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Individual income tax trends from 2001 to 2011 reflect changes in DC’s demographics, economy, and tax policies

Highlights: more single filers, strong income growth, recession’s impact, cut in the effective tax rate

The Great Recession of 2007 notwithstanding, DC’s economy showed significant net gains from 2001 to 2011: population grew by 44,000 (7.8%), resident employment by 26,000 (9.2%), and Personal Income by 75%. As would be expected, DC’s Individual Income tax base also expanded considerably. The number of filers increased by 65,900, a 25% increase, and tax liability grew by 51.3%.

An in-depth micro tax data analysis of the District of Columbia’s Individual Income tax for the tax years 2001 through 2011 provides additional insight into the changes that have occurred in DC’s economy over those 10 years. Some highlights from the tables and charts included in this note follow.

Demographic changes. Most—87.5%—of the new filers were single, bringing the total of such filers to 208,176, 63.6% of all filers. The percentage increase in married filers was half that of single filers, but the 10,301 increase in married filers pushed this group ahead of Head-of-Household filers, who lost 2,048.

Income gains. Overall, Federal Adjusted Gross Income (FAGI) grew at about the same rate as DC Personal Income (72.2% v 74.7%, respectively). Although married filers accounted for just 15.6% of the increase in all filers, they accounted for 48.5% of the increase in FAGI.

Recession and subsequent recovery. Capital gains pushed the growth rate of FAGI above that of Personal Income in the two years before the 2007 recession; the process reversed from 2007 to 2009 with the fall in the stock market.

Tax policy changes. The expanded Earned Income Tax Credit program brought in more filers early in the decade. Rate cuts and widening of tax brackets reduced tax collections relative to FAGI in 2006 and 2007, with the result that over the 10 years tax liability grew 51.3% compared to the 72.2% increase in FAGI. (The top rate increased in 2011.)(continued on p. 2)

DC income tax filers and Federal Adjusted Gross Income: tax year 2011 and change from 2001

| filer type | filers | | | | | Federal adjusted gross income (FAGI) | | | | |
|------------|----------------|------------------|------|-------------|------------------|--------------------------------------|------------------|------|-------------|------------------|
| | number in 2011 | change from 2001 | | percent of: | | 2011 level (\$ M) | change from 2001 | | percent of: | |
| | | number | % | 2011 total | ch from 01 to 11 | | amt. \$ M | % | 2011 total | ch from 01 to 11 |
| Single | 208,176 | 57,647 | 38.3 | 63.6 | 87.5 | 11,279.9 | 5,200.6 | 85.5 | 43.7 | 48.0 |
| married | 62,266 | 10,301 | 19.8 | 19.0 | 15.6 | 12,415.8 | 5,253.3 | 73.3 | 48.0 | 48.5 |
| head of hh | 56,929 | -2,048 | -3.5 | 17.4 | -3.1 | 2,143.7 | 382.5 | 21.7 | 8.3 | 3.5 |
| Total | 327,371 | 65,900 | 25.2 | 100 | 100 | 25,839.4 | 10,836.4 | 72.2 | 100 | 100 |

This briefing document was prepared by Stephen Swaim and Judy Mulusa, DC Office of Revenue Analysis, assisted by Betty Alleyne, Kelly Dinkins, and Daniel Muhammad of ORA.

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DC income tax, continued from p.1

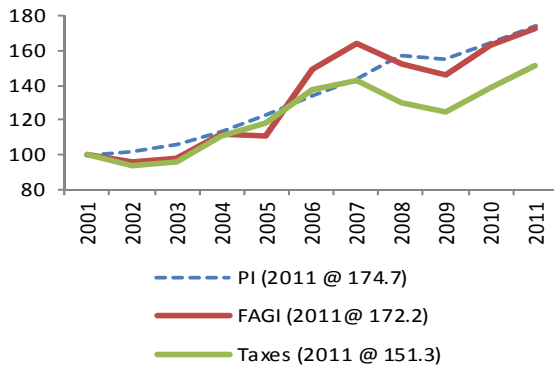
The tables below show the number of filers, Federal Adjusted Gross Income (FAGI), and tax liability for each of the major filer types for selected years 2001 through 2011. Mean and median incomes for each filer type are also indicated. The years represent key points in the business cycle that affected the District's economy. From 2001 to 2007, the District's economy expanded, along with that of the national economy, a period also characterized by growing employment and wages and also by large gains in the stock market and housing prices. The Great Recession occurred in the 2007 to 2009 period, and the years 2009 to 2011 mark the period of recovery.

The recession had an impact on all filer types. From 2007 to 2009 FAGI fell in DC for all filer types, but 93% of the reduction was among married filers, whose median and mean income is considerably above that of the other filers. In the 2009 to 2011 period, the income tax rebounded strongly, with a 6.3% increase in filers and a 21.8% growth in tax liability. In these latest two years, married filers increased at the same rate as single filers, and married filer growth in median and mean FAGI was greater than for singles.

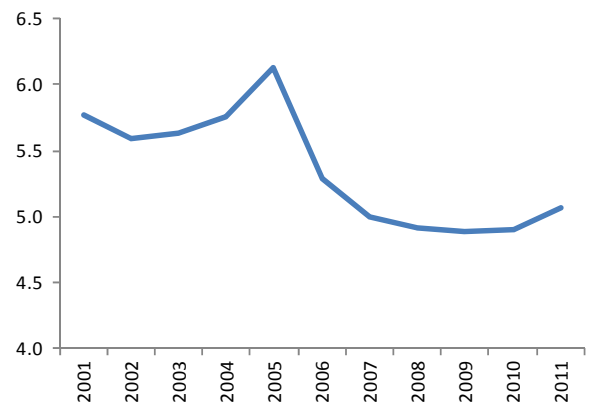
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DC FAGI, DC Personal Income, and Income tax liability: 2001 to 2011

(Index numbers: 2001 = 100)



DC tax liability as % of DC FAGI: 2001 to 2011



Individual Income tax, selected years and statistics, by filer type: 2001 to 2011

| item | Level | | | | Amount of change | | | | Percent change | | | |
|---------------------------------|----------|----------|----------|----------|------------------|----------|----------|----------|----------------|----------|----------|----------|
| | 2001 | 2007 | 2009 | 2011 | 01 to 07 | 07 to 09 | 09 to 11 | 01 to 11 | 01 to 07 | 07 to 09 | 09 to 11 | 01 to 11 |
| Single filers | | | | | | | | | | | | |
| Filers | 150,529 | 188,106 | 194,559 | 208,176 | 37,577 | 6,453 | 13,617 | 57,647 | 25.0 | 3.4 | 7.0 | 38.3 |
| FAGI (\$M) | 6,079.3 | 10,030.8 | 9,902.2 | 11,279.9 | 3,951.4 | -128.6 | 1,377.8 | 5,200.6 | 65.0 | -1.3 | 13.9 | 85.5 |
| Tax (\$M) | 368.8 | 503.0 | 492.2 | 571.4 | 134.1 | -10.8 | 79.3 | 202.6 | 36.4 | -2.1 | 16.1 | 54.9 |
| Median FAGI | 32,738 | 40,201 | 40,356 | 42,482 | 7,463 | 155 | 2,126 | 9,744 | 22.8 | 0.4 | 5.3 | 29.8 |
| Mean FAGI | 40,387 | 53,325 | 50,895 | 54,185 | 12,939 | -2,430 | 3,289 | 13,798 | 32.0 | -4.6 | 6.5 | 34.2 |
| Married filers | | | | | | | | | | | | |
| Filers | 51,965 | 56,736 | 58,061 | 62,266 | 4,771 | 1,325 | 4,205 | 10,301 | 9.2 | 2.3 | 7.2 | 19.8 |
| FAGI (\$M) | 7,162.5 | 12,500.9 | 9,995.2 | 12,415.8 | 5,338.4 | -2,505.7 | 2,420.6 | 5,253.3 | 74.5 | -20.0 | 24.2 | 73.3 |
| Tax (\$M) | 421.7 | 653.6 | 512.0 | 660.9 | 231.9 | -141.6 | 148.9 | 239.2 | 55.0 | -21.7 | 29.1 | 56.7 |
| Median FAGI | 69,004 | 97,684 | 102,697 | 112,361 | 28,680 | 5,014 | 9,664 | 43,357 | 41.6 | 5.1 | 9.4 | 62.8 |
| Mean FAGI | 137,833 | 220,335 | 172,150 | 199,399 | 82,502 | -48,185 | 27,249 | 61,566 | 59.9 | -21.9 | 15.8 | 44.7 |
| Head of Household filers | | | | | | | | | | | | |
| Filers | 58,977 | 58,667 | 55,239 | 56,929 | -310 | -3,428 | 1,690 | -2,048 | -0.5 | -5.8 | 3.1 | -3.5 |
| FAGI (\$M) | 1,761.1 | 2,106.2 | 2,044.4 | 2,143.7 | 345.1 | -61.8 | 99.3 | 382.5 | 19.6 | -2.9 | 4.9 | 21.7 |
| Tax (\$M) | 74.4 | 75.5 | 70.0 | 76.2 | 1.1 | -5.5 | 6.2 | 1.8 | 1.5 | -7.3 | 8.9 | 2.5 |
| Median FAGI | 22,692 | 26,647 | 28,080 | 26,300 | 3,955 | 1,433 | -1,780 | 3,608 | 17.4 | 5.4 | -6.3 | 15.9 |
| Mean FAGI | 29,862 | 35,901 | 37,010 | 37,655 | 6,040 | 1,109 | 645 | 7,793 | 20.2 | 3.1 | 1.7 | 26.1 |
| All filers | | | | | | | | | | | | |
| Filers | 261,471 | 303,509 | 307,859 | 327,371 | 42,038 | 4,350 | 19,512 | 65,900 | 16.1 | 1.4 | 6.3 | 25.2 |
| FAGI (\$M) | 15,003.0 | 24,637.9 | 21,941.8 | 25,839.4 | 9,634.9 | -2,696.1 | 3,897.6 | 10,836.4 | 64.2 | -10.9 | 17.8 | 72.2 |
| Tax (\$M) | 864.9 | 1,232.0 | 1,074.2 | 1,308.5 | 367.1 | -157.9 | 234.4 | 443.6 | 42.4 | -12.8 | 21.8 | 51.3 |

FAGI = Federal Adjusted Gross Income. Married filers includes all categories of married filers. Head of Household is unmarried head of household with dependents.

Source: OCFO. Analysis excludes small number of filers that are dependents claimed by someone else.