



A Progressive Approach: Raise DC's Standard Deduction and Personal Exemption

By Wes Rivers

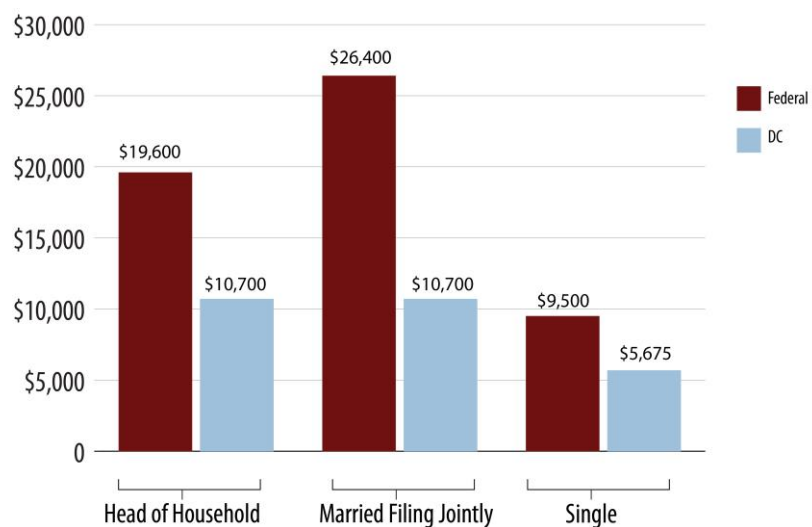
DC's income tax should be doing a better job at limiting the taxes owed by low- and moderate-income residents, according to a new analysis from the DC Fiscal Policy Institute. Two provisions of the DC income tax – the standard deduction and personal exemption – are much smaller than similar federal income tax deductions and are smaller than the deductions in most states, including Maryland.

Our analysis found that these provisions are especially critical to low and moderate income households. Over 75 percent of DC households with incomes below \$75,000, for example, claim the standard deduction, because they do not have enough deductions to itemize. Together the standard deduction and the personal exemption (an exemption amount per person) can greatly reduce, or even wipe out, a family's taxable income.

However, the DC exemption and deduction are of far lower value than the federal exemption and standard deduction and similar deductions in other states, meaning District households receive less benefits than similar households across the country.

In 2011, the District personal exemption was \$1,675 per family member, plus an extra \$1,675 for those filing as a single parent (for head of household). This is far lower than the \$3,700 federal personal exemption that year. In addition, all District households that do not itemize deductions are eligible for a standard deduction of \$4,000, compared with a federal standard deduction which ranges from \$5,800 to \$11,600 depending on filing status. Putting them together, a married couple

FIGURE: The Federal Personal Exemption(s) and Standard Deduction Provide Significantly More Relief to Low- and Moderate-Income Taxpayers than DC's Measures



Source: Filing Year 2011 District of Columbia Individual Income Tax Forms and Instructions
Internal Revenue Service Form 1040 Instructions for Filing Year 2011

with two children can claim just \$10,700 in DC deductions, but \$26,400 in deductions when they file a federal tax return.

DC's personal exemption and standard deduction also do not fare well when compared with other states.

- A married couple with two children can only exempt \$10,700 in DC, compared with the average of \$14,600 among states with an income tax.
- The District's deductions are smaller than in Maryland, where a family of four can claim \$15,800 in deductions.

One way to address these disparities is to raise the District's personal exemption and standard deduction to the federal level. This would all but eliminate income tax for most working poor families, increase the effectiveness of the District's refundable earned income tax credit, and provide significant tax relief for moderate-income residents above the poverty line. For a single parent family of three with annual income of \$30,000, adopting the federal exemptions would reduce tax liability by more than half, from \$959 to \$425. When taking into account the refundable EITC, the same family would receive a \$500 refund as opposed to owing \$37 in tax.

The District should consider raising the standard deduction and personal exemption. While it would benefit all residents, it would be especially important to helping low- and moderate residents struggling with the rising cost of living in DC.

To read the full report, click [here](#).