



D.C. Office of Revenue Analysis Briefing Document Number: 2014-11 Date: November 2014

Vincent C. Gray, Mayor

Jeffrey S. De Witt, Chief Financial Officer

Fitzroy Lee, Deputy CFO & Chief Economist

State and local tax burdens on households in the metro area: DC's are lowest

DC's relative burdens have declined since 2005; a \$75,000-income household pays 9% to 20% less in DC than elsewhere

According to a recent Office of Revenue Analysis report, DC has the lowest combined tax burdens compared to its metro area neighbors across four main taxes: income, property, sales, and auto taxes. These calculations are part of an annual study called "Tax Rates and Tax Burdens: Washington Metropolitan Area," in which hypothetical state and local tax burdens are estimated for a family of three at different income levels in eight Washington-area jurisdictions. The jurisdictions are DC; Montgomery and Prince George's counties in Maryland; Arlington and Fairfax counties in Virginia; and the Virginia cities of Alexandria, Fairfax, and Falls Church.

For the 2013 tax year, the report finds that DC has the lowest combined tax burden at each annual income level assessed in the report (\$25,000; \$50,000; \$75,000; \$100,000; and \$150,000). In 2005, right before income and property tax reductions went into effect in the District, DC ranked highest (1st) at the \$25,000 income level, and 3rd highest at all other income levels.

DC's Tax Burden Rank Compared to Other Area Jurisdictions, by Income Level, 2005 and 2013

	2005	2013
\$25,000	highest	lowest
\$50,000	3rd highest	lowest
\$75,000	3rd highest	lowest
\$100,000	3rd highest	lowest
\$150,000	3rd highest	lowest

Source: See Table on pg 21; in 2005 only 6 jurisdictions included; there are 8 in 2013.

Comparison by tax

Breaking the findings down by specific tax types, the District's individual income tax burden in 2013 is lower than the metropolitan average at all levels except the \$50,000 and \$150,000 income levels. The District's income tax burden ranges from less than 0 percent (-\$599) at the \$25,000 income level (this negative burden is due to a refundable EITC) to 4.44 percent (\$6,665) at the \$150,000 income level.

The real property tax burden for DC residents falls below the area-wide averages for homeowners at all income levels. For homeowners (those families earning \$50,000 or more), the tax burden ranges from 2.35 percent (\$1,173) for income at the \$50,000 income level to 3.13 percent (\$4,695) at the \$150,000 income level. For the District, in 2013 the effective rate of \$0.85 is applied to the assessed market value of a home, less a \$69,100 homestead deduction. (Continued on p. 2)

This briefing document was prepared by Lori Metcalf, DC Office of Revenue Analysis.

This brief first appeared in the November 2014 DC Economic and Revenue Trends. District of Columbia briefing documents are prepared by the Office of Revenue Analysis, which is part of the Office of the Chief Financial Officer of the District of Columbia government. The purpose of these documents is to make information available that is not of a policy nature. See also District of Columbia Economic and Revenue Trends and Economic Indicators issued monthly by the D.C. Office of the Chief Financial Officer (www.cfo.dc.gov/Reports/Economic Reports/Briefing documents).

Metropolitan Statistical Area (MSA) area rental values are used for the study. Since all of the jurisdictions fall into the same MSA, those families who earn \$25,000 per year and are assumed to rent have the same property tax burden, which is assumed to be 20 percent of annual rent paid.

The District's sales tax burden is higher than the metropolitan area average at all income levels. The general sales tax rate in the District of Columbia is 5.75 percent; however, because of the multiple rate system, the total tax burden is more than 5.75 percent of total taxable sales. The District's sales tax rates on restaurant meals, alcohol, transient accommodations, and commercial parking services are higher than the general rate. (The higher rates for restaurants etc. are, of course, also paid by non-residents and are major revenue sources for the District.)

The District of Columbia automotive tax burden is lower than the metropolitan area average at all income levels. Unlike Virginia localities, the District and Maryland jurisdictions do not levy a personal property tax on automobiles. The combined state and local registration fees in Virginia are comparable to the sole state rate in Maryland. The highest registration fee in the metropolitan area is imposed in the District of Columbia, ranging from \$72 for a vehicle weight under 3,500 pounds to \$155 for vehicles of 5,000 pounds or more.

DC tax changes since 2005 affecting DC's tax burden

As noted above, DC's metro area rank in 2005 was third highest at every income level except for \$25,000, where it ranked the highest. In 2006, DC's lowest, middle, and top individual income tax rates decreased from 5.0 to 4.5 percent, 7.5 to 7.0 percent, and 9.0 to 8.7 percent, respectively. The middle rate income range increased from \$30,000 to \$40,000 and the top rate of 8.7 percent began at \$40,001. In 2007, these individual income tax rates were further lowered from 4.5 to 4.0 percent, 7.0 to 6.0 percent, and 8.7 to 8.5 percent, respectively. For homeowners, the real property tax rate was reduced from \$0.96 in 2005 to \$0.85 in 2008, while the homestead exemption increased from \$38,000 in 2005 to \$69,100 in 2013.

Further, in 2006, DC increased its Earned Income Tax Credit (EITC) match from 25 percent to 35 percent of the federal credit, and in 2008, from 35 to 40 percent of the federal credit, offering a greater benefit to low-income households. In 2011, DC raised its top income tax rate on residents earning over \$350,000 per year from 8.5 percent to 8.95 percent; however, this did not impact any of the hypothetical families in the study.

Methodology

In order to compare the attractiveness of different locations within the major metropolitan Washington area, this study estimates hypothetical state and local tax burdens for a family of three. The hypothetical family consists of two wage-earning spouses and one school-age child. The gross family income levels used are \$25,000, \$50,000, \$75,000, \$100,000 and \$150,000. The wage and salary split is assumed to be 70-30 between the two spouses. All other income is assumed to be split evenly. The family at each income level is assumed to own a single family home, with the exception of families at the \$25,000 income level, who are assumed to occupy rental housing. All families are assumed to reside within the confines of the jurisdiction, and all wage and salary income is assumed to have been earned in the jurisdiction.

The four taxes used in the comparison are the individual income tax; the real property tax on residential property; the general sales and use tax; and automobile taxes, including the gasoline tax, registration fees, and personal property tax for tax year 2013.

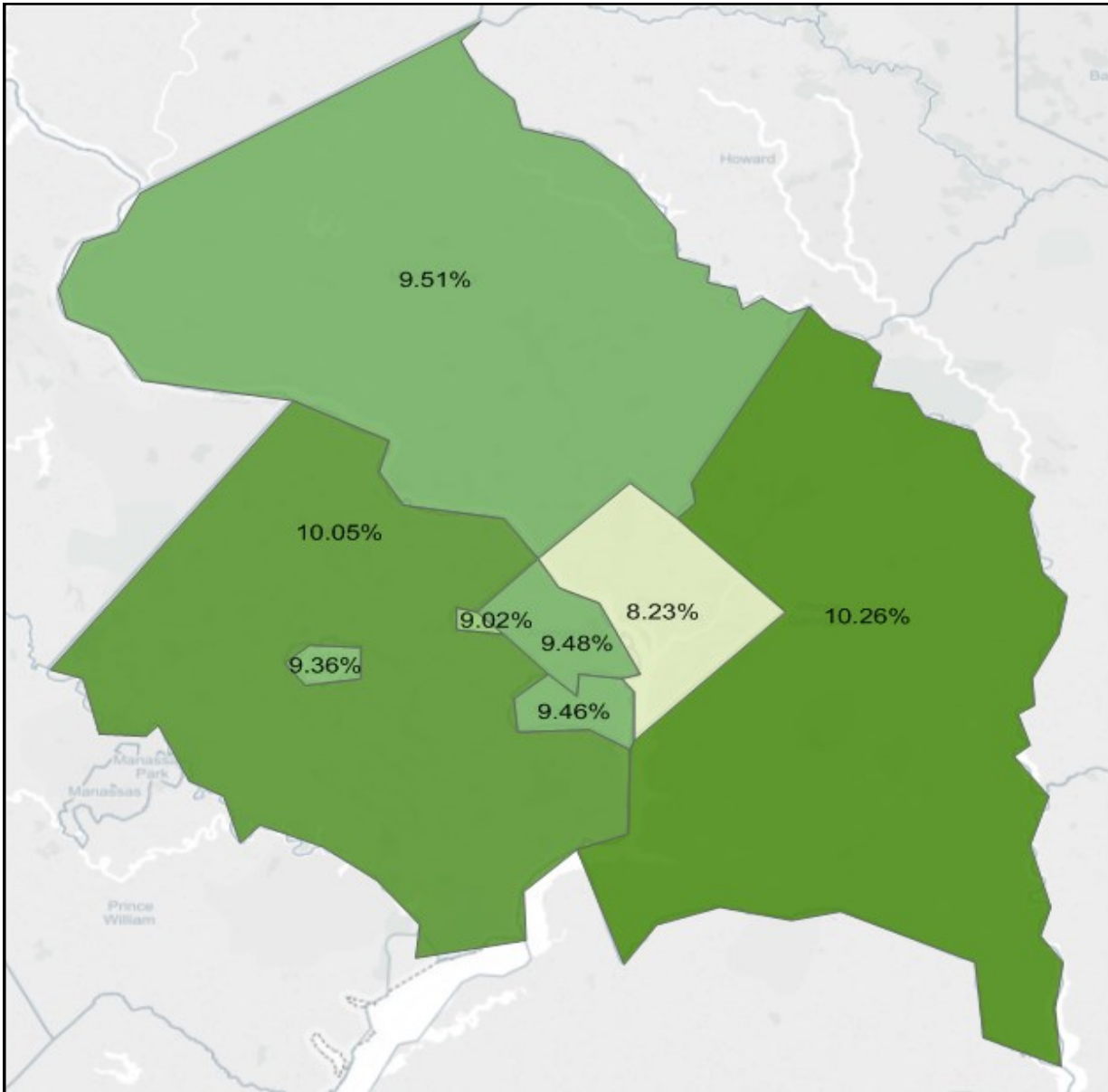
This study is not intended to measure the overall level of state and local taxation in a jurisdiction; rather, it attempts to measure a hypothetical tax burden for a family given assumptions identified for each tax. There is no single "best" way of measuring tax burdens. To estimate tax payments, the study makes assumptions about typical households, their sources of income, and consumption patterns.

Property tax liabilities are particularly difficult to measure accurately because of varying assessment practices, property characteristics, tax policies, and relief mechanisms. For example, some local, special district taxes that make up part of the overall property taxes residents must pay in Montgomery and Prince George's counties in Maryland are not included in the property tax burdens here.

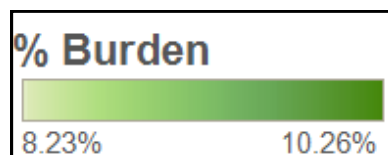
A metro-area map for the \$75,000 income level is shown on p. 3. Tables showing tax burdens for each jurisdiction in 2013 (and rankings in 2005 and 2013) are on p. 4. The full report with more metro area maps at different income levels can be found here: <http://cfo.dc.gov/page/tax-burdens-comparison>.

—Lori Metcalf, Office of Revenue Analysis.

Total 2013 Metro Area State and Local Tax Burdens (Income, Property, Sales, & Auto) as a % of Income for a Family Earning \$75,000/Year



The lighter the green shading, the lower the tax burden.



**2013 MAJOR STATE AND LOCAL TAX BURDENS FOR A FAMILY OF THREE RESIDING
IN SELECTED WASHINGTON METROPOLITAN AREA JURISDICTIONS (WITH 2005 AND 2013 RANKS)**

(\$25,000 income level)

Tax	DC	Mont. Co.	PG Co.	Alexandria	Arlington Co.	Fairfax Co.	Fairfax City	Falls Church
Income 1/	-599	-331	-331	0	0	0	0	0
Property	2,942	2,942	2,942	2,942	2,942	2,942	2,942	2,942
Sales	550	352	352	405	405	405	405	405
Automobile	219	209	209	358	408	485	448	297
TOTAL	3,112	3,172	3,172	3,705	3,755	3,832	3,796	3,644
RANK 2013	8	6/7	6/7	4	3	1	2	5
RANK 2005	1	5	6	3	2	4	na	na

1/ Negative numbers represent a refundable EITC.

(\$50,000 income level)

Tax	DC	Mont. Co.	PG Co.	Alexandria	Arlington Co.	Fairfax Co.	Fairfax City	Falls Church
Income	1,275	1,576	1,536	1,152	1,152	1,133	1,144	1,129
Property	1,173	1,804	2,221	2,150	2,084	2,291	2,196	2,196
Sales	736	468	468	506	506	506	506	506
Automobile	232	253	253	442	507	608	560	362
TOTAL	3,417	4,101	4,478	4,250	4,249	4,538	4,405	4,193
RANK 2013	8	7	2	4	5	1	3	6
RANK 2005	3	2	1	5	6	4	na	na

(\$75,000 income level)

Tax	DC	Mont. Co.	PG Co.	Alexandria	Arlington Co.	Fairfax Co.	Fairfax City	Falls Church
Income	2,487	3,174	3,114	2,259	2,258	2,228	2,264	2,233
Property	2,054	2,707	3,331	3,225	3,126	3,437	3,294	3,294
Sales	1,101	721	721	748	748	748	748	748
Automobile	532	532	532	861	978	1,126	712	487
TOTAL	6,174	7,134	7,698	7,093	7,110	7,539	7,018	6,761
RANK 2013	8	3	1	5	4	2	6	7
RANK 2005	3	2	1	5	6	4	na	na

(\$100,000 income level)

ax	DC	Mont. Co.	PG Co.	Alexandria	Arlington Co.	Fairfax Co.	Fairfax City	Falls Church
Income	3,739	4,727	4,649	3,480	3,479	3,442	3,376	3,322
Property	2,934	3,609	4,441	4,301	4,168	4,582	4,392	4,392
Sales	1,235	815	815	818	818	818	818	818
Automobile	708	665	665	1,106	1,253	1,423	944	872
TOTAL	8,617	9,816	10,570	9,705	9,718	10,265	9,529	9,404
RANK 2013	8	3	1	5	4	2	6	7
RANK 2005	3	2	1	5	6	4	na	na

(\$150,000 income level)

Tax	DC	Mont. Co.	PG Co.	Alexandria	Arlington Co.	Fairfax Co.	Fairfax City	Falls Church
Income	6,665	8,071	7,947	5,500	5,470	5,407	5,469	5,406
Property	4,695	5,413	6,662	6,451	6,252	6,873	6,588	6,588
Sales	1,720	1,151	1,150	1,064	1,064	1,064	1,064	1,064
Automobile	661	618	618	1,507	2,237	2,260	1,910	1,490
TOTAL	13,740	15,253	16,377	14,522	15,023	15,604	15,031	14,547
RANK 2013	8	3	1	7	5	2	4	6
RANK 2005	3	2	1	5	6	4	na	na