NEWS RELEASE

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The Recommendations of the D.C. Tax Revision Commission, as Implemented in the Fiscal Year 2015 Budget, Are Having a Favorable Impact on the District

The Institute on Taxation & Economic Policy (ITEP) issued its 2015 report -- *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* – today. The fifth edition of this report, which also includes findings for DC, shows the District of Columbia's progress towards improving the fairness of the DC tax system.

In particular, the new report shows that low-income DC residents pay a smaller share of their income in taxes than similar families in every state except Delaware. And if DC policymakers implement the remaining recommendations of the D.C. Tax revision Commission, taxes on low-income families will be the lowest in the nation.

This progress was achieved through the leadership of DC Council Chairman Phil Mendelson and the entire Council of the District of Columbia to implement recommendations originally put forward by the DC Tax Revision Commission.

Tony Williams, CEO of the Federal City Council and the Chair of the DC Tax Revision Commission, and Ed Lazere, Executive Director of the D.C. Fiscal Policy Institute and a member of the DC Tax Revision Commission, applaud the impact of these recent tax changes on lower and middle income residents in the city highlighted below and in the table at the end of this press release:

- Those earning up to $23,000 are taxed at 5.6 percent of annual income in the District, which is second lowest in the US for this income group and well below the 10.9 percent rate in the average state. This translates into paying $1,200 less in taxes each year for these families;
- The recent changes in the DC tax system have reduced taxes on lower and middle income residents by 0.8 percent to 1.1 percent of annual income in comparing the 2015 ITEP report to the 2013 ITEP report; and
- DC is now the second most progressive tax system in the nation, an improvement from the number three spot in the 2013 ITEP report.

The ITEP report shows that the city is achieving the first of the five goals set out for the DC Tax Revision Commission by the District government:

1. Improve fairness of the District's tax system
2. Broaden the base of the District's tax system
3. Increase the District's competiveness of the District's tax system
4. Encourage business and employment growth
5. Promote simplification of the District's tax system

In Fiscal Year 2015, the District budget also advances goals two and three above:

- The sales tax was broadened, as of October 1, 2014, to include several new services, and the revenue generated was used to fund other tax relief. Thus, the economic mantra of "broaden the base, lower the rates" was followed;
- The incorporated and unincorporated business franchise tax rate was reduced to 9.4 percent from 9.975 percent as of January 1, 2015; and
- The taxation of passive investment income for investment managers was eliminated, putting the city on the same competitive level as Maryland and Virginia, and financial centers like New York City.

"The District's leaders should be proud of providing tax relief to DC residents at lower and middle incomes, and working on making the DC tax system more competitive from a business point of view," said Tony Williams.

The 2015 Fiscal Year budget includes further tax relief for lower and middle income residents for Fiscal Years 2016, 2017 and 2018 that is contingently funded. If that tax relief were implemented, it would have an additional positive impact on lower and middle income residents in DC as highlighted below and in the table at the end of this press release, while also enhancing the competitiveness of the District of Columbia business environment:

- The overall tax rate paid by the lowest income residents in DC (earning up to $23,000 per year) would drop from 5.6% to 5.3% of annual income, which would be the lowest rate in the country;
- Taxes would fall by a similar rate for families with incomes up to $109,000; and
- The incorporated and unincorporated business franchise tax would fall from 9.4 percent to 8.25 percent.

"With just a little more effort, DC can be the best in the nation for how it taxes families with limited incomes," said Ed Lazere.

Amidst the generally good news about DC's tax impact on individuals, the ITEP report found that middle income DC residents, those with incomes in the $38,000 to $65,000 range pay over 10% of their income in DC taxes, a rate that is 14th highest in the nation. This suggests that while the District has done a lot to keep taxes low for residents living on middle incomes, there is more to be done.

The Federal City Council and the DC Fiscal Policy Institute both call on the District government to work to make further progress on implementing the recommendations of the Commission.

See table on next page.

Impact of DC FY 2015 Tax Relief on DC Individual Taxpayers (1)

	For DC Residents				For the Average State (including DC)	
	Percentage of Income Paid in Sales, Excise, Income and Property Taxes				Percentage of Income Paid in Sales, Excise, Income and Property Taxes	
Categories of Taxpayers	**Range of Income (2)**	**Jan-13**	**Jan-15**	**Upon Full Imple-mentation(3)**	**Range of Income**	**Jan-15**
Lowest 20%	Annual income less than $23,000	6.6%	5.6%	5.3%	Annual income less than $18,000	10.9%
Second 20%	Annual income of $23,000 to $38,000	9.8	8.9	8.5	Annual income of $18,000 to $33,000	9.9
Middle 20%	Annual income of $38,000 to $65,000	11	10.3	9.9	Annual income of $33,000 to $54,000	9.4
Fourth 20%	Annual income of $65,000 to $109,000	9.4	8.9	8.6	Annual income of $54,000 to $88,000	8.7
Next 15%	Annual income of $109,000 to $263,000	8.5	8.2	8.1	Annual income of $88,000 to $175,000	7.7
Next 4%	Annual income of $263,000 to $1,647,000	7.3	7.4	7.3	Annual income of $175,000 to $419,000	7
Next 1%	Annual income of more than $1,647,000	6.3	6.4	6.4	Annual income of more than $419,000	5.4

Source: *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States,*
Institute on Taxation and Economic Policy, 2013 and 2015 editions

(1) Non-elderly families.
(2) For January 2015 analysis.
(3) Of the FY 2015 Budget Tax Relief.

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