



# Tax Practitioner News

Summer 2003 - Volume VIII

## MESSAGE FROM THE Deputy Chief Financial Officer

Dear Tax Practitioner:

The District of Columbia depends on the Office of Tax and Revenue's (OTR) tax collection efforts to pay for everything from public safety initiatives, educational programs and economic development to feeding the hungry, helping senior citizens and youth development. Therefore, it is important to aggressively collect business and individual taxes due to the city.

OTR administers 18 different taxes, including income, excise, and real property taxes, as well as other special charges, tax credits and incentive programs. Given the enormity and complexities of these responsibilities, we must stay focused on protecting and collecting government revenue.

Compliance goals are focused on identifying and pursuing nonfilers, improving timely collection of outstanding accounts receivables, especially in the area of sales, use and withholding taxes, and protecting the amount of revenue paid out in the form of fraudulent claims for refunds. The overall goal is to increase program results by at least 13 percent over prior year accomplishments.

OTR has stepped up its efforts in all areas of compliance and enforcement and is aggressively cracking down on tax fraud. Programs are in place that will help delinquent taxpayers become compliant. There are also programs for more complex situations that require enforcement.

Taxpayers not in compliance are encouraged to enter our Voluntary Compliance Program. This program will waive penalties of up to 25 percent of taxes owed if a taxpayer comes forward, without being contacted by OTR, IRS, or anyone working on our behalf, to file all returns that are due for the past three years and pay any outstanding tax and interest.

I encourage anyone who suspects tax fraud or knows, of an abusive return preparer to call our tax fraud hotline at 1-800-380-3495 or contact us by e-mail at [Taxfraudhotline@dc.gov](mailto:Taxfraudhotline@dc.gov).

Philip G. Brand  
Deputy Chief Financial Officer  
Office of Tax and Revenue

## 4th Annual TPI A Huge Success

The Office of Tax and Revenue hosted its 4th Annual Tax Practitioners Institute earlier this year.

Acting Deputy Chief Financial Officer **Daniel L. Black, Jr.** kicked-off the institute by sharing his vision of continuing OTR's reputation as the best tax administration in the nation. That commitment, Black said, "starts with open communications with tax practitioners and taxpayers and a commitment by OTR to expand and improve the efficiency of existing processes."

Chief Financial Officer **Natwar M. Gandhi** spoke to the audience of more than 75 practitioners, emphasizing OTR's commitment and its ongoing efforts to put in place policy and procedures that address operational and systemic challenges. "OTR has made tremendous strides in providing

*Continued on Page 3*

### In This Issue

Meet DCFO Phil Brand	2
Filing Withholding Electronically	2
2003 Tax Changes	4
Property Assessments	5
Tax Sale Begins	5
Master Business License Repeal	6
District Employee Pleads Guilty	6
2003 Tax Filing Season	7

## Meet Phil Brand



### **Deputy CFO Office of Tax and Revenue**

Phil Brand is Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). He was appointed to this post in March 2003 by Chief Financial Officer Natwar M. Gandhi. Brand oversees a 500-member workforce that is responsible for collecting approximately \$3.2 billion annually in local taxes.

Before arriving at OTR, Brand served as deputy program executive for Computer Sciences Corporation's IRS Prime Business Systems Modernization project. He also served as KPMG Consulting, Inc.'s director of IRS Tax Controversy Services.

Prior to that, Brand spent 30 years in various positions within the IRS, most notably as a chief financial officer and chief compliance officer. At one time as an IRS district director, Brand was responsible for Maryland and the District of Columbia as federal tax jurisdictions.

Brand holds a master's degree in public administration from Central Michigan University and a bachelor's degree in public administration from Roosevelt University. He completed mediation training in 1999, and was a presidential appointee to the National Partnership Council.

Brand is a member of the National Association of Enrolled Agents, the National Society of Accountants, and the Senior Executive Association. He currently serves on the Board of Trustees for the Federation of Tax Administrators, and is a member of the Multi-State Tax Commission's Tax Compliance Committee.

## **District Requires Business Taxpayers to File Monthly Withholding Tax Returns and Payments Electronically**

The District of Columbia Office of Tax and Revenue (OTR) announced that effective June 1, 2003, all business taxpayers filing monthly employer withholding tax returns are required to file and pay their taxes electronically, if the amount of the payment due for a period exceeds \$25,000.

This requirement also applies to third-party bulk filers that file withholding tax returns for businesses that must report withholding taxes for District resident employees, regardless of whether the third-party filer is located in the District.

"Electronic filing is mandated because it allows for increased accuracy and faster processing of returns, and it ensures timely collection of the District's revenue," said Phil Brand, deputy chief financial officer for tax and revenue.

Eligible business taxpayers will be mailed a letter notifying them of the electronic filing requirement. The letter also describes filing and payment options and provides instructions on how to register for each option. Business taxpayers will have thirty (30) days from the date of the letter to register with OTR.

Once registration is complete, each business taxpayer will receive a user ID and password that will allow them 24-hour access to the OTR Electronic Filing System to file and pay their monthly withholding tax returns (Form FR-900M).

Business taxpayers that do not comply with this new requirement will be subject to penalties for failure to file and pay electronically. These penalties will apply after a business taxpayer has been notified in writing to comply and then fails to do so. The regulations for this requirement were published in the D. C. Register on April 11, 2003.

For questions regarding this requirement or electronic access, please contact Lucy Murray, deputy director in the OTR Information Systems Administration, at (202) 442-6391 or (202) 442-6366.

Businesses with a legal question regarding this requirement should contact William Bowie, attorney-advisor in the OTR General Counsel's Office, at (202) 442-6512.

## 4th Annual Tax Practitioners Institute

*(Continued from Page 1)*

the taxpayers of the District with a tax administration that enforces financial integrity, that is fair and equitable in its administration and aggressive in its tax collection efforts."

Tax practitioners at the institute were provided the opportunity to discuss issues ranging from tax form changes, compliance and enforcement initiatives, new tax legislation, electronic ways to file District taxes, and new customer service enhancements.

The first day of the institute started with a presentation by **Yassie Hodges**, former director of the Compliance Administration, who provided an overview of 2003 compliance initiatives and record-keeping requirements. She also addressed some of the most frequently reviewed areas associated with tax return preparer penalties. **Stella Hodge**, problem resolution officer conducted a presentation on the Problem Resolution Office, and **Grace Eng**, appeals officer, presented on the Office of Tax Appeals.

**Roxann Cooper**, director of the Customer Service Administration (CSA), shared goals for promoting and expanding services offered at satellite locations, insights into FY 2002 customer service statistics, and procedures for filing the FR-500. Within the CSA presentation, time was allotted for **Betsy Kim**, administrator for business and professional licensing at DCRA, to discuss the Master Business License. This one item provided a lively and lengthy question and answer session. **Henry Riley**, director of the Real Property Tax Administration, then provided an overview of the Recorder of Deeds office, the Assessment Division and the Assessment Services Division.

Day two started with a presentation program by **Henry Terrell**, OTR attorney, on new tax law changes, the impact of the Budget Support Act of 2002, new tax rates, and OTR ruling guidelines.

Following next was a presentation by **Richard Sella**, director of the Information Systems Administration. He discussed new tax form changes, provided tips for filing an error-free tax return and discussed the advantages of alternative ways to file District taxes.

**Lucy Murray**, deputy director, Information Systems administration, provided an in-depth presentation on the Electronic Taxpayer Service Center (eTSC), highlighting how a taxpayer can track their refund status online. The two-day event concluded with a



*Tax practitioners received a wealth of information at the Tax Practitioner Institute.*

question and answer session by all directors and presenters.

"Overall, the program was excellent and informative," said one attendee. "Each year has been an improvement. It was a good mix of discussion and lecture-type presentations that kept us interested in the discussions. Thanks for doing a great job."

*Plan to attend the  
5th Annual  
Tax Practitioners Institute  
January 7-8, 2004*

941 North Capitol Street, N.E.  
4th Floor, Training Room A  
Washington D.C.

Visit the Tax Practitioners  
Service Center at  
[www.cfo.dc.gov](http://www.cfo.dc.gov) under  
Taxpayer Service Center  
to register, or call  
Douglas Schauss,  
Communications Specialist  
at (202) 442-8070.

## ▲ 2003 TAX CHANGES

### Fiscal Year 2003 Budget Support Amendment Emergency Act of 2002

OTR announced the following tax-related changes as required by the Fiscal Year 2003 Budget Support Amendment Emergency Act of 2002, which was signed by the Mayor on December 4, 2002. The changes below became effective January 1, 2003.

#### ▲ Excise Tax

- Tax rate on sale of spirituous or malt liquors, beers and wine sold for consumption off premises increased from 8% to 9%.
- Tax on sale of cigarettes increased from 3.25 cents per cigarette to 5 cents per cigarette.
- Tax rate on gross receipts from telephone bills rendered after December 31, 2002, heating oil deliveries after December 31, 2002, and natural or artificial gas by a non-public utility person delivered after December 31, 2002 increased from 10% to 11%.
- Tax on gross receipts from toll and wireless telecommunications service increased from 10% to 11%.

#### ▲ Franchise Tax

- Corporation and Unincorporated Business – Tax rate will remain at 9.975% for taxable years beginning after December 31, 2002, and December 31, 2003.

#### ▲ Deed Recordation Tax

- Recordation tax on all deeds is increased from 1.1% to 1.5%. "Deed" includes a deed of title, construction loan, long-term lease, and a deed of trust (mortgage), not recorded with the deed of title and not exempt as residential.
- Transfer tax on all transfers of deeds is increased from 1.1% to 1.5%. Here "deed" is limited and generally refers to a deed of title or long-term lease.
- Recordation and transfer taxes remain at 1.1% each (2.2% combined), if the property qualifies for a homestead deduction; the application for the homestead deduction accompanies the deed; the deed is recorded within 30 days of the transfer; and the buyer paid \$250,000 or less.
- Recordation tax on the transfer of an economic interest in real property is increased from 2.2%

to 3.0%. There is no transfer tax on a transfer of an economic interest.

#### ▲ Other-Type Funds and Adjustments to Other Fees and Charges

Recorder of Deeds surcharge increased by 30%, increasing the surcharge from \$5.00 to \$6.50.

#### ▲ Real Property Tax

- Creates Class 3 tax rate of \$5 per \$100 of assessed value on vacant property. Provides exceptions for certain properties to remain at lower Class 1 or Class 2 tax rates.
- Provides general appeal rights for Class 3 Property owners, and creates a 30-day appeal right specific to those notices mailed out before January 1, 2003.
- Conforms appeals procedure to property classification mergers (OTR recently went from 5 classes of property to only 3 classes). Provides for appeals by new owners at specific intervals year-round (depending on when they became the new owners).
- Eliminates requirement of assessor to mail worksheets as a result of an administrative appeal in a supplemental assessment, if the final decision does not result in an assessment change (conformed to annual assessment appeal process). Supplemental assessments typically are triggered by new construction and renovations.
- Provides appeal rights in homestead/senior/classification reversals analogous to assessment appeals for new owners.
- Assures that senior deduction is computed after the homestead deduction has been taken (where applicable).
- Eliminates homestead requirement for a trash credit and extends credit to all Class 1 Property (occupied-residential) with 4 or more dwelling units.

#### ▲ Inheritance and Estate

- DC is de-coupling from federal phase-out of the estate tax. The amount of unified credit is frozen at \$675,000 and does not increase as federal credit increases.

## ▲ PROPERTY ASSESSMENTS MAILED

The Office of Tax and Revenue (OTR) has mailed assessment notices to all real property owners in the District of Columbia. This year marked a return to annual assessments, the first time in seven years that all 173,000 District properties were assessed to reflect current market value.

"These assessments reflect the strong growth in the District's real estate market over the past several years," said **Daniel L. Black, Jr.**, director of operations. "This strong growth is attributed to historically low interest rates, a demand of people wanting to live in the District and a demand from business owners wanting to be located in the nation's capital."

The District returned to the annual assessment of property in 2001 as per legislation passed by the D.C. Council. The reversion back to annual real property assessments will provide benefits to the District by:

- Making it easier for District property owners to understand the process
- Keeping the District's real property assessments in line with changing market values
- Allowing more tax revenue for the District on an annual basis in a rising market
- Enabling more buildings to be reassessed equitably with existing and surrounding properties
- Ensuring greater equalization of the real property tax burden in downtown Washington, D.C.

"OTR employees are doing a fine job. The goal is to educate D.C. property owners on the annual assessment process, the appeals process and eligibility into the tax property relief programs," said **Phil Brand**, deputy chief financial officer.

"Our main concern is to provide factual and accurate information and assistance to ensure a smooth transition for the property owner," said Brand.

A special assessment telephone number is available to assist property owners with their inquiries. Information regarding the assessment process is also available by visiting our Web site at [www.cfo.dc.gov](http://www.cfo.dc.gov).

## ▲ DC 2003 TAX SALE UNDERWAY

The D.C. annual Tax Sale auction 2003 was conducted at the Office of Tax and Revenue in early July and was a day of excitement and anxiety as properties were called and bids were generated to a standing room only crowd. Over 400 people registered for the Tax Sale and even more registered each day.

"We auctioned approximately 2,500 tax liens representing \$9 million in delinquent real property taxes owed. This process immediately generates revenue for the District," said **Phil Brand**, Deputy Chief Financial Officer.

Purchasers earn 1.5% interest on money that they invest in real property tax liens, and in some cases, they may be able to get a residential property.

If a property is ultimately sold at Tax Sale, the proper owner has a six-month redemption period to pay delinquent taxes, up to the time of a court ordered tax deed. If the original owner redeems the property, the Tax Sale buyer will be reimbursed the purchase amount plus any additional costs.

Those interested in acquiring a property at Tax Sale should follow all procedures before deciding to buy.

"It is up to the purchaser to do all the research to see what other District liens are owed on the property," said Tax Sale Manager Connice Hogue. "They also should make sure they know what they are buying," Hogue noted cases where buyers were stunned to discover they had purchased only a vacant lot, and not a house.

One prospective bidder, amazed at the bidding amounts said, "This place is serious. An empty lot is going for over \$16,000. That's more money than I have so I must be patient and keep a low profile."

The Tax Sale generated media attention on WAMU radio and WJLA Channel 7 news.

## ▲ DISTRICT EMPLOYEE PLEADS GUILTY TO TAX FRAUD

**Andrea D. Mason**, a former District government employee, was sentenced on Monday, July 7 pursuant to her April 21, 2003, plea, in which she pled guilty to filing a false 1999 federal income tax return and making a false statement to the District government on her 1999 D.C. income tax return. Mason was sentenced to two years probation on each of the two counts, to run concurrently, along with four months home detention. Mason was also ordered to pay restitution of \$17,935 to the Internal Revenue Service and pay \$150 in fees.

"The Office of Tax and Revenue (OTR) is aggressively pursuing all types of tax evasion, fraud or misrepresentation, no matter what the amount of tax owed," said **Phil Brand**, deputy chief financial officer. "We encourage all citizens to report any tax fraud to the Tax Fraud Hotline at 1-800-380-3495."

OTR's Criminal Investigation Division identified Mason's 1999 D.C. tax return as possibly fraudulent and collaborated with the Criminal Investigation Divisions of the Internal Revenue Service for a thorough investigation. Assistant U.S. Attorney **Susan B. Menzer** prosecuted the case.

## ▲ OTR ADVISORY BOARD MEETING HELD

The first session of the OTR Advisory Board was held on June 25, 2003. The agenda included revising and adopting the mission statement for the group, which includes practitioners and business leaders, and an overview of OTR's mission, organization, and roles.

The director of each OTR administration gave a short overview of their background, experience, and organizational accomplishments.

Board members unanimously adopted the following mission statement: "To participate in an interactive exchange of information, and provide observations and advice on OTR policies and programs as they affect individual and business taxpayers and the tax practitioner community."

Board members agreed to meet three times a year to provide real time experiences/issues that will assist in OTR management decision-making.

## Join us for the 5th Annual Tax Practitioner Institute January 7-8, 2004

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](mailto:douglas.schauss@dc.gov) or visit the Tax Practitioner Service Center at <http://cfo.washingtondc.gov/etsc/main.shtm>

## See you there!

## ▲ 2003 TAX FILING SEASON WAS AN ONLINE SUCCESS

The Office of Tax and Revenue (OTR) was in full swing during the month of April as the tax-filing deadline fast approached. The Returns Processing Administration (RPA) worked diligently to process tax returns and issue refunds, while employees of the Customer Service Administration (CSA) provided a variety of services to over 13,000 taxpayers who visited the walk-in service center.

OTR's message to taxpayers this year was "file electronically," and many heeded the call.

"As of May 30, 2003, more than 68,000 District residents filed electronic returns, compared to just 45,000 at this time last year, nearly a 66% increase over last year," said Phil Brand, deputy chief financial officer for OTR. "Filing electronically continues to be the best option for a more accurate return and a quicker refund."

More than 176,000 tax returns were filed by early April, and roughly 30 percent of District taxpayers filed their returns closer to the April 15 deadline.

RPA employees worked hard to ensure that District residents received their refunds in a timely, and accurate manner. Refunds from electronically filed tax returns were processed and delivered in an average of eight days, and paper returns had an average 14-day turnaround time, which is more than three times faster than the processing rate of just a few years ago. CSA's walk-in center assisted taxpayers in the preparation and filing of almost 2,000 tax returns online by early April.

### Electronic Filing... 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.

## OTR Alternative Ways of Filing

<b>Tax Year Statistics</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b><u>CATEGORY</u></b>	<b><u>YTD</u></b>	<b><u>YTD</u></b>	<b><u>YTD</u></b>
<b>Total Alternative Filing Returns</b>	<b>75,432</b>	<b>48,996</b>	<b>37,268</b>
<b>FED/State E-File Returns</b>	<b>60,243</b>	<b>39,213</b>	<b>34,555</b>
<b>Telefile Returns **</b>	<b>2,290</b>	<b>2,822</b>	<b>2,689</b>
<b>ETSC Individual Returns</b>	<b>6,817</b>	<b>3,873</b>	<b>0</b>
<b>ETSC Business Returns</b>	<b>6,082</b>	<b>3,088</b>	<b>24</b>

**\*\*D-40T Telefile** - Due to the costs to operate compared to the number of taxpayers using Telefile, the Office of Tax and Revenue will eliminate the Telefile filing option for the 2004 tax-filing season. The Telefile program ran from January 15 through April 15.

# Tax Return Information

January 1, 2003, through May 29, 2003

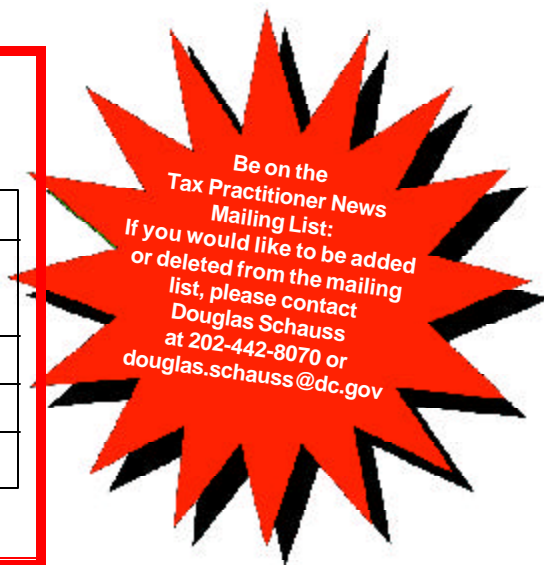
Individual Income Tax	2003	2002
Cumulative Receipts All Income Tax Returns	288,746	260,544
Cumulative Refunds Issued	\$96,469,666	\$105,995,858
Cumulative Refund Returns	156,620	196,138
Average Refund to Date	\$629	\$627

Includes Telefile and E-File Returns

**2003 Average Cycle Time - 12 Days from Receipt to Check in the Mail**

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

	2003	2002
Prompt Deposit Items	75,535	100,992
Prompt Deposit Amount	\$500,492,224	\$406,519,421



## Government of the District of Columbia

Office of the Chief Financial Officer  
Office of Tax and Revenue  
941 North Capitol Street, NE  
Washington, D.C. 20002  
202-727-4TAX

Presorted Standard  
U.S. Postage  
PAID  
Permit No. 7335  
Washington, D.C.



