The District's Dime
Going Beyond the Budget Book

The DC Fiscal Policy Institute blog
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July 14, 2014

The DC Council Should Override Mayor Gray's Veto on the FY 2015 Budget

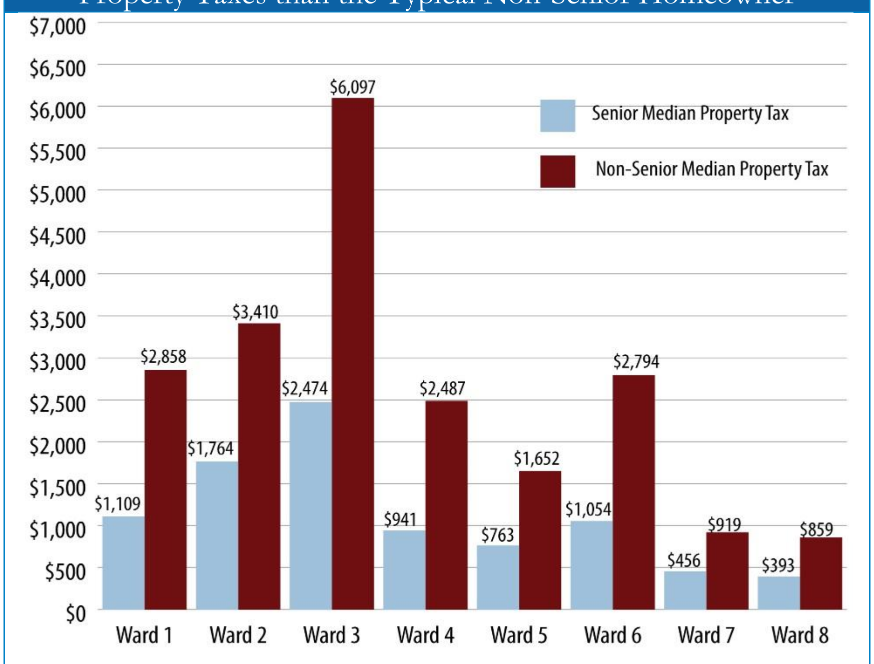
By Jenny Reed

Mayor Gray vetoed the fiscal year 2015 Budget Support Act on Friday, in part over concerns about changes to income and property taxes for seniors. Yet it is important to note that the budget adopted by the DC Council expands DC's already substantial property tax relief mechanisms for seniors. The budget also makes substantial cuts in income taxes that will help all households, including most senior households. The tax changes will raise taxes next year on some senior residents, as they lose special deductions, but the changes generally will be modest and will apply only in limited circumstances. And even those affected households will face net tax reductions as the Council's tax package is fully implemented.

DC Council Expanded Property Tax Relief for Seniors and Included Senior Renters

The District provides significant property tax relief for seniors. Currently, senior homeowners with incomes below $125,000 receive a 50 percent reduction in their property tax bills. These seniors pay far lower property taxes than others (see Figure). The typical senior homeowner in DC paid $822 per year in property taxes in 2012-2013. That is just one-third of the $2,513 paid by the typical non-senior homeowner in that same year.

In Every Ward, the Typical Senior Homeowner Pay Far Less in Property Taxes than the Typical Non-Senior Homeowner



The mayor's budget proposed implementing Council-approved legislation to eliminate property taxes for certain senior homeowners. That, however, would have provided substantial new help to some homeowners but nothing to senior *renters*—even though lower-income senior renters are more likely than homeowners to have severe housing cost burdens. The Council ultimately voted to expand Schedule H, DC's low-income property tax credit that applies to both renters and homeowners, rather than eliminating taxes for some homeowners.

Under the Council's changes to schedule H, a senior with $30,000 of income and a property tax bill of $3,200 would get a 50 percent reduction followed by a Schedule H credit of $400, leaving net taxes of $1,200. This is a 62 percent reduction from the original tax bill.

DC Council Changes to DC Income Tax Will More than Offset Any Modest Tax Increases When Fully Implemented

The tax package adopted by the Council includes a number of income tax changes that will benefit nearly all households, including a new middle-income tax bracket and substantial increases to the personal exemption and standard deduction.

The mayor's veto letter raised concerns that the DC Council also eliminated a deduction of up to $3,000 of government pension income and a long-term care credit. The D.C. Tax Revision Commission had recommended eliminating these to make the tax code more simple and in the context of broad-based tax reductions.

There are three important things to consider when reviewing these changes.

First, when the DC Council's tax package is fully implemented in 2019, any tax increases as a result of eliminating these deductions will be more than offset by other tax reductions. A senior married couple earning $50,000 will see their taxes reduced by $600 when the Council's tax package is fully implemented—even if both spouses currently claim the maximum pension and long-term care credit deductions.

Second, even next year, it is likely that most seniors will see net income tax reductions. Less than one-third of senior households claim the pension deduction and no more than 8 percent of senior households claim the long-term care credit. In other words, most seniors will benefit from income tax reductions with no loss of current deductions.

For example, a married couple with $50,000 income that has not claimed the pensions or long-term care deductions will see taxes fall $255 next year. A married couple with $100,000 of income from one spouse will see taxes fall $300.

Third, some seniors will see slight tax increases in 2015 if they have claimed the full pension and long-term care credit. But the changes generally will be modest and temporary.
Some families that claim the pension and long-term deductions still will see tax cuts in 2015 as they lose these deductions, as a result of other tax changes. Some other families will see modest tax increases next year, but net tax cuts as the Council package is fully implemented.

- A married couple with $50,000 of income and one spouse who claims the pension and long-term care deductions will get a tax *cut* of $45 in 2015 (and an $810 tax cut in future years)

- A married couple with $50,000 income would see their taxes go up by $165 -- or 0.33 percent of income -- if both spouses took the maximum pension and long-term care credit deductions turn. As noted, this family will see a $600 tax cut over time.

- A married couple with income of $100,000 would see their taxes go up by $840 -- or 0.84 percent of income -- if both spouses took the maximum pension and long-term care credit deductions and chose to split their income on their DC tax return. When all tax cuts are fully implemented, this family will see a $114 tax cut.

These suggest that even in the rare situation of a family where two seniors claim these deductions fully, the tax increase in 2015 would be relatively modest. And within a few years, further reductions in income taxes would leave even these families with net tax cuts.

In the end, because the final tax package will result in significant tax reductions, we urge the DC Council to vote to override Mayor Gray's veto. The tax increases that may result on small share of DC residents in the first year would be minimal and would help pay for the larger tax relief that will be available to nearly all residents when the tax package is fully implemented.