

D.C. Tax Revision Commission Policy Options

Policy Option #10: Raise Standard Deduction & Personal Exemption

MEMORANDUM

Proposal: Increase D.C.'s standard deduction and personal exemption to the federal levels

Tax Type: Income

Origin: Councilmember Mary Cheh/Ed Lazere

Commission Goal: Fairness and simplify

Current Law

The standard deduction in D.C. is \$4,100 for all taxpayers except those filing as married filing separately (\$2,050). Because single filers and married filing jointly filers receive the same standard deduction D.C. has a marriage "penalty." The personal exemption in D.C. is \$1,675 for those filing as single and married filing separately, and \$3,350 for those filing as married (joint) and head of household. The federal standard deduction is \$6,100 for single filers and \$12,200 for married filers (and there is no marriage penalty.) The federal personal exemption is \$3,900.

Proposed Change

Increase the D.C. standard deduction and personal exemption to the amounts provided by the federal government. The new D.C. standard deduction would then range from \$6,100 to \$12,200 depending on filing status and the personal exemption would be \$3,900 for each taxpayer and dependent.

Reason for Change

Increasing D.C.'s standard deduction and personal exemption to the federal levels is a simple way to reduce the tax liability of lower- and middle-income taxpayers. This relief could also offset the burden from eliminating the more complex Low Income Credit (LIC). The change would also eliminate the marriage penalty that occurs because the standard deduction is the same for single, head of household, and married filing jointly.

Pros

- The standard deduction and personal exemption are both simple forms of tax relief (for both taxpayers and administrators) that are available for all filers.
- Would provide considerable tax relief to low- and middle-income working families.
- Would make D.C.'s tax system more progressive—both by exempting more income from taxation and, as a result, extending the reach of D.C.'s earned income tax credit.
- While the standard deduction is available for all filers it's used mostly by low- and moderate-income taxpayers who don't have enough deductions to itemize. In D.C., roughly 75% of filers with less than \$75,000 claimed the standard deduction. Filers with more income overwhelmingly (88%) choose to itemize.
- Would make D.C.'s individual income tax simpler if combined with the elimination of the LIC.

Cons

- Increasing the standard deduction and personal exemption would lose a substantial amount of tax revenue.
- While most affluent taxpayers choose to itemize deductions and therefore would not be affected by changes to the standard deduction, all filers benefit from personal exemptions. As a result, a portion of this ostensibly targeted tax relief will go to affluent filers.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation raising the standard deduction and personal exemption to the federal levels would cost \$108,568,457 million in tax revenue.