



# DC'S REVENUE OUTLOOK & WAYS TO EQUITABLY RAISE RESOURCES

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DC FISCAL POLICY INSTITUTE

# Our vision

*We envision a District of shared abundance and collective liberation where everyone has the nurture, sustenance, and safety every person inherently deserves. We strive for a future that roots out anti-Blackness, enables Black and brown residents to live to their fullest, ends displacement, and repairs centuries of racist harm built into our systems.*

# Our mission

*DC Fiscal Policy Institute shapes racially-just tax, budget, and policy decisions by centering Black and brown communities in our research and analysis, community partnerships, and advocacy efforts to advance an antiracist, equitable future.*

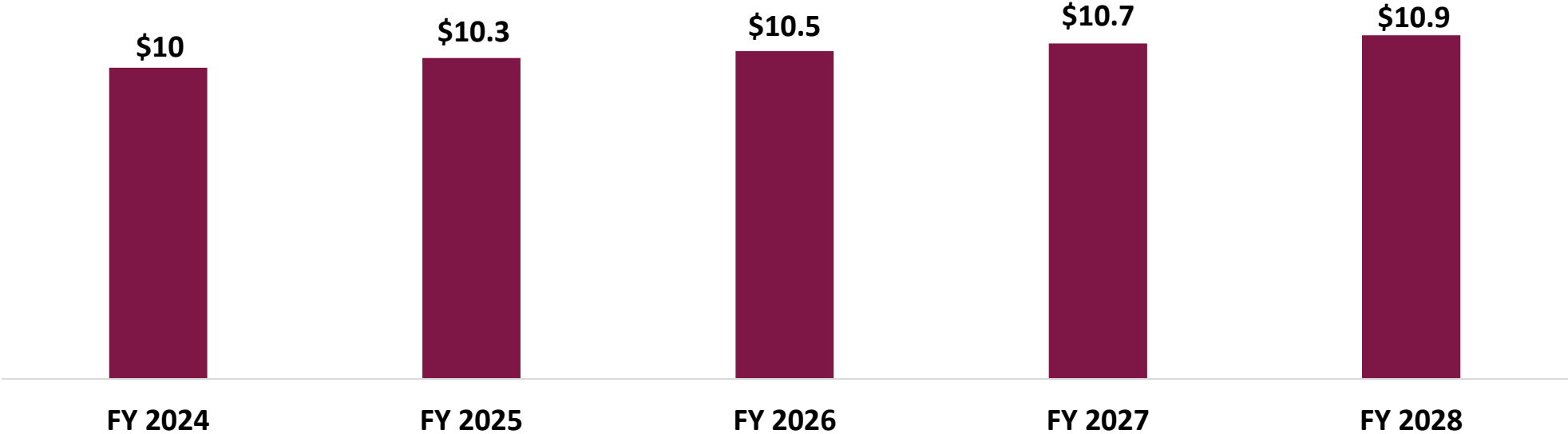
# Bleak Outlook

- Revenue will grow each year in the next financial plan, just not fast enough to sustain current investments and keep up.
- Projections are far below what's needed to cover looming budget pressures—though, it is not clear by how much.
- DC will also start FY 2025 behind in other ways:
  - No FY 2023 surplus to leverage
  - Aggressive focus on refilling DC's rainy day funds
- **This sets the scene for deep budget cuts in FY 2025 unless lawmakers raise revenue for an equitable budget.**



# Bleak Outlook

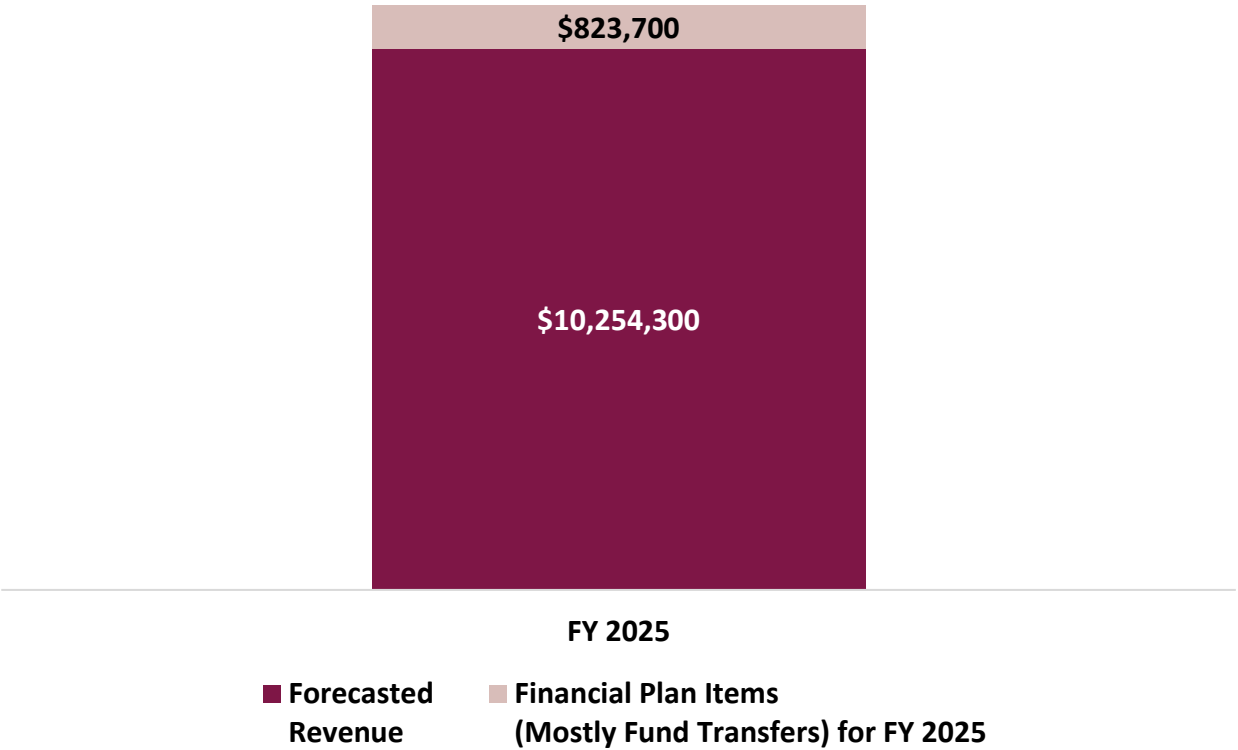
**DC Revenues Projected To Grow Slowly Over Next Financial Plan**  
*February 2024 Local Fund Revenue Estimates, by Fiscal Year, in Billions*



Note: Figures are rounded



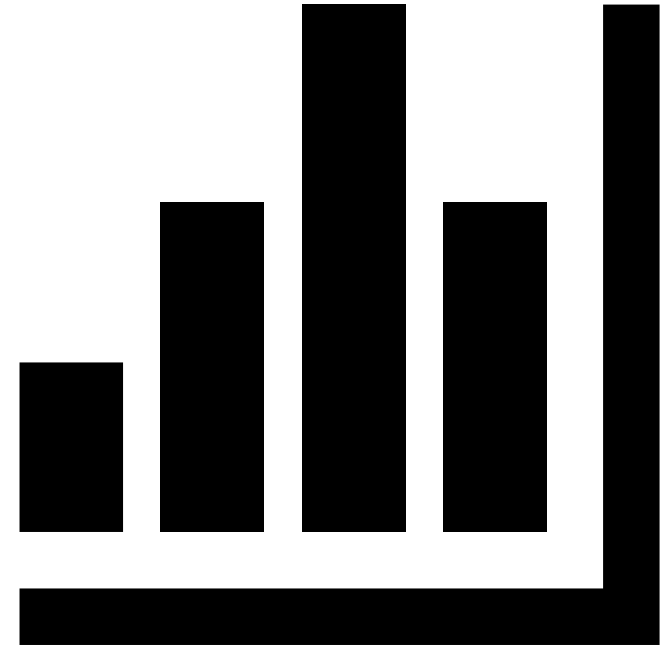
# Small Bump From Funding Set Aside in the Financial Plan



Author’s analysis of: Glen Lee, “[FY 2025 Current Services Funding Level \(CSFL\) Budget](#),” The Office of Chief Financial Officer February 22, 2024. And [OCFO’s February Forecast](#).

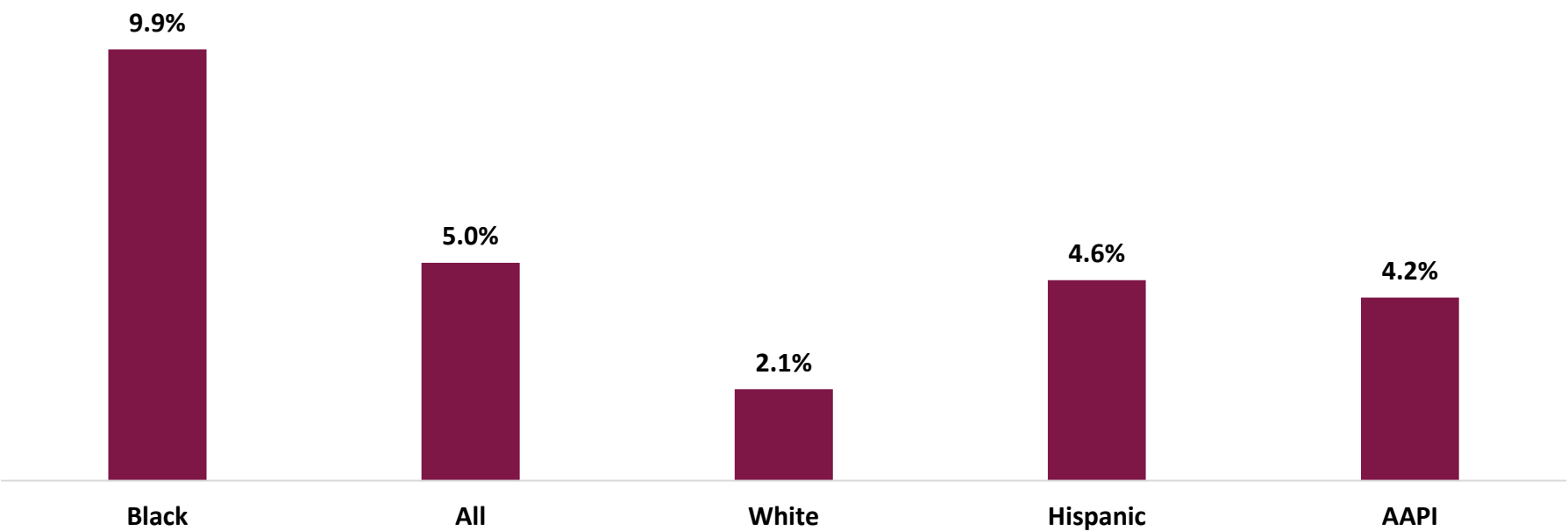
# Economic Outlook In the Revenue Forecast

- The near-term economic outlook is slightly improving, leading to higher revenues.
- The economy has shown greater resilience to higher interest rates than economists had anticipated.
- Income tax withholding is growing, but not as fast as previously predicted due to softening labor market.
- Residential property market is performing much better than the commercial market, which has been a drag on economic growth.
- Headwinds include a slowing DC labor market, slower wage growth, and an expected decline in consumer spending.



# DC's Extreme Black-White Unemployment Gap is Worst in the Nation

**Black-to-White Unemployment Gap Nearly at 5:1**  
Unemployment Rate by Race/Ethnicity and Overall, in 4th Quarter of 2023

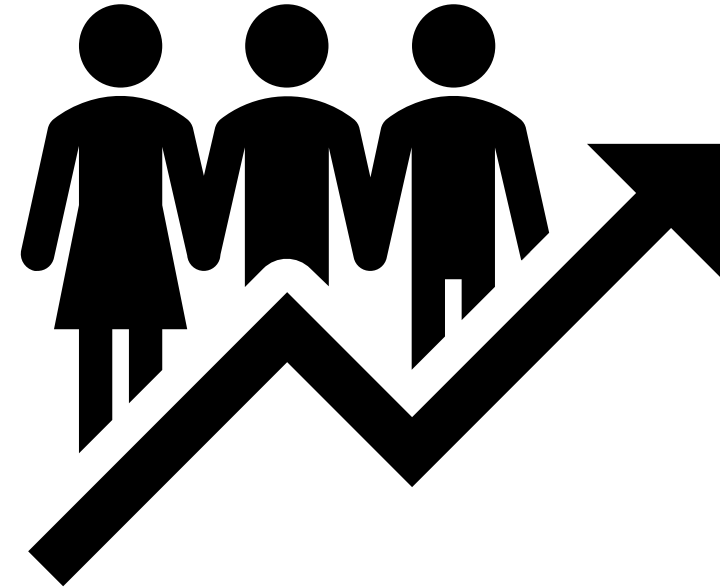


**Source:** Economic Policy Institute's Analysis of Bureau of Labor Statistics Local Area Unemployment Statistics data and Current Population Survey data.  
**Note:** AAPI stands for Asian American and Pacific Islander



## **Positive Economic Factors**

- Regrowing population and jobs lost during the recession
- Poverty declined in 2022 from 16.5 to 13.3 percent; Black poverty from 27.7 to 21.3 percent because of public investments in people
- Strong wage growth at top and bottom of the income ladder





# Need Remains High

## Black D.C. Voters Report Experiencing Economic Hardship at Higher Rates Than White Voters

In the past year, has your household experienced **economic hardships** with any of the following?

Survey respondents who selected: *Yes, my household experienced economic hardships with this in the past year*

	All likely voters	Black or African American	White
Affording rent or mortgage payments	26%	42%	13%
Affording groceries	31%	51%	16%
Finding or affording child care	9%	11%	7%

November 30–December 8, 2023 survey of 509 likely voters in the District of Columbia



 DATA FOR **PROGRESS**

ID: 6058VA

# Budget Pressures Will Outstrip Revenue Growth

- High cost of maintaining recurring current service levels in FY 2025 local fund budget = \$586 million
- WMATA funding gap (at least \$200m each year)
- Loss of over \$560 million in federal ARPA and ESSER dollars
- Must decide which one-time investments to eliminate or continue with local funds
- Must set aside funds for future collective bargaining agreements, which are nearly all up for negotiation (could be \$1b+)
- **Engaging in the FY 2025 tax debate will be critical to addressing these pressures.**



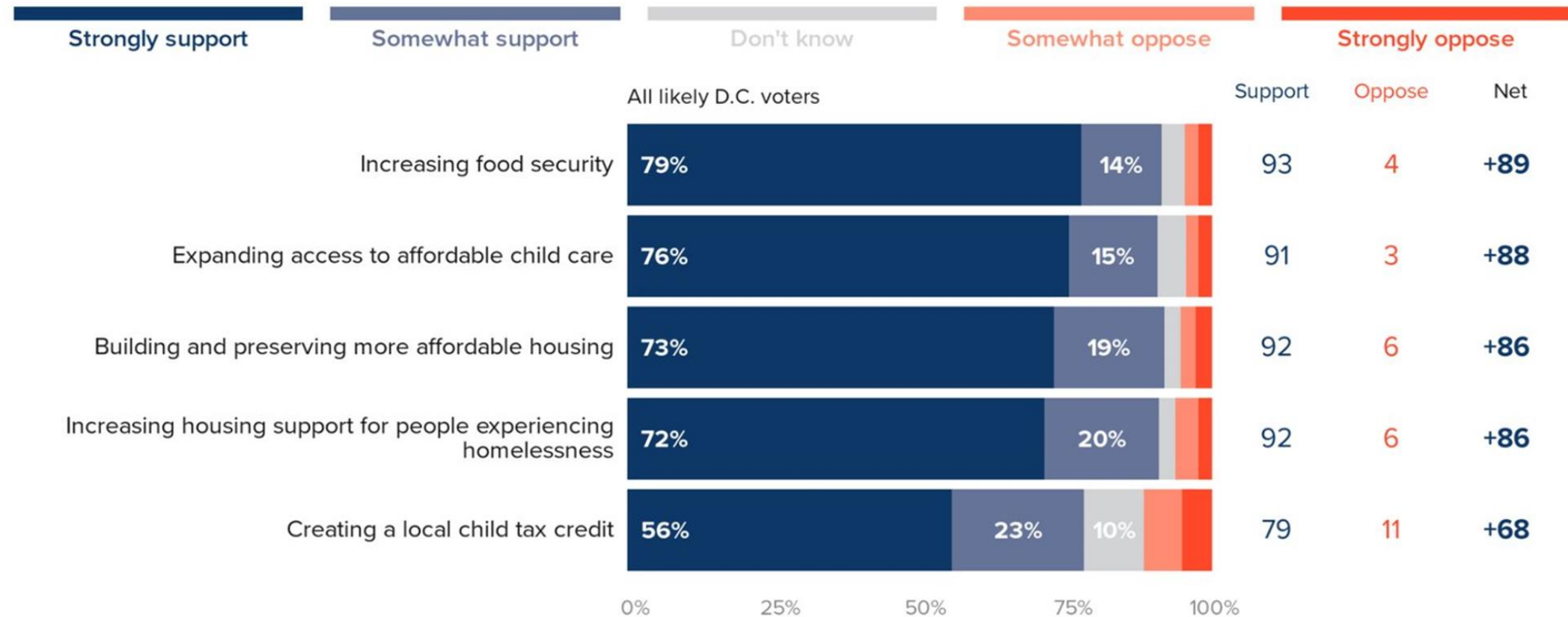


# **Progressive Revenue Ideas**



# Voters Strongly Support Various Initiatives to Address Economic Hardship in the District, Including Increasing Food Security

The D.C. Council is considering the following proposals. For each, please say if you would support or oppose the proposal:



November 30–December 8, 2023 survey of 509 likely voters in the District of Columbia



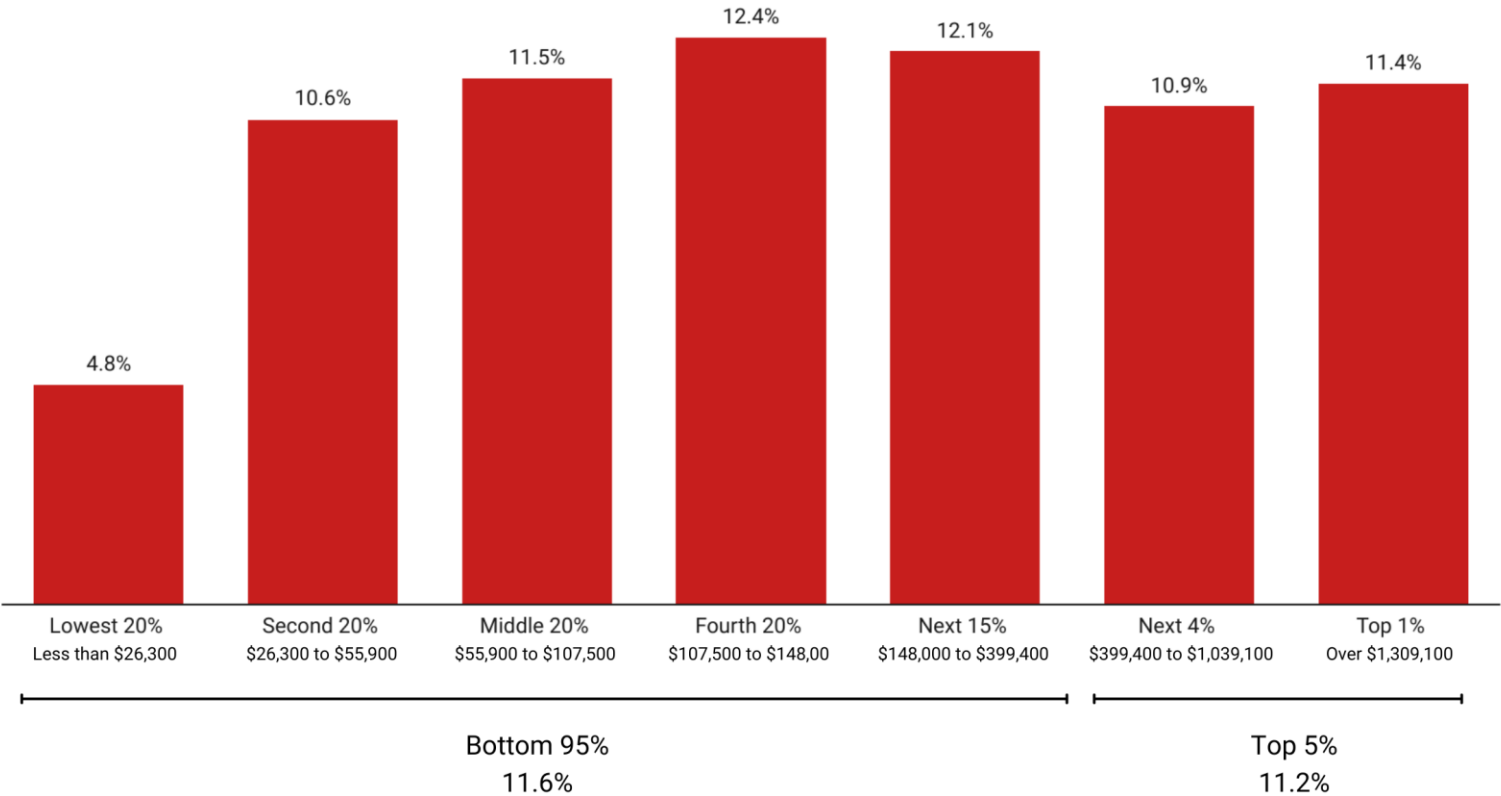
DATA FOR PROGRESS

10-10-2023

# We Should Tax DC's Outsized Wealth

## Top 5 Percent of DC Families Pay Lower Effective Tax Rate Than Bottom 95 Percent

Effective Tax Rate as Share of Family Income, by Income Group



Source: Institute on Taxation and Economic Policy (ITEP)



# Property Tax

Adopt higher, marginal property tax rated for single family homes with taxable value over \$1.5 million

Raising taxes on homes with taxable value above \$1.5 million would impact only 5% of homeowners. Lawmakers can protect seniors and homeowners with low incomes.

Revenue prospect:  
\$56.8 million

A Progressive Property Tax Could Mirror Income Tax Structure		
Proposed Marginal Tax Structure with Six Brackets		
If taxable value is:	The proposed tax is:	Percent of single-family homes in bracket
Under \$1.5M	\$0.85 per \$100 of taxable assessed value	95%
Between \$1.5 and \$2 million	\$12,750 plus \$1.00 per \$100 of value over \$1.5 million	2.8%
Between \$2 and \$3 million	\$17,750 plus \$1.50 per \$100 of value over \$2 million	1.5%
Between \$3 and \$4 million	\$32,750 plus \$2.00 per \$100 of value over \$3 million	0.4%
Between \$4 and \$5 million	\$52,750 plus \$2.50 per \$100 of value over \$4 million	0.2%
Above \$5 million	\$77,750 plus \$3.00 per \$100 of value over \$5 million	0.2%
Revenue Raised	\$56.8 million	

# Taxing Capital Gains More Robustly Can Help Reduce DC’s Racial Wealth Gap

Tax all realized capital gains at a rate of 13%, pair with a credit to protect families in the bottom 80%

DC could tax capital gains separately from ordinary income and at a higher flat rate of 13 percent. This highly targeted proposal would increase taxes on passive income sources like selling stocks, art, or other assets. When paired with an offset, this proposal would only affect taxpayers in the top 20 percent of incomes, with 77 percent of the tax increase paid by the top 5%

Revenue prospect: **\$163 million**

## A Flat Capital Gains Tax Rate Would Raise Revenue for Transformative Investments

*Revenue Raised Under A Separate, Flat Tax on Capital Gains*

Capital Gains Tax Rate at 10.75 Percent	\$55 Million
Capital Gains Tax Rate at 11.75 Percent	\$108 Million
Capital Gains Tax Rate at 12.75 Percent	\$161 Million
Capital Gains Tax Rate at 13 Percent	\$174 Million
Source: Special data request to ITEP, using 2024 incomes for DC tax units of all ages, September 2023.	

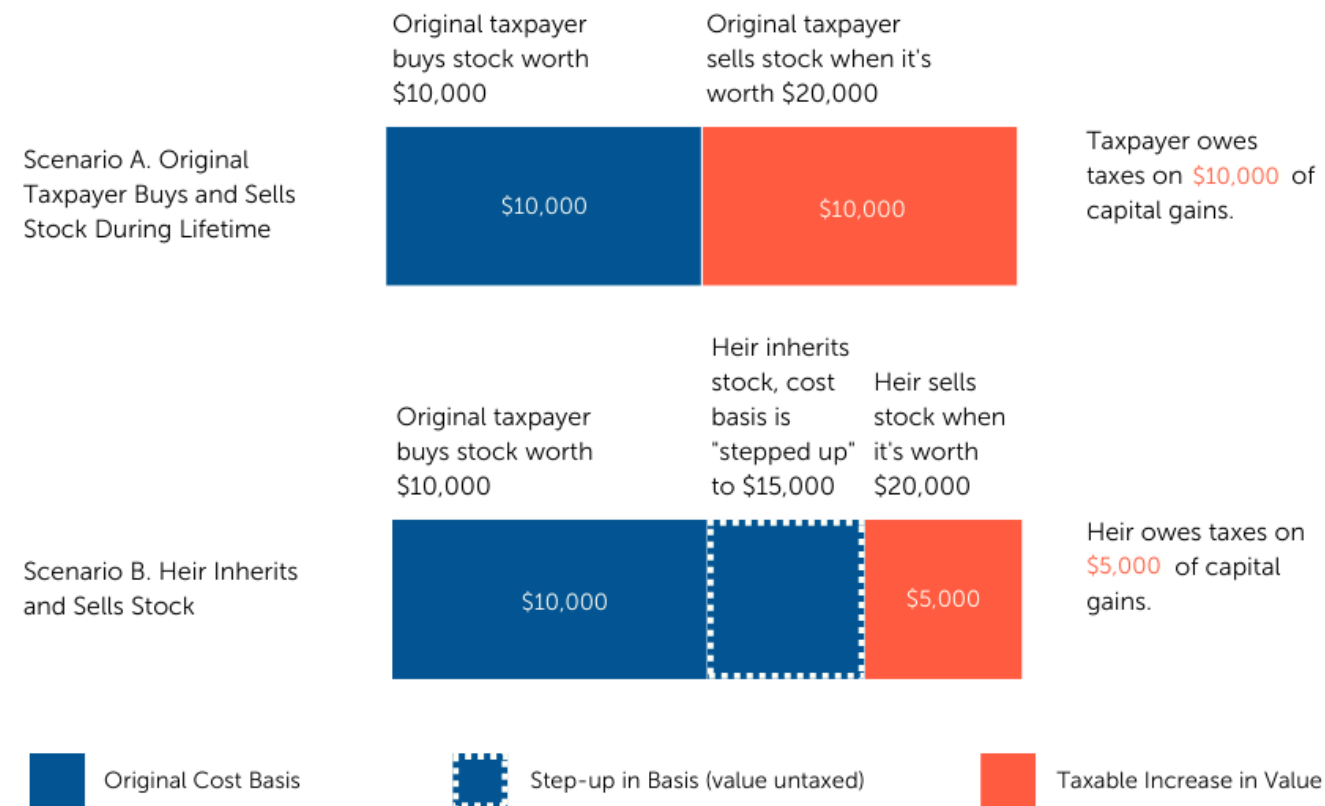


# Eliminate Stepped-Up Basis for Capital Gains Bequeathed at Death

If a DC resident leaves an appreciated asset to an heir upon death, neither they nor the heir will ever owe capital gains tax on the growth in value up to that point.

This tax benefit, called the “stepped-up basis,” allows the wealthy to pass decades or a lifetime of untaxed income to their heirs when they die. Removing the stepped-up basis, however, guarantees that those gains will eventually be taxed

Revenue prospect: \$33 million





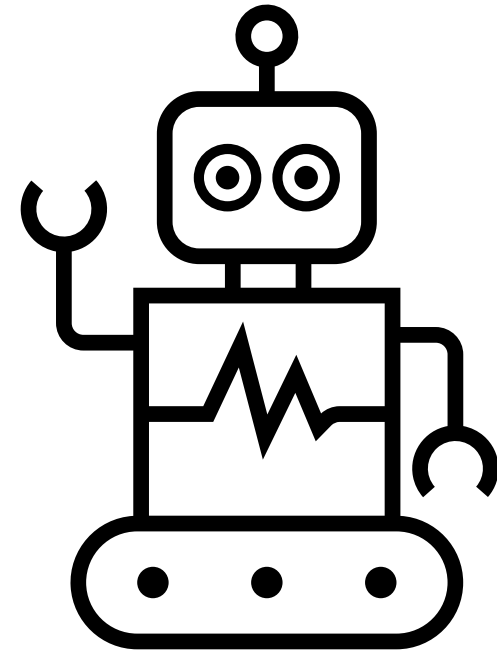
# Permanently suspend the capital gains tax break for the sale or exchange of a qualified high technology company (QHTC) investment

The District should permanently suspend any extraneous local exclusions or deductions, like the QHTC, that reduce the amount of capital gains income subject to taxation.

These exclusions reduce the base of taxable income without offering economic benefits.

While this tax break is currently suspended, it is slated to make a return in tax year 2025. The District should make this suspension permanent and avoid adopting any similar exclusions that reduce revenue for the District.

Revenue prospect: **unknown**



# A Path to Better Budgeting: DC Council Needs to Advance a Joint Revenue Strategy

- A joint strategy would allow Councilmembers to set collective priorities at the top of the budget process, rather than at the very end.
- They could work towards these shared priorities and adjust them as needed as they collect further information during budget oversight hearings.
- The bleak revenue outlook warrants scheduling a revenue hearing in “big” COW.
- This would make it easier for the Council to address critical budget issues together.

