

## Tax Cut Triggers

January 2017

The following lists the tax policy changes approved by the DC Council in 2014, under the so-called “tax cut trigger” policy. Some of the tax changes were adopted as part of the Fiscal Year 2015 budget. The remaining tax cuts were adopted subject to automatic triggers: the tax cuts would be implemented, in a specified order, based on changes in the District’s revenue projections. If a new projection identifies an increase in revenues sufficient to implement one or more steps, those tax cuts are implemented. The table highlights cuts that have been implemented and those that will be triggered by future projected revenue increases.

Initial Tax Cuts and Triggers Already Implemented: \$76 Million	
Tax Commission Policy Changes	FY 2017 Fiscal Impact, in Millions
Established a new individual income bracket of \$40-60,000, reducing rates from 8.5% to 7.0%	(\$39.5)
Expanded the local earned income tax credit to childless workers	(11.4)
Raised the standard deduction to \$5,200 for singles, \$8,350 for married residents	(16.5)
Eliminated certain tax expenditures	3.9
Expanded the general sales tax rate to certain services	16.8
Phased out the personal exemption by 2% for each \$2,500 above \$150,000, with a complete phase out at \$275,000	4.9
Exempted passive investment vehicles from the unincorporated business franchise tax	(4.6)
Reduced the business franchise tax from 9.975% to 9.4%	(20.8)
Changed the franchise tax apportionment method to a single weighted sales formula	20.8
Further reduced the rate on the new middle income tax bracket to 6.75%	(\$7.5)
New income tax bracket - \$350,000 to \$1M at 8.75%, income greater than \$1M at 8.95%	(5.0)
Further reduce business franchise taxes to 9.2%	(10.1)
Finish reducing the rate on middle income tax bracket to the new rate of 6.5%	(7.5)
Tax Cuts Recently Triggered: \$26 Million*	
Reduce unincorporated & incorporated business franchise tax from 9.2% to 9.0%	(10.1)
Raise the estate tax threshold from \$1 million to \$2 million	(6.5)
Further increase the standard deduction to \$5,650 for singles, \$10,275 for married residents	(9.4)
Tax Cuts Not Yet Triggered: \$129 Million	
Increase the personal exemption to \$2,200	(13.8)
Finish raising the standard deduction and conform to federal levels	(\$9.8)
Further increase the personal exemption to \$2,700	(\$16.7)
Further reduce business franchise taxes to 8.75%	(\$11.9)
Further increase the personal exemption to \$3,200	(\$16.2)
Finish increasing the estate tax threshold to conform to the federal level	(\$12.3)
Further reduce the business franchise taxes to 8.5%	(\$11.9)
Further increase the personal exemption to \$3,700	(\$15.6)
Finish reducing business income taxes to 8.25%	(\$11.9)
Finish increasing the personal exemption to conform to the federal level	(\$9.1)
*Tax cuts triggered by September 2016 revenue forecast, implemented in 2017. Source: Mayor’s Office of Budget and Finance, March 2016.	