



The District's Dime

Going Beyond the Budget Book

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DC's Minimum Wage and Earned Income Tax Credit Go Hand-in-Hand in Making Work Pay

By Wes Rivers

The District's economy is strong, but not everyone is benefiting. [Hourly wages](#) for low-income workers have fallen in recent years, making it more difficult for families to cope with DC's rising cost of living. That's why the District's efforts to help low-wage workers – the recent increase in the minimum wage and a substantial DC earned income tax credit (EITC) are so important. They are helping making work pay and helping low-income workers make ends meet.

The District is one of three jurisdictions to make improvements to both in the last year, according to [a new report](#). The city raised the minimum wage to \$11.50 per hour by 2016 and expanded the DC EITC for childless workers. Together they make an enormous difference. Consider these examples.

- **A DC single mother of two**, working 36 hours a week at an \$11.50 wage will take home \$4,400 more – equal to a 20 percent boost -- than if the District followed the federal minimum wage and had no EITC of its own (see **Table 1**).

- **A single adult** will take home \$4,700 more than if DC simply followed federal minimum wage and EITC rules. That reflects the city's effort this year to expand the EITC for workers without children, in addition to the minimum wage increase.

The tag-teaming of a strong earned income tax credit and a meaningful minimum wage has other important advantages.

	2013 8.25/hr	2016* 11.50/hr	Change
Annual Earnings	\$14,850	\$20,700	\$5,850
Payroll tax (7.65%)	1,136	1,583	448
Fed Deductions	20,650	20,950	
Fed Taxable Income	0	0	
Fed Tax Before Credits	0	0	
Federal EITC	5,372	4,856	
Federal Taxes Owed	(\$5,372)	(\$4,856)	\$516
DC Deduction	4,100	5,200	
DC Exemption	6,700	5,100	
DC Taxable Income	4,050	10,400	
DC Tax Before Credits	162	424	
DC EITC	2,149	1,942	
DC Taxes Owed	(\$1,987)	(\$1,518)	\$469
Net Income (Change)	\$21,073	\$25,490	\$4,418

*2016 figures use Tax Year 2014 Federal Tax Rules and Tax Year 2016 DC Tax Rules
Source: IRS.gov, taxpolicycenter.org, FY 2015 Budget and Financial Plan for DC

The EITC and minimum wage help all workers but support different workers in different ways. About [half](#) of District families who will benefit from the higher minimum wage have incomes below or near the poverty line – a group that also benefits from the EITC. However, the EITC is most targeted on families with children, while single workers are the largest group that will benefit from DC’s minimum wage increase.

Residents benefit from the EITC and minimum wage at different times. The higher minimum wage will mean more in paychecks, helping workers cover monthly expenses, such as rent, utilities, and child care. The EITC benefits families at the end of each tax year, and the lump-sum refund can be used to pay for large ticket items, like home repair or tuition.

With recent improvements, DC has made important strides to making work pay in the District. But as we move forward, the District must make sure that the minimum wage rises with the cost of living and includes all workers – especially workers with tipped wages who are now exempt.