**Tax Provisions for Equity and Opportunity**

***The DC tax code includes provisions that reduce taxes and boost incomes for low- and moderate-income households. The two largest tax credits based on income are an Earned Income Tax Credit (EITC) and a “Schedule H” circuit breaker, and the District has recently increased both. Extensive bodies of research show that programs like these make the tax code fairer and improve long-term outcomes for poor families. There are other provisions that affect the amount of taxes paid by poor families; those provisions generally are either very broad (benefiting all or most city residents including many with higher incomes) or very narrow (affecting just a handful of families).***

The District of Columbia, like the federal government and many states, includes in its tax code provisions that reduce taxes and raise incomes for lower-income families and individuals.

These provisions are important in part because low-income households pay a substantial amount of many DC taxes, such as sales, excise, and property taxes—and often at a disproportionately high share relative to their incomes (see Table 1). Targeted tax assistance can help offset these regressive taxes and prevent the tax code from pushing families more deeply into poverty.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 1. Taxes Paid by Hypothetical Families of Three, As a Share of Income, 2020** | | | | | | | | | | |
|  | **District of Columbia** | | | | | ***Average of other jurisdictions in DC metro area*** | | | | |
| **Family income** | **Income tax** | **Property tax** | **Sales Tax** | **Auto Taxes** | Total | ***Income tax*** | ***Property tax*** | ***Sales Tax*** | ***Auto Taxes*** | ***Total*** |
| **$25,000** | -4.5% | 6.7% | 3.2% | 0.8% | 6.2% | *-1.3%* | *11.5%* | *3.2%* | *1.8%* | ***15.1%*** |
| **$75,000** | 3.5% | 1.8% | 1.6% | 0.6% | 7.5% | *4.7%* | *3.4%* | *1.5%* | *1.8%* | ***11.5%*** |
| **$150,000** | 5.0% | 2.3% | 1.1% | 0.3% | 8.7% | *4.6%* | *3.5%* | *1.0%* | *1.4%* | ***10.5%*** |
| Note: The Schedule H circuit breaker is considered a property tax provision for purposes of this calculation. Negative income tax figures indicate a refundable tax credit in excess of income tax liability.  Source: Office of the Chief Financial Officer, *A Comparison of Tax Rates and Burdens in the Washington Metropolitan Area, 2022*, Table 7. | | | | | | | | | | |

An extensive body of academic research has documented the positive short- and long-term effects of tax-based assistance to low-income families. Federal and state Earned Income Tax Credits (EITCs), for example, have been shown to improve children’s lifetime educational attainment, earnings, and health outcomes. EITCs also have been shown to reduce economic and racial inequality.

**Tax credits and other provisions targeted directly to low- and moderate-income families**

Several tax provisions for equity and opportunity are administered as refundable tax credits through the income tax system. “Refundable” means that if the amount of the credit exceeds income tax liability, the taxpayer receives the excess amount in the form of a refund. The two most significant tax provisions targeted to low-income households are the DC Earned Income Tax Credit (EITC) and the Property Tax Circuit Breaker, also known as Schedule H.

***DC Earned Income Tax Credit (EITC).*** The DC EITC is a credit for low- and moderate-income families who have earnings from employment but whose incomes do not exceed a certain amount. The DC EITC is based on the federal credit. Families who receive the federal credit are also eligible for the DC credit, but there are a few differences. Under both credits, families with children receive the vast majority of EITC benefits, with the largest credit available to families with three or more children, slightly smaller amounts available for families with one or two children, and a much smaller credit for adults without custodial children.

Depending on the number of children, the federal credit can be worth as much as $7,000 per year in 2022. For most families with children, the DC credit is set at 70 percent of the federal credit in 2022, and will rise to 85 percent of the federal credit for tax year 2025 and 100 percent after that. In other words, starting in 2026, each family who receives the federal credit will receive a matching amount from the District. Workers without children can be eligible for an EITC of up to $1,502 in 2022.

In addition, the District allows certain immigrant households who are barred from receiving the federal credit, such as unauthorized workers, to nonetheless qualify for the DC credit, and the District also allows certain noncustodial parents to receive a larger DC credit than they otherwise would qualify for if they are in compliance with a child support order. Like most tax credits, the federal and DC EITCs are paid on an annual basis, but beginning with the 2023 tax filing season, many DC recipients will receive at least part of their credit in the form of monthly payments rather than as a lump sum.

Some 54,000 DC households received $44.1 million in DC EITC benefits in 2019. The planned expansion of the credit is expected to increase the total annual amount to $107 million. An analysis of data from 2001 to 2017 found that EITC recipients have lived in every ward of the city, with about 45 percent of total benefits going to residents of Ward 7 and Ward 8.

***Property tax circuit breaker*,** also known as “Schedule H.” The circuit breaker is available to homeowners and renters with incomes below $56,200 ($76,200 for seniors) if their property taxes exceed a percentage of their income. The percentage threshold ranges from 3 percent to 5 percent, depending on age and income. Homeowners calculate the circuit breaker amount based on actual property tax liability, while renters calculate it based on the assumption that the property tax equals 20 percent of actual rent paid. (Renters whose landlords don’t pay any property tax, such as public housing tenants, cannot benefit.) The maximum credit for 2022 was $1,225. Some 39,000 households benefited from the circuit breaker in 2020, for a total benefit of $37.1 million.

*Other low-income provisions.* In addition to the EITC and the circuit breaker, the District offers some other tax breaks targeted to lower-income residents, but they are much less well-utilized and/or less well-targeted than the EITC and circuit breaker. For example:

* The District offers two different tax credits for childcare. The federal Child and Dependent Care Tax Credit (CDCTC) is set at a percentage of a household’s childcare expenses, and the DC CDCTC is based on the federal credit. The percentage is highest for lower-income families, but families with incomes below $25,000 rarely benefit at all because neither the federal nor DC credits are refundable and families at that income level typically have little or no pre-credit income tax liability. A newer DC credit, the Early Learning Child Credit, is refundable, but it is small and poorly targeted. It was claimed in 2019 by just 781 households, fewer than half of whom had incomes below $50,000. The total revenue impact was under $1 million.
* The District offers two property tax deferral programs for low-income homeowners until the property is sold. One program allows homeowners with incomes below $50,000 to defer any property tax increases. The other allows seniors with incomes below $50,000 to defer the entire amount of their property tax. Take-up is low; only a few hundred DC households choose to participate in either program, with an aggregate revenue loss to the District of roughly $200,000.
* Another refundable income tax credit aimed specifically at low-income homeowners who have been in their homes for at least seven consecutive years had only 27 participants in 2021 and an estimated revenue impact of just $4,000.

**Non-targeted tax provisions that benefit low-income DC residents**

Some aspects of the tax code that are valuable to families across the income spectrum have an especially large benefit for low-income families. For example:

* The DC standard deduction, which mirrors the federal standard deduction of $13,850 for single taxpayers and $27,700 for married couples in 2022, substantially reduces or even eliminates income tax liability for many low-income families. For those families who do have tax liability, the combination of the standard deduction and DC graduated income tax rates keep their tax liability lower than families in higher income brackets.
* DC exempts grocery food, prescription drugs, and some other essential items from its sales tax.

In addition to the direct benefit programs described above, the District provides tax breaks to certain developers and property owners who provide housing at below-market rents to families whose incomes fall below specific thresholds. Examples include the DC Low-Income Housing Tax Credit (LIHTC) and a new program starting in 2024 to give $4 million per year in property tax abatements to projects with affordable units in parts of the city that currently have little affordable housing.

**Comparisons to other jurisdictions**

Most states and some localities offer targeted tax provisions to low- and moderate-income families. Most states with income taxes, for example, offer EITCs. Montgomery County residents are eligible for a state EITC and another matching county EITC that, together, equal 90 percent of the federal EITC, a level slightly above the current DC credit for families with children. Maryland taxpayers outside of Montgomery County, as well as Virginia taxpayers, also are eligible for state EITCs, but below the DC level. A number of other states, including Maryland, provide a circuit breaker to homeowners and renters with incomes below $60,000. Virginia does not offer a circuit breaker. Other low-income tax provisions offered by some states include child tax credits and sales tax rebates.

**Sources & further reading:**

* [*DC Tax Expenditure Report 2022*](https://ora-cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2022%20Tax%20Expenditure%20Report.pdf), Office of the Chief Financial Officer.
* [*DC Tax Burdens – Nationwide Comparison 2020*](https://ora-cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2020%20Tax%20Rates%20and%20Tax%20Burdens_Nationwide%20Comparison.pdf), Office of the Chief Financial Officer.
* *Policy Basics:* [*State Earned Income Tax Credits*](https://www.cbpp.org/research/state-budget-and-tax/state-earned-income-tax-credits), Center on Budget and Policy Priorities, 2021.
* *Property Tax Relief for Homeowners*, Lincoln Institute of Land Policy, 2021.
* [*Who Claims the DC Earned Income Tax Credit?*](https://ora-cfo.dc.gov/blog/who-claims-dc-earned-income-tax-credit) Office of the Chief Financial Officer, 2021.