



The District's Dime

Going Beyond the Budget Book

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A Modest Sales Tax Change Will Support Important Initiatives to Help Vulnerable DC Residents

By Wes Rivers

Mayor Bowser's first budget proposes raising the sales tax to add 25 cents to every \$100 dollars in purchases – which will provide additional revenue to support crucial investments in homeless services and other areas. Given the importance of these investments, the tax increase should be supported.

The proposal would increase the sales tax from 5.75 percent to 6 percent – to match rates in Maryland and Virginia. This change was proposed in 2014 by the [D.C. Tax Revision Commission](#). The sales tax is a broad-based tax, allowing it to raise revenue with modest rate changes.

Sales taxes have the greatest impact on the budgets of lower-income households, which means they are not always the ideal way to raise revenue. However, the change proposed by Mayor Bowser should be supported for the following reasons:

- **The tax increase will be modest for most residents.** The sales tax increase adds 25 cents to a \$100 purchase. For poor families, tax increases will likely be \$25 a year or less.
- **Without new revenue, added funding for homeless services may not have been possible.** The District faces an affordable housing crisis, and the need for shelter and supportive services has outgrown capacity. The District must find new revenue to address these issues.
- **Substantial low-income tax cuts have been adopted in recent years.** The DC Council expanded the Earned Income Tax Credit and the income tax standard deduction last year, and the Schedule H low-income property tax credit was expanded twice in recent years. These tax cuts outweigh the sales tax increase for a large share of lower-income households.
- **DC's tax system keeps taxes relatively low for low-income families.** The District has taken steps over the years to offset the regressive effect of the sales tax; the tax rate should be low (DC's is below national average) and broad-based to cover as many services as possible (DC does pretty well in this area). And the rest of the tax system should be very progressive to offset the sales tax. For low-income families, DC's tax system does this fairly well. Combined taxes paid by low-income residents in DC are [second lowest in the nation](#)

when compared with all states, showing that these targeted tax reductions have been effective.

The mayor's budget shows that building a District where everyone can succeed requires substantial new commitments to housing, jobs, and other needs. And fulfilling those commitments requires additional resources, including raising taxes.