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***Commuter bite out of income earned in DC is the smallest in 40 years***

***55% in FY 2012, the commuter net reduction in earnings had been above 63% from 1980 all the way to 2000***

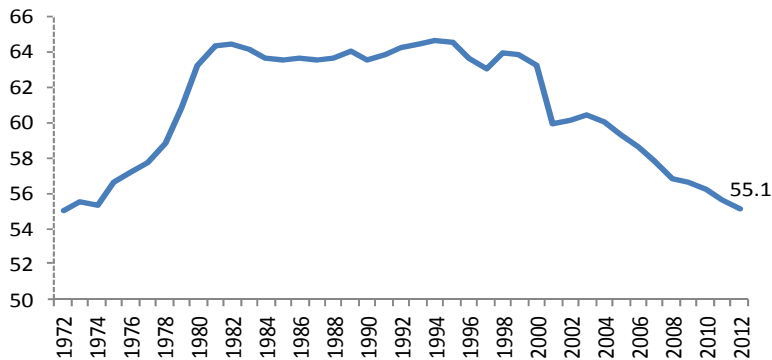
There is another sign of the economic revival of the District of Columbia over the past decade: the commuter drain on DC's income tax base appears to be weakening.

Incomes earned in the Washington metropolitan area are taxed by place of residence. This means that the incomes earned by commuters coming into DC add to the Maryland and Virginia tax bases. Conversely, amounts earned by DC residents working in the suburbs are taxed in DC. Because so many more commuters come into DC than go the other way, the net result of the "tax-the-resident" policy is a lower income tax base available to DC. Personal Income data compiled by the US Bureau of Economic Analysis (BEA) suggests this adverse net impact has been declining for the past dozen years, although the net impact of commuting still means more than half of the income earned in DC is earned by non-DC resident commuters.

The percentage reduction in DC earnings due to the net impact of commuting over the past 40 years is shown in the accompanying graph. (See page 17 for details on the calculation.) From 55% in FY 1972, the percentage rose to over 63% in 1980 and remained above that level (topping out at 64.6% in 1994) for the next two decades. It has since fallen fairly steadily, back to 55% in FY 2012.

What accounts for this recent reduction? The explanation *(continued on p. 2)*

**Percent reduction in DC earnings due to net impact of commuting: FY 1972 to FY 2012**



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

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## DC commuter income, continued from p.1

lies in some combination of (1) more DC residents working in DC, perhaps including in jobs formerly held by commuters; (2) more reverse commuting; and (3) more DC residents working in higher wage jobs. Gains in the number of employed DC residents, both inside and outside of DC, are to be expected given the increases in District population and employment that have occurred over this period. (DC population grew by 52,587—9.1%—from 2002 to 2012; wage and salary jobs located in DC by 73,250—11.1%.)

The data can also be looked at from the point of view of resident earnings in relation to income earned by all persons working in DC. (Resident earnings are the sum of amounts earned in DC by DC residents and amounts earned outside of DC by DC residents.) The data show:

- Income earned by DC residents compared to income earned in DC was 45% as much in FY 1972, and then fell to less than 37% as much for each year from FY 1980 to FY 2000 (with a low of 35.4% in 1994). The resident income then picked up, once again reaching the 1972 level of 45% in FY 2012.
- Over the past 10 years, the increase in resident earnings was 53% as great as the increase in the amount earned in DC.
- Over the past 10 years, earnings of DC residents grew 82.4%, outpacing the growth of amounts earned in DC (62.0%) and the commuter adjustment for residence (48.4%). The average annual compound rate of growth for the three measures were 6.2%, 4.9%, and 4.0%, respectively.

*About the data.* In estimating the earnings portion of DC Personal Income, BEA first estimates the amount of money earned by all persons working in DC. Earned income consists of wages and salaries, benefits, and proprietors' income. BEA then makes an adjustment, called the "resident adjustment", to take account of commuting. This adjustment involves two parts: subtracting the portion earned by commuters, and adding amounts earned outside of DC by DC residents. The resulting calculation is the net earnings of DC residents. The tables at the bottom of the page show the calculations involved for the years 1972, 1982, 1992, 2002, and 2012, and for each of the past 10 years. The tables also compare DC resident earnings and the commuter adjustment to the total amount earned in DC. It should be noted that the Personal Income earnings data should be viewed only as an approximation for the income tax base due to differences in definitions and the ranges of exemptions, credits, and rates that exist in the tax code.

—Stephen Swaim, DC Office of Revenue Analysis

### Earnings in DC by place of work, adjustment for residence, and net earnings of DC residents by selected years: 1972 to 2012

	Level (\$ million)					Change (\$ million):				
	1972	1982	1992	2002	2012	1972 to 1982	1982 to 1992	1992 to 2002	2002 to 2012	
Earnings in DC	7,439	17,250	32,004	48,196	78,075	9,811	14,754	16,192	29,879	
Adjustment for residence (deduct)	4,094	11,118	20,555	28,972	43,002	7,024	9,437	8,418	14,030	
Net earnings of DC residents	3,345	6,133	11,450	19,224	35,073	2,788	5,317	7,774	15,849	
<i>Percent comparison to earnings in DC:</i>										
Net earnings of DC residents	45.0	35.6	35.8	39.9	44.9	28.4	36.0	48.0	53.0	
Adjustment for residence	55.0	64.5	64.2	60.1	55.1	71.6	64.0	52.0	47.0	

Note: Earnings include wages and salaries, benefits, and proprietors' income and exclude personal contributions for social insurance.

Source: US Bureau of Economic Analysis

### Earnings in DC by place of work, adjustment for residence, and net earnings of DC residents: FY 2002 to FY 2012 (\$ million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Earnings in DC	48,196	50,334	54,271	57,968	61,137	64,483	67,990	69,441	72,564	76,258	78,075
Adjustment for residence (deduct)	28,972	30,388	32,556	34,405	35,824	37,300	38,590	39,322	40,783	42,392	43,002
Net earnings of DC residents	19,224	19,946	21,715	23,563	25,312	27,183	29,400	30,119	31,781	33,866	35,073
<i>Percent comparison to earnings in DC:</i>											
Net earnings of DC residents	39.9	39.6	40.0	40.6	41.4	42.2	43.2	43.4	43.8	44.4	44.9
Adjustment by residence	60.1	60.4	60.0	59.4	58.6	57.8	56.8	56.6	56.2	55.6	55.1
Index number: 2002 = 100											
Earnings in DC	100.0	104.4	112.6	120.3	126.9	133.8	141.1	144.1	150.6	158.2	162.0
Net earnings of DC residents	100.0	103.8	113.0	122.6	131.7	141.4	152.9	156.7	165.3	176.2	182.4
Adjustment for residence	100.0	104.9	112.4	118.8	123.7	128.7	133.2	135.7	140.8	146.3	148.4

Source: US Bureau of Economic Analysis