



D.C. Office of Revenue Analysis Briefing Document *Number: 2012-5* *Date: July 2012*

Vincent C. Gray, Mayor

Natwar M. Gandhi, Chief Financial Officer

Fitzroy Lee, Deputy CFO & Chief Economist

As percent of Personal Income, FY 2011 Individual Income Tax revenue was below the 25-yr. average

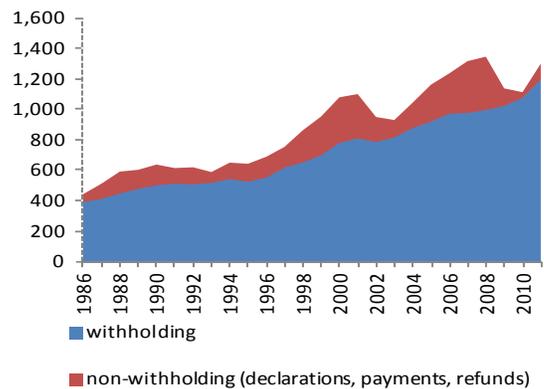
FY 2011 Individual Income Tax revenues in the District of Columbia were \$1.30 billion, accounting for 24.3% of all DC tax revenue in that year. Over the past 25 years income tax revenues increased by \$852 million, a gain of 291% and an average annual growth rate of 4.4% per year. (Adjusted for inflation, the increase over the period was 138%, an average annual growth of 1.3%.)

Despite this considerable growth, as a percent of DC Personal Income, a broad measure of the income of DC residents, individual income tax revenue has actually declined over the past 25 years, and particularly over the past 10 years. In FY 2011 income tax revenues were 2.9% of Personal Income, well below the 3.7% average over the past 25 years. (The high was 4.8% in FY 2000.) Personal Income grew 372% (5.4% per year) over the 25 year period.

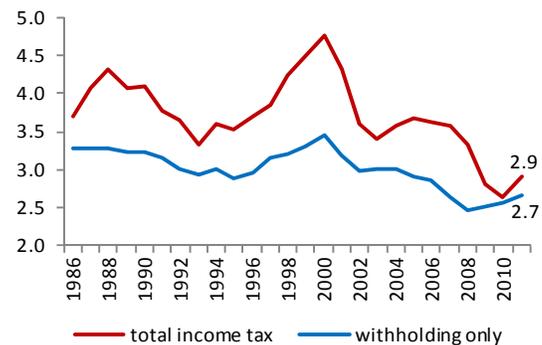
The largest part of the individual income tax is collected through withholding (deductions from wages and salaries as they are earned). The rest is collected in declarations and payment with returns (net of refunds), which tend to be heavily influenced by capital gains and other income related to business and market conditions that often reflect the broader US economy as well as the local one.

There has been considerable variation in the year to year percentage changes in income tax revenue. Over the past 25 years the increases have ranged from increases of 16.8% (in FY 2011) *(continued on p. 2)*

Individual Income Tax Revenue: FY 1986 to FY 2011 (\$ million)



Individual Income Tax Revenue as Percent of DC Personal Income: FY 1986 to FY 2011



This briefing document was prepared by Stephen Swaim, DC Office of Revenue Analysis.

This brief first appeared in the July 2012 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/Economy and Revenue).

For comment or further information, please contact Fitzroy Lee, Deputy Chief Financial Officer and Chief Economist, Office of Revenue Analysis, 1101 4th St., SW, Suite W770, Washington D.C. 20024, fitzroy.lee@dc.gov, 202-727-7775

DC individual income tax, continued from p.1

and 15.5% (in FY 1988) to decreases of 15.4% (in FY 2009) and 13.6% (in FY 2002). These variations come from two main sources: changes in the tax base and changes in policy.

As shown in the graph, much of the variation comes from business cycle changes. The impacts of US recessions (the shaded areas in the graph) have been particularly great on the more volatile non-withholding part of tax collections. The volatility in this part of the tax reflects the importance of capital gains and losses on the amount of tax collected as well as fluctuation in income such as bonuses and proprietor's income that reflect the economy. In the years leading up to the recessions, the non-withholding parts of the income tax grew particularly rapidly.

A number of changes in DC tax rates and other policies have also affected revenue. As shown in the table, from FY 2005 through FY 2008 policy changes resulted in estimated reductions of about \$170 million in income tax revenue

25 years of DC Individual Income Tax revenue: FY 1986 to FY 2011

FY	Individual Income tax revenue		I yr. change		% of DC Pers. Income
	All other withhold-ing (\$M)	(non-withhold-ing) (\$M)	Total (\$M)	ch (\$M)	
1986	392.57	52.25	444.82		3.7
1987	413.60	99.60	513.20	68.38	15.4
1988	449.43	143.40	592.83	79.63	15.5
1989	478.93	124.54	603.47	10.64	1.8
1990	502.10	135.81	637.91	34.44	5.7
1991	513.38	102.37	615.75	-22.16	-3.5
1992	509.42	110.79	620.21	4.46	0.7
1993	518.55	70.98	589.52	-30.69	-4.9
1994	543.56	107.10	650.66	61.14	10.4
1995	525.95	117.72	643.68	-6.98	-1.1
1996	553.46	135.95	689.41	45.73	7.1
1997	618.30	135.17	753.48	64.07	9.3
1998	651.86	209.65	861.51	108.03	14.3
1999	698.65	253.50	952.16	90.65	10.5
2000	779.55	297.80	1,077.35	125.19	13.1
2001	809.20	288.99	1,098.19	20.84	1.9
2002	785.50	163.68	949.18	-149.01	-13.6
2003	816.00	112.96	928.97	-20.21	-2.1
2004	875.61	166.70	1,042.31	113.34	12.2
2005	918.73	241.35	1,160.07	117.77	11.3
2006	970.54	263.06	1,233.60	73.53	6.3
2007	974.79	339.04	1,313.83	80.22	6.5
2008	994.94	347.86	1,342.80	28.97	2.2
2009	1,021.19	114.75	1,135.94	-206.86	-15.4
2010	1,073.83	36.62	1,110.44	-25.49	-2.2
2011	1,192.16	104.44	1,296.60	186.15	16.8

Percent change from 1986 to 2011:

303.7 199.9 291.5

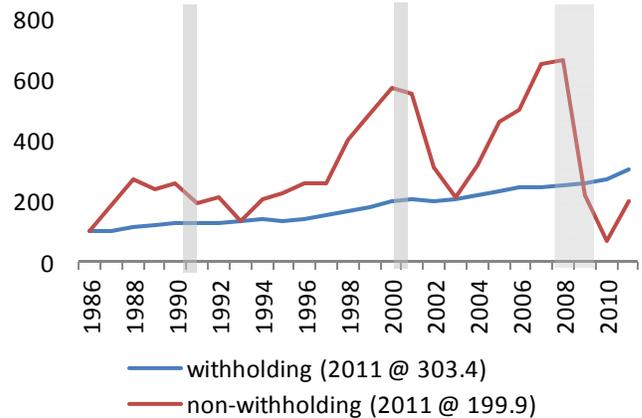
Average annual percent change over the period:

4.5 2.8 4.4

Source: ORA, BEA (DC Personal Income), and BLS (CPI)

—Stephen Swaim, DC Office of Revenue Analysis

Individual Income Tax revenue: withholding and non-withholding from FY 1986 to FY 2011 (Index numbers: 1986 = 100)



Note: US recessions indicated by shaded areas.

Major changes in Individual Income tax rates and policies: 1986 to 2011

Effective date of change	Policy change	Estimated revenue impact (\$M)
1987	Raise rates and increase deductions	small net ch.
2000	Tax parity Act of 1999, reduced rates over 5 years	-150
2003	Expand earned income tax credit	-18
	Tax Parity Act suspended	+72
2005	Top rate reduced from 9.3 to 9.0	-24
2006	Reduce rates and widen brackets	-53
	Raise standard deduction and increase EITC match	-14
2007	Lower rates	-64
2008	Raise standard deduction	-17
2009	Increase EITC match	-2
2010	Delay indexing of personal exemptions and deductions	+5

Source: OCFOD.C. Tax Facts. Revenue impact estimate at time of enactment