

D.C. Tax Revision Commission Policy Options
Policy Option #15: Create a Personal Exemption Phase Out

MEMORANDUM

Proposal: Phase out the D.C.'s personal exemption for high-income taxpayers

Tax Type: Income

Origin: Ed Lazere

Commission Goal: Fairness

Current Law

D.C. allows taxpayers to deduct a personal exemption of \$1,675 for themselves, their qualifying dependents and, if filing jointly, their spouse. (That is, a married couple filing jointly gets an exemption of \$3,350.) The exemption is not phased out. The federal government allows a personal exemption of \$3,900 a person, but phases out the exemption as income rises.

Proposed Change

Phase out the personal exemption as income rises (and replicate the formula used by the federal government). The federal personal exemption phase out program affects taxpayers with adjusted gross income (AGI) exceeding \$250,000 for single filers and \$300,000 for married filers. The exemption is reduced by 2% for each \$2,500 in excess of the threshold. For example, married filers with \$325,000 of AGI lose 20% of their personal exemption. The personal exemption is completely phased out at \$372,500 AGI for single filers and \$422,500 for married filers.

Reason for Change

Limiting the personal exemptions of higher-income taxpayers increases the progressivity of the D.C. tax system.

Pros

- Would make the D.C. income tax more progressive.
- Would raise new tax revenue that can possibly fund other forms of tax relief or cuts.

Cons

- Would increase the tax burden on residents earning income above the threshold.
- While following the federal government guidelines is relatively simple, it still adds a new step for tax filers.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation phasing out the personal exemption would raise \$2,060,791 in new tax revenue.