District of Columbia Tax Comparisons

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Executive Summary

This paper compares the District of Columbia's tax system with other jurisdictions across the nation—with an emphasis on jurisdictions in the Washington metro region. Since D.C. collects both state and local taxes, the paper analyzes the *combined* state and local taxes of jurisdictions. The paper will analyze and compare the following aspects of the D.C. tax system: per capita tax revenue; revenue mix; business taxes; household taxes; family tax burdens; and tax distribution.

The highlights of D.C.'s tax system:

Per capita tax revenue is high when compared with states.
D.C. collects more per capita tax revenue than all but one other state. This reflects D.C.'s comparatively rich tax base and high effective tax rates. But this comparison is somewhat misleading as D.C's profile differs from all other states. D.C. is 100% urban, and urban areas typically have richer tax bases and higher effective tax rates than rural areas. Unfortunately, combined state and local tax data are available for comparison only for states, not localities.

Business income and commercial property tax rates are comparatively high for the region.
D.C.'s corporate income tax rate is the third highest in the U.S. and higher than the rate in both Maryland and Virginia. And while a national study recently found that D.C.'s effective commercial property tax rate is average for a large city, D.C.'s statutory rate is higher than the rate in all of the neighboring jurisdictions of Maryland and Virginia.

Household taxes are average for a large city and the lowest in the Washington metro region.
A hypothetical family's tax burden in D.C.—at low, middle and high levels of income—is close to the national average for families residing in large cities. Furthermore, most D.C. families would have a higher tax burden if they moved to a neighboring jurisdiction in Maryland or Virginia. This is because residential property taxes in D.C. are the lowest in the region.

The overall tax distribution is relatively flat.
In contrast with the regressive taxes of most state and local tax systems, D.C. has a "close-to-flat" tax system. But while low-income residents pay a comparatively small share of their income in D.C. taxes (6.6%), middle-income residents pay a higher share of income (11%) than any other income group in D.C. taxes.

REGIONAL TAX RATE COMPARISONS			
	D.C.	MARYLAND	VIRGINIA
Top Individual Income Tax Rate	8.95%	5.75%	5.75%
Top Income Tax Bracket	$350,000	$300,000[1]	$17,000
County Income Tax Rate	--	3.2%[2]	0%
Corporate Income Tax Rate	9.975%	8.25%	6%
Retail Sales Tax Rate[3]	6%	6%	6%[4]

RESIDENTIAL PROPERTY TAX RATE COMPARISONS[5]					
	D.C.	MONTGOMERY COUNTY	PR. GEORGE'S COUNTY	ARLINGTON COUNTY	FAIRFAX COUNTY
Rate per $100	$0.85	$1.068-1.641	$1.431-2.921	$0.958	$1.096-1.213

COMMERCIAL PROPERTY TAX RATE COMPARISONS[6]							
	D.C.	BETHESDA	SILVER SPRING	ALEXANDRIA	ROSSYLN	TYSONS	RESTON
Rate per $100	$1.65/1.85[7]	$1.224	$1.429	$1.026	$1.008	$1.095	$1.095
Total Commercial Tax Rate[8]	$1.882	$1.269	$1.474	$1.053	$1.224	$1.55	$1.487

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[1] Maryland has both joint and separate filing status. This is the top bracket for taxpayers filing jointly. Taxpayers filing as single pay the top tax rate on income over $250,000.

[2] County income tax rate for Montgomery County and Prince George's County. The tax rate is lower in other Maryland counties.

[3] This is the rate for most goods and some services. D.C. has different rates, for example, on restaurant meals (10%), transient accommodations (14.5%) and private parking (18%)

[4] This is the sales tax rate in Northern Virginia beginning July 1, 2013. On that date the Virginia state sales tax rate will increase from 5% to 5.3%. The jurisdictions of Northern Virginia will also add an additional 0.7%.

[5] Residential property tax rates compiled by D.C. Fiscal Policy Institute in, "Revenue: Where D.C Gets Its Money," Feb. 7, 2013.

[6] Maryland and Virginia rates were compiled by DowntownDC Business Improvement District, March 2013.

[7] The commercial property tax rate in D.C. is split: the first $3 million of assessed value is taxed at $1.65 per $100 and every dollar above that threshold is taxed at $1.85 per $100.

[8] Calculations by DowntownDC Business Improvement District. Estimate includes: Business Improvement tax; Stormwater tax; County Transportation tax; Silver Line Special Assessment tax and Tysons Service District Tax.

D.C. Collects a High Level of Tax Revenue Compared With Other States

There are two traditional ways to measure and compare the size of a state's combined state and local tax revenue: per capita and as a percentage of personal income.[9] Both measurements suggest that the District collects a high amount of tax revenue when compared with other states.

Table 1: Comparison of Total State & Local Tax Revenue

	Per Capita	Percentage of Personal Income
District of Columbia	$8,315 (2)	11.7% (8)
Maryland	$4,851 (9)	10.0% (27)
Virginia	$3,885 (25)	8.8% (44)
U.S. Average	$4,105	10.3%

Source: Census Bureau, FY 2010
Note: State rank is in parentheses.

The District collected $8,315 in per capita tax revenue in fiscal year (FY) 2010.[10] That per capita total was greater than all but one other state's combined state and local per capita tax revenue that year and well above the national average ($4,105). Maryland's per capita tax revenue was $4,851, above the national average and the ninth highest total in the country. Virginia's per capita total ($3,885) was below the national average and the 25th highest total among the states.

The District also collected a relatively large amount of per capita tax revenue from each individual tax in FY 2010. D.C. collected more per capita property tax revenue ($3,073) than any other state and twice the national average ($1,428). D.C.'s per capita tax revenue from general sales taxes ($1,422), selective sales taxes ($826), individual income taxes ($1,830) and corporate income taxes ($139) were all well above the national average in that year as well. For each individual tax cited above, the Districts' per capita tax revenue is one of the five highest totals among the states.

Measured as a percentage of personal income, the District's tax revenues—both in total and for individual taxes—are also comparatively high when compared with the combined state and local tax revenues of other states.[11]

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[9] Both measurements come from the Census Bureau and data were collected from the Tax Policy Center's website.
[10] This is the most recent year that comparison data are available from the Census.
[11] In FY 2010 D.C.'s tax revenues were 11.7% of personal income. This percentage was above the national average (10.3%) and higher than the percentage in all but seven states. Maryland's tax revenue as a percentage of personal income (10%) was below the national average and in the middle of all states while Virginia's percentage (8.8%) was one of the lowest in the nation. The District's tax revenues are closer to those of other states when measured as a percentage of personal income. For example, while D.C. per capita property tax revenues were the highest in the country, as a percentage of personal income (4.3%) they were closer to the national average (3.6%) and smaller than the property tax revenues of 10 other states. Corporate income taxes as a percentage of personal income (0.8%) in D.C. were higher than in all but three other states, though.

Why is D.C.'s Per Capita Tax Revenue Comparatively High?

The District's comparatively high per capita tax revenue ultimately reflects D.C's relatively rich tax base—high per capita income, high property values and high levels of consumption by tourists and commuters—and effective tax rates that are above the national average.[12] But while per capita tax revenue is an often cited comparison, it is important to understand what this number actually tells us.

First, a state's per capita tax revenue is not a direct measure of a resident's tax burden. When the Census calculates per capita tax revenue it analyzes all taxes levied by states and localities—on both individuals and businesses. For example, the state with the highest per capita tax revenue in FY 2010 was Alaska. But Alaska, a state without an income or sales tax, imposes a very low tax burden on its residents. Instead, it gets most of its tax revenue[13] from severance taxes, taxes imposed for the extraction of natural resources. While D.C. does not have an abundance of natural resources it does have a lot of business activity, and nearly half of D.C.'s tax revenue come from business taxes.[14] This is in part how D.C. can simultaneously have high per capita tax revenue and a comparatively low tax burden for its residents.

Furthermore, comparing D.C.'s per capita tax revenue to other states can be misleading because D.C. has the profile of a city, not a state. An urban area typically has a richer tax base and higher effective tax rates than a rural community. And while D.C.'s population is 100% urban, a typical state is only 80.7% urban. Therefore, all other states have a per capita tax revenue statistics totaled across both urban and rural areas. Thus, for comparison, Pennsylvania's per capita tax revenue is determined by averaging the tax bases and effective tax rates across the state, including Philadelphia, Harrisburg and rural areas throughout the state. Unfortunately, there are no data on just Philadelphia's state and local tax per capita revenue (or any other locality) to compare.

Table 2: Comparison of Populations

	Urban Population	Poverty Rate	Per Capita Personal Income
District of Columbia	100% (1)	19.9% (3)	$71,044 (1)
Maryland	87.2% (15)	9.3% (50)	$49,025 (5)
Virginia	75.4% (24)	11.4% (41)	$44,762 (8)
U.S. Average	80.7%	15%	$40,584

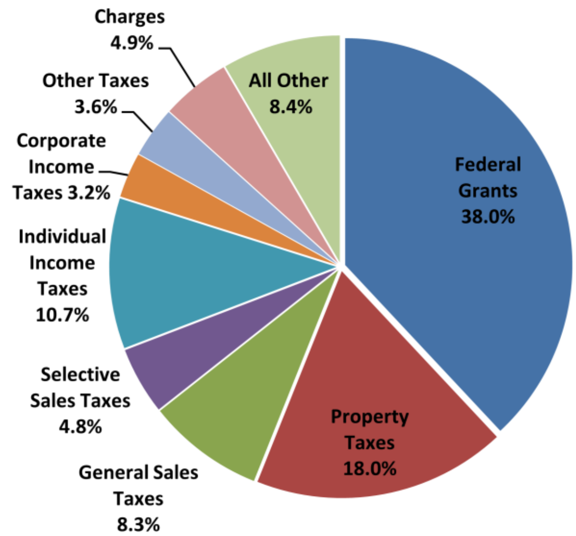
Source: Census Bureau -- Urban Population and Personal Income 2010, Poverty Rate 2011
Note: State rank in parentheses.

[12] Yilmaz, Yesim and Robert Zahradnik, "Measuring the Fiscal Capacity of the District of Columbia—a comparison of revenue raising capacity and expenditure need Fiscal Year 2005," (October 2008). The study analyzed data from 2005.
[13] O'Sullivan, Sheila, Lynly Lumibao, Russell Pustejovsky, Tiffany Hill and Jesse Willhide, "State Government Tax Collections Summary Report: 2012," U.S. Census Bureau (April 11, 2013).
[14] Calculations by Norton Francis for FY 2012. This data are available in a companion D.C. Tax Revision Commission paper: "Business Franchise Taxes in the District of Columbia."

D.C.'s Revenue Mix

In FY 2010, 48.7% of D.C.'s general revenue came from taxes.[15] That percentage was close to the national average for taxes as a percentage of state and local general revenue (50.7%). State and local taxes were a larger percentage of general revnue in both Maryland (57.5%) and Virginia (53.1%) than in D.C. that year.

Figure 1: Distribution of D.C. General Revenue



Source: Census Bureau, FY 2010

Among D.C.'s individual taxes, property taxes accounted for the largest share, contributing 18% of general revenue.[16] That was roughly equal to the national average for state and local property taxes as a percentage of general revenue (17.7%) and close to the percentages in Maryland (17.3%) and Virginia (19.1%).

Individual income taxes provided 10.7% of D.C. general revenues in FY 2010. That percentage was close to the national average (10.4%) but well below the contribution of state and local income taxes to general revenue in Maryland (20.5%) and Virginia (14.7%).

Table 3: Percentage Distribution of State & Local General Revenue

	D.C.	MD	VA	U.S	D.C. Rank
Intergovernmental	38.0%	23.6%	18.5%	24.9%	1
Own-Source Total	62.0%	76.4%	81.5%	75.1%	51
Taxes Total	48.7%	57.5%	53.1%	50.7%	24
Property	18.0%	17.3%	19.1%	17.7%	19
General Sales	8.3%	7.7%	7.8%	11.4%	40
Selective Sales	4.8%	6.3%	6.3%	5.8%	37
Individual Income	10.7%	20.5%	14.7%	10.4%	22
Corporate Income	3.2%	1.8%	1.3%	1.7%	4
Other	3.6%	3.9%	3.8%	3.7%	23
Charges	4.9%	12.5%	19.2%	16.4%	51
All Other Revenue	8.4%	6.3%	9.3%	8.0%	23

Source: Census, FY 2010

The revenue contribution of corporate income taxes in the District (3.2%) was relatively high in FY 2010. The national average for corporate income taxes was 1.7% and in only three states (New Hampshire, Alaska and New York) was the percentage higher. Corporate income taxes were a lower

[15] All data in this section comes from the Census Bureau and were collected from the Tax Policy Center's website.
[16] According to the D.C. Office of Revenue Analysis, as a percentage of just own source revenue in FY 2011, property taxes accounted for 27.3%, individual income taxes provided 20.6% and sales taxes contributed 16.1%.

percentage of general revenue in Maryland (1.8%) and Virginia (1.3%) than in D.C.

General sales (8.3%) and selective sales (4.8%) taxes contributed less to D.C. general revenue than the national average for such taxes (11.4% and 5.8%). Compared with Maryland and Virginia, D.C.'s general revenue was comprised of slightly more general sales tax revenue but slightly less selective sales tax revenue.

D.C. also collected 38% of its general revenue from federal grants; a reflection of both the city's status as the nation's capital and matching agreements between the District and the federal government for entitlement programs such as Medicaid. D.C.'s share of general revenue from federal grants is above the national average (24.9%), but many other states received comparable percentages in FY 2010. Five states received a third or more of their general revenue from federal grants and two states (Mississippi and New Mexico) receive nearly the same percentage as D.C. Maryland's percentage of general revenue from federal grants (23.6%) is roughly the same as the national average while Virginia's percentage (18.5%) is the second-lowest of any state.

D.C.'s remaing general revenue comes from charges[17] and what the Census labels "other" sources. [18] Notably, charges account for just 4.9% of D.C. general revenue, well below the national average (16.4%) and the lowest percentage of any state.

Business Tax Comparisons

Business Income Tax Rates

The corporate income tax rate[19] in D.C. is 9.975%; higher than the rate in Maryland (8.25%) and Virginia (6%) and higher than the top rate in all but two other states: Pennsylvania (9.99%) and Iowa (12%). Four states do not have a corporate income tax or a gross receipts tax.

The District also imposes an unincorporated business franchise tax on unincorporated businesses with gross income over $12,000. This tax is levied on all businesses operating in the District regardless of whether the business owners reside in D.C. Most states collect these taxes via the income tax but D.C. is prevented from taxing non-resident income. Businesses where 80% or more of gross income comes from personal services, such as doctors and lawyers, are exempt from unincorporated business franchise taxes.

Taxpayers subject to corporate income taxes or unincorporated business franchise taxes also pay a baseball gross receipts tax if they derived at least $5 million in annual D.C. gross receipts. The ballpark fee is $5,500 for business with $5 million to $8 million in gross receipts, $10,800 for business with $8 million to $12 million, $14,000 for business with $12 million to $16 million, and $16,500 for business with gross receipts over $16 million.

[17] Charges include non-tax revenue from sources such as higher education, hospitals and sewage and waste disposal.
[18] The District collected 8.4% of its general revenue from these "other" sources. This is largely the result of interest earnings from accounts and lottery revenues. The percentage was very close to the national average for such revenue (8%).
[19] All discussions of tax rates in this paper draw heavily on "D.C. Tax Facts; 2012," a publication produced by the D.C. Office of Revenue Analysis, and the "Tax Facts" section of the Tax Policy Center's website.

For both the corporate income tax and the unincorporated business franchise tax the minimum tax payable —regardless of deductions and credits—is $250. If D.C. gross receipts exceed $1 million for a business then the minimum tax is $1,000.

The District uses a three-factor formula (sales, property and payroll) with a double-weighted sales factor to determine a multi-state corporation's tax payment. Maryland and Virginia generally use this apportionment method as well, but each state also changes the formula for the benefit of specific industries.[20] As of 2010, 22 states use the double-weighted sales factor, five allow for greater than double-weighted sales and four used a signal-sales factor. Thirteen states use the traditional three-factor formula for their corporate income tax.[21]

Unfortunately, there is little information about effective state corporate tax rates as the tax—with myriad deductions, credits and other tax expenditures—is notoriously difficult to calculate across types of business.[22] For example, most businesses in D.C. pay the minimum tax and not the statutory rate. The D.C. Office of Revenue Analysis (ORA) reports that in 2008 66.4% of corporate franchise taxpayers and 64.2% of unincorporated business taxpayers paid the minimum tax.[23]

Commercial Property Tax Rates

The rate for commercial property in the District is split: the first $3 million of assessed value is taxed at $1.65 per $100 and every dollar above that threshold is taxed at $1.85 per $100.[24] Both rates apply to 100% of a property's assessed value.

Commercial property tax rates[25] are also levied on 100% of a property's assessed value in Maryland and Virginia. The tax is imposed locally so different jurisdictions within each state have different rates, but in all neighboring jurisdictions the rate is lower than it is in D.C. In Maryland, for example, the rate per $100 in Bethesda is $1.224 and in Silver Spring it's $1.429. In Virginia, the rate per $100 is $1.026 in Alexandria, $1.008 in Crystal City and Rosslyn, and $1.095 in Tysons and Reston. The commercial property tax rate is flat in all of the Maryland and Virginia jurisdictions listed above.

The DowntownDC Business Improvement District calculates that when other business office taxes[26] are included in the commercial rate D.C. still has the highest rate of any regional jurisdiction. With these taxes the District's rate rises to $1.882 per $100 for property assessed at more than $3 million. In Maryland, the total rate per $100 is $1.269 in Bethesda and $1.474 in Silver Spring. In Virginia, the total commercial rates per $100 are: Alexandria, $1.053; Crystal City, $1.191; Rosslyn, $1.224; Tysons, $1.550; Reston, $1.487.

[20] "Revenue: Where D.C. Gets Its Money," D.C. Fiscal Policy Institute (Feb. 7, 2013).
[21] "The Oxford Handbook of State and Local Government Finance," Oxford University Press (2012); p. 339.
[22] Ibid, p. 333
[23] "District of Columbia Data Book: Revenue and Economy," ORA (October 2010). In 2008 the minimum tax payment was $100 for all corporate franchise taxpayers and unincorporated business taxpayers.
[24] The District also has higher property tax rates for property classified as "vacant" or "blighted."
[25] All commercial property tax rates are from DowntownDC Business Improvement District, March 2013.
[26] Additional taxes include the Business Improvement Tax, the Stormwater Tax, the Transportation Tax and the Silver Line Special Assessment. These taxes are not levied in each jurisdiction. Calculations are from March 2013.

D.C. Has a Classified Property Tax System: Commercial Property is Taxed at a Higher Effective Rate than Residential Property

A Minnesota Taxpayers Association study[27] analyzes the effective tax rates (total tax divided by total value)[28] for both commercial and residential property for the 50 largest cities in the U.S. The report was released in April 2011 and draws on data from 2010.

The effective commercial property tax rate in D.C. for property valued at $1 million is 1.306%. Among the 50 cities studied D.C. has the 34th highest effective rate and is below the average of 1.849%. For commercial property valued at $25 million the effective rate in D.C. is 1.986%. This ranks the District 22nd among the 50 cities and above the average of 1.874%. Unfortunately, none of the District's neighboring jurisdictions are among the 50 largest cities examined. The closest jurisdictions analyzed were Baltimore, Maryland and Virginia Beach, Virginia. For the commercial property valued at $25 million, Baltimore's effective rate (2.722%) is above D.C.'s rate and among the highest rates calculated while Virginia Beach's effective rate (0.804%) is below D.C.'s rate and among the lowest rates calculated.

Table 4: Effective Commercial Property Tax Rates

	D.C.	U.S. Average
Commercial-Residential "Classification Ratio"	2.447 (10)	1.724
Effective Tax Rate: $1 Million Property	1.306% (34)	1.849%
Effective Tax Rate: $25 Million Property	1.986% (22)	1.874%

Source: Minnesota Taxpayers Association
Note: Rank in parentheses

The Minnesota study also calculates a "classification ratio," which is the ratio of the effective tax rate on $1 million of commercial property to the effective tax rate on a median-value residential property, [29] for the largest city in each state.[30] This ratio reflects "the degree to which homeowner property taxes are subsized by commercial property tax owners."[31] A ratio of 1.0 indicates that commercial and residential properties are taxed uniformly within a jurisdiction. A ratio above 1.0 reveals that the jurisdiction has a classified property tax system and that commercial property is taxed at a higher effective rate than residential property.

The District's ratio is 2.447, ranking 10th highest among the 53 cities examined and above the national average of 1.724. Again, no regional jurisdictions were analyzed by the Minnesota study but it is worth noting that both Baltimore and Virginia Beach are among only four cities examined with a classification ratio of *less* than 1.0 (meaning the effective commercial tax rate is lower than the effective residential rate).

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[27] "50-State Property Tax Comparison Study," Minnesota Taxpayers Association (April 2011).
[28] The study uses a standard set of assumptions about a property's "true" market value and takes into account sales ratios, classifications rates and credits. For a full explanation of the study's methodology please see the full report, available online at http://www.lincolninst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/MTAdoc_NewCover.pdf
[29] The median value for a residential property in the District was $331,900 in the study.
[30] The study examined the largest city in each state and D.C. plus an additional city in Illinois and New York.
[31] p. 14.

Household Tax Comparisons

Residential Property Tax Rates

Residential property in D.C. is taxed at $0.85 per $100 of assessed value. The rate applies to 100% of assessed value. The assessed value for each owner-occupied residence (including condominiums) which qualifies as homestead is reduced by a $69,100 homestead deduction.

While all states have some form of residential property taxation, the rates and base vary widely, making comparisons difficult. Some jurisdictions[32] have very high property tax rates but apply that rate on only a fraction of a property's assessed value. For example, the city of Columbia, South Carolina taxes residential property at $49.31 per $100, but the tax applies to just 4% of the property's assessed value.[33] Other jurisdictions have far lower statutory rates but levy the tax on most or all of a property's assessed value. [34]

The residential property tax rates in the neighboring jurisdictions of Maryland and Virginia (also applied to 100% of assessed value) are universally higher than in D.C. In Maryland, depending on the specific locality, the rates per $100 of assessed value in Montgomery County range from $1.068 to $1.641 and from $1.431 to $2.921 in Prince George's County. In Virginia, the rate per $100 of assessed value in Arlington County is $0.958 and in Fairfax County the rates range from $1.096 to $1.2131.[35]

Income Tax Rates

In D.C. there are four individual income tax brackets with rates increasing as income rises. A District resident pays a 4% tax on her first $10,000 of income, 6% on income above that until $40,000, 8.5% on income above that until $350,000 and 8.95% on all income above $350,000.

The number of income brackets varies across states, with seven states having just one bracket (a flat rate) and the state of Hawaii having the most brackets with 12. Maryland has eight income tax brackets and Virginia has four. The top state marginal income tax rate is currently in California where taxpayers pay a 13.3% tax on income above $1 million. The lowest state income tax rate is the complete absence of an income tax in seven states.[36]

The top marginal state income tax rate in Maryland is 5.75% and applies to income above $250,000 for individual filers and $300,000 for joint returns.[37] Residents in Maryland (as in many other states) also pay local income taxes, however, making the combined rate higher. For example, both Montgomery County and Prince George's County residents pay an additional 3.2% local income tax on all income,

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[32] For the most part property taxes are local taxes rather than state taxes.
[33] "Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison," Office of Revenue Analysis
[34] Individual jurisdictions also impose specific limits and restriction on how a property's value is assessed; this also significantly effects the ultimate property tax payment.
[35] All rates for Maryland and Virginia come from the D.C. Fiscal Policy Institute, "Revenue: Where D.C. Gets Its Money," (Feb. 7, 2013).
[36] Two additional states limit the income tax to dividends and interest income only. All these numbers are just for state income tax rates and do not include local income taxes.
[37] Individuals filing as the head of household and qualifying widows and widowers are also included in this group. In Maryland individual filers and joint filers have different income tax brackets.

creating a combined top rate of 8.95%. In Virginia the top state marginal income tax rate is 5.75% and it applies to income over $17,000.There are no local income taxes in Virginia.

Sales Tax Rates

The retail sales tax in D.C. is 6% for tangible personal property and selected services. A higher sales tax applies to certain purchases such as restaurant meals (10%), transient accommodations (14.5%) and private parking (18%). Five states do not levy a state sales tax while the highest statutory state sales tax rate is 7.5% in California. Many states also have local sales taxes and according to the Tax Foundation the highest combined state and local sales tax rate is 9.44% in Tennessee. In Maryland the retail sales tax is 6%; there are no local sales taxes in the state. The current sales tax rate in Virginia is 5% but on July 1, 2013 the state's rate will increase to 5.3%. At that date an additional 0.7% rate will also apply to transactions in Northern Virginia, bringing the total sales tax rate in those jurisdictions to 6%.

Typical D.C. Family Tax Burden: Average for a Large City; Lowest in the Region

Both the D.C. Office of Revenue Analysis (ORA), an office within the Office of the Chief Financial Officer, and the D.C. Fiscal Policy Institute (DCFPI), a District-based public finance research organization, analyze how the tax burden of hypothetical D.C. families (with a hypothetical income, a hypothetical home, etc.) compares with the tax burden of similar families residing in other jurisdictions. The organizations use different methodologies[38] to calculate tax burdens but both reach similar conclusions about D.C. taxes. A national analysis by ORA reports that, when compared with families in other large cities,[39] D.C. families—at low, middle and high levels of income—have an average tax burden, and both ORA and DCFPI conclude that most D.C. families would pay more in taxes if they moved to a neighboring jurisdiction in Maryland or Virginia.

The ORA national analysis[40] examines a three-person family (two wage-earning spouses and one school-age child) at five levels of gross family income. At every level of income the D.C. family's tax payment is close to the national average and roughly in the middle of the 51 cities studied.

All the D.C. families with $50,000 of income or more—families assumed to own a home—have property tax payments below the national average.[41] The families with $100,000 of income or less also have a below-average income tax payment. The District family earning $150,000 has an income tax payment above the national average, but the income tax burden in D.C. is in the lower-half of the cities examined.

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[38] Please see the full reports for a detailed description methodology. Both organizations post their studies online. ORA: http://cfo.dc.gov/page/tax-burdens-comparison; DCFPI: http://www.dcfpi.org/taxes-on-dc-families-remain-lowest-in-the-region.
[39] ORA examined the largest city in each state.
[40] "Tax Rates and Tax Burdens in the District of Columbia – A National Comparison," Office of Revenue Analysis (September 2012).
[41] The family earning $25,000 is assumed to rent and pay property taxes as a share of rent.

Table 5: Estimated Payment of Major State & Local Taxes
For a Hypothetical Family of Three, 2011

	$25,000	$50,000	$75,000	$100,000	$150,000
District of Columbia	$2,847 (30)	$4,637 (27)	$6,684 (29)	$8,389 (32)	$13,157 (28)
U.S. Average	$3,065	$4,971	$7,041	$8,719	$12,831

Source: ORA
*Rank in parenthesis; 51 cities examined

In the regional studies,[42] ORA[43] examines the same three-person families while DCFPI[44] calculates the tax burden for four different family types at three levels of income.[45] ORA finds that families living in D.C. have a lower tax burden than families living in neighboring jurisdictions at every level of income analyzed. In the DCFPI analysis, of the 12 hypothetical families studied nine find the lowest total tax burden in the District. In both studies, D.C. families at all levels of income have a lower tax burden than the Maryland families.

Table 6: Major State & Local Tax Burdens for a Family of Three, 2011

Income	$25,000	$50,000	$75,000	$100,000	$150,000
District of Columbia	***$2,847***	***$4,637***	***$6,684***	***$8,389***	***$13,157***
Alexandria, VA	$2,953	$5,661	$7,877	$9,425	$13,471
Arlington, VA	$3,025	$5,632	$7,996	$9,502	$13,873
Fairfax, VA	$2,863	$5,780	$7,918	$9,468	$13,381
Montgomery, MD	$2,874	$5,458	$7,975	$10,073	$14,827
Prince George's , MD	$2,866	$6,227	$8,818	$10,931	$15,746

Source: ORA

District families—at all levels of income—pay less than Maryland families in both property and income taxes. In contrast, Virginia families with middle and high income pay less than D.C. families in income taxes. But the District's substantially lower property tax payments[46] overwhelm this income tax gap for most families, giving the D.C. families the lower total tax burden.

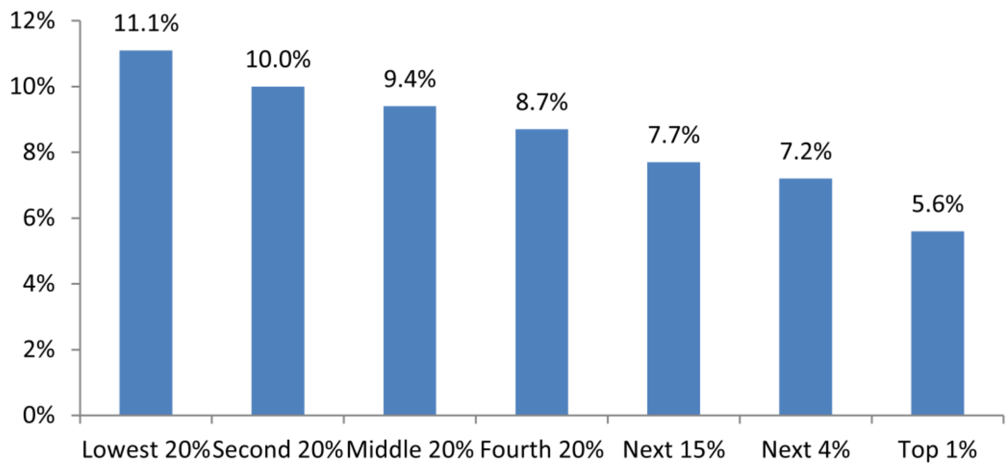
[42] DCFPI examined household taxes in Arlington County and Fairfax County, Virginia and Montgomery County and Prince George's County, Maryland. ORA studied these same jurisdictions plus Alexandria, Virginia.
[43] "Tax Rates and Tax Burdens: Washington Metropolitan Area," Office of Revenue Analysis (September 2012).
[44] Gajdeczka, Aleksandra, "Taxes on D.C. Families Remain Lowest in the Region," D.C. Fiscal Policy Institute (February 2011).
[45] DCFPI studied two families headed by a single adult (with two children and with no children) and two families headed by a married couple (with two children and without children). The income levels studied were $50,000, $100,000 and $200,000.
[46] Notably, the DCFPI study separates the Virginia property tax on cars from the tax on residential property, which highlights the effect of Virginia's car tax on its overall tax burdens. For example, a family residing in Arlington with two married adults and two children pays roughly $2,500 less in income taxes than the same family residing in D.C. But the Arlington family pays $1,400 more than the D.C. family in residential property taxes and an additional $2,148 in property taxes on their (assumed) two cars. The result is a lower tax burden for the family living in D.C. In contrast, a one-adult family with two children in Arlington earning $200,000—assumed to only have one car and a car tax payment of $1,396—has a lower tax total burden in Arlington than the family residing in the District.

D.C's Tax Distribution is "Close-to-Flat"

The Institute on Taxation and Economic Policy (ITEP)[47], a non-partisan research organization, examines household taxes by calculating the share of income paid in state and local taxes by different income groups.[48] ITEP concludes that "nearly every state and local tax system takes a much greater share of income from middle- and low-income families than from the wealthy"[49] and that therefore most tax systems are regressive.

In fact, in a national average, families in the lowest income quintile pay 11.1% of income in state and local taxes, the highest share of any income group. Each successive income group pays a smaller share of their income in state and local taxes, with families in the middle 20% paying 9.4% and the top 1% of earners paying 5.6%.

Figure 2: Share of National Family Income For Non-Elderly Taxpayers Paid to State & Local Taxes



Source: ITEP

The District, however, is cited by ITEP as one of the "least regressive" states, having a "close-to-flat tax system overall."[50] The lowest 20% in D.C. pay only 6.6% of their income in District taxes while the middle quintile pays 11%. But families in groups above the middle quintile see their D.C. tax burden *decline* as income increases—mirroring the national regressive trend. In fact, D.C. families in the middle 20% pay the highest share of income in D.C. taxes of any income group. The top 1% of D.C. families pay 6.3% of income in District taxes.

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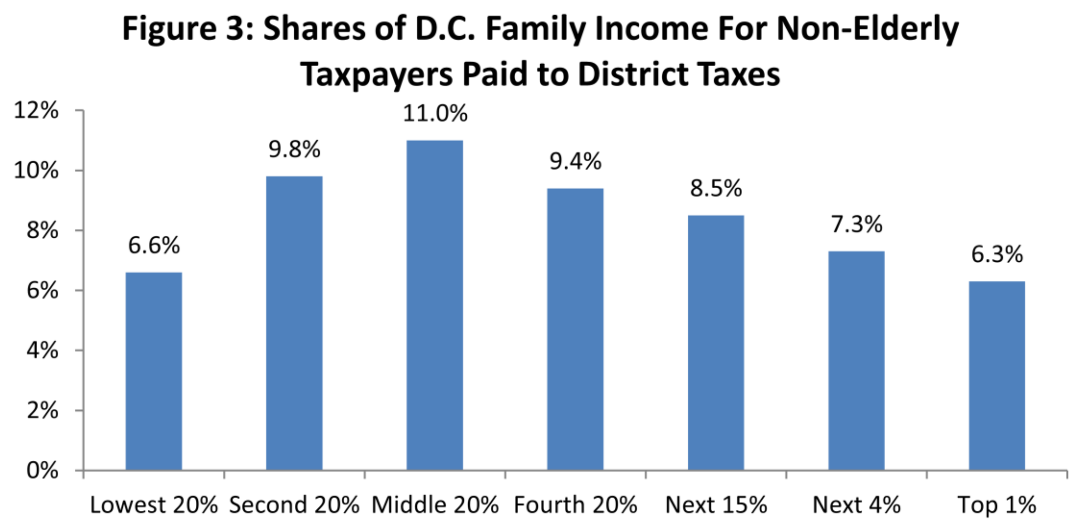
[47] ITEP produced a distribution analysis for the 1998 Tax Revision Commission, comparing District's current tax distribution against what would occur if the Commission's proposed changes were enacted.

[48] ITEP uses a microsimluation model that calculates revenue yield and incidence, by income group, of federal, state and local taxes. The model is comprised of five areas: the personal income tax model (including special rates for capital gains, exclusions of various income, deductions, credits, etc.); the consumption tax model (including more than 250 base items); the property tax model (both residential and business); the corporate income tax model; and the local taxes (an aggregation of statewide revenue). It uses income data from 2010 and tax laws as of Jan. 2, 2013. For more information on the study's methodology, please see the full report. Available online at: http://www.itep.org/whopays/

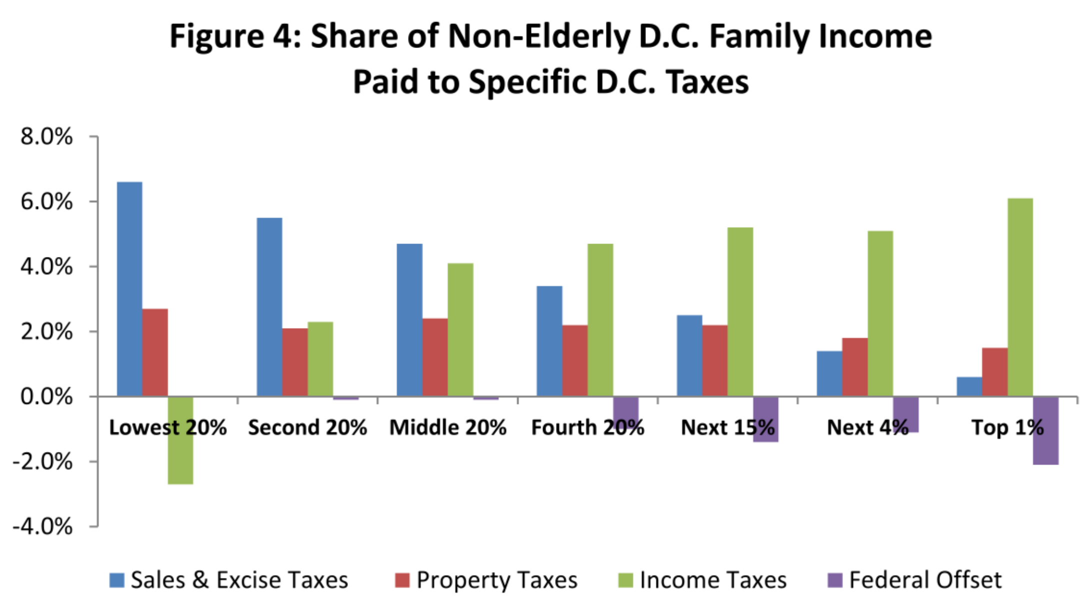
[49] p. 2.

[50] p. 5.



Source: ITEP

District taxes are somewhat flat in part because the income tax in D.C. is highly progressive.[51] Notably, the lowest 20% of income earners in D.C. have a *negative* 2.7% income tax burden, meaning this group receives net refunds from the city's income tax system.[52] Succeeding income groups pay a higher share of income in income taxes, with the top 1% paying the highest share (6%). Sales and excise taxes, and to a lesser extent property taxes, are regressive in the District.



Source: ITEP

[51] ITEP specifically credits the District's less regressive tax system in part to the city's generous refundable Earned Income Tax Credit (EITC), its progressive income tax rates and its limited tax breaks for high-income earners.
[52] A result of the city's refundable EITC.

Comparing tax distributions is inherently difficult because no two states have the same income distribution. This is especially true with respect to high-income families. For example, the top 1% of earners nationally includes families with at least $419,000 but in the District the top 1% includes only families earning $1.4 million or more. But with the lowest three income quintiles there is less divergence—and D.C, Maryland and Virginia are relatively uniform.

As such, the tax burden is for D.C. families in the lowest 20% (D.C. residents with income below $22,000) is comparatively low: In only two states is the share of income paid to state and local taxes for this income group lower than it is in D.C.. These D.C. families also pay a far smaller share of income in taxes (6.6%) than similar families in Maryland (9.7%) and Virginia (8.6%).

Table 13: Tax Distributions Comparison

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
D.C.	6.6%	9.8%	11.0%	9.4%	8.5%	7.3%	6.3%
Maryland	9.7%	9.5%	9.9%	9.1%	8.0%	8.3%	6.4%
Virginia	8.6%	8.2%	8.2%	7.9%	6.9%	6.7%	4.9%
U.S. Average	11.1%	10.0	9.4%	8.7%	7.7%	7.2%	5.6%

Source: ITEP
*Note: Income groups are not the same in each state.

In contrast, the tax burden for D.C. families in the middle 20% (D.C. residents with income between $38,000 and $62,000) is comparatively high (11%): In only three states is the share of income paid in state and local taxes by families in the middle 20% higher than it is in the District. These D.C. families also pay a higher share of income in state and local taxes than similar families in Maryland (9.9%) and Virginia (8.2%).[53]

[53] While the ORA and DCFPI study examined specific jurisdictions in Maryland and Virginia the ITEP study examined the entire states, which may explain some differences.