D.C. Tax Revision Commission Policy Options

Policy Option #21: Eliminate $3,000 Exclusion for Government Pensions

MEMORANDUM

Proposal: Eliminate the $3,000 exclusion for D.C. and federal government pensions
Tax Type: Income
Origin: Robert Buschman
Commission Goal: Simplicity

Current Law

Taxpayers ages 62 and older may subtract up to $3,000 worth of retirement pension, military retired pay or annuity income from the D.C. or federal government from their gross income during the tax year.

Proposed Change

Eliminate the exclusion for D.C. or federal government retiree pensions.

Reason for Change

The current exclusion is only beneficial to certain taxpayers and eliminating it allows for more broad-based tax relief. Maryland's pension exclusion covers both government and private pensions. Virginia does not provide a pension exclusion but instead has a broader "age deduction" to assist low-income seniors—the credit is phased out at higher income levels.

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 broad-based tax relief such as an increase in the standard deduction and personal exemption.

Cons

- Eliminating the exclusion negatively affects beneficiaries. In 2009, 15,894 taxpayers received relief from this exclusion and 71% of the benefits were claimed by taxpayers with income of $75,000 or less.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation eliminating the exclusion for D.C. or federal government retiree pensions would raise $3,352,186 in new tax revenue.