

**Government of the  
District of Columbia**



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# **District of Columbia Tax Comparisons**

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## Executive Summary

This paper compares the District of Columbia's tax system with other jurisdictions—with an emphasis on jurisdictions in the Washington metro region and U.S. state averages. Since D.C. collects both state and local taxes, the paper analyzes the combined state and local taxes of jurisdictions. The paper will analyze and compare the following aspects of the D.C. tax system: per capita tax revenue; revenue mix; business taxes; household taxes; family tax burdens; and tax distribution.

The highlights of D.C.'s tax system:

**Per capita tax revenue is high when compared with states.** D.C. collects more per capita tax revenue than any other state. This reflects D.C.'s comparatively rich tax base and high effective tax rates. But this comparison is somewhat misleading as D.C.'s profile differs from all other states. D.C. is 100% urban, and urban areas typically have richer tax bases and higher effective tax rates than rural areas. Unfortunately, combined state and local tax data are available for comparison only for states, not localities.

**D.C.'s corporate income (franchise) tax rate has become more competitive in the region as D.C.'s tax rate is now the same as Maryland's rate (though higher than Virginia's).** D.C.'s tax rate is the eleventh highest in the U.S. A national study recently found that D.C.'s effective commercial property tax rate is lower than average for a large city for a property valued at \$1 million and \$25 million; however, D.C.'s statutory commercial property tax rates are the highest in the region for buildings of any value.

**Household taxes in D.C. are below average for a large city and the lowest in the Washington metro region.** A hypothetical family's tax burden in D.C.—at low, middle, and high levels of income (up to \$150,000/year)—is below the national average for families residing in large cities. Further, most D.C. families studied would have a higher tax burden if they moved to a neighboring jurisdiction in Maryland or Virginia. This is because residential property taxes in D.C. are the lowest in the region.

**The overall tax distribution is relatively flat.** In contrast with the regressive taxes of most state and local tax systems, D.C. has a “close-to-flat” tax system. The lowest-income residents pay a comparatively small share of their income in D.C. taxes (6.3%), while the middle-income group pays 10.1%, and the highest-income residents (top 1%) pay a slightly lower share (9.5%).

## **Acknowledgments**

This document is an update of an April 2013 report written by Richard Auxier for the previous D.C. Tax Revision Commission. All numbers have been updated unless otherwise noted, but the structure and contents of the original report developed by Mr. Auxier have been maintained. I would like to thank Lori Metcalf for updating the report, and Robert Zuraski and Farhad Niami for their assistance reviewing and editing the report.

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## Regional Tax Rate Comparisons

<b>Regional Tax Rate Comparisons, as of January 1, 2022</b>			
	<b>D.C.</b>	<b>MD</b>	<b>VA</b>
Top Income Tax Rate	10.75%	5.75%	5.75%
Top Income Tax Bracket	>\$1 million	\$250,000	\$17,000
County Income Tax Rate	--	3.2%	0
Top Corporate Income Tax Rate	8.25%	8.25%	6%
Retail Sales Tax Rate	6%	6%	6% <sup>1</sup>

<sup>1</sup> Includes a state rate of 5.3% and northern Virginia rate of 0.7%.

<b>Residential Property Tax Rate Comparisons - January 1, 2022</b>						
	<b>D.C.</b>	<b>Montgomery County, MD<sup>1</sup></b>	<b>Prince George's County, MD<sup>1</sup></b>	<b>Arlington County, VA</b>	<b>Fairfax County, VA</b>	<b>Alexandria, VA</b>
Rate per \$100 of assessed value	0.85	1.091	1.465 (\$1.444/\$1.486)	1.026	1.184	1.13

<b>Commercial Property Tax Rate Comparisons - January 1, 2022</b>						
	<b>D.C.</b>	<b>Montgomery County, MD<sup>1</sup></b>	<b>Prince George's County, MD<sup>1</sup></b>	<b>Arlington County, VA<sup>2</sup></b>	<b>Fairfax County, VA<sup>2</sup></b>	<b>Alexandria, VA</b>
Rate per \$100 of assessed value	\$1.65 <\$5m; \$1.77 \$5-10m; \$1.89 >\$10m	1.091	1.465 (\$1.444/\$1.486)	1.155	1.298	1.13

<sup>1</sup>Montgomery County, MD and Prince George's County, MD, residential and commercial rates include state rate of \$0.112/\$100 of assessed value, as well as base county rate, M-NCPPC rate, and WSTC rate; additionally, PG County includes an average of two stormwater tax rates (presented in parentheses).

<sup>2</sup>Arlington includes base rate, stormwater rate, and transportation capital fund rate on commercial properties. Fairfax County includes base rate, stormwater rate, commercial transportation district rate, and infestation prevention rate.

## D.C. Collects a High Level of Tax Revenue Compared with Neighboring States and the Average of U.S. States

**Table 1: Comparison of Total State & Local Tax Revenue**

	Per Capita	Percentage of Personal Income
<b>District of Columbia</b>	\$ 12,087 (1)	14.5% (2)
<b>Maryland</b>	\$ 6,777 (9)	10.5% (16)
<b>Virginia</b>	\$ 5,369 (24)	9.02% (35)
<b>U.S. Average</b>	<b>\$ 5,664</b>	<b>10.00%</b>

Source: US Census Bureau Annual Survey of State and Local Government Finances, 1977-2019 (compiled by the Urban Institute via State and Local Finance Data: Exploring the Census of Governments; accessed 10-May-2022 09:59), <https://state-local-finance-data.taxpolicycenter.org>.

The District collected \$12,087 in per capita tax revenue in 2019<sup>1</sup>, the largest per capita total of all states and more than double the national average (\$5,664). Maryland’s per capita tax revenue was \$6,777 and the 9<sup>th</sup> highest in the country. Virginia’s per capita tax revenue was \$5,369, and the 24<sup>th</sup> highest in the country (and below the national average).

The District also collected a relatively large amount of per capita tax revenue from each category of tax in 2019. D.C. collected more per capita property tax revenue (\$3,955) than any other state and over twice the national average (\$1,757). D.C.’s per capita tax revenue from general sales taxes (\$2,248), individual income (\$3,246) and corporate income (\$907) were above the national average as well. For each of these tax types, D.C.’s per capita tax revenue is in the top three highest totals among the states.

Measured as a percentage of personal income, D.C.’s tax revenues—both in total and for individual taxes, particularly property and corporate income taxes—are also comparatively high when compared with the combined state and local tax revenues of other states.<sup>2</sup>

### Why is D.C.’s Per Capita Tax Revenue Comparatively High?

As the previous version of this report noted, D.C.’s comparatively high per capita tax revenue reflects a relatively rich tax base— residents’ high per capita income, high property values and high levels of consumption by tourists and commuters—and effective tax rates that are above the national average.<sup>3</sup> But while per capita tax revenue is an often-cited comparison, it is important to understand what is driving this number.

First, a state’s per capita tax revenue is not a direct measure of a resident’s tax burden. When the Census calculates per capita tax revenue it analyzes all taxes levied by states and localities—on both individuals and businesses. This includes taxes on natural resources, for example. While D.C. does not have an

<sup>1</sup> The US Census Bureau’s Annual Survey of State and Local Government Finances collects data from states on a fiscal year basis; the data presented here are for Fiscal Year 2019. In most states this was July 1, 2018, to June 30, 2019; in D.C. it was October 1, 2018, to September 30, 2019.

<sup>2</sup> In FY 2019, D.C.’s tax revenues were 14.54% of personal income. This was above the national average of 10.00% and higher than the percentage in all but one state. Maryland’s tax revenue as a percentage of personal income (10.50%) was just above the national average while Virginia’s percentage was 9.02% and below the national average. D.C.’s tax revenues are closer to those of other states when measured as a percentage of personal income. For example, while D.C. per capita property tax revenues were the highest in the country, as a percentage of personal income (4.76%) they were closer to the national average (3.11%) and smaller than the property tax revenues of four other states. D.C.’s sales tax revenue as a percentage of personal income was 2.7% and just above the national average of 2.34%. However, corporate income taxes as a percentage of personal income (1.09%) in D.C. were higher than any other state.

<sup>3</sup> Office of Revenue Analysis. “Measuring the Fiscal Capacity of the District of Columbia—a comparison of revenue raising capacity and expenditure need Fiscal Year 2005,” October 2008.

abundance of natural resources it does have a lot of business activity, and roughly 35 percent of D.C.’s tax revenue comes from business taxes.<sup>4</sup> Further, a portion of D.C.’s sales tax revenues are paid by non-residents (tourists and commuters).<sup>5</sup> These factors contribute to D.C. simultaneously having high per capita tax revenue and maintaining a comparatively low tax burden for most of its residents.

Further, as the previous version of this report noted, comparing D.C.’s per capita tax revenue to other states can be misleading because D.C. has the profile of a city, not a state. An urban area typically has a richer tax base and higher effective tax rates than a rural community. And while D.C.’s population is 100% urban; a typical state is only 80.7% urban.<sup>6</sup> Therefore, all other states have per capita tax revenue statistics totaled across both urban and rural areas. Thus, for comparison, Pennsylvania’s per capita tax revenue is determined by averaging the tax bases and effective tax rates across the state, including Philadelphia, Harrisburg, and rural areas throughout the state. Unfortunately, there are no data on just Philadelphia’s state and local tax revenue per capita (or any other locality) to compare.

**Table 2: Comparison of Populations**

	<b>Urban Population (2010)</b>	<b>Poverty Rate</b>	<b>Per Capita Personal Income</b>
District of Columbia	100.0%	15.5%	\$58,659
Maryland	87.2%	9.0%	\$43,352
Virginia	75.4%	10.0%	\$41,255
U.S. Average	80.7%	12.8%	\$35,384

Source: Urban Population: Census Bureau, 2010; Poverty Rate: 2020 ACS 5-Year Estimates Data Profiles; Per Capita Personal Income: Census Quick Facts 2016-2020, in 2020 dollars.

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<sup>4</sup> ORA calculations. In FY2021, commercial property tax revenue (including personal property and public space rental taxes) comprised 19.7% of local revenues and corporate and unincorporated franchise taxes comprised 8.6%. Gross receipts taxes levied on businesses are estimated to account for around 3.1% based on previous year’s shares paid by businesses, and deed taxes on sales of commercial properties are estimated to account for 3.4% of local revenues. This doesn’t include the business payments of individual income taxes (such as for pass-through entities) or business payments of sales taxes for business-related purchases.

<sup>5</sup> For example, much of the tax revenue from spending on hotels, parking, rental vehicles, and restaurants comes from non-residents.

<sup>6</sup> From the 2010 U.S. Census; data on urban populations from the 2020 Census are not yet available.



## D.C.'s Revenue Mix<sup>7</sup>

In 2019, 60% of D.C.'s general revenue came from taxes. That percentage was just over the national average for taxes as a percentage of state and local general revenue (53.63%). State and local taxes were almost the same percentage of general revenue in Maryland (60.62%) and slightly lower in Virginia (54.88%).

Among D.C. individual taxes, property taxes accounted for the largest share, contributing 19.63% of general revenue. That was just over the national average for state and local property taxes as a percentage of general revenue (16.64%), and greater than the percentages in Maryland (15.08%) and Virginia (18.05%).

Individual income taxes provided 16.12% of D.C.'s general revenues in 2019. That percentage was again over the national average (12.91%) but below the contribution to general revenue of individual income taxes in Maryland (23.50%) and Virginia (17.76%).

The revenue contribution of corporate income taxes in the District (4.50%) was relatively high in 2019. The national average for corporate income taxes was 1.89%. And in only one state (New Hampshire) was the percentage higher. Corporate income taxes were a lower percentage of general revenue in Maryland (1.92%) and Virginia (1.10%) than in D.C.

General sales (11.16%) and selective sales (3.02%) taxes contributed less to D.C. general revenue than the national average for such taxes, at 12.51% and 5.96%, respectively. Compared with Maryland and Virginia, D.C.'s general revenue was comprised of slightly more general sales tax revenue but less selective sales tax revenue. Other revenue, which includes items such as estate taxes, deed and recordation taxes, and motor vehicle title taxes, accounted for 5.57% of D.C.'s revenue, a higher percentage than Maryland (4.03%), Virginia (4.02%), and the U.S. Average (3.72%).

D.C. also collected 27.13% of its general revenue from federal grants; a reflection of both the city's status as the nation's capital and matching agreements between the District and the federal government for entitlement programs such as Medicaid. D.C.'s share of general revenue from federal grants is above the national average (21.97%), but many other states received comparable percentages in 2019. Eight states received 30% or more of their general revenue from federal grants and three states (Vermont, Wyoming, and Alabama) received nearly the same percent as D.C. Maryland's percentage of general revenue from federal grants (21.60%) is roughly the same as the national average while Virginia's percentage (15.61%) is the lowest of any state.

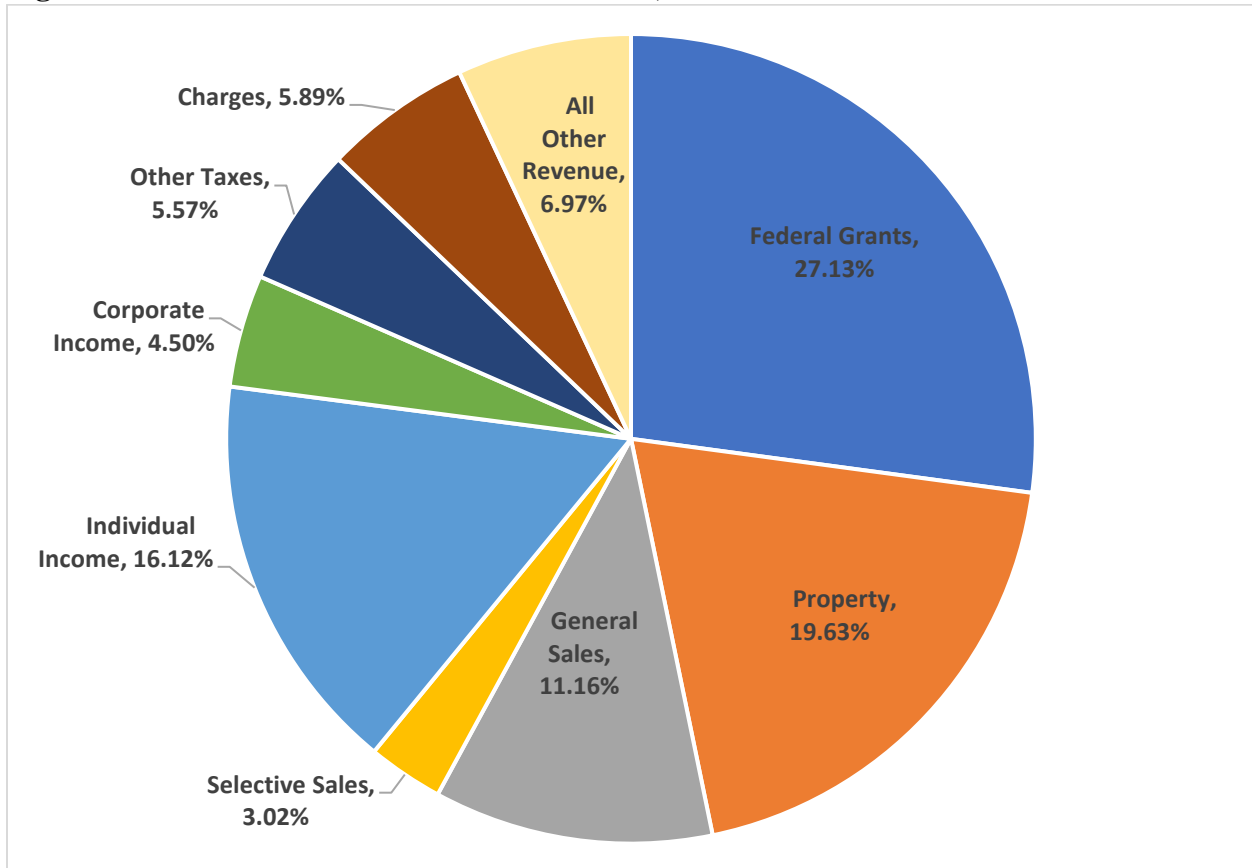
D.C.'s remaining general revenue comes from charges and what the Census labels "other" sources.<sup>8</sup> Notably, charges account for just 5.89% of D.C. general revenue, well below the national average (16.57%) and the lowest percentage of any state.

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<sup>7</sup> All figures in this section from Source: U.S. Census Bureau, 2019 Annual Surveys of State and Local Government Finances.

<sup>8</sup> The District collected 6.97% of its revenue from these other sources. This is largely the result of interest earnings from accounts and lottery revenues. The percentage was very close to the national average for such revenue.

**Figure 1: Distribution of D.C. General Revenue, FY 2019**



Source: Analysis of data from U.S. Census Bureau, 2019 Annual Surveys of State and Local Government Finances.

**Table 3: Percentage Distribution of State and Local General Revenue, 2019**

	D.C.	MD	VA	U.S.	D.C. Rank
Intergovernmental	27.13%	21.60%	15.61%	21.97%	13
Own-Source Total	72.87%	78.40%	84.39%	78.03%	39
Taxes Total	60.01%	60.62%	54.88%	53.63%	8
Property	19.63%	15.08%	18.05%	16.64%	8
General Sales	11.16%	7.22%	8.28%	12.51%	29
Selective Sales	3.02%	8.86%	5.67%	5.96%	50
Individual Income	16.12%	23.50%	17.76%	12.91%	9
Corporate Income	4.50%	1.92%	1.10%	1.89%	2
Other	5.57%	4.03%	4.02%	3.72%	11
Charges	5.89%	11.46%	20.87%	16.57%	51
All Other Revenue	6.97%	6.33%	8.64%	7.83%	36

Source: U.S. Census Bureau, 2019 Annual Surveys of State and Local Government Finances.

## **Business Tax Comparisons**

### **Business Income Tax Rates**

The corporate income tax rate in D.C. is 8.25%; the same as the rate in Maryland (8.25%) and higher than the rate in Virginia (6%). D.C.'s rate has been reduced in recent years, and while it is higher than the state average (5.95%), 10 states have a rate that is higher.<sup>9</sup>

The District also imposes an unincorporated business franchise tax on unincorporated businesses with gross income over \$12,000 at the same rate of 8.25%. This tax is levied on all businesses operating in the District regardless of whether the business owners reside in D.C. Most states collect these taxes via the income tax, but D.C. is prevented from taxing non-resident income. Businesses where 80% or more of gross income comes from personal services, such as doctors and lawyers, are exempt from unincorporated business franchise taxes.

Taxpayers subject to corporate income taxes or unincorporated business franchise taxes also pay a baseball gross receipts tax if they have at least \$5 million in annual D.C. gross receipts. The ballpark fee is \$5,500 for business with \$5 million to \$8 million in gross receipts, \$10,800 for business with \$8 million to \$12 million, \$14,000 for business with \$12 million to \$16 million, and \$16,500 for business with gross receipts over \$16 million.

For both the corporate income tax and the unincorporated business franchise tax the minimum tax payable—regardless of deductions and credits—is \$250. If D.C. gross receipts exceed \$1 million for a business, then the minimum tax is \$1,000.

To determine a multi-state corporation's tax payment, the District has used a single sales factor formula since tax year 2015 (D.C. previously required a three-factor formula—sales, property, and payroll—with a double-weighted sales factor). Maryland also uses a single sales factor formula and Virginia uses a double weighted sales apportionment method. As of 2022, 31 states use a single sales factor apportionment formula, while eight states use the double-weighted sales factor, and one uses a triple weighted sales factor. Six states use the traditional three factor formula (sales, property, and payroll equally weighted) for their corporate income tax.<sup>10</sup> Four states do not have a corporate income tax or gross receipts tax.<sup>11</sup>

A previous version of this report noted that there is unfortunately little information about effective state corporate tax rates. Myriad deductions, credits and other tax expenditures make it difficult to calculate across types of business.<sup>12</sup> For example, most businesses in D.C. pay the minimum tax and not the statutory rate. In 2019, roughly 60% of corporate franchise taxpayers and 57% of unincorporated business taxpayers paid the minimum tax.<sup>13</sup> That same year, corporations with gross receipts over \$30 million (21% of taxpayers) paid 64% of DC's corporate franchise tax.<sup>14</sup>

### **Commercial Property Tax Rates**

The rate for commercial property in the District is split: the first \$5 million in assessed value is taxed at a rate of \$1.65 per \$100 of assessed value; and the rate is \$1.77 for each \$100 of assessed value if the real

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<sup>9</sup> Federation of Tax Administrators, "Range of State Corporate Income Tax Rates, as of January 1, 2022." [https://www.taxadmin.org/assets/docs/Research/Rates/corp\\_inc.pdf](https://www.taxadmin.org/assets/docs/Research/Rates/corp_inc.pdf)

<sup>10</sup> Federation of Tax Administrators, "State Apportionment of Corporate Income as of January 1, 2022." <https://www.taxadmin.org/assets/docs/Research/Rates/apport.pdf>

<sup>11</sup> Federation of Tax Administrators, "Range of State Corporate Income Tax Rates, as of January 1, 2022." [https://www.taxadmin.org/assets/docs/Research/Rates/corp\\_inc.pdf](https://www.taxadmin.org/assets/docs/Research/Rates/corp_inc.pdf)

<sup>12</sup> Previous report citing "The Oxford Handbook of State and Local Government Finance," Oxford University Press (2021); p. 339.

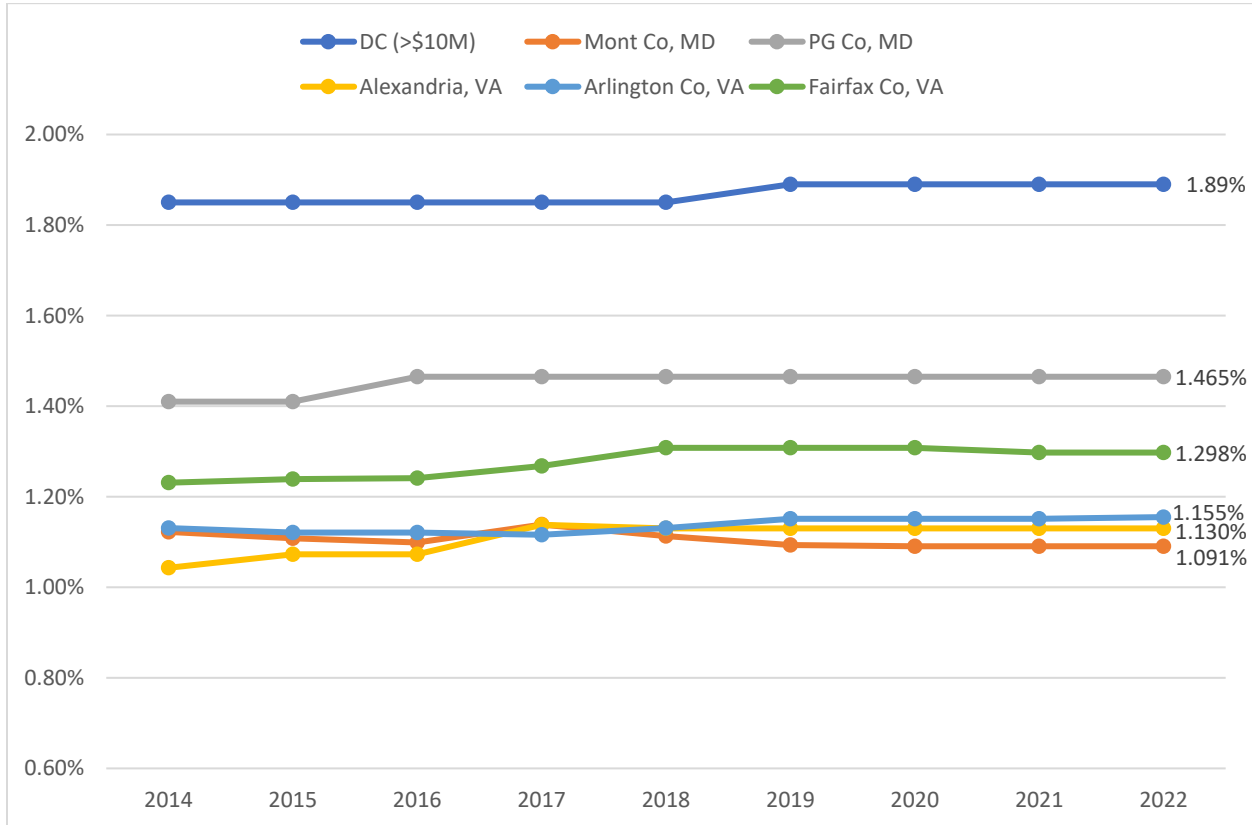
<sup>13</sup> ORA analysis of 2019 DC Corporate Franchise Tax and Unincorporated Franchise Tax Data.

<sup>14</sup> Ibid.

property’s assessed value is greater than \$5 million but not greater than \$10 million. For property assessed over \$10 million, the rate is \$1.89 per \$100 of assessed value.

Commercial property tax rates are also levied on 100% of a property’s assessed value in Maryland and Virginia. Maryland and Virginia jurisdictions apply different local rates, but in all neighboring jurisdictions the rate is lower than it is in D.C. In Maryland, for example, the rate per \$100 in Montgomery County is \$1.091, while Prince George’s County it is \$1.465.<sup>15</sup> In Virginia, the rate per \$100 is \$1.155 in Arlington County, \$1.13 in Alexandria, and \$1.298 in Fairfax County.<sup>16</sup>

**Figure 2: D.C. Metro Area Commercial Property Tax Rates, 2014 - 2022**



Source: ORA compilation from area jurisdiction’s web sites. D.C. rate included is the top rate (for assessed value > \$10 million).

**D.C. Has a Classified Property Tax System: Commercial Property is Taxed at a Higher Effective Rate than Residential Property**

A Minnesota Center for Fiscal Excellence study analyzes the effective tax rates (total tax divided by total value) for both commercial and residential property for the 51 largest cities in the U.S. (plus two additional cities in New York and Illinois because the tax systems in Chicago and New York are significantly different from the rest of the state). The most recent report was released in June 2021 and draws on data from 2020.<sup>17</sup> The effective commercial property tax rate in D.C. for property valued at \$1

<sup>15</sup> Includes base rates with additional rates for Maryland-National Capital Park & Planning Commission and the Washington Suburban Transit Commission. PG County Rate includes an average of two stormwater district rates.

<sup>16</sup> Arlington rate includes a sanitation district tax and a tax on commercial property for the Transportation Capital Fund. There is an additional non-residential stormwater fee in Alexandria.

<sup>17</sup> Minnesota Center for Fiscal Excellence and Lincoln Institute of Land Policy. “50 State Property Tax Comparison Study for Taxes Paid in 2020.” June 2021. [https://www.lincolnst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2020-full\\_0.pdf](https://www.lincolnst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2020-full_0.pdf)

million is 1.261%.<sup>18</sup> Among the 53 cities studied, D.C. has the 42nd highest effective rate and is below the average of 1.953%.

For commercial property valued at \$25 million the effective rate in D.C. is 1.925%. This ranks the District 23rd among the 53 cities and just below the average of 1.989%. Unfortunately, none of the District’s neighboring jurisdictions are among the 53 cities examined. The closest jurisdictions analyzed were Baltimore, Maryland and Virginia Beach, Virginia. For the commercial property valued at \$25 million, Baltimore’s effective rate (2.836%) is above D.C.’s rate and among the highest rates calculated while Virginia Beach’s effective rate (1.035%) is below D.C.’s rate and among the lowest rates calculated.

**Table 4: Effective Commercial Property Tax Rates**

	<b>D.C. (Rank)</b>	<b>U.S. Average</b>
<b>Commercial-Residential “Classification Ratio”</b>	2.075 (15)	1.766
<b>Effective Tax Rate: \$1 Million Property</b>	1.261% (42)	1.953%
<b>Effective Tax Rate: \$25 Million Property</b>	1.925% (23)	1.989%

Source: Minnesota Center for Fiscal Excellence and Lincoln Institute for Land Policy, “50 State Property Tax Comparison Report for Taxes Paid in 2020,” June 2021. Pgs. 76 and 102. [https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2020-full\\_0.pdf](https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2020-full_0.pdf)

The Minnesota study also calculates a “classification ratio,” which is the ratio of the effective tax rate on \$1 million of commercial property to the effective tax rate on a median-value residential property, for the largest city in each state. This ratio provides “a summary measure of the degree to which one type of property subsidizes lower property taxes on another class of properties,”<sup>19</sup> in this case commercial and residential property. A ratio of 1.0 indicates that commercial and residential properties are taxed uniformly within a jurisdiction. A ratio above 1.0 reveals that the jurisdiction has a classified property tax system, and that commercial property is taxed at a higher effective rate than residential property, in effect subsidizing residential property.

The District follows the national trend of taxing commercial property more highly than residential property. The national average classification ratio is 1.766; commercial properties have an effective tax rate 77 percent higher than residential properties, on average.<sup>20</sup> D.C.’s classification ratio of 2.075 indicates that commercial property is taxed at an effective tax rate just over double that of homesteads. D.C. ranks 15<sup>th</sup> highest among the cities studied. Again, no neighboring regional jurisdictions were analyzed by the Minnesota study; both Baltimore and Virginia Beach have a classification ratio of just over 1.0.<sup>21</sup>

<sup>18</sup> Ibid., page 76.

<sup>19</sup> Ibid., Pg. 34.

<sup>20</sup> Ibid., Pg. 4.

<sup>21</sup> Ibid., 102-103.

## Household Tax Comparisons

### Residential Property Tax Rates

Residential property in D.C. is taxed at \$0.85 per \$100 of assessed value. The rate applies to 100% of assessed value. The assessed value for each owner-occupied residence (including condominiums) which qualifies as homestead is reduced by a \$78,700 (FY22) homestead deduction. While all states have some form of residential property taxation, the rates and bases vary widely, making comparisons difficult.<sup>22</sup> Some jurisdictions have very high property tax rates but apply that rate on only a fraction of a property's assessed value. For example, the city of Charleston, South Carolina taxes residential property at \$28.20 per \$100, but the tax applies to just 4% of the property's assessed value.<sup>23</sup> Other jurisdictions have far lower statutory rates but levy the tax on most or all a property's assessed value. The residential property tax rates in the neighboring jurisdictions of Maryland and Virginia (also applied to 100% of assessed value) are universally higher than in D.C. In Maryland, the rates per \$100 of assessed value are \$1.091 in Montgomery County and \$1.465 in Prince George's County.<sup>24</sup> In Virginia, the rate per \$100 of assessed value in Arlington County is \$1.03, \$1.13 in Alexandria, and \$1.184 in Fairfax County.

### Income Tax Rates

In D.C. there are seven individual income tax brackets with rates increasing as income rises, with the seventh bracket recently in effect as of January 1, 2022. A District resident pays a 4% tax on her first \$10,000 of income, 6% on income above that until \$40,000, 6.5% on income above that until \$60,000, 8.5% above that until \$250,000, 9.25% above that until \$500,000, 9.75% above that until \$1,000,000, and then 10.75% on income above \$1,000,000.<sup>25</sup>

The number of income brackets varies across states, with nine states having just one bracket (a flat rate) and the state of Hawaii having the most brackets with 12.<sup>26</sup> Maryland has eight income tax brackets and Virginia has four. The top state marginal income tax rate is currently in California where taxpayers pay a 13.3% tax on income above \$1 million.<sup>27</sup> Eight states do not have an income tax.<sup>28</sup>

The top marginal state income tax rate in Maryland is 5.75% and applies to income above \$250,000 for individual filers and \$300,000 for joint returns.<sup>29</sup> Residents in Maryland (as in many other states) also pay local income taxes, however, making the combined rate higher. For example, both Montgomery County and Prince George's County residents pay an additional 3.2% local income tax on all income, creating a combined top rate of 8.95%. In Virginia the top state marginal income tax rate is 5.75% and it applies to income over \$17,000. There are no local income taxes in Virginia.<sup>30</sup>

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<sup>22</sup> Property taxes are generally levied by local governments; however, some states also levy property taxes in addition to local rates.

<sup>23</sup> Office of Revenue Analysis. "2020 Tax Rates and Tax Burdens In the District of Columbia – A Nationwide Comparison." April 2022. P. 33. [https://ora-cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2020%20Tax%20Rates%20and%20Tax%20Burdens\\_Nationwide%20Comparison.pdf](https://ora-cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2020%20Tax%20Rates%20and%20Tax%20Burdens_Nationwide%20Comparison.pdf)

<sup>24</sup> Rates for January 1, 2022, compiled and calculated based on information from each jurisdiction. Montgomery County is a weighted rate; Montgomery and PG County includes rates for the Maryland-National Capital Park & Planning Commission and the Washington Suburban Transit Commission. PG County rate includes an average of two stormwater district rates.

<sup>25</sup> Rates in effect January 1, 2022. <https://otr.cfo.dc.gov/page/dc-individual-and-fiduciary-income-tax-rates>

<sup>26</sup> Federation of Tax Administrators, "State Individual Income Tax Rates, as of January 1, 2022."

<https://www.taxpolicycenter.org/statistics/state-individual-income-tax-rates>

<sup>27</sup> Ibid.

<sup>28</sup> Ibid., does not consider local income taxes.

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

## Sales Tax Rates

The retail sales tax in D.C. is 6% for tangible personal property and selected services. A higher sales tax applies to certain purchases such as restaurant meals (10%), transient accommodations (14.95%) and private parking (18%).<sup>31</sup> Five states do not levy a state sales tax while the highest statutory state sales tax rate is 7.25% in California. Many states also have local sales taxes and according to the Tax Foundation the highest combined state and local sales tax rate is 9.55% in Louisiana and Tennessee,<sup>32</sup> while a recent ORA study also includes county, school, transit, and other local sales tax rates and finds that Los Angeles, California has the highest combined rate, at 10.5%. Further, Chicago, Illinois; Birmingham, Alabama; and Seattle, Washington; also have combined rates between 10.0 to 10.5%.<sup>33</sup> In Maryland the retail sales tax is 6%; there are no local sales taxes in the state. The current sales tax rate in Virginia is 5.3%, and an additional 0.7% rate applies to transactions in Northern Virginia, bringing the total sales tax rate in those jurisdictions to 6%.

## Hypothetical D.C. Family Tax Burden: Below the Average for a Large City; Lowest in the Region

D.C.’s Office of Revenue Analysis (ORA), analyzes how the tax burden of hypothetical D.C. families (with a hypothetical income, a hypothetical home value, etc.) compares with the tax burden of similar families residing in other jurisdictions.

ORA finds that, when compared with similarly structured families in other large cities, D.C. families—at low, middle, and high levels of income (up to \$150,000<sup>34</sup>)—have a below average tax burden, and the hypothetical D.C. families at the incomes studied would pay more in taxes if they moved to a neighboring jurisdiction in Maryland or Virginia. The study examines a three-person family (two wage-earning spouses and one school-age child) at five levels of gross family income. At every level of income, the D.C. family’s tax payment is under the national average and ranking at the bottom of the 51 cities studied (The hypothetical family at the lowest income level had the second lowest tax burden of all 51 cities).

**Table 5: 2020 Combined Tax Burdens, D.C. vs U.S. Average**

	<b>\$25,000</b>	<b>\$50,000</b>	<b>\$75,000</b>	<b>\$100,000</b>	<b>\$150,000</b>
<b>D.C.</b>	1,548	3,065	5,595	8,159	12,973
<b>U.S. Average<sup>1</sup></b>	2,733	4,427	7,068	9,564	14,156

Source: Office of Revenue Analysis. “2020 Tax Rates and Tax Burdens In the District of Columbia– A Nationwide Comparison.” April 2022. Tax burdens represent calculations made for hypothetical families, based on assumptions in the report.

<sup>1</sup> U.S. Average is the average of the 51 cities studied.

All the D.C. families with \$50,000 of income or more—families assumed to own a home—have property tax payments below the national average. The D.C. family earning \$25,000 is assumed to rent and has a property tax burden (assumed as a portion of rent) just above the U.S. average.

<sup>31</sup> <https://cfo.dc.gov/page/tax-rates-and-revenues-sales-and-use-taxes-alcoholic-beverage-taxes-and-tobacco-taxes>

<sup>32</sup> Tax Foundation. “State and Local Sales Tax Rates, 2022.” February 3, 2022. <https://taxfoundation.org/2022-sales-taxes/>

<sup>33</sup> Office of Revenue Analysis. “2020 Tax Rates and Tax Burdens In the District of Columbia – A Nationwide Comparison.” April 2022. P. 40. [https://ora-cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2020%20Tax%20Rates%20and%20Tax%20Burdens\\_Nationwide%20Comparison.pdf](https://ora-cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2020%20Tax%20Rates%20and%20Tax%20Burdens_Nationwide%20Comparison.pdf)

<sup>34</sup> In 2019, 85% of D.C. individual income tax returns had an AGI of \$150,000 or under.

**Table 6: 2020 Property Tax Burdens, D.C. vs U.S. Average**

	<b>\$25,000<sup>2</sup></b>	<b>\$50,000</b>	<b>\$75,000</b>	<b>\$100,000</b>	<b>\$150,000</b>
<b>D.C.</b>	1,667	710	1,380	2,050	3,390
<b>U.S. Average<sup>1</sup></b>	1,602	1,834	2,868	3,898	5,997

Source: Office of Revenue Analysis. “2020 Tax Rates and Tax Burdens In the District of Columbia– A Nationwide Comparison.” April 2022. Tax burdens represent calculations made for hypothetical families, based on assumptions made in the report.

<sup>1</sup> U.S. Average is the average of the 51 cities studied.

<sup>2</sup> At this income level is assumed that 15% of annual rent represents the renter’s property tax burden.

The District families earning \$100,000 or less have a below-average income tax payment. The District family earning \$150,000 has an income tax above the U.S. average and is the 12<sup>th</sup> highest of all the cities studied.

**Table 7: 2020 Income Tax Burdens, D.C. vs U.S. Average**

	<b>\$25,000</b>	<b>\$50,000</b>	<b>\$75,000</b>	<b>\$100,000</b>	<b>\$150,000</b>
<b>D.C.</b>	(1,133)	1,099	2,598	4,122	7,533
<b>U.S. Average<sup>1</sup></b>	(67)	1,419	2,764	4,130	6,855

Source: Office of Revenue Analysis. “2020 Tax Rates and Tax Burdens In the District of Columbia– A Nationwide Comparison.” April 2022. Tax burdens represent calculations made for hypothetical families, based on assumptions made in the report. Negative amounts reflect refundable tax credits.

<sup>1</sup> U.S. Average is the average of the 51 cities studied.

In the regional study, ORA examines the same three-person families and finds that families living in D.C. have the lowest combined tax burden of families living in seven neighboring jurisdictions at every level of income analyzed (two Maryland Counties and five Virginia jurisdictions; five are shown below).

**Table 8: 2020 Combined Tax Burdens, D.C., and Surrounding Metro Areas**

	<b>\$25,000</b>	<b>\$50,000</b>	<b>\$75,000</b>	<b>\$100,000</b>	<b>\$150,000</b>
<b>D.C.</b>	1,548	3,065	5,595	8,159	12,973
<b>Alexandria, VA</b>	4,183	4,907	8,475	11,102	15,667
<b>Arlington, VA</b>	4,307	4,834	8,533	10,949	15,188
<b>Fairfax, VA</b>	4,390	5,046	8,837	11,316	15,533
<b>Montgomery Co, MD</b>	2,658	4,727	7,895	9,931	14,869
<b>Prince George’s, MD</b>	2,664	6,084	9,528	11,693	17,148

Source: Office of Revenue Analysis. “2020 Tax Rates and Tax Burdens - Washington Metropolitan Area.” April 2022. This table presents the combined tax burdens of income, property, sales, and auto tax burdens.

District families—at all levels of income—pay less than Maryland families in both property and income taxes. In contrast, Virginia families with the highest incomes in the study (\$150,000/year) pay less than D.C. families in income taxes. But the District’s substantially lower property tax payments offset this income tax gap, giving the D.C. families the lowest total tax burden at each income level.

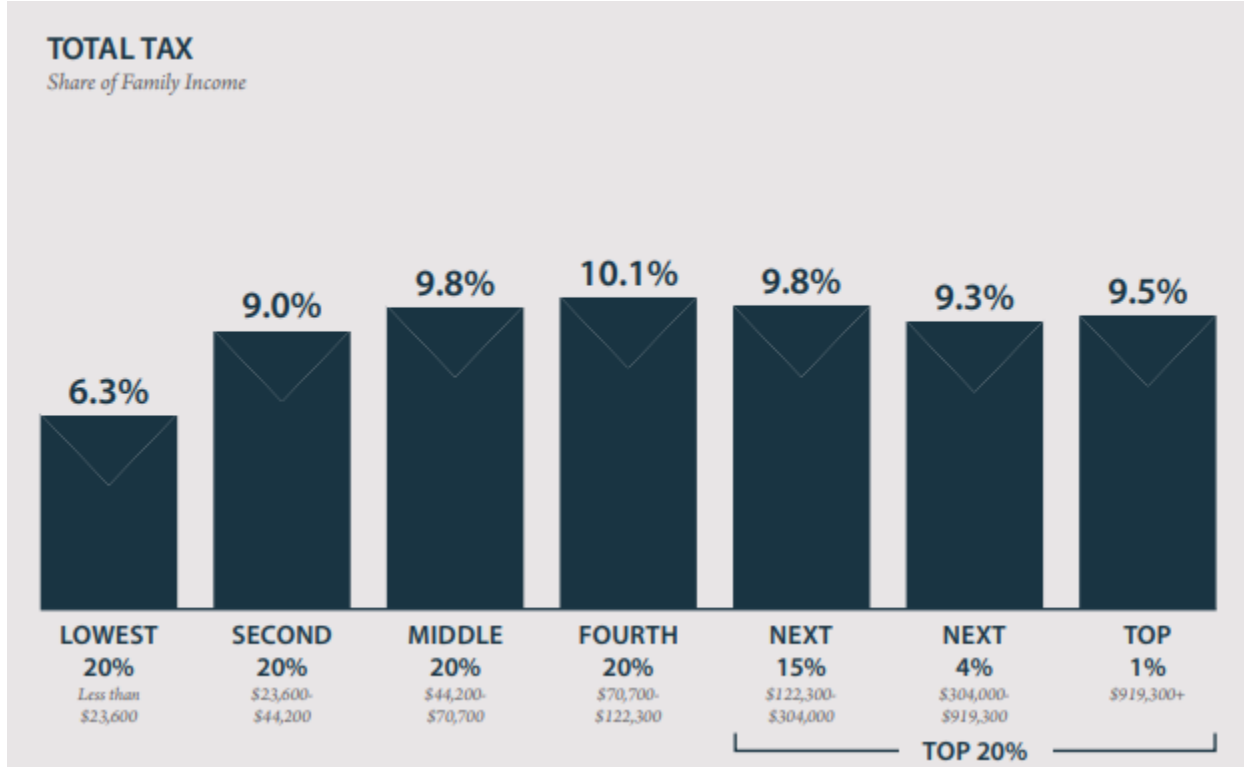
### **D.C.’s Tax Distribution is “Close to Flat”**

The Institute on Taxation and Economic Policy (ITEP), a non-partisan research organization, examines household taxes by calculating the share of income paid in state and local taxes by different income groups. ITEP concludes in the 6th Edition of “Who Pays” that “most state and local tax systems worsen income inequality by making incomes more unequal after collecting state and local taxes.” And most state and local systems take a “much greater share of income from low- and middle-income families than from wealthy families.” However, “five states and the District of Columbia somewhat narrow that gap between



lower- and middle- income taxpayers and upper-income taxpayers, making income slightly more equitable after collecting state and local taxes.”<sup>35</sup>

**Figure 3: Shares of D.C. family Income for Non-Elderly Taxpayers Paid to District Taxes**



Source: ITEP, Who Pays 6<sup>th</sup> Edition. October 2018.

The District is cited by ITEP as one of the “least regressive” states, having a local tax system that does not worsen income inequality and ranks 50<sup>th</sup> on the index. As the chart above illustrates, the lowest 20% in D.C. pay only 6.3% of their income in District taxes while the middle quintile pays 9.8%. But families in groups above the middle quintile see their D.C. tax burden decline as income increases—mirroring the national regressive trend. In fact, D.C. families in the fourth quintile pay the highest share of income in D.C. taxes of any income group at 10.1%. The top 1% of D.C. families pay 9.5% of income in District taxes.

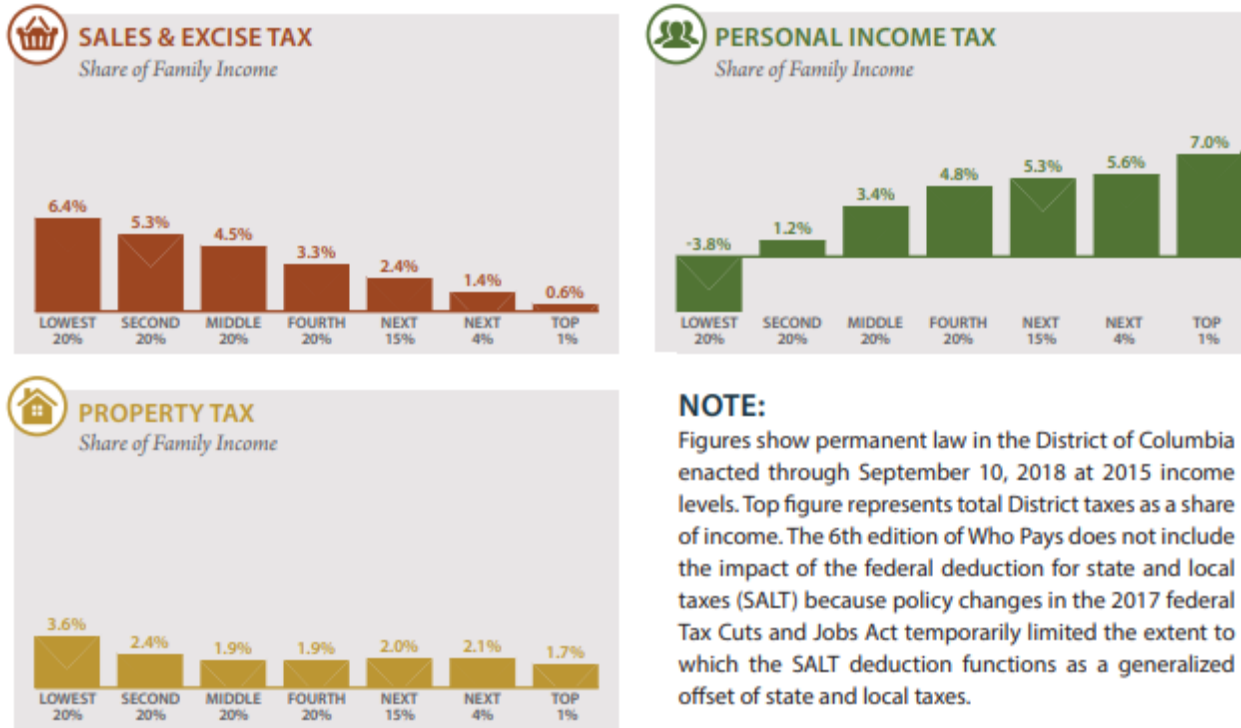
District taxes are somewhat flat in part because the income tax in D.C. is highly progressive.<sup>36</sup> Notably, the lowest 20% of income earners in D.C. have a negative 3.8% income tax burden, meaning this group receives net refunds from the city’s income tax system.<sup>37</sup> Succeeding income groups pay a higher share of income in income taxes, with the top 1% paying the highest share (7.0%). Sales and excise taxes, and to a lesser extent property taxes, are regressive in the District (See charts in Figure 4 below).

<sup>35</sup> Institute on Taxation and Economic Policy. “Who Pays? 6<sup>th</sup> Edition” October 2018. <https://itep.org/whopays/>

<sup>36</sup> ITEP notes D.C.’s progressive tax features include a graduated personal income tax; refundable EITC and property tax “circuit breaker” for low-income and elderly taxpayers; and limits to itemized deductions for upper-income taxpayers.

<sup>37</sup> Income tax refunds result from refundable credits such as the Earned Income Tax Credit and the Schedule H Property Tax Credit.

**Figure 4: 2015 Distribution of Sales & Excise, Income, and Property taxes in D.C.**



Source: ITEP, Who Pays, 6<sup>th</sup> Edition. October 2018.

Comparing tax distributions is inherently difficult because no two states have the same income distribution. This is especially true with respect to high-income families. For example, the top 1% of earners nationally includes families with at least \$553,200, but in the District the top 1% includes only families earning \$919,300 or more. But with the lowest three income quintiles there is less divergence—and D.C, Maryland and Virginia are relatively uniform. As such, the tax burden for D.C. families in the lowest 20% (D.C. residents with income below \$23,600) is comparatively low; only one state had a lower tax burden in this income group (Delaware). These D.C. families also pay a smaller share of income in taxes (6.3%) than similar families in Maryland (9.8%) and Virginia (9.8%).

**Table 9: Tax Distributions Comparison**

	<b>Lowest 20%</b>	<b>Second 20%</b>	<b>Middle 20%</b>	<b>Fourth 20%</b>	<b>Next 15%</b>	<b>Next 4%</b>	<b>Top 1%</b>
<b>D.C.</b>	6.3%	9.0%	9.8%	10.1%	9.8%	9.3%	9.5%
<b>MD</b>	9.8%	9.5%	10.6%	11.0%	10.6%	9.7%	9.0%
<b>VA</b>	9.8%	9.3%	9.2%	9.3%	8.6%	8.0%	7.0%
<b>U.S. Average</b>	<b>11.4%</b>	<b>10.1%</b>	<b>9.9%</b>	<b>9.5%</b>	<b>8.9%</b>	<b>8.0%</b>	<b>7.4%</b>

Source: ITEP, Who Pays, 6<sup>th</sup> Edition. October 2018.

The tax burden for D.C. families in the middle 20% (D.C. residents with income between \$44,200 and \$70,700) is just below the national average and between Maryland (11.0%) and Virginia (9.3%). D.C. families in the top 1% (income over \$919,300) pay a higher share of income in state and local taxes (9.5%) than the national average and both Maryland (9.0%) and Virginia (7.0%).<sup>38</sup>

<sup>38</sup> All figures from ITEP, “Who Pays, 6<sup>th</sup> Edition.” October 2018. <https://itep.sfo2.digitaloceanspaces.com/whopays-ITEP-2018.pdf>

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