

District of Columbia Taxes Hit Middle Class Hardest

Middle-income families in the District of Columbia pay a much higher share of their income in state and local taxes than do the richest residents of Washington, DC, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, the District of Columbia has an unfair tax system.”

District of Columbia’s Tax Code: Tax the Middle Class More Than the Wealthy

When all District of Columbia taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of District of Columbia families—with average incomes of \$2.1 million—is 8.6% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is 5.8%.
- Middle income taxpayers in Washington, DC—those earning between \$28,000 and \$42,000—pay 10.9% of their income in District of Columbia taxes before the federal offset and about the same after it—an effective rate nearly twice what the wealthiest pay.
- The tax rate on the poorest District of Columbia families—those earning less than \$15,000—is 8.4%. That’s half again higher than the effective rate on the most well-off.

“Washington DC’s income tax fails to offset the regressivity of its sales and excise taxes, giving it a regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case from the second quintile upwards in the District of Columbia.”

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Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of District of Columbia taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens fell for poorest Washingtonians, due to the introduction of a generous earned-income tax credit. Taxes also fell for most other income groups, including the wealthiest.
- Higher excise and utility taxes led to rises in regressive consumption taxes.
- Income tax rate reductions benefitted those in the middle-income ranges.

"The introduction of an earned-income tax credit and income tax rate reductions benefitted many residents of the District of Columbia, but middle-income taxpayers still pay considerably more of their income in taxes than do the wealthiest," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have placed much higher tax rates on ordinary taxpayers compared to the best-off D.C. residents."

Two pages of tables detailing the District of Columbia findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

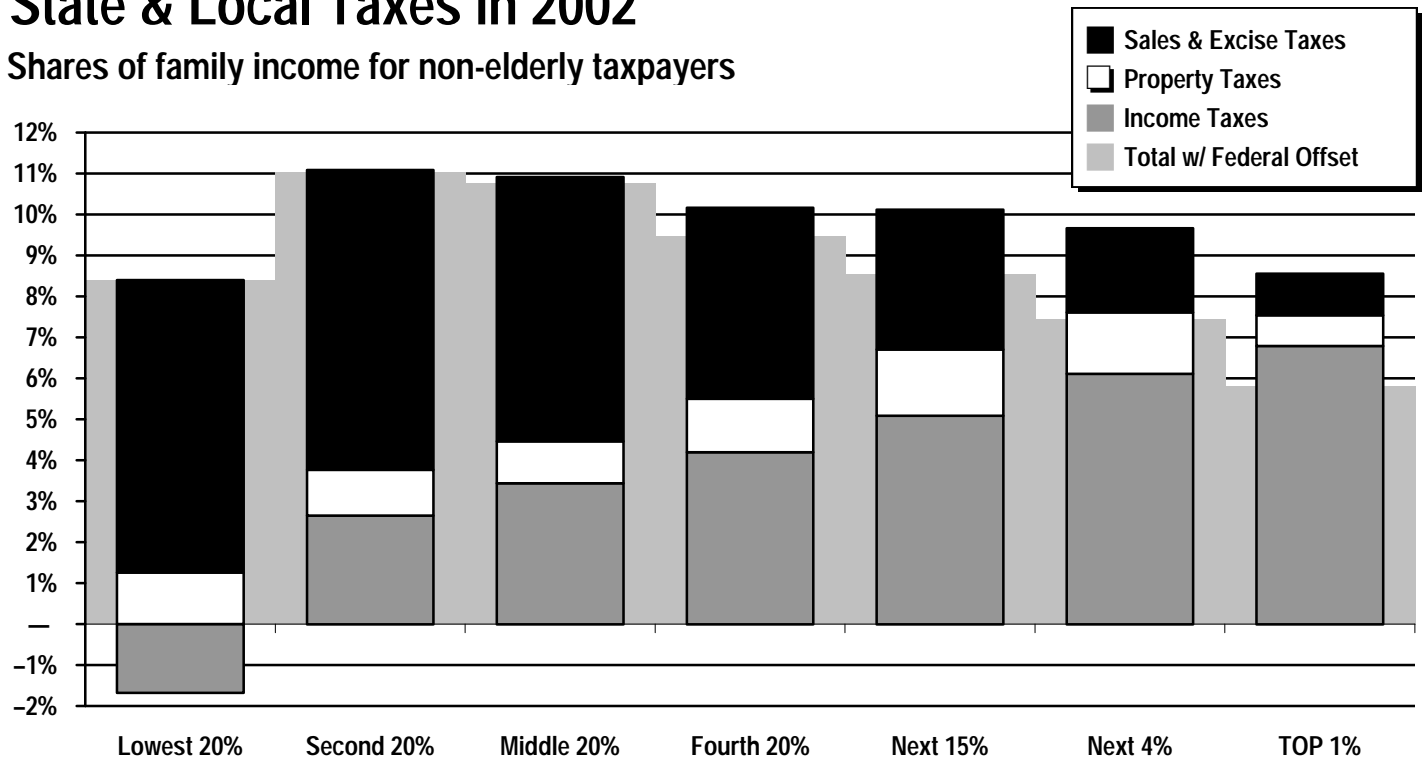
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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District of Columbia

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$28,000	\$28,000 – \$42,000	\$42,000 – \$70,000	\$70,000 – \$155,000	\$155,000 – \$422,000	\$422,000 or more
Average Income in Group	\$10,500	\$21,500	\$34,000	\$53,100	\$97,800	\$239,000	\$2,059,000
Sales & Excise Taxes	8.6%	7.3%	6.5%	4.7%	3.4%	2.1%	1.0%
General Sales—Individuals	2.1%	2.0%	1.8%	1.4%	1.1%	0.7%	0.3%
Other Sales & Excise—Ind.	1.8%	1.4%	1.3%	0.8%	0.6%	0.4%	0.1%
Sales & Excise on Business	4.6%	3.9%	3.4%	2.4%	1.7%	1.0%	0.5%
Property Taxes	1.5%	1.1%	1.0%	1.3%	1.6%	1.5%	0.8%
Property Taxes on Families	1.2%	0.8%	0.8%	1.1%	1.3%	1.3%	0.4%
Other Property Taxes	0.3%	0.3%	0.2%	0.2%	0.3%	0.2%	0.3%
Income Taxes	-1.7%	2.6%	3.4%	4.2%	5.1%	6.1%	6.8%
Personal Income Tax	-1.7%	2.6%	3.4%	4.2%	5.0%	6.1%	6.6%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%
TOTAL TAXES	8.4%	11.1%	10.9%	10.2%	10.1%	9.7%	8.6%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-0.7%	-1.6%	-2.2%	-2.8%
TOTAL AFTER OFFSET	8.4%	11.0%	10.8%	9.5%	8.5%	7.4%	5.8%

Note: Table shows 2002 tax law at 2000 income levels.

District of Columbia Tax Trends

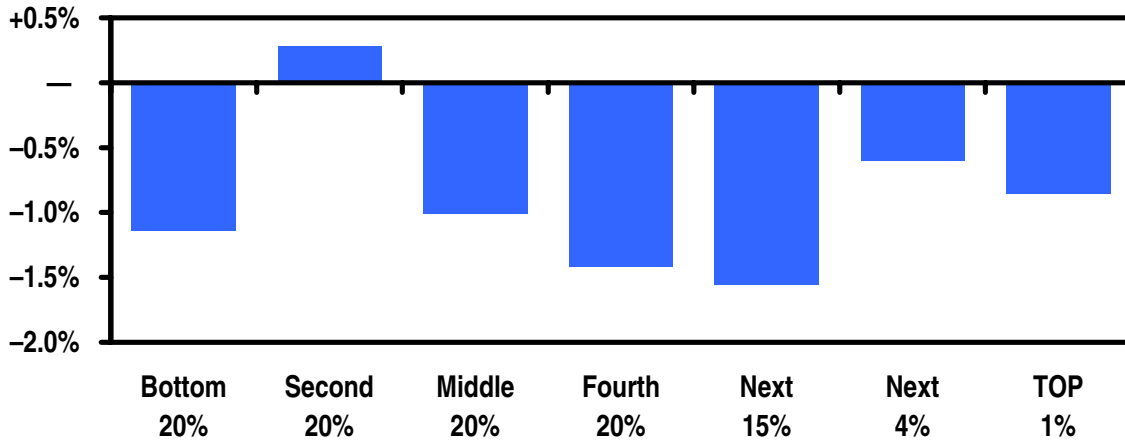
Progressive Features

- ✓ Refundable EITC
- ✓ Groceries exempt from sales tax
- ✓ Property tax homestead exemption

Regressive Features

- ✗ Personal exemption and brackets not indexed
- ✗ Heavy taxation of utility services

Changes in Taxes as Shares of Income, 1989 – 2002

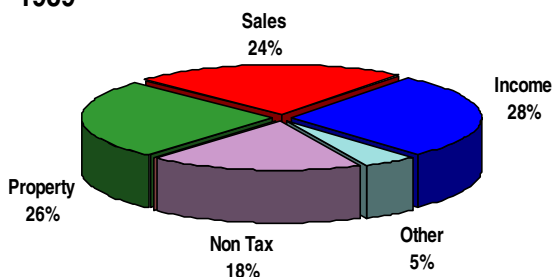


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.6%	+0.5%	+0.4%	+0.3%	+0.2%	+0.1%	+0.0%
Property	-0.1%	-0.1%	-0.2%	-0.4%	-1.0%	-0.6%	-0.5%
Income	-1.7%	-0.1%	-1.2%	-1.2%	-0.8%	-0.1%	+0.3%
Federal Offset	+0.0%	-0.0%	-0.0%	-0.1%	+0.0%	+0.1%	-0.7%
Overall Change	-1.1%	+0.3%	-1.0%	-1.4%	-1.6%	-0.6%	-0.9%

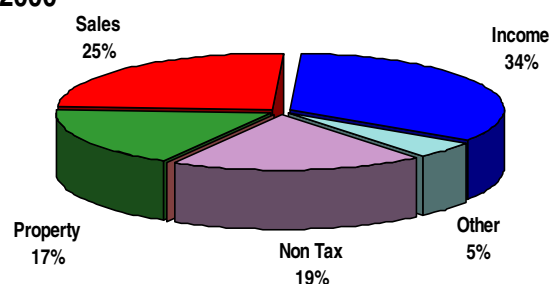
The District of Columbia's EITC, adopted in 1998 and expanded in 2001, substantially lowered the income tax burden on the bottom quintile. Combined with across the board phased-in rate reductions and a significant bracket expansion, this yielded a significant income tax cuts over the decade. A modest cut in the general sales tax was offset by excise tax hike and increased levies on utilities and motor vehicles. While these changes were generally regressive, they were offset by income tax reductions and the expansion of the homestead exemption for property taxes.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census