

COUNCIL OF THE DISTRICT OF COLUMBIA
Office of the Budget Director



Tax Reform Package

As part of the Fiscal Year 2015 budget, the Council undertook a major investment in progressive tax reform by enacting a number of recommendations from the Tax Revision Commission chaired by former Mayor Anthony Williams. The tax reform package - as passed by the Council - has four simple goals:

- (1) Increase progressivity by creating a new bracket to lower taxes for low- and moderate-income residents
- (2) Enhance tax relief for low-income workers through an expanded Earned Income Tax Credit (EITC)
- (3) Increase the competitiveness of District businesses with surrounding jurisdictions
- (4) Conform the tax system with federal standards to lower effective tax rates and smooth tax filing

What's in the Tax Reform Package?

The tax reform package reduces the average District resident's personal income taxes by 8%, although lower and moderate income residents will enjoy much greater relief. Residents earning between \$10,000 and \$25,000 will see their tax refunds virtually double, while residents earning between \$25,000 and \$50,000 will cut their tax liability by a third. As the chart below illustrates, all District residents earning less than \$500,000 per year will receive some sort of personal income tax relief, while residents earning over \$500,000 per year will pay more in taxes.

Enhanced Progressivity in Personal Income Taxes After Full Implementation of the Tax Reform Package						
	Prior to passage of the tax reform package		Full implementation of the tax reform package			
	Average Tax	Effective Tax Rates	Average Tax	Effective Tax Rates	% increase in tax refund	% change in taxes owed*
Less than \$ -10,000	(\$319)	No Liability	(\$658)	No Liability	106%	
\$ -10,000 to \$ - 1,000	(\$99)	No Liability	(\$188)	No Liability	89%	
\$ - 1,000 to \$ 0	(\$292)	No Liability	(\$423)	No Liability	45%	
\$ 0 to \$ 10,000	(\$294)	No Liability	(\$435)	No Liability	48%	
\$ 10,000 to \$ 25,000	(\$385)	No Liability	(\$784)	No Liability	104%	
\$ 25,000 to \$ 50,000	\$1,022	2.8%	\$670	1.8%		-34%
\$ 50,000 to \$ 75,000	\$2,591	4.2%	\$2,155	3.5%		-17%
\$ 75,000 to \$ 100,000	\$4,105	4.7%	\$3,503	4.0%		-15%
\$ 100,000 to \$ 200,000	\$7,229	5.2%	\$6,528	4.7%		-10%
\$ 200,000 to \$ 350,000	\$14,829	5.8%	\$14,056	5.5%		-5%
\$ 350,000 to \$ 500,000	\$25,056	6.1%	\$24,493	6.0%		-2%
\$ 500,000 to \$ 1 M.	\$41,539	6.1%	\$41,885	6.2%		1%
Greater than \$ 1 M.	\$157,063	5.9%	\$165,411	6.2%		5%

* Negative percentages reflect a reduction in taxes owed, while positive percentages reflect tax increases

In order to help District businesses compete and thrive in a competitive region with porous borders, the tax reform package reduces the incorporated and unincorporated business franchise tax to 8.25%, the same rate as Maryland's and competitive with Virginia's rate. We estimate that at least **96% of the business tax filers in the District are small businesses.**

The threshold for owing estate taxes will also be increased to conform to the Federal level. Our neighbors in Maryland are also in the process of conforming with the federal level, while the commonwealth of Virginia does not tax estates.

How is Tax Reform Implemented?

Listed below is the full tax package as passed by the Council in 2014. **Items one through nine went into effect for tax year 2015 (shaded in light blue)**. Language incorporated in the FY16 BSA allows tax relief to go into effect in tax year 2016 if projected revenues outpace current revenue estimates in the June and September revenue estimates. Since revenues have maintained their increases, **items 10 through 13 are now effective for tax year 2016 (shaded in green)**. **In doing so, the District will complete its final step in the progression to a new 6.5% middle income tax bracket.**

The full tax reform package is listed below. Items that are still subject to triggers are listed with their implementation costs in parenthesis; items in bold represent the final step of a phased-in tax trigger.

1. Established a new individual income tax bracket of \$40,000 - \$60,000, reducing rates from 8.5% to 7.0%	
2. Expanded the local earned income tax credit (EITC) to childless workers	
3. Raised the standard deduction to \$5,200 for singles, \$8,350 for married residents	
4. Eliminated certain tax expenditures	
5. Expanding the general sales tax to certain services	
6. Phased out the personal exemption by 2% for each \$2,500 above \$150,000, with a complete phase out at \$275,000, making the personal income tax much more progressive at the upper tiers	
7. Exempted passive investment vehicles from the unincorporated business franchise tax	
8. Reduced the unincorporated and incorporated business franchise tax from 9.975% to 9.4%	
9. Changed the franchise tax apportionment method to a single weighted sales formula	
10. Further reduce the rate on the new middle income tax bracket to 6.75%	(\$7.1M)
11. New income tax bracket - \$350,000 to \$1M at 8.75%, income greater than \$1M at 8.95%	(\$4.7M)
12. Further reduce business franchise taxes to 9.2%	(\$9.7M)
13. Finish reducing the rate on the middle income tax bracket to the new rate of 6.5%	(\$7.1M)
14. Further reduce business franchise taxes to 9.0%	(\$9.2M)
15. Raise the estate tax threshold to \$2 million	(\$4.5M)
16. Further increase the standard deduction to \$5,650 for single and \$10,275 for married residents	(\$8.3M)
17. Increase the personal exemption to \$2,200	(\$12.8M)
18. Finish raising the standard deduction and conform to the federal levels	(\$8.7M)
19. Further increase the personal exemption to \$2,700	(\$15.6M)
20. Further reduce business franchise taxes to 8.75%	(\$11.5M)
21. Further increase the personal exemption to \$3,200	(\$15.1M)
22. Finish increasing the estate tax threshold to conform to the federal level	(\$9.4M)
23. Further reduce the business franchise taxes to 8.5%	(\$11.5M)
24. Further increase the personal exemption to \$3,700	(\$14.5M)
25. Finish reducing business income taxes to the new rate of 8.25%	(\$11.5M)
26. Finish increasing the personal exemption to conform to the federal level	(\$8.5M)

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