

D.C. Tax Revision Commission Policy Options
Policy Option #9: Reduce Upper Income Tax Rates

MEMORANDUM

Proposal: Decrease the tax rates on high levels of income

Tax Type: Income

Origin: Councilmember Jack Evans/Robert Buschman

Commission Goal: Competition

Current Law

D.C. has the following four individual income tax brackets and rates:

<u>Taxable Income</u>	<u>Rate</u>
Up to \$10,000	4%
\$10,001 to \$40,000	6%
\$40,001 to \$350,000	8.5%
\$350,001 and above	8.95%

The top rate of 8.95% is repealed beginning tax year 2016.

Proposed Change

Adopt one of the following new individual income tax structures (changes in italics):

Option No. 1

<u>Taxable Income</u>	<u>Rate</u>
Up to \$10,000	4%
\$10,001 to \$40,000	6%
\$40,001 to \$350,000	8%
\$350,001 and above	<i>8.5%</i>

Option No. 2

<u>Taxable Income</u>	<u>Rate</u>
Up to \$10,000	4%
\$10,001 to \$40,000	6%
\$40,001 to \$350,000	<i>8.25%</i>
\$350,001 and above	<i>8.75%</i>

Reason for Change

D.C. taxes income at substantially higher rates than Virginia. D.C. taxes all income above \$40,000 at 8.5% and income above \$350,000 at 8.95%. Virginia's top tax rate is 5.75% and begins at \$17,000. For example, a taxpayer with \$1 million in taxable income in both jurisdictions would pay \$86,725 in D.C. income taxes and \$57,242.50 in Virginia income taxes. As a result, high-income households looking to locate in the region may choose to live in a neighboring jurisdiction in Virginia rather than D.C.

Maryland's top state tax rate is 5.75% and begins at \$300,000. Maryland's top rate, however, is equal with D.C.'s rate (8.95%) in Montgomery County and Prince George's County when the local income tax in those jurisdictions is added.

Pros

- Would make D.C. more competitive with Virginia in attracting high-income households.

Cons

- Cutting upper income tax rates would lose tax revenue. This could lead to other tax increases. Any offsetting tax changes could undermine the competitiveness argument.
- Would make both D.C.'s individual income tax and entire tax system less progressive.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation the new individual income tax structures would cost \$74,424,751 in tax revenue in Option No.1 and \$35,827,510 in tax revenue in Option No. 2.