

D.C. Tax Revision Commission Policy Options
Policy Option #11: Increase EITC Benefits for All Workers

MEMORANDUM

Proposal: Increase the D.C. Earned Income Tax Credit (EITC) for all low- and moderate-income workers

Tax Type: Income

Origin: Councilmember Mary Cheh

Commission Goal: Fairness

Current Law

The federal Earned Income Tax Credit (EITC) is a refundable credit for low- and moderate- income workers, especially those with qualifying children. D.C. permits an additional EITC that piggybacks the federal program. The D.C. EITC is 40% of the federal credit.

The federal credit, and by extension the D.C. credit, increases with income, then plateaus, and eventually phases out. The credit is refundable so if the credit exceeds liability then the taxpayer gets a payment from the government.

The size of the federal EITC is dictated by income, marital status and children. For example, in 2013:

- A childless taxpayer's credit phases out at \$14,340 (single) or \$19,680 (married). Childless workers age 25 and younger are not eligible for the EITC.
- A taxpayer with children is eligible for the credit with income ranging from below \$37,870 (not married with one child) to \$51,567 (married with three or more children).
- The max federal credit is solely based on number of children:
 - No children: \$487
 - One child: \$3,250
 - Two Children: \$5,372
 - Three or more children: \$6,044

The average federal EITC in 2010 was \$2,805 for a family with children and \$262 for a family without children. The D.C. EITC is a simple calculation: federal EITC x 0.4. For example, a family receiving \$2,805 from the federal government receives \$1,122 from D.C. and a childless worker receiving \$262 from the federal EITC receives \$104.80 from D.C.

Proposed Change

Increase the size of the D.C. EITC from 40% of the federal credit to 50% of the federal credit.

Reason for Change

The EITC is a powerful anti-poverty tool that promotes work and self-sufficiency among low- and moderate-income workers. Expanding the D.C. EITC increases the reach and efficacy of the policy.

Pros

- Would increase the progressivity of the D.C. individual income tax by offering more help to low- and moderate-income workers via a tax policy that is easy for D.C. to administer.
- The EITC encourages and rewards work by offsetting D.C. income taxes for low- and moderate-wage earners. The EITC lifted about 6.1 million people out of poverty in 2011, including 2.1 million children. The credit could also encourage economic spending/growth in D.C.
- Addresses the inadequacy of the federal program given D.C.'s higher cost of living.

Cons

- Expanding the program would decrease tax revenue.
- D.C. already has the most generous state-based EITC in the nation. Maryland's EITC is 25% of the federal credit (or 50% if you choose a non-refundable credit) and Virginia provides a 20% non-refundable EITC.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation raising the D.C. EITC from 40% to 50% of the federal EITC would cost \$15,505,358 in tax revenue.