


Government of the District of Columbia  
Office of the Chief Financial Officer



**Fitzroy Lee**  
Acting Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Phil Mendelson  
Chairman, Council of the District of Columbia

**FROM:** Fitzroy Lee  
Acting Chief Financial Officer 

**DATE:** November 10, 2021

**SUBJECT:** Fiscal Impact Statement – Capital Gains Deduction Clarification Act of 2021 (including accompanying emergency and temporary versions)

**REFERENCE:** Draft Introduction as provided to the Office of Revenue Analysis on November 8, 2021

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**Conclusion**

Funds are sufficient in the fiscal year 2022 through fiscal year 2025 budget and financial plan to implement the bill. The Fiscal Year 2021 Budget Support Act of 2020<sup>1</sup> (BSA) changed allowable capital gains deferrals under the District's income tax provisions. The bill aligns those changes with the estimate of revenue from the BSA provision that was incorporated in the current budget and financial plan.

**Background**

The Federal 2017 Tax Cuts and Jobs Act established a deferral of capital gains for income tax purposes for taxpayers who invest in a Qualified Opportunity Fund and meet other requirements. Qualified Opportunity Funds make investments across the country in one of over 8,000 Qualified Opportunity Zones (QOZ).

The BSA subtitle intended to decouple the capital gains tax deferral for purposes of District income taxes unless the investment meets certain criteria. Because individuals and trusts (in addition to businesses) make investments in QOZs, the bill corrects an omission by adding the subtitle's QOZ

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<sup>1</sup> D.C. Law 23-149, effective December 3, 2020..

The Honorable Phil Mendelson

FIS: “Capital Gains Deduction Clarification Act of 2021” (Emergency and Temporary versions), Draft Introduction as provided to the Office of Revenue Analysis on November 8, 2021

provisions to the section of the D.C. Official Code pertaining to income taxation of individuals and trusts<sup>2</sup>.

### **Financial Plan Impact**

Funds are sufficient in the fiscal year 2022 through fiscal year 2025 budget and financial plan to implement the bill. The bill aligns changes to the District’s income tax treatment of capital gains and QOZ investments to the revenue estimated for the BSA<sup>3</sup> and incorporated in the current budget and financial plan.

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<sup>2</sup> By amending D.C. Official Code § 47-1803.08.

<sup>3</sup> Income tax was estimated to increase by \$2 million in fiscal year 2021 and a total of \$19.9 million through 2024. See Subtitle II(C) of the Fiscal Impact Statement at [http://app.cfo.dc.gov/services/fiscal\\_impact/pdf/spring09/FIS%2023-760%20Fiscal%20Year%202021%20Budget%20Support%20Act%20of%202020.pdf](http://app.cfo.dc.gov/services/fiscal_impact/pdf/spring09/FIS%2023-760%20Fiscal%20Year%202021%20Budget%20Support%20Act%20of%202020.pdf)