

## D.C. Tax Revision Commission Policy Options

# Policy Option #7: Decrease the Burden on Middle-Income Taxpayers

### MEMORANDUM

**Proposal:** Mitigate the tax burden on middle-income residents

**Tax Type:** Income

**Origin:** Councilmember Jack Evans/Stefan Tucker/Robert Buschman

**Commission Goal:** Fairness

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### **Current Law**

D.C. has the following four 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The top rate of 8.95% is repealed beginning tax year 2016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 income tax structure (changes in italics):

<u>Taxable Income</u>	<u>Rate</u>
Up to \$10,000	4%
\$10,001 to \$40,000	5.75%
<i>\$40,001 to \$80,000</i>	7.75%
<i>\$80,001 to \$100,000</i>	8%
<i>\$100,001 to \$350,000</i>	8.5%
\$350,001 and above	8.95%

### **Reason for Change**

D.C.'s income tax structure, while very progressive at low-income levels, has rates that climb quickly and then flatten out. This means that filers with relatively modest incomes are exposed to high marginal tax rates. Additionally, D.C. families in the middle quintile of income earners pay a high percentage of their income in *all* state and local taxes—the third highest percentage in the nation according to the Institute on Taxation and Economic Policy. Lowering these residents individual income tax burden is a simple way of addressing this disparity.

**Pros**

- Would make D.C. more competitive with neighboring jurisdictions in Virginia and Maryland in attracting middle-income residents.
- Would make D.C.'s tax system fairer by lowering the tax burden for middle-income residents and therefore increasing vertical equity.

**Cons**

- While designed to lower the tax burden for middle-income residents, if additional changes are not made to higher income tax rates/brackets then high-income residents would also benefit substantially from this change.
- If not combined with other individual income tax rate/bracket changes, this change would lose tax revenue.
- Offsets to pay for the individual income tax rate reductions could make the D.C. tax system more regressive or negate any gains in progressivity.

**Revenue Impact**

The Office of Revenue Analysis estimates that in the first year of implementation the new individual income tax structure would lose \$54,876,295 in tax revenue.