



**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF REVENUE ANALYSIS**

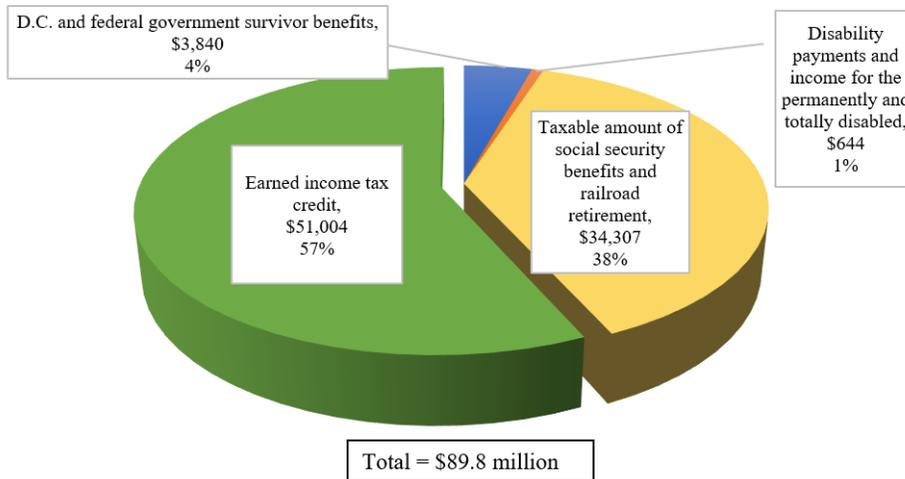
Muriel Bowser, Mayor
Fitzroy Lee, Interim Chief Financial Officer

Norton Francis, Interim Deputy CFO & Chief Economist

Fact Sheet: *District Income Security and Social Policy Tax Expenditure Review*

Income Security Tax Expenditures

Chart 1: FY 2020 Revenue Forgone to Income Security Tax Expenditures, \$000



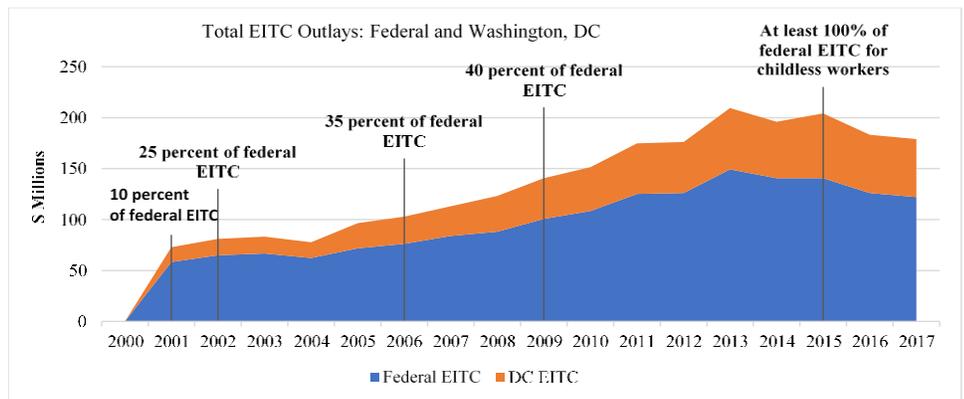
- Income security tax expenditures are aimed at directly protecting low-income residents and those who are most at risk of becoming adversely affected by loss of income.
- Income security tax expenditures totaled \$89.8 million in FY 2020.
- The Earned Income Tax Credit is the largest of these provisions at 57 percent of the total. Other provisions include a set of income tax expenditures for various Social Security benefits.

Source: ORA. Note: Summing tax expenditures does not consider possible interactions among individual tax expenditures, so it does not produce an exact estimate of the revenue that would be gained were any specific provision removed.

Earned Income Tax Credit (EITC)

- The DC EITC was created as an add on to the federal EITC to reduce the tax burden for low-income households and reduce poverty among low-income workers in the District.
- An estimated 57,692 Washingtonians claimed about \$51 million in earned income tax credits in FY 2020.
- The EITC has helped in reducing poverty in the District and in 2017 elevated about 10 percent of households with children and an estimated 3.9 percent of childless workers claiming the credit out of poverty. Specifically, we find that in 2017, the DC EITC was effective in lifting 1,874 households (with 3,386 children) and 489 childless adults out of poverty.

Chart 2: Total Federal and DC EITC by Year with DC EITC Effective Amendment Dates



Source: ORA. Note: The data labels refer to the years the DC EITC changes became effective

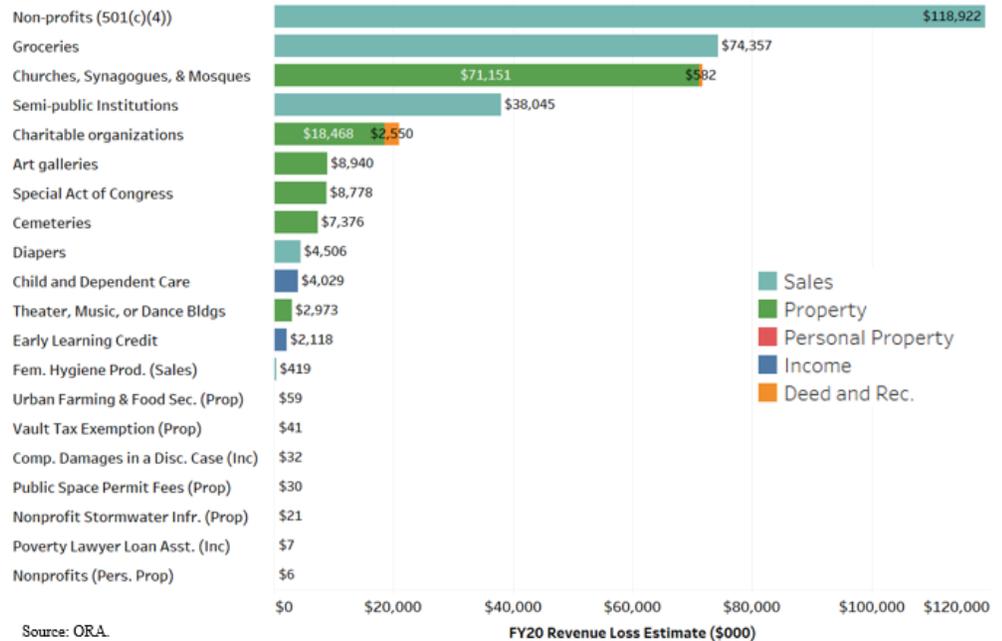
- Despite its benefits, our analysis also highlights some shortcomings of the credit, such as the structural inequity for married childless workers, among other inefficiencies in administration. Recommendations are provided below.



Social Policy Tax Expenditures

- Social policy tax expenditures totaled \$363 million in FY 2020.
- Many social policy tax provisions assist nonprofit organizations in the District, while sales tax exemptions for groceries and other eligible items benefit all consumers of those goods purchased in the District. Sales tax exemptions, particularly for nonprofits and the purchase of groceries comprise over half of the total revenue forgone.
- Real property tax expenditures for religious organizations comprise almost 20 percent of the total revenue forgone, or \$71 million.

Chart 3: Categorical Social Policy Tax Expenditures Total \$363 million in FY 2020
(Estimates in \$000)



Source: ORA.

Note: Summing tax expenditures does not consider possible interactions among individual tax expenditures and therefore does not produce an exact estimate of the revenue that would be brought in were any specific provision removed.

Overall Recommendations

Recommendations largely focused on the DC EITC are offered below:

- Reduce the marriage penalty that exists for married childless workers by extending the DC EITC income eligibility limit for married workers without children.
- Consider passing legislation to penalize fraudulent tax return preparers.
- Provide more District resources to non-profit organizations to raise awareness about the DC EITC and highlight IRS regulated tax preparers that taxpayers can use to file individual income tax returns.
- Continue to support OTR monitoring and enforcement activities.
- Review the purpose of exempting social security retirement income from DC taxable income (the second largest share of income security tax expenditures) and consider limiting eligibility for taxpayers with higher incomes.