Fair Budget Coalition

Invest in DC

Why an Upper Bracket Tax Increase Makes Sense for DC

In a recession that's brought hardship to so many DC families, the District has fewer resources to meet growing needs because revenues have declined sharply. It's important for DC to respond to this crisis in ways that preserve crucial investments in health care, education, social services, and affordable housing.

Many states are meeting this challenge with **a balanced approach** that includes revenues -- through an **income tax increase on the highest-income households.**

Today, the District's tax system is upside down: the more you earn, the *less* you pay as a share of income in total DC taxes. The top 1 percent of households—those making more than $1.5 million a year —pay 6.4 percent of their income in DC income, property, and sales taxes combined, yet middle-class families making between $33,000 and $57,000 pay 10.5 percent. And someone with $40,000 in taxable income pays the same income tax rate on their next dollar of earnings as someone making $500,000.

The **Invest in DC** proposal would produce revenue essential to meeting people's needs *and* help put District's tax system more in line with ability to pay. Here's how the income tax would work:

A small increase would mean real gains for DC. The new rates would apply only to income over $200,000 – which affects 5 % of households.. For 95 % of households there would be no tax increase. Yet the total revenue raised through the new rates would mean more than $40 million to protect DC's schools, health care, and other vital public services.

At most income levels, DC residents would still pay lower taxes than in neighboring Maryland and Virginia counties. A study by the DC Fiscal Policy Institute found that when income and property taxes are added up, DC residents at most income levels pay the lowest overall taxes in the region; the DC Chief Financial Officer's report reached similar conclusions.

High-income increases have proven to be effective ways to raise needed revenue, and the impact on migration has been negligible. Increases on high-earners are unlikely to reduce spending in the local economy because most of the new revenue comes from savings. And studies of upper bracket tax increases in other states show the additional new revenue far outweighs any loss from migration due to the higher rates.