

D.C. Tax Revision Commission Policy Options
Policy Option #18: Eliminate the Survivor Benefits Exclusion

MEMORANDUM

Proposal: Eliminate the survivor's benefit exclusions for D.C. and federal government workers

Tax Type: Income

Origin: Robert Buschman

Commission Goal: Simplify

Current Law

If a taxpayer is age 62 or older by the end of the tax year she may exclude survivor benefits from the D.C. or federal government from her taxable income. This law does not affect Social Security survivor benefits, which are excluded from taxation under a different provision.

Proposed Change

Eliminate the D.C. and federal government survivor benefits exclusion.

Reason for Change

In addition to making the D.C. individual income tax more complex, the exclusion violates horizontal equity because private-sector survivor benefits do not receive the same treatment. Neither Maryland nor Virginia has an income exclusion for survivor benefits.

Pros

- Would make the D.C. individual income tax simpler and fairer.
- Would broaden the tax base.
- Revenue gained from repeal could be paired with broader tax-relief measures such as an increase in the standard deduction and/or personal exemption.

Cons

- Would Negatively affect the taxpayers who currently benefit from the exclusion. In 2009, 2,706 tax filers benefited and most (77%) had incomes of \$50,000 or less.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation eliminating the D.C. and federal government survivor benefits exclusion would raise \$3,214,697 in new tax revenue.