MEMORANDUM

Proposal: Eliminate D.C.'s non-custodial parent Earned Income Tax Credit (EITC)
Tax Type: Income
Origin: Robert Buschman
Commission Goal: Simplicity

Current Law

The federal Earned Income Tax Credit (EITC) is a refundable credit for low- and moderate-income workers, especially those with qualifying children. D.C. permits an additional EITC that piggybacks the federal program. The D.C. EITC is 40% of the federal credit.

The size of the federal EITC, and by extension the D.C. credit, is determined by income, marital status and number of children. [Please see Policy Options Memo No. 11 or No. 12 for a full description of how both the federal and D.C. EITC work.]

D.C. offers non-custodial parents the opportunity to claim the child-based EITC in D.C. To get this credit a taxpayer must be between the ages of 18 and 30 and in compliance with a court order for child support payments. Because the eligibility diverges from the federal program, taxpayers choosing to claim this credit must fill out an additional form (Schedule N, “Non-Custodial Parent EITC claim”).

Proposed Change

Eliminate the D.C. non-custodial EITC.

Please note: The taxpayers losing this credit would still qualify and benefit from the D.C. EITC. That is, they would receive the childless worker EITC, as permitted for federal purposes.

Reason for Change

The non-custodial EITC is a complex program and benefits very few taxpayers in D.C. (Fewer than 10 filers claimed this specific credit in 2010).

Pros

- Would simplify the D.C. individual income tax by removing a complex and underused program.
- The goal of the program can be advanced by broader tax relief changes such as increasing the D.C. EITC benefits to childless workers.
Cons

- Would negatively affect the small group who currently benefit from the program.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation eliminating the non-custodial parent EITC would raise $3,691 in new tax revenue.