

PROPOSAL FOR A NEW DC INDIVIDUAL INCOME TAX  
Submitted by George W. Beatty

The District's CFO should be asked to determine: (a) the projected impact on DC income tax revenues, and (b) the reduction in time and money spent by taxpayers and the District in complying with and administering the law, if DC replaced its present individual income tax with a simplified, more progressive tax imposed on the amount of a District resident's adjusted federal taxable income (AFTI) <sup>1</sup> as follows:

If the AFTI of a District resident required to file a federal return is:	The DC tax will be:
Less than \$10,000 -----	1% of AFTI
\$10,000 or more, but less than \$15,000 -----	\$100 plus 2% of the excess over \$10,000
\$15,000 or more, but less than \$20,000 -----	\$200 plus 3% of the excess over 15,000
\$20,000 or more, but less than \$25,000 -----	\$350 plus 4% of the excess over \$20,000
\$25,000 or more, but less than \$30,000 -----	\$550 plus 5% of the excess over \$25,000
\$30,000 or more, but less than \$35,000 -----	\$800 plus 6% of the excess over \$30,000
\$35,000 or more, but less than \$40,000 -----	\$1,100 plus 7% of the excess over \$35,000
\$40,000 or more, but less than \$60,000-----	\$1,450 plus 8% of the excess over \$40,000
\$60,000 or more, but less than \$100,000 -----	\$3,050 plus 9% of the excess over \$60,000
\$100,000 or more-----	\$6,650 plus 9.5% of the excess over \$100,000 <sup>2</sup>

DC residents who are not required to file a federal return would be exempt from the new DC tax. All residents subject to the new tax would be required to file copies of the first two pages of their federal return with a signed one-page DC return. That return would show: (a) FTI and AFTI; (b) tax liability per the foregoing table; (c) voluntary contributions, if any, to the District charitable causes presently listed on lines 9a-9c of Form D-40EZ; (d) offsetting credits for: (i) DC withholding taxes, (ii) DC estimated tax payments, (iii) income taxes paid to other states or local jurisdictions, and (iv) 40% (or some other stated percentage) of the federal Earned Income Credit, if any; and (e) the resulting amount owed by or due to the taxpayer(s).

Under an exchange of information agreement with the Internal Revenue Service, the IRS would be required to furnish the District with information regarding any change made (either in administrative proceedings or litigation) to the FTI shown on the return of any taxpayer with a DC address. Any such changes would be binding on the taxpayer for all DC tax purposes. All filing dates and statute of limitation rules applicable to a DC taxpayer's federal returns and claims for refund would be made applicable for DC tax purposes as well.

The deduction allowed on federal returns for state and local income taxes would not give rise to any circular computational problems under the proposal.<sup>3</sup> For a DC taxpayer subject to tax on marginal income at the current top federal rate of 35%, the federal tax benefit derived from deducting the DC tax would reduce the taxpayer's effective marginal DC tax rate from 9.5% to 6.175% [ $.095 - .35 * .095$ , or  $.65 * .095$ ].

<sup>1</sup> Because 31 USC sec. 3124(a) bars the District from taxing interest income earned on federal debt obligations, any such interest would have to be eliminated from a taxpayer's federal taxable income (FTI) before subjecting the remainder, referred to here as the taxpayer's AFTI, to DC tax.

<sup>2</sup> If the District CFO believes that enacting the suggested rate table would reduce the District's individual income tax revenues by a significant amount, he should be asked to suggest a revised, but equally progressive, rate table that he believes would be revenue neutral.

<sup>3</sup> A calendar year taxpayer who filed a federal tax return for Year 1 in April of Year 2 would deduct on that return all DC estimated tax payments and all DC tax withheld by an employer during Year 1. Having first prepared that federal return, the taxpayer would know the amount of FTI for Year 1, and would therefore be able to calculate the amount, if any, of additional tax that was payable to DC for Year 1 when filing the DC return for that year in April of Year 2. Any such additional tax payment to DC in Year 2 would be deductible on taxpayer's later federal return for Year 2 (along with estimated DC tax payments made in Year 2 and DC tax withheld by an employer in Year 2).