MEMORANDUM

Proposal: Eliminating the low income credit
Tax Type: Income
Origin: Robert Buschman
Commission Goal: Simplify

Current Law

A taxpayer with a federal adjusted gross income that is less than the sum of her federal personal exemptions and standard deductions, but who has D.C. taxable income in excess of D.C.’s personal exemptions and standard deduction is eligible for the low-income credit (LIC). The LIC reduces the likelihood that such a taxpayer must pay D.C. taxes. A low income credit table must be configured every year to calculate this stop-gap measure for different categories of taxpayers. In tax year 2012, the LIC ranged from $145 to $1551 but the mean credit in 2010 was just $167. The LIC is non-refundable and a taxpayer cannot claim both the LIC and the D.C. earned income tax credit (EITC). In 2010, 8,401 filers claimed the LIC.

Proposed Change

Eliminate the LIC and adopt the federal standard deduction and personal exemption.

Reason for Change

Increasing the D.C. standard deduction and personal exemptions to the federal levels will obviate the need for the LIC.

Pros

- Eliminating the LIC would simplify D.C.’s individual income tax by eliminating an administrative burden for filers (calculating the size of their credit and comparing it with their possible EITC benefit) and tax administrators (the low income credit table would not need to be created annually).
- If paired with reforms to the standard deduction, personal exemption and EITC, taxpayers who previously claimed the credit would see no additional tax burden and may benefit from the refundable EITC.
Cons

- The credit primarily benefits low-income residents who do not qualify for the EITC because they have little or no income (e.g. retirees) or who do not gain much relief from the EITC (e.g. childless workers). If the standard deduction and personal exemption are not raised to the federal level and/or other tax relief is not expanded to these residents then they would be adversely affected by the removal of the credit.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation eliminating the LIC would raise $114,114 in new tax revenue.

If the LIC repeal is coupled with an increase to the standard deduction and personal exemption, however, there would be a revenue loss. See Policy Option Memo No. 10 on the standard deduction and personal exemption for more information.