MBL may be subject to fines of up to \$500. Currently, licensed businesses will be converted to an MBL through the renewal process.

For more information on the Master Business License program, please contact the following.

- On the Internet – Online application and tutorial at the District's Business Resource Center, www.brc.dc.gov, or online chat at www.dkra.dc.gov.
- Email – mbl.infocenter@dc.gov.
- By Phone – Please call (202) 442-4400, to be connected to the MBL Info Center, Monday – Friday, 8:30 a.m. – 5:30 p.m.
- In Person – You may pick up applications at the Business License Center, located at 941 N. Capitol Street, NE, Room 1100, Monday – Friday, 8:30 a.m. – 4:15 p.m.

OTR is just a phone call away...

Tax practitioners may contact the **Tax Practitioners Hotline at 727-1435.**

Taxpayers may contact the Telephone Information Center at **(202) 727-4TAX (4829).**

OTR Alternative Ways of Filing

Tax Year Statistics	Through Sept. 16, 2002		Through Sept. 16, 2001	
<u>CATEGORY</u>	<u>DAY</u>	<u>YTD</u>	<u>DAY</u>	<u>YTD</u>
Total Alternative Filing Returns	56	51987	2	37984
FED/State E-File Returns*	3	40002	1	35046
TeleFile Returns **	0	2822	0	2689
ETSC Individual Returns	2	3882	0	0
ETSC Business Returns	51	5281	1	249

* This year, OTR began rejecting fed/state e-file returns that were missing important information, such as federal schedules.

** The TeleFile program runs from January 15 through April 15.



TAKE A TAX BREAK OR TWO!

DC College Savings Plan

Start now!

For information about the DC College Savings Plan, call toll-free **800.987.4859** or visit **www.dccollegesavings.com**

For additional information about the plan and the District's regulations, please visit the Web site above.

The DC College Savings Plan is a great way to put money away for a child's education. And, it is a great way to save on taxes.

- The earnings potential on every penny you contribute is enhanced by federal-tax-free growth.
- You can enjoy up to a \$3,000 DC tax deduction — or up to a \$6,000 deduction for married couples filing jointly where each spouse has established a separate account.* (If you contributed in 2002, don't forget to claim your current deduction.)**
- Earnings won't be subject to federal or DC income tax when withdrawn for qualifying higher education expenses.***

*Rollovers are not considered contributions for DC tax-purposes.

**To be eligible for the 2002 tax-year deduction, contributions must have been made by December 31, 2002.

***Earnings are free of federal tax through 2010 when used for qualifying expenses, e.g. tuition, room and board.

Not intended to be an offer to purchase a municipal fund security. Terms and conditions for this program are currently under review and are subject to change. An official statement for the program which describes specific terms and conditions will be mailed to you on request. The District of Columbia does not guarantee investments in the program. Investments may lose value. In

addition, tax benefits for the program have limitations. Consult your professional tax advisor before investing. The DC College Savings Plan is underwritten and distributed by Calvert Distributors Inc., member NASD, a subsidiary of Calvert Group, Ltd.



Sponsored by **The Government of the District of Columbia**
Anthony A. Williams, Mayor
Office of the Chief Financial Officer
Office of Finance and Treasury
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Tax Return Information

January 1, 2002 through September 2, 2002

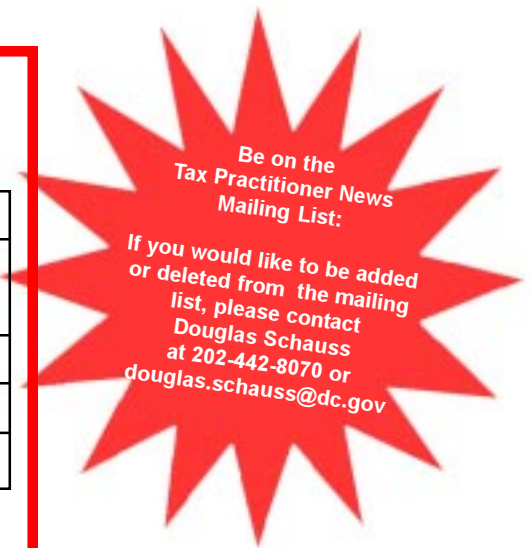
Individual Income Tax	2002	2001
Cumulative Receipts All Income Tax Returns	282,9243	272,953300
Cumulative Refunds Issued	\$129,830,089	\$89,253,930
Cumulative Refund Returns	194,117	183,843
Average Refund to Date	\$669	\$544.75

Includes Telefile and E-File Returns

2002 Average Cycle Time - 12 Days from Receipt to Check in the Mail

2001 Average Cycle Time - 12 Days from Receipt to Check in the Mail

	2002	2001
Prompt Deposit Items	128,629	143,737
Prompt Deposit Amount	\$596,345,665	\$675,231,867



Government of the District of Columbia

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4th Annual

Tax Practitioner Institute ...

(See page 3 for more details)