

Why Revenue is Essential for Early Childhood Education

Taxes and other sources of revenue make up the collective resources we need to meet DC's growing needs and invest in public services that allow all DC residents to thrive, including early childhood education programs.

The Under 3 DC (U3DC) Coalition is calling for major investments in early childhood programs for fiscal year (FY) 2027 and beyond—and raising revenue is required to meet the moment and deliver on DC's promises to children. The programs that we care about are significantly underfunded, and with DC's budget pressures across programs, DC lawmakers must grow the pie to meet important commitments. For example:

- The child care subsidy program requires an additional investment of \$31 million just to maintain current caseloads and another \$26 million to keep up with caseload growth.
- There is not a single penny in the FY 2027 budget for the Pay Equity Fund (PEF), which requires at least \$94.2 million to restore the cut and sustain the growth of the program.
- The Coalition is also calling for the mayor and DC Council to increase other investments, like funding for home visiting, Healthy Steps, and Healthy Future, to account for inflation.¹

Every child deserves a strong start and a high-quality education, beginning at birth, and the early educators who deliver this care and education deserve livable salaries and health care. Funding needs in early education programs are significant, but that challenge is not unprecedented. The DC Council approved changes in 2021 that made DC's tax code more progressive, requiring high-income residents to pay more of their fair share in taxes. Lawmakers allocated nearly half of the funding raised to establish the PEF.² Lawmakers should raise revenue to sufficiently fund early education and the safety net, especially now when new federal policies are harming the most vulnerable.³

Closing Loopholes and Taxing Wealth Will Help DC Fund Early Education

Lawmakers should consider two revenue raisers for early education and other supports that help residents make ends meet. The first is a Business Activity Tax (BAT). Because of federal restrictions, DC uniquely exempts from taxation certain

businesses, including major law firms, lobbyists, and consulting firms, most of which are white-owned. These benefits go entirely to well-heeled business owners who live outside of DC. A BAT would correct this loophole by broadening the base of business taxation without increasing taxes on businesses that already meaningfully contribute to DC's collective resources.⁴ BAT revenue would be substantial: a 2 percent BAT rate could raise \$500 million.⁵

While the BAT would raise the revenue we need, once passed, it would take at least a year before the District could collect that revenue. To boost equity in the tax code and raise revenue more quickly, DC should also raise tax rates on wealthy residents' capital gains income, which is profit generated from investments like stocks and real estate. This would target the uber wealthy who already receive preferential tax treatment that leads their wealth to be taxed less often (compared to workers' income via paychecks) and that allows them to pass vast sums of wealth to their heirs tax-free, costing DC tens of millions a year.⁶

DC has one of the highest concentrations of wealth in the nation. This is bad for all DC residents because extreme concentration of wealth creates extreme inequality that both reflects and exacerbates racial inequality and limits economic opportunities for the majority. Taxing capital gains more could reduce the runaway inequality that DC faces today.⁷

During the FY 2026 budget debate, the DC Council rejected a measure that would have taxed capital gains more robustly.⁸ In this upcoming budget cycle, Council cannot reject proposals to tax wealth because raising revenue is necessary for a thriving early childhood system. Investing in these programs is critical to the wellbeing of DC families and to the economy as a whole, and raising revenue through the BAT, capital gains, and other progressive options, can help us achieve that goal.

¹ Under 3 DC Coalition, "[FY27 Budget Letter to Mayor Bowser](#)," November 19, 2025.

² Tazra Mitchell, "[New Local and Federal Revenue Help Advance Tax and Racial Justice and Helps Residents Thrive](#)," DC Fiscal Policy Institute, November 18, 2021.

³ Erica Williams, "[Raising Revenue Is An Urgent and Practical Approach to Reducing the Harm of DC's Recession](#)," DC Fiscal Policy Institute, May 21, 2025.

⁴ Small businesses—those with less than \$200,000 in revenues—would be exempt. See: Erica Williams, "[DC Can Do More to Ensure Tax System is Fair](#)," DC Fiscal Policy Institute, February 5, 2025.

⁵ Ibid.

⁶ Tazra Mitchell, "[Taxing Capital Gains More Robustly Can Help Reduce DC's Racial Wealth Gap](#)," DC Fiscal Policy Institute, October 31, 2023.

⁷ Erica Williams, "[DC's Extreme Wealth Concentration Exacerbates Racial Inequality, Limits Economic Opportunity](#)," DC Fiscal Policy Institute, October 2022.

⁸ DC Fiscal Policy Institute, "[Council-Approved FY 2026 Budget Fails to Adequately Meet the Moment](#)," July 29, 2025.