

D.C. Tax Revision Commission Policy Options
Policy Option #8: Add More High-Income Tax Brackets

MEMORANDUM

Proposal: Add more high-income tax brackets

Tax Type: Income

Origin: Ed Lazere/Public

Commission Goal: Fairness

Current Law

D.C. has the following four individual income tax brackets and rates:

<u>Taxable Income</u>	<u>Rate</u>
Up to \$10,000	4%
\$10,001 to \$40,000	6%
\$40,001 to \$350,000	8.5%
\$350,001 and above	8.95%

The top rate of 8.95% is repealed beginning tax year 2016.

Proposed Change

Adopt the following individual income tax structure (changes in italics):

<u>Taxable Income</u>	<u>Rate</u>
Up to \$10,000	4%
\$10,001 to \$40,000	6%
\$40,001 to \$350,000	8.5%
<i>\$350,001 to \$500,000</i>	<i>8.95%</i>
<i>\$500,001 to \$750,000</i>	<i>9.25%</i>
<i>\$750,001 and above</i>	<i>9.5%</i>

Reason for Change

Adding more high-income tax brackets would make D.C.'s income tax fairer by increasing the tax burden on affluent residents.

Pros

- Would make D.C.'s individual income tax fairer by increasing vertical equity.
- Would raise new tax revenue that could be used to lower other taxes.

Cons

- Could make D.C. less competitive with Virginia and Maryland jurisdictions in attracting and/or retaining high-income taxpayers.
- D.C. already has a highly progressive individual income tax structure with high tax rates on modest levels on income as well as a limitation on itemized deductions.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation the new individual income tax structures would raise \$24,562,985 in new tax revenue.