

# The District of Columbia Individual Income Tax: Structure, Competitiveness, and Potential Improvements

Presentation to the District of Columbia Tax Revision Commission  
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## Structure, Competitiveness, and Potential Improvements

### Outline of Presentation

- Common goals: Equity, Efficiency, and Adequacy
- DC taxpayers and trends
- Tax structure and burdens: How does DC compare?
- Specific goals and options for improvement

## Equity, Efficiency, and Adequacy

- Funding current services
- Stability to maintain services

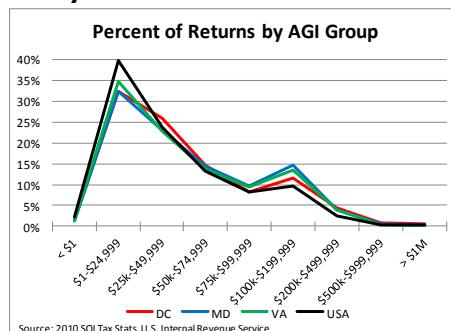
Matters best addressed in context of the overall fiscal architecture.

Focusing on the individual income tax:

- Vertical and horizontal equity
- Efficiency

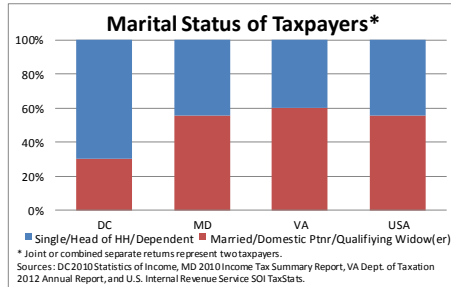
## DC Taxpayers

- Filers by income level:



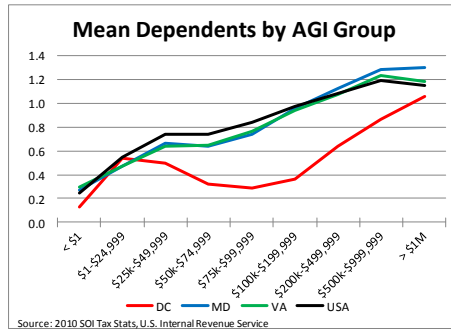
## DC Taxpayers

- Filers by marital status:



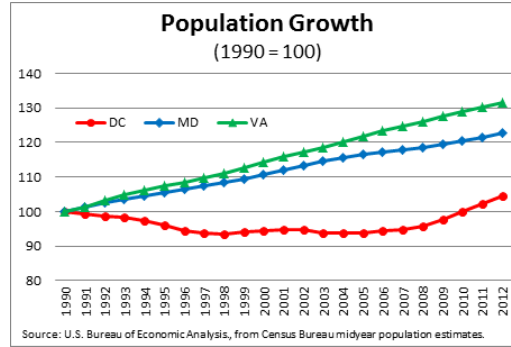
## DC Taxpayers

- Dependents:



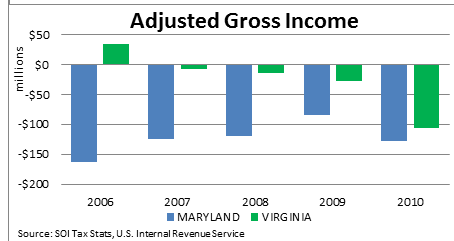
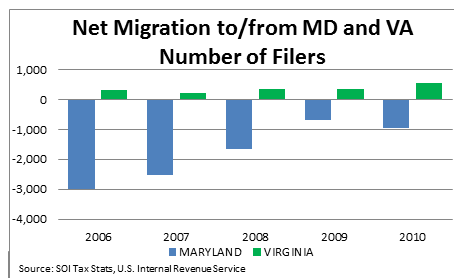
# DC Taxpayer Trends

- Population:



# DC Taxpayer Trends

- Migration:



## Tax Burden Comparisons

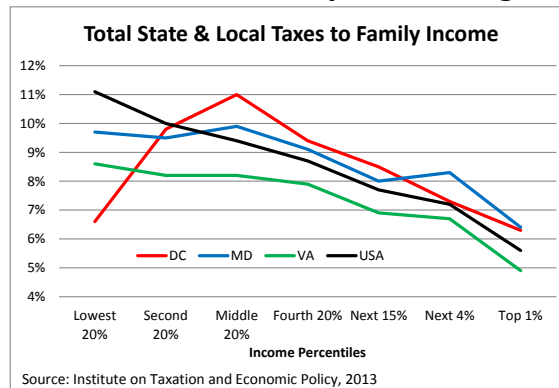
- Overall tax burdens

2010 Total State and Local Tax Collections					
	Total (\$M)	Per Capita	Rank	% of Pers Inc	Rank
DC	\$5,030	\$8,315	2	12.5%	5
MD	\$28,066	\$4,851	9	10.3%	27
VA	\$31,176	\$3,885	25	9.2%	43
USA	\$1,269,650	\$4,105		10.7%	

Source: Federation of Tax Administrators

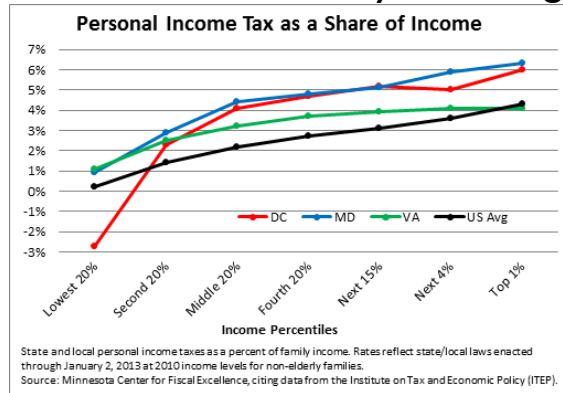
## Tax Burden Comparisons

- Total tax burdens by income group



## Tax Burden Comparisons

- Income tax burdens by income group



## Tax Structure Comparisons

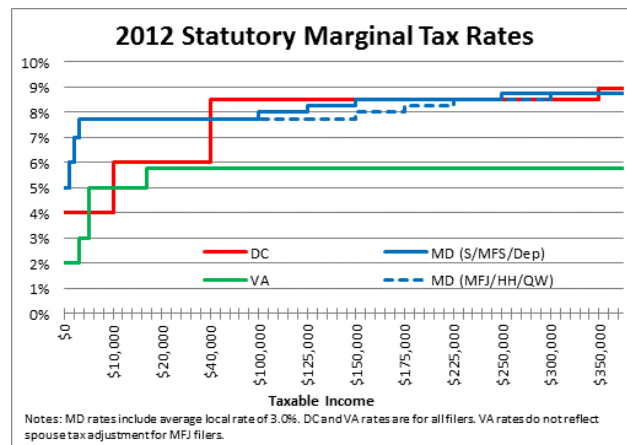
Feature	DC	MD	VA
Filing Status Options	8	6	3
Adjustments to Fed AGI: Additions	5 (6 in 2013)	21	10
Subtractions	16	48	42
Tax Brackets	4	8 (top 5 split by filing status)	4
Low/Lower Income Credits	4	2	2
Other Credits	3	31	32
Forms/Instructions Pages	12/34	14/38	12/51
Instruction Worksheets	11	13	3

## Tax Structure Comparisons

- Itemized or standard deductions
  - Must choose same as federal in DC and VA
  - Federal itemized deductions less deductions for state/local taxes paid
  - Phases-out in DC for DC AGI above \$200k
- Taxation of capital gains
  - Long-term gains taxed as ordinary income
  - Exception since 2011 in VA for gains on investments in certain VA businesses.
- Taxation of municipal bond interest
- Taxation of retirees

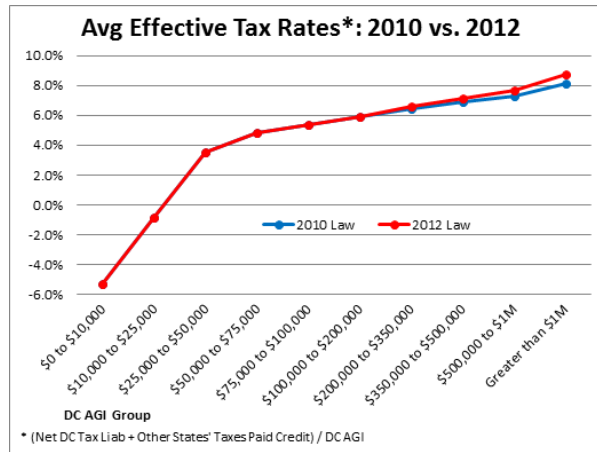
## Tax Structure Comparisons

- Rates and Brackets



## Average Effective Tax Rates

- Distributive Effects of Recent Revisions



## Revision Options

Options not modeled:

- Eliminate or consolidate redundant filing status options
- Eliminate non-custodial parent EITC
- Eliminate gross income subtraction for long-term care insurance premiums paid
- Eliminate District/federal survivor's benefits exclusion



## Revision Options

- Five simple options
  - Eliminate District employee first-time homebuyer credit
  - Eliminate \$3,000 exclusion for District/federal retiree pensions
  - Eliminate low income credit
  - Eliminate homeowner and renter property tax credit
  - Add limited exclusion for long-term capital gains

## Revision Option Results 1-3

Table 11: Revisions 1-3 Simulation Results Summary

DC Adjusted Gross Income	Returns	2012 Law		1) Elim. DC Employee Homebuyer Credit			2) Elim. DC/Federal Pension Exclusion			3) Elim. Low Income Credit		
		Tax LIABILITY		Tax CHANGE			Tax CHANGE			Tax CHANGE		
		Average	AETR	Returns	Amount	Average	Returns	Amount	Average	Returns	Amount	Average
\$0 or less	6,711	(\$155)	-	-	-	-	-	-	-	-	-	
\$1 to \$10,000	42,639	(\$286) -5.36%	-	-	-	455	\$46,523	\$102	2,508	\$144,307	\$58	
\$10,000 to \$25,000	67,240	(\$157) -0.91%	1	\$563	\$563	3,443	\$522,461	\$152	383	\$40,589	\$106	
\$25,000 to \$50,000	79,300	\$1,269 3.46%	15	\$16,679	\$1,112	4,670	\$882,858	\$189	7	\$1,274	\$182	
\$50,000 to \$75,000	44,044	\$2,909 4.76%	21	\$38,296	\$1,824	2,342	\$592,168	\$253	3	\$775	\$258	
\$75,000 to \$100,000	24,714	\$4,610 5.34%	9	\$18,000	\$2,000	1,309	\$359,096	\$274	1	\$147	\$147	
\$100,000 to \$200,000	35,050	\$7,997 5.83%	6	\$12,000	\$2,000	1,702	\$488,808	\$287	4	\$641	\$160	
\$200,000 to \$350,000	10,887	\$16,268 6.36%	-	-	-	526	\$158,958	\$302	1	\$147	\$147	
\$350,000 to \$500,000	2,664	\$27,328 6.63%	-	-	-	142	\$44,240	\$312	-	-	-	
\$500,000 to \$1M	2,321	\$45,066 6.64%	-	-	-	83	\$24,182	\$291	1	\$200	\$200	
Greater than \$1M	1,160	\$163,118 6.32%	-	-	-	20	\$5,876	\$294	1	\$718	\$718	
All Taxpayers	316,730	\$3,609 5.20%	52	\$85,539	\$1,645	14,692	\$3,125,168	\$213	2,909	\$188,798	\$65	

## Revision Option Results 4-5

Table 12: Revisions 4-5 Simulation Results Summary

DC Adjusted Gross Income	Returns	2012 Law		4) Elim. Property Tax Credit			5) Exclude 30% of Long-Term Capital Gains from AGI		
		Tax LIABILITY		Tax CHANGE			Tax CHANGE		
		Average	AETR	Returns	Amount	Average	Returns	Amount	Average
\$0 or less	6,711	(\$155)		1,273	\$806,768	\$634	1	(\$1)	(\$1)
\$1 to \$10,000	42,639	(\$286)	1.23%	3,026	\$1,775,909	\$587	393	(\$9,414)	(\$24)
\$10,000 to \$25,000	67,240	(\$157)	-2.99%	3,721	\$2,001,601	\$538	1,185	(\$60,955)	(\$51)
\$25,000 to \$50,000	79,300	\$1,269	7.36%	-	-	-	2,392	(\$181,054)	(\$76)
\$50,000 to \$75,000	44,044	\$2,909	7.85%	-	-	-	2,373	(\$294,732)	(\$124)
\$75,000 to \$100,000	24,714	\$4,610	7.54%	-	-	-	1,835	(\$304,929)	(\$166)
\$100,000 to \$200,000	35,050	\$7,997	9.28%	-	-	-	3,450	(\$1,197,673)	(\$347)
\$200,000 to \$350,000	10,887	\$16,268	12.29%	-	-	-	2,213	(\$1,347,006)	(\$609)
\$350,000 to \$500,000	2,664	\$27,328	10.88%	-	-	-	717	(\$1,157,181)	(\$1,614)
\$500,000 to \$1M	2,321	\$45,066	10.94%	-	-	-	703	(\$1,981,858)	(\$2,819)
Greater than \$1M	1,160	\$163,118	24.44%	-	-	-	354	(\$15,617,892)	(\$44,118)
All Taxpayers	316,730	\$3,609	0.15%	8,020	\$4,584,279	\$572	15,616	(\$22,152,696)	(\$1,419)

## Revision Options

- Framework for more complex options
  - Eliminate itemized and standard deductions
  - Increase personal and dependent exemptions
  - Adjusting tax bracket thresholds
  - Adjusting tax rates
- Changes made in combination can be designed to work toward a variety of revenue and equity goals

## Revision Option Results 6-7

**Table 13: Revisions 6-8 Simulation Results Summary**

DC Adjusted Gross Income	2012 Law			6) Elim. Deductions, Incr. Exemption Amt. by \$4,500			7) 2 lower brkts to \$15k & \$60k, 2 top rates to 7.75% & 8.75%		
	Returns	Tax LIABILITY		Tax CHANGE			Tax CHANGE		
		Average	Adj AETR	Returns	Amount	Average	Returns	Amount	Average
\$0 or less	6,711	(\$155)	nmf	-	-	-	-	-	-
\$ 0 to \$ 10,000	42,639	(\$286)	-5.29%	19,838	\$291,259	\$15	4	\$20	\$5
\$ 10,000 to \$ 25,000	67,240	(\$157)	-0.85%	64,883	(\$6,257,221)	(\$96)	29,824	(\$1,999,141)	(\$67)
\$ 25,000 to \$ 50,000	79,300	\$1,269	3.53%	79,085	(\$6,888,149)	(\$87)	75,299	(\$7,831,269)	(\$104)
\$ 50,000 to \$ 75,000	44,044	\$2,909	4.82%	43,991	\$8,711,923	\$198	43,437	(\$14,908,837)	(\$343)
\$ 75,000 to \$ 100,000	24,714	\$4,610	5.40%	24,683	\$13,161,378	\$533	24,526	(\$15,124,153)	(\$617)
\$ 100,000 to \$ 200,000	35,050	\$7,997	5.92%	35,000	\$36,357,124	\$1,039	34,885	(\$34,093,400)	(\$977)
\$ 200,000 to \$ 350,000	10,887	\$16,268	6.57%	10,855	\$20,022,321	\$1,845	10,825	(\$19,955,834)	(\$1,843)
\$ 350,000 to \$ 500,000	2,664	\$27,328	7.11%	2,647	\$6,596,169	\$2,492	2,637	(\$7,514,826)	(\$2,850)
\$ 500,000 to \$ 1 M.	2,321	\$45,066	7.69%	2,307	\$7,963,596	\$3,452	2,299	(\$8,455,285)	(\$3,678)
Greater than \$ 1 M.	1,160	\$163,118	8.78%	1,148	\$13,197,652	\$11,496	1,139	(\$8,468,207)	(\$7,435)
All Taxpayers	316,730	\$3,609	5.71%	284,437	\$93,156,052	\$328	224,875	(\$118,350,932)	(\$526)

## Revision Option Results 6+7

**Table 13: Revisions 6-8 Simulation Results Summary (continued)**

DC Adjusted Gross Income	2012 Law			8) Combined Effect of 6 and 7			Proforma Tax LIABILITY		
	Returns	Tax LIABILITY		Tax CHANGE			Proforma Tax LIABILITY		
		Average	Adj AETR	Returns	Amount	Average	Average	Adj AETR	ΔAdj AETR
\$0 or less	6,711	(\$155)	nmf	-	-	-	(\$155)	nmf	
\$ 0 to \$ 10,000	42,639	(\$286)	-5.29%	19,838	\$291,261	\$15	(\$279)	-5.16%	0.13%
\$ 10,000 to \$ 25,000	67,240	(\$157)	-0.85%	64,870	(\$7,922,993)	(\$122)	(\$274)	-1.53%	-0.68%
\$ 25,000 to \$ 50,000	79,300	\$1,269	3.53%	79,066	(\$13,997,944)	(\$177)	\$1,093	3.05%	-0.48%
\$ 50,000 to \$ 75,000	44,044	\$2,909	4.82%	43,977	(\$8,075,907)	(\$184)	\$2,726	4.52%	-0.30%
\$ 75,000 to \$ 100,000	24,714	\$4,610	5.40%	24,669	(\$3,642,915)	(\$148)	\$4,463	5.23%	-0.17%
\$ 100,000 to \$ 200,000	35,050	\$7,997	5.92%	34,994	(\$1,471,772)	(\$42)	\$7,955	5.89%	-0.03%
\$ 200,000 to \$ 350,000	10,887	\$16,268	6.57%	10,845	(\$1,744,429)	(\$161)	\$16,108	6.50%	-0.06%
\$ 350,000 to \$ 500,000	2,664	\$27,328	7.11%	2,644	(\$1,343,030)	(\$508)	\$26,824	6.99%	-0.12%
\$ 500,000 to \$ 1 M.	2,321	\$45,066	7.69%	2,307	(\$757,661)	(\$328)	\$44,739	7.65%	-0.05%
Greater than \$ 1 M.	1,160	\$163,118	8.78%	1,148	\$4,394,729	\$3,828	\$166,906	8.93%	0.15%
All Taxpayers	316,730	\$3,609	5.71%	284,358	(\$34,270,660)	(\$121)	\$3,500	5.55%	-0.16%

# Bundling Revision Options

**Table 14: Revisions 1-3 and 6-7 Simulation Results Summary**

DC Adjusted Gross Income	Returns	2012 Law		9) Combined Effects of Revisions 1, 2, 3, 6, and 7			Proforma Tax LIABILITY		
		Tax LIABILITY		Tax CHANGE			Proforma Tax LIABILITY		
		Average	Adj AETR	Returns	Amount	Average	Average	Adj AETR	ΔAdj AETR
\$0 or less	6,711	(\$155)	nmf	-	-	-	(\$155)	nmf	
\$ 0 to \$ 10,000	42,639	(\$286)	-5.29%	21,463	\$652,691	\$30	(\$271)	-5.01%	0.28%
\$ 10,000 to \$ 25,000	67,240	(\$157)	-0.85%	65,004	(\$7,547,662)	(\$116)	(\$269)	-1.50%	-0.65%
\$ 25,000 to \$ 50,000	79,300	\$1,269	3.53%	79,079	(\$13,153,443)	(\$166)	\$1,104	3.08%	-0.45%
\$ 50,000 to \$ 75,000	44,044	\$2,909	4.82%	43,983	(\$7,549,940)	(\$172)	\$2,738	4.54%	-0.28%
\$ 75,000 to \$ 100,000	24,714	\$4,610	5.40%	24,669	(\$3,298,234)	(\$134)	\$4,477	5.25%	-0.15%
\$ 100,000 to \$ 200,000	35,050	\$7,997	5.92%	34,994	(\$1,018,964)	(\$29)	\$7,968	5.90%	-0.02%
\$ 200,000 to \$ 350,000	10,887	\$16,268	6.57%	10,845	(\$1,606,018)	(\$148)	\$16,120	6.51%	-0.06%
\$ 350,000 to \$ 500,000	2,664	\$27,328	7.11%	2,644	(\$1,303,336)	(\$493)	\$26,839	7.00%	-0.12%
\$ 500,000 to \$ 1 M.	2,321	\$45,066	7.69%	2,307	(\$735,341)	(\$319)	\$44,749	7.65%	-0.05%
Greater than \$ 1 M.	1,160	\$163,118	8.78%	1,148	\$4,400,674	\$3,833	\$166,911	8.93%	0.15%
All Taxpayers	316,730	\$3,609	5.71%	286,136	(\$31,159,573)	(\$109)	\$3,510	5.56%	-0.14%