

## Taxes in the District: The Evolution of DC Tax Rates Since the Early 2000s

By Hannah Kohanzadeh

Taxes support the roads we drive on, the public transportation we use to get around town, the schools we send our children to, the libraries and parks we enjoy with our friends and family, and the critical programs that help our city's low-income residents make ends meet. In fiscal year (FY) 2017, 87 percent of the District's General Fund revenue came from taxes—showing that tax revenues are crucial for investing in our community.

DCFPI's latest report, [Taxes in the District: The Evolution of DC Tax Rates Since the Early 2000s](#), examines how the District's tax landscape has changed over the past few decades. The report finds that rates for DC's main tax revenue sources—the individual income tax, business taxes, the real property tax, and the sales and use tax—have remained largely stable over the past two decades, and a number of deductions, credits, and other forms of tax relief have been adopted.

As DC continues to face persistent [inequality](#) and [unmet needs](#) in education, affordable housing, and more, the District should continue to make its tax code more progressive and ensure that tax revenues are sufficient to help our community thrive.

### Individual Income Taxes

Over the past two decades, DC has created a more progressive, tiered income tax system, in which residents with higher incomes pay a larger share of taxes than residents with lower incomes. This tax framework helps distribute the tax responsibility across District residents in a fair and balanced way. The District's standard deduction and personal exemption, which reduce taxable income, were raised several times during the 2000s as well. The District's [Earned Income Tax Credit](#) has expanded to help workers with low earnings make ends meet.

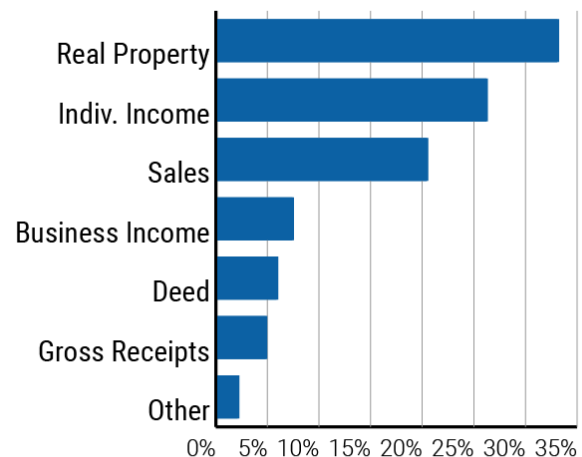
The District's individual income taxes provided 26 percent of DC tax revenue in FY 2017.

### Real Property Taxes

With few exceptions, the District's real property tax rates have decreased since 2000. The District's residential property taxes are the [lowest in the region](#). Beginning in the early 2000s, residential property tax

### Sources of DC Tax Revenue

Share of tax revenue, fiscal year 2017.



Note: Business income includes corporation franchise and unincorporated business franchise. Deed includes deed recordation and deed transfer. Other includes personal property, estate, public space rental. Tax revenue includes dedicated taxes and TIF transfers.  
Source: Fiscal Year 2019 Budget & Financial Plan.

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rates were lowered, and provisions to lower the effective tax rate for homeowners were substantially expanded.

The real property tax is the largest source of tax revenue for the District, generating 33 percent of total tax revenue in FY 2017.

## **Sales Taxes**

The District's sales tax rate has remained largely stable over the past two decades, while the sales tax base has expanded to include many previously exempt items and services.

Sales taxes provided 20 percent of DC tax revenue in FY 2017.

## **Business Income Taxes**

The District's business income taxes are made up of the corporation franchise tax and the unincorporated business franchise tax. After remaining steady throughout the 2000s, business taxes were lowered substantially starting in 2015.

Together they generated 7 percent of DC's tax revenue in FY 2017

Read the full report, *Taxes in the District: The Evolution of DC Tax Rates Since the Early 2000s*, [here](#).