Government of the
District of Columbia

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Review of Income Security and Social Policy Tax Expenditures

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Acknowledgements

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We welcome feedback on the report. Please contact Lori Metcalf or Charlotte Otabor with questions or comments at (202)727-7775.

Executive Summary

Introduction

The following report is published pursuant to D.C. Law 20-155, which requires the Office of the Chief Financial Officer (OCFO) to review all D.C. tax expenditures (such as abatements, credits, and exemptions) on a five-year cycle. For this fourth report fulfilling the requirement, the Office of Revenue Analysis (ORA) conducted a review of the District's income security and social policy-related tax expenditures.[1]

Policymakers use various types of tax expenditures or tax incentives, such as abatements or credits, to promote a wide range of policy goals in the District of Columbia. Tax expenditures are used to convey financial benefits to certain taxpayers, yet they are less visible than direct spending and do not have to be approved annually in the budget process. Tax expenditures decrease the tax base and therefore reduce government resources available for other priorities. Tax expenditures should be reviewed just like government spending to ensure effectiveness and accountability.

Tax expenditures decrease the tax base and therefore reduce government resources available for other priorities.

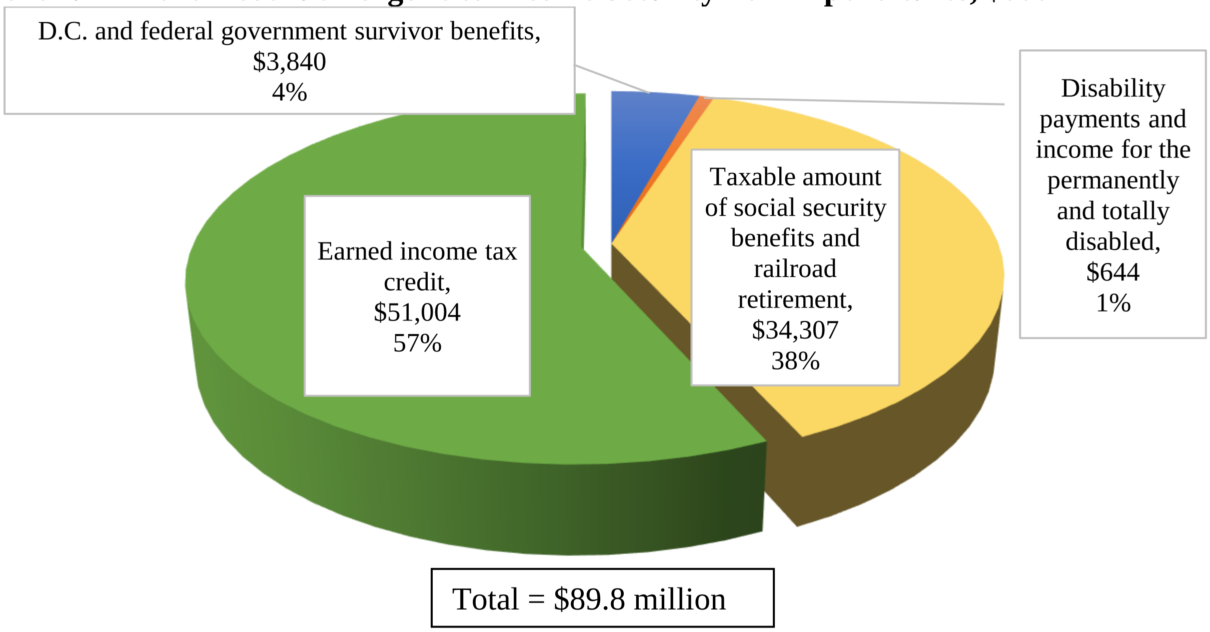
This report focuses on income security-related tax expenditures and social policy-related tax expenditures, the latter of which are primarily for non-profit organizations.

Income Security-Related Tax Expenditures

Income security tax expenditures are narrowly focused on directly protecting low-income residents, as well as those who are most at risk of becoming adversely affected by loss of income in any number of ways. Chart 1 below presents the income security tax expenditures in more detail, including the Earned Income Tax Credit (EITC) (making up almost 60 percent of all income security tax expenditures in FY 2020), followed by a set of income tax expenditures for various Social Security and Railroad Retirement Benefits.

[1] The first report reviewed the District's housing tax expenditures and was released in 2015. The second report reviewed the District's environment, public safety, transportation, and tax administration-related tax expenditures and was released in 2017. The third report reviewed economic development tax expenditures and was released in 2018.

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



Source: ORA Analysis. 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.

The DC EITC is the largest of these provisions both in terms of revenue forgone and numbers of recipients. In FY 2020, an estimated 57,692 Washingtonians will claim about $51 million in earned income tax credits. The DC EITC was created as an add on to the federal earned income tax credit to reduce the tax burden for low-income households and reduce poverty among low-income workers in the District. We show that the DC EITC is meeting the goals set by the DC Council to reduce tax burdens for low-income workers when the legislation was enacted.

Between 2001 and 2017, on average 53,101 filers claimed $796 in benefits each year, with the majority earning incomes between $10,000 to $25,000 per year. This illustrates the broad impact of the program despite strict eligibility limits that target low-income families. By design, the DC EITC has helped in reducing poverty in the District and in 2017 pushed 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 the households of about 3,386 children out of poverty.

Despite the benefits of the program, our analysis also highlights some of the shortcomings of the credit, such as the structural inequity for married childless workers due to the marriage penalty in the eligibility requirements of the DC EITC, and inefficiencies in the administration of the credit related to the self-reporting of individual income tax returns and subsequent difficulties discovering errors and fraud, which can lead to significant fiscal costs.

To obtain better results and improve accountability, the DC EITC could be amended by reducing the marriage penalty for married childless workers, penalizing fraudulent tax return preparers, and providing more resources to non-profit organizations to raise awareness about the DC EITC. A full list of recommendations is presented at the end of this summary.

For FY 2020, the second largest income security provision was a set of tax expenditures allowing DC residents to subtract Social Security retirement benefits, railroad retirement benefits or Social Security survivor, dependent, or disability benefits before paying income tax (some portion of these benefits is taxable at the federal level). In 2017, the estimated revenue forgone from all these provisions combined[2] was $27.9 million with 26,266 tax filers receiving these benefits, while more residents lived in the households of these tax filing units. About two-thirds of beneficiaries are retired workers.

Generally, most of the beneficiaries of these tax provisions earn less than $75,000 per year and many earn less than $25,000 per year. However, for the exemption for Social Security retirement benefits, railroad retirement benefits or Social Security survivor, dependent, or disability benefits, just over half earn less than $75,000 per year, while taxpayers with annual incomes over $150,000 claim over a third (36 percent) of the benefit. Those with incomes over $500,000 a year claim nearly eight percent of the benefit. In this regard the provision protecting Social Security and Railroad Retirement benefits stands out as one for which higher income earners benefit from a significant amount of the tax expenditure. This report recommends reviewing this provision, as it may be broader than necessary to achieve the intended purpose of ensuring adequate income for Social Security retirees given that over a third of the benefit is going to higher income filers.

[2] These three provisions are all reported in the same field in the tax data.

Social Policy-Related Tax Expenditures

Generally, tax preferences for social policy make up the largest category of the District's spending through the tax code.[3] A common thread among the District's tax expenditures with a social policy purpose is that, with a few exceptions, most are for nonprofit organizations. Many nonprofit organizations provide services that may relieve the burden of governments if they would otherwise need to provide those services.

The total estimated revenue forgone for all 23 categorical social policy tax expenditures in FY 2020 was almost $363 million.[4] Sales tax expenditures make up 65 percent of the total ($236 million). These are tax expenditures that allow certain groups (such as nonprofits) to purchase items that support their mission without paying sales taxes on those items; or alternatively, certain items (such as groceries or diapers), to be sales tax exempt when anyone purchases them.

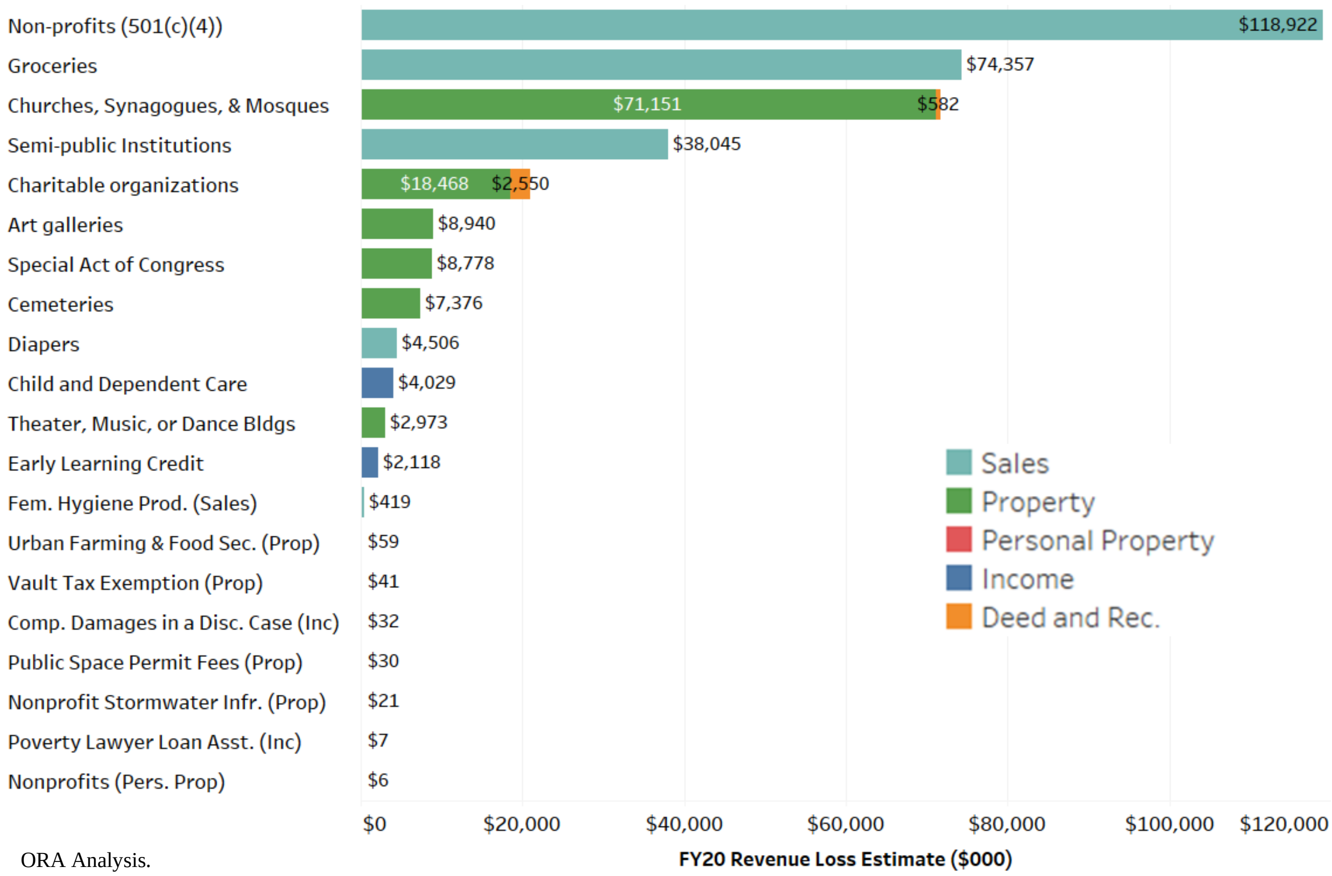
The three largest social policy-related categorical provisions make up 73 percent of the total ($264 million). These three include the sales tax exemption for charitable organizations (501(c)(4)s), the real property tax exemption for religious institutions, and the sales tax exemptions for groceries.[5] Chart 2 below presents the categorical social policy tax expenditures, those from which any eligible entity may benefit.

It is important to note that the estimates for sales tax provisions are difficult to measure and therefore imprecise, because there is a lack of data on actual sales that are exempted from taxation. For example, the estimate for nonprofit purchases makes assumptions of sales to all federally tax-exempt nonprofits in DC to estimate the revenue forgone (this applies to both 501(c)(4) organizations, as well as the exemption for semi-public institutions). Further, federal estimates of consumer purchases on food for home consumption are apportioned to the District based on population and used to estimate the amount of forgone sales tax revenue on grocery purchases.

In Chart 2 below, similar social policy tax expenditures have been grouped together, such as the property and deed and recordation tax expenditures for both religious and charitable organizations, and provisions with no estimate of forgone revenue are not included in the chart.

[3] Excluding the categories of 'general law' and 'tax administration and equity' provisions since they do not fall neatly into a policy area.
[4] 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.
[5] The local tax policy provisions covered here do not include the tax expenditures resulting from the District's conformity to the federal income tax code for provisions such as the charitable deduction, which encourages individual giving to charitable organizations and accounted for approximately $78.1 in forgone income tax revenue in FY2019.

Chart 2: Categorical Social Policy Tax Expenditures Total $363 Million in FY 2020
(Estimates in $000)



ORA Analysis.

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.

Summary and Recommendations

This report provides an overview of the District's tax expenditures for income security and social purposes as they are carried out through the tax code and catalogues them as a group for the first time. The provisions in this report represent a significant transfer of District resources to help secure the income of low-income residents as well as resources to nonprofit organizations that operate in a wide variety of areas and provide a host of different services which benefit District residents, and the city, more broadly. Many of the tax provisions are described in more detail than has been provided in other reports up to this point, with data on estimates of revenue forgone and numbers of recipients, where available, and a logic model is presented for each tax provision. These first steps will provide the building blocks for further research and future evaluations.

1) **Reduce the marriage penalty that exists for married childless workers** by extending the DC EITC income eligibility limit for married workers without children.

2) **Consider passing legislation to penalize fraudulent tax return preparers.**

3) The District could **provide more 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.

4) **Continue to support OTR monitoring and enforcement activities** by providing more resources to OTR CID for criminal investigation into fraudulent practices and ensuring more access to relevant data, especially federal data with tax preparers' electronic identification number, to properly perform their jobs.

5) **Review the purpose of the income tax subtraction for Social Security retirement benefits** (the second largest share of income security tax expenditures) and consider limiting eligibility for taxpayers with higher incomes.

6) **Review the possibility of a refund system that would provide more transparency and revenue certainty within the sales tax exemption for nonprofits organizations.**

Part I below introduces the report, with an overview of tax expenditures and their evaluation, in general, as well as a discussion of the evaluation of social policy tax expenditures. Next, the categories of tax expenditures focused on protecting income security and social policy are defined more narrowly as a subset of the larger social policy field for the purposes of this report, and a brief listing of similar spending programs are included. Part II of the report is a detailed review of the income security tax expenditures, including a review of the EITC. Part III reviews social policy tax expenditures, including both categorical provisions for which any entity that is eligible may claim, as well as Individual tax provisions, which are conveyed through legislation. Finally, Part IV summarizes the overall report.

Part I: Introduction

Legal Requirement

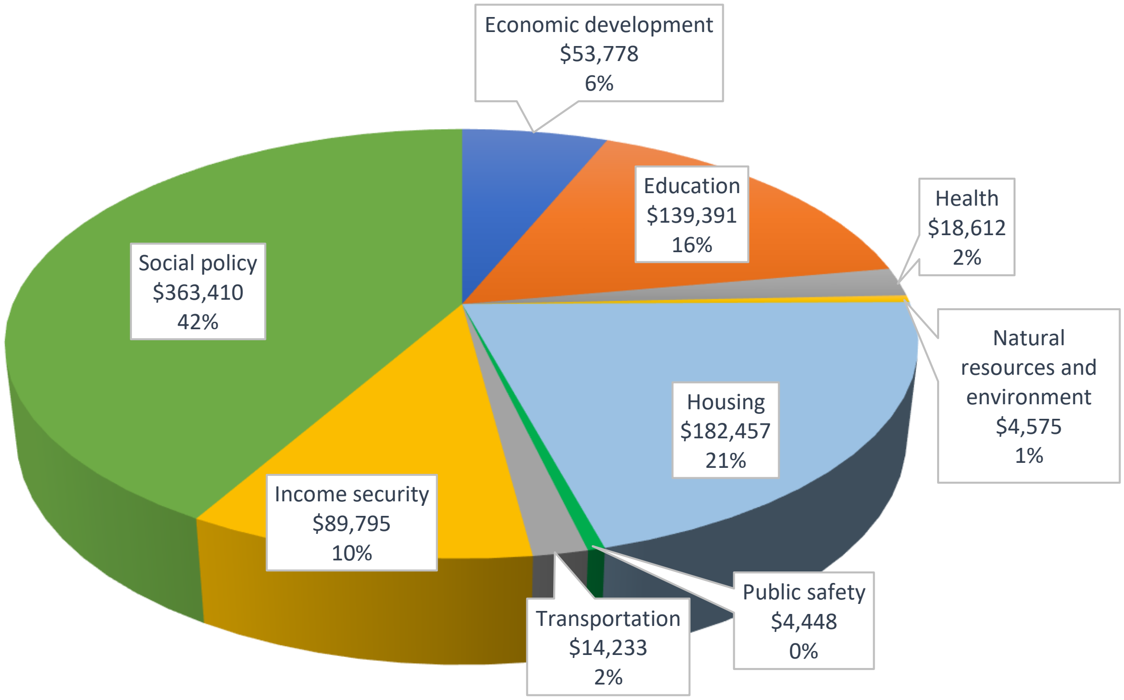
The following report is published pursuant to a subtitle of D.C. Law 20-155, the "Fiscal Year 2015 Budget Support Act of 2014." Also called "Tax Transparency and Effectiveness," the legislation requires the Office of the Chief Financial Officer (OCFO) to review all D.C. tax preferences (abatements, credits, and exemptions, among others) on a five-year cycle. To comply with this requirement, the OCFO must summarize the purpose of each provision, estimate the revenue forgone, examine the impacts on the District's economy and social welfare, and offer recommendations about whether to maintain, revise, or repeal the tax preference. The full text of the legislative requirement is presented in Appendix 1. The first report reviewed the District's Housing Tax Expenditures in 2015. The second report reviewed the District's Environment, Public Safety, Transportation, and Tax Administration-Related Tax Expenditures and was released in early 2017. The third report reviewed the District's Economic Development Tax Expenditures and was released in November 2018.

Overview of Tax Expenditures and Their Evaluation

Tax expenditures are often described as "spending by another name." They are preferences in the tax code that convey a benefit to certain individuals or businesses. As such, the terms 'tax expenditure' and 'tax preferences' will be used interchangeably throughout this report. Policymakers use various specific types of tax expenditures, including tax abatements, credits, deductions, deferrals, exclusions, and incentives to promote a wide range of policy goals in education, human services, public safety, economic development, environmental protection, and other areas. Instead of pursuing these objectives through direct spending, policymakers reduce the tax liability associated with certain actions (such as hiring new employees) or conditions (such as being elderly) so that individuals or businesses can keep and spend the money that would otherwise be used to pay taxes. For example, a program to expand access to higher education could offer tax deductions for college savings instead of increasing student loans or grants. Regardless of the approach, there is a real resource cost in terms of forgone revenue or direct expenditures. Tax expenditures decrease the tax base and therefore reduce government resources available for other priorities. Tax expenditures should be reviewed just like government spending to ensure effectiveness and accountability.

Chart 3 below shows DC's local tax expenditures by policy areas. As the chart below shows, tax preferences targeted to income security make up about 10 percent of District "spending" through the tax code. Tax preferences for social policy, including sales and property tax exemptions for churches and nonprofit organizations, as well as the sales tax exemption for groceries, comprise the largest aggregate amount of spending through the tax code by policy area and represent 42 percent of "spending" through the tax code. Assessing all District tax expenditures in this way, the total of those targeted to housing is the second largest group, and those preferences were described in detail in the 2015 DC Housing Tax Expenditure Review. Tax expenditures for education-related purposes make up the third largest group and will be covered in a forthcoming report.

Chart 3: Local FY 2020 Tax Expenditures, Aggregated by Policy Area, $000



Source: ORA.
Note: Chart does not include tax expenditures not assigned to a policy area, such as the exemption of Federal and D.C. Government property from taxation, or those more akin to base defining measures, such as the exemption of professional and personal services from the sales tax, as well as tax provisions to assist in tax administration. Further, 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.

Methodology: How This Review Was Conducted

For the current report on the District's income security and social policy tax expenditures we reviewed the following documents:

- D.C. Code enacting the provision and accompanying committee reports.
- Tax Expenditure Reports and other relevant ORA reports, such as Tax Facts, for information or data, as well as relevant Fiscal Impact Statements.
- Tax Abatement Financial Analyses and Unified Economic Development Reports produced by the OCFO's Office of Finance and Treasury.
- Revenue chapters of the Mayor's Budget.
- DC Individual income and franchise tax data and tax forms.
- DC Real property tax data and real property tax exemption reports.
- DC Sales tax data.
- Finally, where we do not have DC taxpayer data sufficient to estimate revenue forgone from certain provisions, we often rely on federal data sources. For example, we use the federal Economic Census from the US Census Bureau, to make estimates of a DC sales tax exemption for which we lack data, as well as federal Individual Income Tax data for some estimates based on federal EITC claims.

Additionally, we held meetings with:

- Criminal Investigation Division about DC EITC compliance program.

- Representatives from DC Fiscal Policy Institute and Capital Area Asset Builders.

Broader Context for the Report

What is Social Policy?

The terms 'income security' and 'social policy' are distinct headings used in this report to categorize the various tax expenditures under review. However, the term 'social policy' in other contexts is a much broader category that could include any number of programs and policy areas, including those considered 'income security' in this report as well as policy areas covered in other Tax Expenditure Reviews, such as health, housing, etc.

The *Oxford Handbook of U.S. Social Policy* defines social policy as "programs that redistribute resources across society and often seek to cushion people against life's socioeconomic risks."[6] Social policies typically refer to programs designed to improve people's welfare, or their wellbeing. The following sections discuss social policy as a broad category that encompasses all the programs in this report.

Social Policy and the Tax Code

Social policy has been implemented through the tax code since tax systems were put into place. The choices involved in the establishment of a tax system, such as the unit of taxation (e.g. an individual or a married couple), the treatment of children (and dependents), and the base to which the tax is applied (such as which types of income, which types of consumption, which types of property are included) constitute tax policy decisions with implications for social policy.

By some definitions, tax expenditures for social policy include any tax expenditure that is enacted for a social end, rather than to meet a governmental objective or to fulfill a basic principle of taxation.[7] In this broad sense, social policy-related tax expenditures would cover many more provisions than those included here, such as education, housing, health, and more. However, we identify tax expenditures with those goals in separate Tax Expenditure Reviews, leaving a smaller subset of income security and social policy tax provisions to be reviewed in the present report.

ORA generally uses the tax expenditure categories used by the federal government with some deviation to accommodate our different tax system.[8] At the federal level, there is an 'Income Security" category, as well as a category "Education, Training, Workforce, and Social Services" which contains federal tax expenditures like those DC offers in the social policy area. ORA has created a separate category for Education.

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[6] The Oxford Handbook of U.S. Social Policy. Daniel Beland, Christopher, Howard; Kimberly J. Morgan, eds. 2014. Oxford University Press. Page 4.
[7] Streams, Meg, and Laurie Gavilo-Lane. "Tax Expenditures as Social Policy." In: Farazmand A. (eds) Global Encyclopedia of Public Administration, Public Policy, and Governance. 2016. Springer, Cham.
[8] The policy areas ORA uses largely mirror the categories used by the Joint Committee on Taxation (JCT) of the U.S. Congress, the Congressional Research Service (CRS), and the United States Department of Treasury.

Evaluating Social Policy Tax Expenditures

Tax expenditures that improve income security and promote various social policy goals are similar in many ways to other policy areas but are different when it comes to evaluation. To the extent that tax preferences and expenditures are a transfer of resources from the government to the recipient (and no new action is taken), then income security tax expenditures and tax expenditures for economic development are similar, and simply constitute a tax policy decision as to who gets what from the government. In all these cases, the tax provisions should be evaluated to ensure eligibility requirements are met and the programs are administered effectively.

However, there is often a difference between these two types of tax expenditures, as is typically denoted when the term tax 'incentive' is used rather than tax 'expenditure.' For example, tax incentives for economic development are often intended to prompt a business or entity to take an action it otherwise would not have taken. And with the right data, the effectiveness of these incentives may be evaluated.

However, most of the tax expenditures covered in this report are different than a tax incentive. For example, allowing religious institutions—as well as museums, art galleries, and nonprofit organizations—tax-exempt status is in part a statement of a societal view of such institutions and their intrinsic value. Conveying a status of not having to pay property taxes, for example, is in some ways a reflection of the shared sentiment that those institutions are so valuable on their own terms that they should not be liable for taxes and we therefore require no other outcome from that property, as long as such an institution occupies it. Further, many nonprofit organizations provide services that may relieve governments from having to provide those services. This broader relationship between nonprofits and government is not the topic of this report, however, it is important context to consider when reviewing the support that nonprofit organizations receive through the tax code.

Nevertheless, these tax expenditures represent scarce government resources, and further, tax exemptions for any group of recipients under a particular tax may increase the burden of taxes on all others paying that tax, by requiring a higher tax rate for the same amount of revenue to be raised. For these reasons, tax expenditures for social policy warrant transparency and scrutiny, even if the questions to be asked about them may differ.

This first report reviewing the District's social policy and income security tax provisions describes these tax provisions in more detail than has been provided up to this point, provides data on revenue forgone and numbers of recipients where available, and presents a logic model for each tax provision that serves as a guide for evaluating a provision in terms of outputs (resources used and numbers of people/organizations affected), and outcomes (the relationship of those outputs to broader impacts on society). (See sample logic model below). In most instances, we supply information for the first three boxes in the logic model covering: 1) the need for the provision, 2) the resources it represents (cost to government), and 3) the number of people or organizations affected. The outcome-related boxes typically provide an example of the type of information that would be needed, and questions that should be asked, for policymakers wishing to fully consider broader outcomes of the policy. The initial output and outcome information reported here provide the building blocks for further research and future evaluations. Boxes for which we do not provide policy-specific information will remain in italics.

Sample Logic Model

The Need: *(Purpose of policy)*	**Resources/Inputs:** *(Revenue spent)*	**Outputs:** *(How many residents served or per person benefit)*

Expected Outcomes or Benefits
(changes in short, intermediate, or long-term measures)

Short-term *(Immediate changes)*	**Medium-term** *(Intermediate changes)*	**Long-term** *(Long-term changes)*

Assumptions:
(Underlying principles about how outputs will affect outcomes.)

Income Security and Social Policy Tax Expenditures in the District

As noted above, the term 'social policy' in its broadest sense could cover all the provision included within this report. However, we follow ORA's past categorization of tax expenditures to present income security and social policy tax expenditures as distinct from one another, but similar enough in their goals to include in the same report. We first present the income security category as it is a smaller collection of tax expenditures that is narrowly focused on directly protecting the income of those residents who are most at risk of becoming adversely affected by loss of income in any number of ways. As such, each of these provisions are tax expenditures through the individual (personal) income tax.

Second, we present the District's social policy tax expenditures, which are greater in number and broader in scope, and cover at least five tax types. Just as income security tax expenditures are exclusively geared toward individual use through the income tax, a common thread among the District's many tax expenditures with a social policy purpose is that most of them are for nonprofit organizations. And while some of the social policy provisions are available to individuals, these provisions are different from those listed in the income security sections.

Spending Side Equivalent Programs

In addition to the tax expenditures included in this report, the District of Columbia Department of Human Services (DHS) commits significant resources toward its strategic objective of "empowering the DHS customers to improve their economic stability and well-being."[9] Income security programs are carried out primarily within DHS' Economic Security Administration, and include programs such as Temporary Assistance to Needy Families (TANF), Job Opportunity and Training, Early Education Subsidy Transfer, Eligibility Determination Services, Case Management, Supplemental Food Assistance, the Community Services Block Grant, and others. In FY 2018, at least $258.8 million in funds were directed through these programs.[10]

In the pages that follow, Part II of the report provides a review of the income security tax provisions, including the EITC. Part III of the report which the social policy tax provisions, including both categorical and individual provisions. Lastly, Part IV summarizes the report and the resulting recommendations.

[9] DC FY2020 Budget and Financial Plan, Volume 4. Available at this link. See also: Department of Human Services FY2020 Performance Plan, available at this link.

[10] Ibid, Page. E-4.

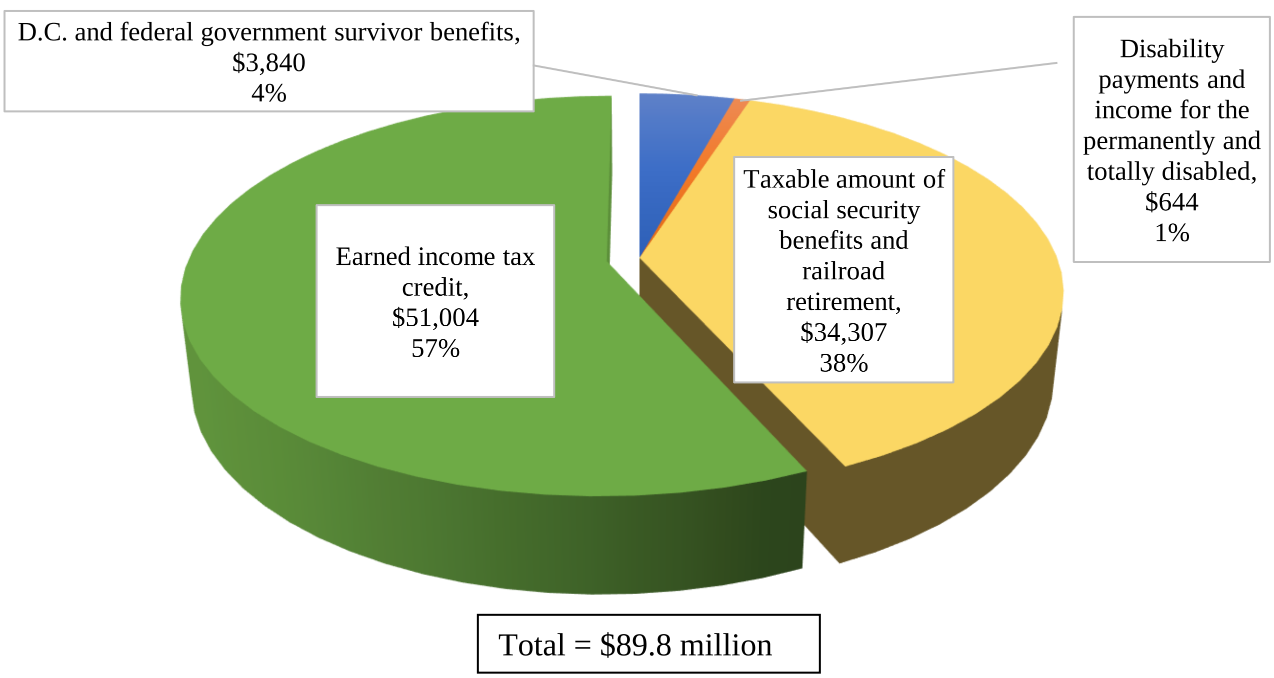
Part II: Review of the District's Income Security-Related Tax Expenditures

Income Security Tax Expenditures

The District's income security provisions comprise the fourth largest category of tax expenditures, following social policy, education, and housing. The largest of these provisions by far is the Earned Income Tax Credit (EITC), created as an add on to the federal earned income tax credit to reduce the tax burden for low-income households and reduce poverty among low-income workers in the District. As Chart 4 below illustrates, the District's EITC represents almost 60 percent of the total revenue forgone through tax expenditures targeted to improving the income security of DC residents.

A set of tax preferences allowing for filers to subtract Social Security and Railroad Retirement benefits before calculating income taxes makes up the second largest category of income tax expenditures in this report, at just under 40 percent of the total. Provisions allowing for the subtraction of DC and federal government survivor benefits and disability payments make up under 5 percent of the total. Of all the provisions categorized as income security, most of the revenue forgone goes to filers earning less than $60,000, though notably, more than $25 million in benefits goes to tax filers earning over $75,000 per year and claiming the Social Security and Railroad and survivor benefit preferences (when adding multiple provisions).

Chart 4: FY 2020 Revenue Forgone to Income Security Tax Expenditures, $000



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.

Table 1: Income Security-Related Tax Expenditures

Name of Tax Expenditure	Tax	Type of Provision	Date Enacted	D.C. Code	FY 2020 Revenue Loss Estimate (thousands)
Earned income tax credit	Income	Credit	2000	§ 47-1806.04(f)	$51,004
DC and federal government survivor benefits	Income	Subtraction	1987	§ 47-1803.02(a)(2)(N)	$3,840
Disability payments for the permanently and totally disabled[1]	Income	Subtraction	1985	§ 47-1803.02(a)(2)(M)	$25
Income of persons with a permanent and total disability[1]	Income	Subtraction	2005	§ 47-1803.02(a)(2)(V)	$618
Social security and railroad retirement benefits	Income	Subtraction	1985	§ 47-1803.02(a)(2)(L)	$34,307
Social Security Benefits for retired workers	Income	Subtraction	1985	§ 47-1803.02(a)(2)(L)	included above
Social Security benefits for survivors and dependents	Income	Subtraction	1985	§ 47-1803.02(a)(2)(L)	included above
Social Security benefits for the disabled	Income	Subtraction	1985	§ 47-1803.02(a)(2)(L)	included above
TOTAL[2]					**$89,794**

[1] Disability payments for persons with a permanent and total disability and income of persons with a permanent and total disability are combined in Chart 4 above.
[2] 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.

The first section below provides a summary of the EITC, the largest income security tax provision. Following the summary of the EITC, seven other income security tax expenditures are described (all four tax expenditures relating to Social Security benefits are presented together).

Earned Income Tax Credit
Income Tax Credit

District of Columbia Code: D.C. Official Code § 47-1806.04(f)
Sunset Date: None
Year Enacted: 2000

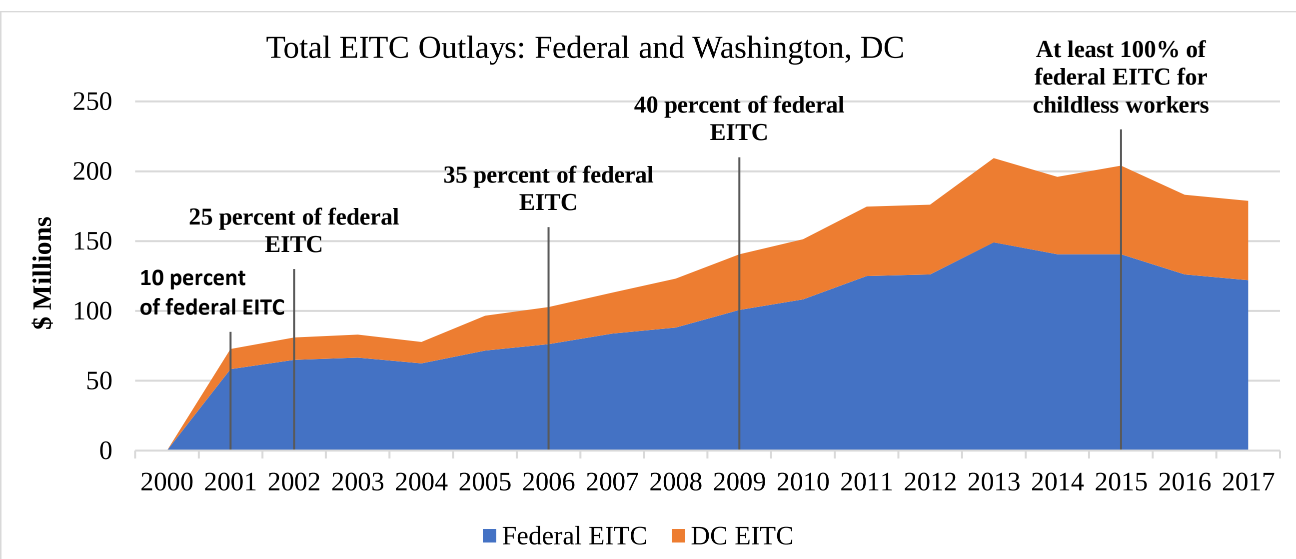
(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$55,347	$64,033	$62,425	$56,824	$53,246	$50,549	$51,004	$51,463
Number of Beneficiaries	56,562	68,010	66,929	62,513	59,174	57,177	57,692	58,211

Source: ORA. Estimates are from the individual income tax data. FY 2014-2017 is actual, FY 2018-2021 are estimates.

Overview

The DC EITC was created as an add-on to the federal earned income tax credit to reduce the tax burden for low-income households, encourage work, reduce poverty, and provide additional tax relief to low-income taxpayers, especially those with dependent children in the District. The DC EITC began in tax year 2000 at 10 percent of the federal earned income tax credit and gradually increased to 40 percent of the federal EITC by fiscal year 2009, becoming the most generous state refundable EITC in the United States. Chart 5 below shows total Federal and DC EITC outlays for DC residents between 2000 and 2017 with policy changes in the DC EITC labeled. (See Appendix 2 for a summary of the legislative history of the DC EITC.)

Chart 5: 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

In the sections that follow, the purpose and eligibility levels for the federal and DC EITC are outlined. Next, using available individual income tax return data on DC EITC claimants, we provide an in-depth analysis of EITC benefits, including an assessment of the level of effectiveness of the credit among beneficiaries, as well as the impact of the EITC on recipients' tax burdens and effective tax rates.[11] Following the discussion of benefits, a section on administrative costs of the EITC identifies challenges EITC recipients face in complying with the rules as well as challenges caused by 3rd party tax preparers. The section on the EITC concludes with a summary and recommendations.

Purpose

The general purpose of the 2000 DC earned income tax credit, like the federal earned income credit, was to help lift working families out of poverty and reduce the tax burden for low-income District taxpayers.[12, 13] The federal earned income tax credit was originally intended to provide relief for the regressive impact of social security payroll taxes and to offset rising food and energy prices, as well as to encourage employment among lower income families through the Tax Reduction Act of 1975.[14, 15]

Federal and State Eligibility

The federal and DC EITC are geared to low-to-moderate income workers within a specified income limit that are eligible for the refundable credit. The credit starts off as a percentage of earned income up to a maximum amount, after which the credit remains constant at that maximum amount as income increases, until an income threshold is reached, after which the credit decreases by a specified percent of earned income until the credit phases out completely (See Chart 6 below for an illustration). The eligibility requirements as determined by the federal government are adjusted annually and are published by the Internal Revenue Service (IRS).

The 2018 federal eligibility requirements were as follows (DC's income eligibility requirements are the same with the federal stipulation for households with qualifying child(ren)):

- Investment income received must be $3,500 or less for the year, and a federal adjusted gross income of less than:
    - o $15,270 ($20,950 married filing jointly) with zero qualifying children

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[11] For further reading on EITC benefits, Appendix 3 offers descriptive analysis and charts illustrating the distribution of DC EITC benefits by income level, demographic group, ward, and neighborhood. Appendix 4 illustrates EITC tax burdens by Family Structure. Appendix 5 summarizes research showing additional benefits of the federal EITC, including work encouragement, and positive impacts of the EITC on health and educational outcomes of recipients. Appendix 6 provides estimates of an additional $12.2 million of federal and DC EITC benefits that are not being claimed by eligible DC residents. If claimed these benefits would boost the incomes of low-income DC workers; and lead to local spending, higher sales tax revenue, and other indirect results that would benefit the local economy.
[12] Fiscal Impact Statement: "Earned Income Tax Credit Amendment Act of 2001."
[13] Fiscal Year 2001 Proposed Operating Budget and Financial Plan: Making the Vision a Reality. Coming Together, Working Together, Succeeding Together. Prepared for the Congress of the United States, June 9, 2000.
[14] U.S. Senate, Committee on the Budget, Tax Expenditures: Compendium of Background Material on Individual Provisions, Senate Print 115-28, prepared by the Congressional Research Service (December 2018), p. 968
[15] Hungerford, T. L. & Thiess, R. (2013). The Earned Income Tax Credit and The Child Tax Credit: History, Purpose, Goals, and Effectiveness. Economic Policy Institute, Issue Brief #370 September 25, 2013.

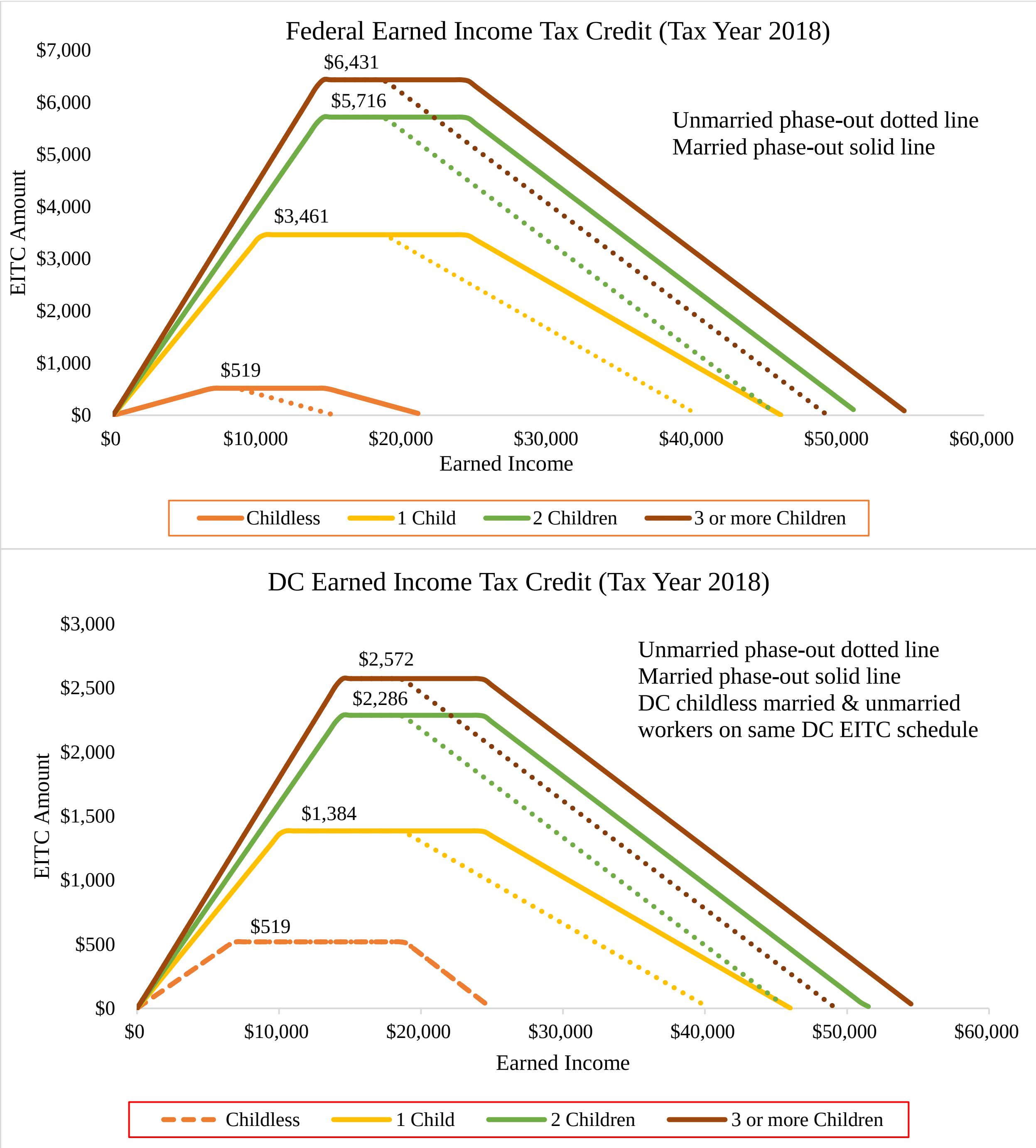
  - $40,320 ($46,010 married filing jointly) with one qualifying child
  - $45,802 ($51,492 married filing jointly) with two qualifying children
  - $49,194 ($54,884 married filing jointly) with three or more qualifying children

- Maximum federal credit amounts:
  - $6,431 with three or more qualifying children
  - $5,716 with two qualifying children
  - $3,461 with one qualifying child
  - $519 with no qualifying children

While DC's maximum EITC is 40 percent of the federal credit for families with qualifying children, the 2014 EITC expansion for childless workers made the maximum credit received by this group at least 100 percent of the federal credit. This expansion widened the earned income range to get the maximum credit from the federal level of $6,750 to $8,500 for unmarried childless workers ($6,750 to $14,200 for married childless workers) to the DC earned income range of $6,750 to $18,500 for both unmarried and married childless workers. The expansion also raised the income limit at which childless workers can receive the credit from the federal requirement of $15,270 ($20,950 for married filing jointly) to $24,500 for married and unmarried tax filers in 2018.[16] See Chart 6 below for an illustration of the income requirements and phase out levels for both the federal and DC EITC. Additional estimates of the level of federal and DC EITC that is left unclaimed in the District, and what the economic impact of those funds would be for the city is in Appendix 6.

[16] The DC income eligibility requirements for childless workers, like the federal credit, is increased annually by the cost-of-living adjustment.

Chart 6: Federal and DC EITC Schedules, 2018



Source: ORA.

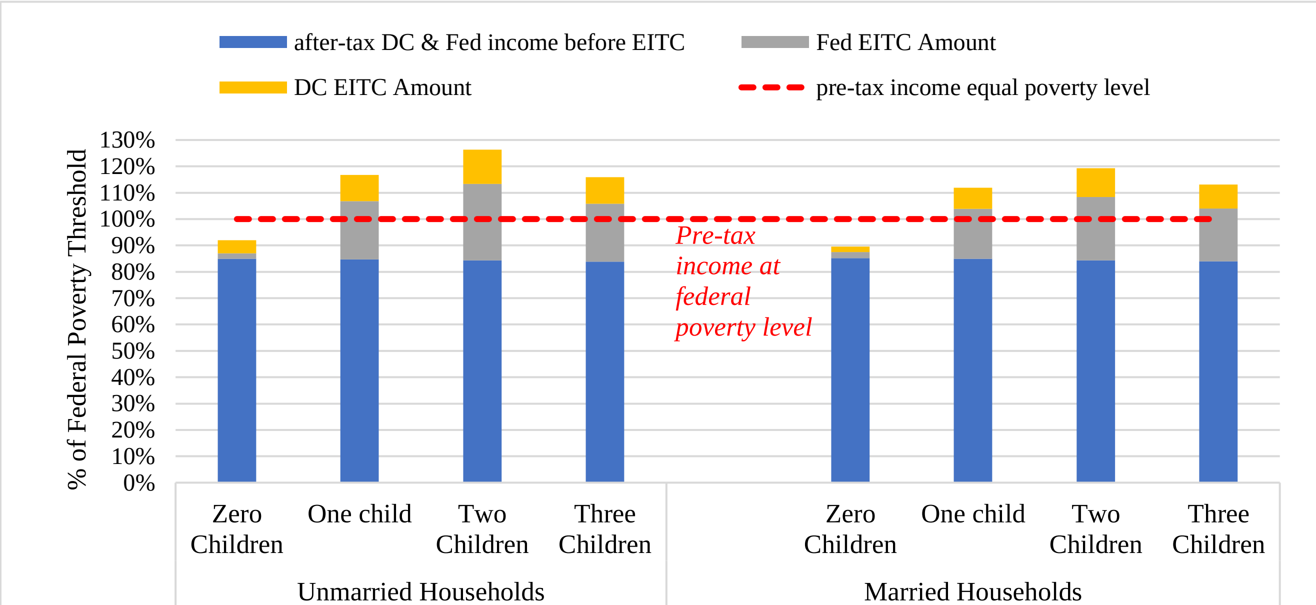
Benefits

A review of DC's individual income tax return data and an analysis of the impact of federal and DC EITC on income relative to the federal income poverty threshold for a set of hypothetical families indicate that DC EITC raises the incomes of low-income families and therefore meets its goals of lifting working families out of poverty. Using 2018 federal and local income tax rates, the analytical exercise presented in Chart 7 below shows how the DC EITC supplements the federal EITC in reducing poverty within the District. The effect of the EITC after subtracting the federal and local taxes owed and adding back the EITC varies across different types of households.

Chart 7 shows that childless workers, both married and unmarried, with pre-tax income at the poverty threshold would have their income stay below the poverty line after taxation and the inclusion of the EITC because the taxes owed tend to be higher than the EITC. While the DC expansion of EITC to childless workers has provided additional income support and security for relatively low-income childless tax filers,[17] Chart 7 shows that these low-income earners are still worse off after getting EITC compared to their *pre-tax* income. This is especially true for married childless workers due to the marriage penalty in the eligibility requirements of the DC EITC. That is, married and unmarried childless workers have the same income eligibility requirements to claim the credit so that two single childless workers living together and each making $10,000 a year would individually receive the maximum DC EITC while a married couple with zero children with the same income would be at the phase-out range of the credit.

[17] Muhammad, Daniel. (February 2019). The 2015 Expansion of the District of Columbia Earned Income Tax Credit for Childless Workers: Providing Tax Relief, Encouraging Labor Market Participation and Helping to Reduce Poverty. Office of Revenue Analysis, Office of the Chief Financial Officer.

Chart 7: Effects of Federal and DC Income Taxes and EITC on an Assumed Taxpayer with Pre-Tax Income at the 2018 Federal Poverty Level



Source: ORA calculations based on 2018 Federal and DC income tax rates and the 2018 Federal Poverty Level (FPL). Like the CRS calculations, no deductions from AGI (above-the-line deductions) are included and "tax" includes federal and DC income tax. Other tax credits that recipients may be eligible for, like the child tax credit, are not included.

Tax filers with children that have a *pre-tax* income at the federal poverty level (FPL), on the other hand, tend to have a *post-tax* income above the federal poverty level because the federal and DC EITC received is greater than their tax liability.[18] Chart 8 below further shows that for families with children, the federal EITC alone drives their post-tax income above the FPL and the DC EITC acts as a supplement to further boost these households' income above the FPL. For example, the DC EITC pushes the *post-tax* income of the hypothetical unmarried family with one child from about 108 percent above the poverty line to 115 percent above it.

Analyzing the Impact of DC EITC on Filers at Two Different Poverty Levels

Next, ORA analyzes the impact of only the DC EITC on reducing poverty after subtracting any DC tax liability owed from the income of the tax filers who claimed the credit in 2017. We consider two different levels of poverty: households with after tax income that is above 50 percent of the Federal Poverty Level (FPL); and households with income at or below 50 percent of the FPL. Tax filers with income above 50 percent of the FPL are classified as being in "poverty," while those with after tax income at or below 50 percent of the FPL are in "deep poverty."

Using the 2017 individual income tax roll, ORA estimates the effect of DC EITC on families in poverty and deep poverty. As shown in Chart 8 below, DC EITC has been effective in reducing the number of tax filers in poverty and deep poverty. The local credit reduced the total number of DC EITC filers in deep poverty by about 1,525 (a 14.4 percent reduction) as the total number of

[18] Crandall-Hollick, M. L. & Hughes, J. S. (August 13, 2018). The Earned Income Tax Credit (EITC): An Economic Analysis. Congressional Research Service, R44057. P. 15.

EITC filers living in deep poverty dropped from 16.9 percent to 14.5 percent in 2017. Additionally, the credit reduced the percentage of DC EITC filers living in poverty by an estimated 2,363 filers (an 11.5 percent reduction) as the portion of claimants living in poverty dropped from 32.8 percent to 29 percent).[19]

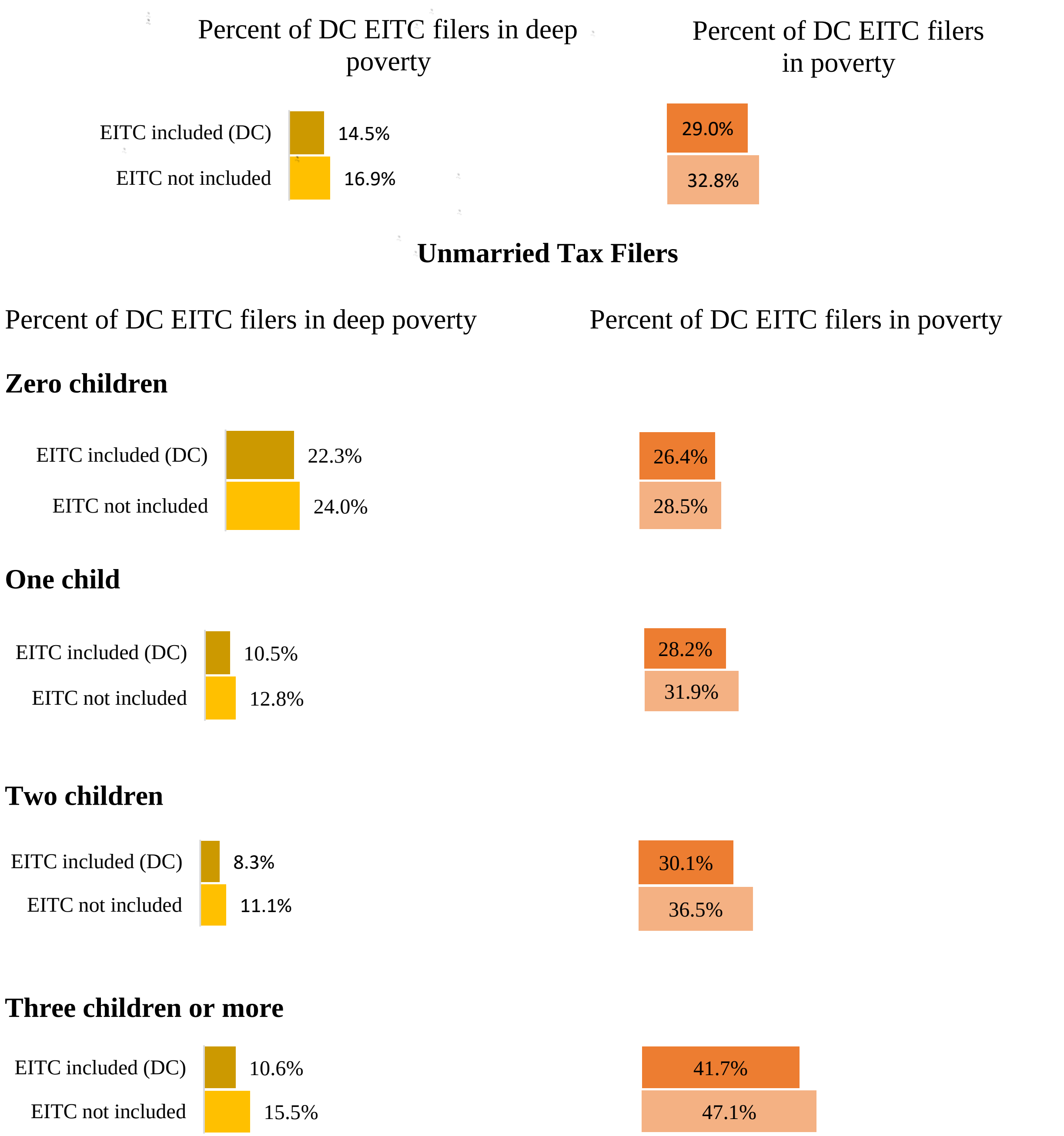
Chart 8 also presents estimates of the DC EITC impact on poverty by the marital status of filers and number of children claimed. DC EITC filers with children experienced the largest reduction in poverty compared to married and single DC EITC filers without kids. For instance, without DC EITC, 36.5 percent of unmarried DC EITC filers with two children would have been in poverty. With the DC EITC, on the other hand, the percentage of DC EITC filers that were in poverty was reduced to 30.1 percent, meaning that 17.7 percent of unmarried DC EITC filers with two children (or 762 unmarried claimants with two children) were lifted out of poverty because of the credit. Furthermore, the DC EITC decreased the number of married filers with two children in poverty by an estimated 21 percent, moving 64 married filers that would have been in poverty to above the poverty level in 2017.

Interestingly, Chart 8 shows that the impacts of the DC EITC in general were relatively larger in lifting a higher proportion of filers from deep poverty to poverty than moving filers from poverty to out of poverty. For example, among all DC EITC filers in deep poverty, the credit helped in increasing the after-tax income enough to push about 14 percent of the filers (or 1,525 DC EITC tax filers) out of deep poverty to poverty. While for all DC EITC filers in poverty, about 12 percent of the filers were lifted from poverty to out of poverty due to the credit. As Crandall-Hollick and Hughes (2018) of the Congressional Research Service (CRS) note in their research on the federal EITC, for claimants in deep poverty, "the credit in dollar terms is too small to push these families over the poverty threshold."[20]

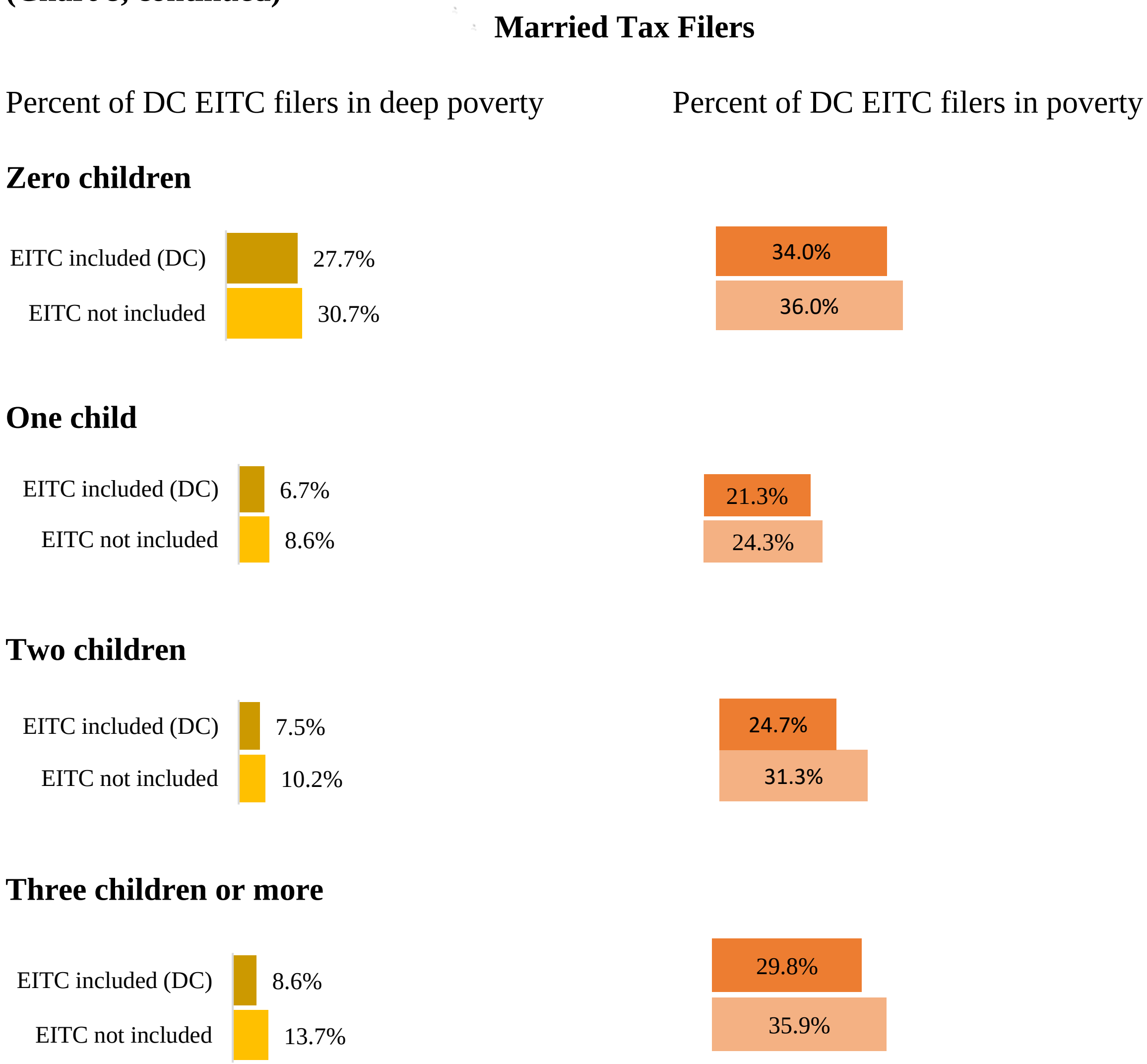
Chart 8 also shows that the impact of the credit on reducing poverty rates among childless workers is comparatively small. In total, in 2017 the DC EITC lifted about 10.1 percent of families with children claiming the credit out of poverty compared to an estimated 3.9 percent of childless workers. Further, Chart 9 shows that about 1,874 DC EITC claimants with children were lifted out of poverty, compared to just 489 childless worker households. Despite DC's EITC being the most generous for childless workers in the nation, the credit still has a relatively minor impact in lifting childless workers out of poverty.

[19] The additional income received by the 2,363 filers through the DC EITC was enough to push their income above the FPL.
[20] Crandall-Hollick, M. L. & Hughes, J. S. (August 13, 2018). The Earned Income Tax Credit (EITC): An Economic Analysis. Congressional Research Service, R44057. P. 15.

Chart 8: Estimated Effects of DC EITC on Tax filers Claiming the Credit with After-Tax Income in Poverty and Deep Poverty, 2017

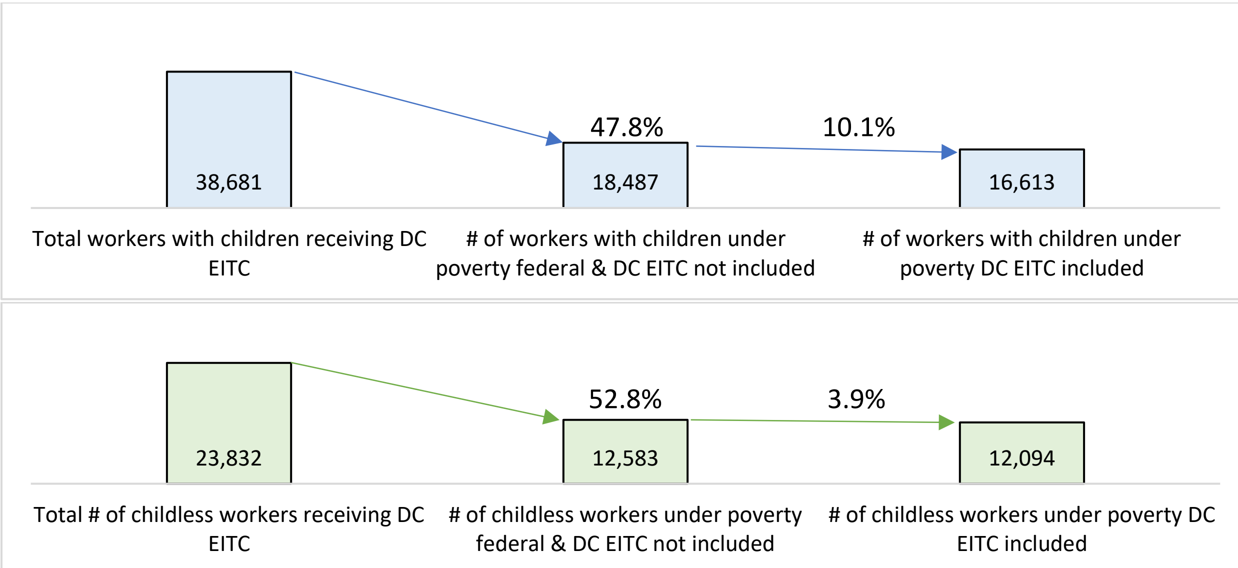


(Chart 8, continued)



Note: ORA analysis of DC individual income tax data using Figure 3 in Crandall-Hollick and Hughes (2018) as a guide. We compare a DC EITC household's DC adjusted gross income, including DC income tax withheld, net of DC taxes paid, to the official poverty threshold. The DC EITC is included in the after-tax income in one measure to get the effectiveness of the EITC as an antipoverty tool and excluded in another measure. Both measures are then compared with the official poverty threshold to determine if the household is poor.

Chart 9: Number of workers with children and childless workers living in poverty (2017)



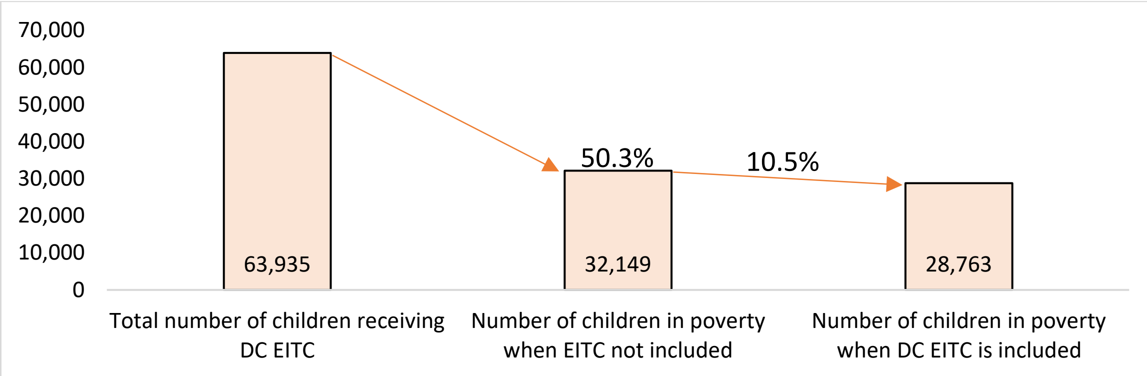
Source: ORA.

Assessing the impact of the DC EITC on the number of children in poverty as a measure of its efficacy as an antipoverty tool, ORA finds that in 2017, about 3,386 additional children would have lived in households below the poverty line if not for the DC EITC. As Chart 10 shows, of the roughly 63,935 children living in households that received the DC EITC, ORA estimates that 50.2 percent of them (or 32,149 children) would have been in poverty in 2017 without the DC EITC. However, the DC EITC reduced that number to 28,763, or 3,386 fewer children than would have lived under the poverty level if not for the DC EITC.

Historically, an average of about 68,860 children per year (includes children of new and repeat DC EITC filers) benefitted from the DC EITC between 2006 and 2017 and on average, 35,807 (52 percent) of the children that benefitted from the credit lived in poverty during the same period. Furthermore, about 11 percent of the children in a DC EITC claimant's household living in poverty were lifted out of poverty because of the credit in the same 11-year period.[21]

[21] ORA calculations.

Chart 10: Estimated Effects of DC EITC on Number of DC Children in Poverty



Source: ORA calculations.

Charts 8-10 show the positive effects of the credit on DC EITC tax filers. First, the DC EITC has helped in reducing poverty in the city by pushing about 10 percent of DC EITC filers with children (or 1,874 people) and an estimated 3.9 percent of childless workers claiming EITC out of poverty (or 489 people). Second, the DC EITC lifted about 3,386 children (or 10.5 percent of children living under the poverty level) above the poverty line in 2017. (For additional detail on the distribution of EITC benefits based on income, number of children, and claimants' ward and neighborhood, see Appendix 3.)

Analyzing the Impact of DC EITC on Tax Burdens

Another goal of the DC EITC is to reduce the tax burden of low-income working families. Next, we illustrate the role of DC EITC in pushing the after-tax distribution of income towards greater progressivity for low-income families by reducing the tax burdens on DC EITC tax filers. CRS defines tax burden as the percentage of a taxpayer's income that is paid in taxes. In this subsection, we evaluate how the DC EITC affects the tax burdens of different families by income and family structure.[22]

Table 2 shows the impact of DC EITC on effective tax rates by income groups. The effective tax rate represents the actual amount of DC individual income tax that is paid on a tax filer's taxable income. In 2017, the credit shifted the distribution of DC tax burdens towards greater progressivity meaning that the difference in the effective tax rates between income groups, as income increases, is greater for DC EITC filers compared to filers in the same income group that are unable to claim the credit.

The effective tax rate benefit is the greatest for DC EITC tax filers with annual income below $30,000. Notably, filers with incomes between $10,000 and $20,000 had about a 95 percent decrease in their average DC effective tax rate, the highest percentage decrease among all income groups. The DC EITC also reduced the average DC effective tax rate by 93 percent for households that claimed the local credit with income below $10,000, the second largest decrease in the average effective tax rate. The third largest decrease in the average effective tax rate occurred for DC EITC

[22] Crandall-Hollick, M. L. & Hughes, J. S. (August 13, 2018). The Earned Income Tax Credit (EITC): An Economic Analysis. Congressional Research Service, R44057.

claimants with income between $20,000 and $39,999. Such a large decrease in the average effective tax rate can be attributed to the 2014 EITC expansion, which increased benefits for childless workers. In 2017, about 15.9 percent of EITC beneficiaries (9,940 tax filers) with income below $18,622 received the maximum credit because of the 2014 expansion. (For additional analysis of the impact of the EITC on tax burdens by family structure, see Appendix 4.)

Table 2: DC Effective Tax Rates with and Without DC EITC for TY 2017

	Average DC Effective Tax Rate				
DC FAGI	**Without EITC**	**With EITC**	**Average Decrease in DC Tax Liability from Credit**	**Percent of Tax Units Who Receive the Benefit**	**Share of Total Value of DC EITC**
less than $10,000	0.67%	0.04%	$42	24.76%	16.01%
$10,000-$19,999	2.15%	0.10%	$314	36.81%	48.68%
$20,000-$29,999	3.15%	0.64%	$660	23.62%	25.52%
$30,000-$39,999	3.72%	1.11%	$902	12.13%	8.79%
$40,000-$49,999	4.07%	2.17%	$887	2.60%	0.98%
$50,000-$59,999	4.37%	2.69%	$1,010	0.08%	0.02%
$60,000-$74,999	4.71%	4.71%	--	--	--
$75,000-$99,999	5.29%	5.29%	--	--	--
$100,000 and Above	6.35%	6.35%	--	--	--

Note: ORA. Households in each income group include both those eligible and ineligible for the EITC. Observations with negative DC adjusted gross income and dependents (individuals claimed by other tax filers) are excluded from their respective income class but included in the totals.

As shown above the DC EITC has a positive impact on the tax burdens of its claimants. Although the DC EITC increases horizontal inequity among equivalent families, it has consistently lowered the average tax and effective tax rates for its claimants compared to tax filers with the same income and reference income level not claiming the credit, respectively. We also see the progressivity of the DC EITC tax credit as it reduces the tax burden more for DC EITC tax filers with lower incomes compared to DC EITC filers with higher incomes. In addition to the benefits summarized above, Appendix 5 offers an overview of research on other benefits provided by the EITC, such as work encouragement, and positive educational and health outcomes.

Distribution of DC EITC Benefits

DC EITC recipient claimed over $718.5 million in earned income tax credits from 2001 to 2017 which is an estimated 3.1 percent of the individual income tax revenue collected during the same period (see Table 3 below). On average, DC EITC tax filers claimed about $796 per year which eliminated income tax liability and generated refunds to about 74 percent of claimants. Further analysis of the distribution of DC EITC benefits by demographic group and geographic location is in Appendix 3.

Table 3: Total EITC Filers and Credits Claimed by Year, 2001-2017

Year	*Number of DC EITC Filers*	*Distribution of Total EITC Filers*	*Amount of Claims $*	*Distribution of Total EITC Claims*	*Average Credit $*	*Median Credit $*
2001	43,726	4.84%	$18,948,881	2.64%	$433	$434
2002	46,291	5.13%	$20,224,903	2.81%	$437	$432
2003	46,191	5.12%	$20,277,260	2.82%	$439	$427
2004	44,194	4.90%	$20,143,264	2.80%	$456	$450
2005	46,210	5.12%	$30,143,983	4.20%	$652	$643
2006	45,414	5.03%	$31,026,474	4.32%	$683	$678
2007	49,310	5.46%	$34,456,692	4.80%	$699	$676
2008	49,312	5.46%	$40,055,741	5.57%	$812	$781
2009	50,937	5.64%	$45,454,823	6.33%	$892	$881
2010	52,961	5.87%	$48,439,582	6.74%	$915	$915
2011	56,036	6.21%	$53,459,777	7.44%	$954	$992
2012	57,917	6.42%	$56,927,156	7.92%	$983	$1,019
2013	60,199	6.67%	$60,313,836	8.39%	$1,002	$1,028
2014	56,562	6.27%	$55,347,331	7.70%	$979	$962
2015	68,010	7.53%	$64,033,805	8.91%	$942	$683
2016	66,929	7.41%	$62,425,111	8.69%	$933	$647
2017	62,513	6.93%	$56,823,764	7.91%	$909	$614
Total		**100%**	**$718,502,383**	**100%**	**$796**	**$637**

Source: ORA analysis of DC Individual Income Tax Data.

Administrative Costs and Challenges within the EITC

Most of the studies on the administrative efficiency of the EITC have focused on the federal EITC. These studies were generally conducted by the IRS, US Department of Treasury Office of the Inspector General, and the Government Accountability Office (GAO) to address some of the inefficiencies in the administration of the credit. While this subsection primarily discusses administrative efficiency at the federal level, the fact that DC EITC amounts are directly linked to the federal EITC (40 percent of federal) allows us to infer some similar trends.

One of the benefits of the earned income tax credit is that it is administered through the tax code by the IRS for the federal EITC and the DC Office of Tax and Revenue (OTR) for DC EITC, and as such EITC administrative costs are very low. In fact, the IRS notes that the administrative cost of the program is less than one percent of the benefits delivered.[23] This is because the IRS relies on voluntary assessment through the filing of tax returns as the "application" for EITC benefits rather than a traditional screening process.[24] However, like other self-reported tax filing and screening processes, there is a risk of improper payments, which is the amount of the credit that is erroneously claimed (generally overclaimed) and *not recovered* by the IRS.[25] Improper payments can include EITC overpayments, which occur because of the "interaction between the complexity of the EITC rules and the complexity of families' lives,"[26] or underpayments. For example, non-custodial parents that pay child support may have a perception that they are eligible for the credit and erroneously claim it, resulting in a larger credit than they should have been received.

As a point of comparison, a 2008 review of administrative costs of nine federal social programs found that the Food Stamps and Temporary Assistance for Needy Families (TANF) cash assistance programs, for example, had administrative costs of roughly 15 percent. However, that study also found the EITC to have the highest level of improper payments (of the programs for which improper payments could be estimated). This illustrates trade-offs inherent in delivering benefits via the tax code as compared to through administrative agencies.[27]

The IRS also found no discernable change in the amount of improper payments to EITC recipients from its first study in 1999 to its EITC audit report of tax years 2006 to 2008 (estimates of possible overpayments for the latter period ranged from 29 to 39 percent).[28] However, in 2013, the IRS reported that about 22 percent to 26 percent ($13.3 billion to $15.6 billion) of federal EITC payments were issued improperly each year (meaning that there could have been an overpayment or an

[23] House Committee on Ways and Means, Subcommittee on Oversight, *Written Statement of Nina E. Olson, National Taxpayer Advocate*, Hearing on Improper Payments in the Administration of Refundable Credits. Available at this link.
[24] Ibid. p. 9
[25] Crandall-Hollick, M.L. (2015). The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges. Congressional Research Service, April 9, 2015.
[26] Greenstein, R., Wancheck, J. & Marr, C. (2019). Reducing Overpayments in the Earned Income Tax Credits. Center on Budget and Policy Priorities, p. 5. Updated January 31, 2019. Available at this link.
[27] Isaacs, J (2008). The Costs of Benefit Delivery in the Food Stamp Program: Lessons from a Cross-Program Analysis. Brookings Institution for the USDA Economic Research Service.
[28] Internal Revenue Service (2014). Compliance Estimates for the Earned Income Tax Credit Claimed on 2006-2008 Returns Research, Analysis & Statistics Report Publication 5162 Washington, DC. August 2014

underpayment), showing a decrease from prior years.[29] Improper payments made by the IRS increase the likelihood of error payments and overclaims by DC OTR since the DC EITC is 40 percent of federal EITC for qualified households with children. Based on the direct link between DC and federal EITC, we estimate that the amount of improper DC EITC payments could be roughly $3.2 to $3.7 million (or 6 to 7 percent of total DC EITC payment in 2016) as a result of errors made in the federal EITC based on the IRS' report.[30] Moreover, the complexity of the rules and formulas used to calculate the EITC have made it difficult for tax filers to follow and for the IRS, and by extension, DC OTR to administer and monitor.

Challenges Tax Filers Face in Complying with EITC Rules

The EITC eligibility rules and complex formulas for calculating the credit have resulted in errors among some tax filers claiming the credit. Errors by tax filers have led to overclaims, that is, the difference between the amount of EITC claimed on the tax return and the amount the tax filer should have claimed. The 2014 IRS study on EITC compliance found that most (about 79 to 85 percent) of the credit overclaims from 2006 to 2008 were made by tax filers who were ineligible for the credit and a large proportion of the filers overclaimed by less than $500.[31] Additionally, the IRS study found that the majority of overclaims had three common errors: first, the most frequent error made by tax filers claiming the credit was income misreporting, primarily the misreporting of self-employment income and investment income (each comprising 40 percent of income reporting errors, respectively); while the incorrect reporting of wage income was the smallest contributor to income reporting errors, representing 20 percent of the income reporting errors.

The second most common error reported by the IRS involved the number of qualifying children claimed, and this was by far the largest EITC error in dollar terms. The IRS found that most of the tax returns with a qualifying child error involved a failure to meet the residency requirement (the child must share a residence with the tax filer for more than half the year in the United States), or a failure to meet the relationship test requiring the child to be the taxpayer's son or daughter, niece or nephew, sibling, foster child, or a descendant of any of these.[32] The IRS found the third most common error to be the incorrect usage of filing status. The EITC eligibility rules require married households to file jointly to qualify for the credit. However, most of the EITC filing status errors

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[29]Treasury Inspector General for Tax Administration (2014). The Internal Revenue Service Fiscal Year 2013 Improper Payment Reporting Continues to Not Comply with the Improper Payments Elimination and Recovery Act. March 31, 2014, Reference Number: 2014-40-027. Available at this link. See also: Treasury Inspector General for Tax Administration (2011). Reduction Targets and Strategies Have Not Been Established to Reduce the Billions of Dollars in Improper Earned Income Tax Credit Payments Each Year. February 7, 2011, Reference Number: 2011-40-023. Available at this link.

[30] ORA's calculations using $13.3 billion as the lower bound and $15.6 billion as the upper bound of federal EITC improperly paid to recipients per year. The calculation is based on the methodology used by ORA to calculate forgone revenues in our tax expenditure report. We use an apportionment factor determined by the amount of EITC credit received by DC residents compared to the total amount of EITC collected in the US. We also use a DC 2016 tax rate factor in our calculation.

[31] Internal Revenue Service (2014). Compliance Estimates for the Earned Income Tax Credit Claimed on 2006-2008. *Returns Research, Analysis & Statistics Report Publication 5162* Washington, DC August 2014. Available at this link.

[32] Ibid.

occur because of a married couple filing two separate returns as unmarried tax filers, which Crandall-Hollick of CRS notes they do most likely to avoid the marriage penalty.[33]

Challenges Posed by Paid Tax Preparers

The IRS has found that EITC recipients are more likely to use paid tax preparers than the average filing population. Specifically, 67 percent of EITC claimants used paid tax preparers compared to 59.4 percent of the general population in 2001.[34] Many of the paid tax preparers used by EITC claimants are unenrolled tax preparers (a person, other than an attorney, a CPA or an IRS licensed agent) who were not licensed by the IRS (these are used for 43 percent of EITC returns), or national tax preparation firms (used for 35 percent of ETIC returns). Free taxpayer assistance programs, such as Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE), and IRS-prepared returns only accounted for three percent of EITC returns in the same period.[35] Since IRS has no authority to license all tax preparers, the IRS cannot move forward with key aspects of its plan to reduce EITC overpayments resulting from preparer errors.[36]

The IRS examined the relationship between tax return preparation services and EITC errors made on filed returns and found that the unenrolled tax return preparers had the highest frequency and percentage of errors resulting in overclaims, while returns prepared by the IRS or its sponsored programs, VITA and TCE, had much lower overclaim percentages, although this difference may be a result of the taxpayers' selection bias.[37] Taxpayers and tax preparers tend to fall into one of three groups: (1) those with the intent to commit fraud and understate their tax liabilities or overstate their refunds; (2) those who are indifferent and defer the decisions about the tax returns to the other party (i.e., the tax preparer defers to the taxpayer and vice versa); and (3) those who seek to comply with the tax laws. Taxpayers with more complicated tax returns, or those who are looking to intentionally overclaim the EITC, are more likely to use an unenrolled tax preparer service, which might explain the strong correlation between overclaim error rates and the use of unenrolled tax preparers.[38]

The GAO has conducted various undercover investigations using small samples of returns prepared by paid tax preparers and found some variability in the quality and accuracy of paid tax preparation services. For example, Crandall-Hollick of CRS cites a 2014 GAO study of 19 tax preparers found that 17 of them made some mistakes when preparing tax returns that resulted in an incorrect refund amount so that "nearly all of the returns prepared for our undercover investigations were incorrect to some degrees, and several of the preparers gave us incorrect

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[33] Crandall-Hollick, M.L. (2015). The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges. Congressional Research Service, April 9, 2015

[34] Internal Revenue Service (2003). Earned Income Tax Credit (EITC) Program Effectiveness and Program Management FY 2002 – FY 2003. Washington, DC August 8, 2003. Available at this link.

[35] Internal Revenue Service (2014). Compliance Estimates for the Earned Income Tax Credit Claimed on 2006-2008. *Returns Research, Analysis & Statistics Report Publication 5162* Washington, DC August 2014. Available at this link.

[36] Greenstein, R., Wancheck, J., and Marr, C. (2019). Reducing Overpayments in the Earned Income Tax Credit. Center on Budget and Policy Priorities, January 31, 2019. Available at this link.

[37] Ibid.

[38] Crandall-Hollick, M. L. (2015). The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges. Congressional Research Service, April 9, 2015

advice, particularly when it came to reporting non-Form W-2 income (i.e., wage income) and the EITC. Only 2 of the 19 tax returns showed the correct refund amount."[39]

The District's Office of Tax and Revenue Criminal Investigation Division (OTR CID) recently investigated 71 businesses (240 tax preparers), or five percent of tax return preparers in DC. After using a scoring and fraud analytics program, DC OTR CID found that about 42.5 percent (102) of the paid tax preparers investigated are suspected of committing DC EITC fraud from 2012 to 2014. The program usually identifies tax preparers with significant fraud patterns on all their client's individual income tax returns, which are collected from the IRS. The DC OTR CID investigation process usually takes two years for fraudulent tax returns and requires tax preparer information provided only by the IRS. Paper tax return fraud submitted by tax preparers is hard to detect because it requires that investigators manually review all paper federal and state tax returns to detect any fraud patterns.

Legislating stiffer penalties would deter tax preparers from fraudulently filing a tax return. The OTR CID is planning to propose legislation that would require tax preparers filing more than 25 tax returns to file electronically; and would grant OTR the authority to the suspend the electronic filing identification number of tax preparers who are guilty of fraudulently filing a tax return in the District.[40]

Weinstein and Patten (2016) found that tax preparers, especially the national tax preparer chains, tend to locate in areas with the largest number of EITC claims making their services easily accessible to potential EITC recipients. They found that "zip codes with the highest level of EITC filers have approximately 75 percent more tax preparers, formally referred to as Electronic Return Originators or EROs, per filer than moderate-EITC zip codes. Large tax preparer chains tend to cluster in high-EITC zip codes."[41] Some EITC filers may assume that there is a connection between paid tax preparation services and larger tax refunds and fewer errors, or that paid tax preparers are more educated about complexity associated with the EITC filing process.[42] Therefore, for many EITC tax filers, there is a perceived benefit to voluntarily reduce the value of their refund to use these paid tax preparers. The cost of having EITC tax returns filed by a tax preparer in Baltimore and Washington, DC averaged about 13 to 22 percent of EITC tax filers' refunds in 2016 which led to a refund reduction ranging from $315 (H&R Block) to $491 (Jackson Hewitt) in DC.[43] (These amounts include a base portion of fees that would be owed whether the filer claimed the EITC or not.)

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[39] Ibid, p. 18.

[40] Interviews with James Hessler, Office of Tax and Revenue Criminal Investigation Division (February 27, 2020 and March 12, 2020).

[41] Weinstein JR., P. & Patten, B. (2016). The Price of Paying Taxes II: How paid tax preparer fees are diminishing the Earned Income Tax Credit (EITC). *The Progressive Policy Institute*, April 16, 2016. Available at this link. See also Berube, A., Kim, A., Forman, B. & Burns, M. (2002). The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC. *Center on Urban & Metropolitan Policy the Brookings Institution and The Progressive Policy Institute*, Survey Series, May 2002, P. 3. Available at this link.

[42] Weinstein JR., P. & Patten, B. (2016). The Price of Paying Taxes II: How paid tax preparer fees are diminishing the Earned Income Tax Credit (EITC). *The Progressive Policy Institute*, April 16, 2016. Available at this link.

[43] Ibid.

Weinstein and Patten note that free taxpayer assistance programs, such as the Volunteer Income Tax Assistance (VITA) program, have been estimated to save taxpayers more than $1 billion dollars in tax preparation costs since their inception in 2003 and have lower error rates than unregulated paid tax preparers.[44] The high cost of paid tax preparers to EITC households as well as the high error rates found to be associated with them points to a need for more education of tax filers on the tax return preparation process. Increasing EITC recipients' awareness of free taxpayer assistance programs or IRS regulated agents could lead to potential benefits for taxpayers and the government alike.

Summary

A summary of the EITC analysis above and resulting recommendations are offered at the end of the review of Income Security Tax Expenditures on page 51 below.

[44] Ibid.

DC and federal government survivor benefits
Income Tax Subtraction

District of Columbia Code: DC Official Code § 47-1803.02(a)(2)(N)
Sunset Date: None
Year Enacted: 1987

(Dollars in thousands)	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Personal Income Tax Loss	$3,934	$4,033	$4,522	$4,717	$3,930	$4,099	$3,840	$4,006

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; estimates for FY 2018-2019 from 2018 Tax Expenditure Report; and estimate for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
Taxpayers may exclude from their District of Columbia taxable income the amount of any survivor benefits they received from the DC government or federal government if they are 62 years of age or older by the end of the tax year. Neither Maryland nor Virginia provides any income exclusion for survivor benefits.

This provision does not affect Social Security survivor benefits, which are excluded from taxation under another provision of DC law (see "Social Security and Railroad retirement benefits for retired workers, survivors, dependents and the disabled" below).

Purpose:
The purpose of the exclusion is to promote income security among elderly survivors of DC government or federal government workers by shielding their benefits from taxation.

Impact:
Individuals over the age of 62 who receive survivor benefits from the DC government or federal government benefit from this provision. In 2017, 2,313 tax filers claimed this subtraction. Tax filers with income at or below $50,000 accounted for the bulk (71 percent) of the total subtractions, as shown in the table on the next page.

The exclusion of federal and DC government survivor benefits violates the principle of horizontal equity because those with private-sector survivors' benefits do not receive the same exclusion.

Table 4: DC and Federal Government Survivor Benefits – 2017
Number of Claimants and Amount of Income Subtracted, by Income Category

Income Category (DC AGI)	Number	Share	Amount ($)	Share
Breakeven or Loss	266	11.50%	6,136,035	12.94%
$1 to $25,000	824	35.62%	16,301,809	34.37%
$25,001 to $50,000	598	25.85%	11,219,414	23.65%
$50,001 to $75,000	285	12.32%	5,887,839	12.41%
$75,001 to $100,000	137	5.92%	2,850,037	6.01%
$100,001 to $150,000	100	4.32%	2,151,723	4.54%
$150,001 to $200,000	48	2.08%	1,301,814	2.74%
$200,001 to $500,000	45	1.95%	1,253,669	2.64%
Over $500,000	10	0.43%	329,528	0.69%
Total	**2,313**	**100.00%**	**47,431,869**	**100.00%**

Source: ORA Analysis of DC Individual Income Tax data.

Logic Model:

The Need:
To promote income security among elderly survivors of DC government or federal government workers by shielding their (non-Social Security) survivor benefits from taxation.

Resources/Inputs:

Expected revenue loss of $4,099,000 in FY 2019

Outputs:

In 2017, 2,313 tax filers claimed this subtraction.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term
Improved income security of DC residents with survivor benefits.

Medium-term
Improved income security of DC residents with survivor benefits.

Long-term
Improved income security of DC residents with survivor benefits.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Disability payments for the permanently and totally disabled
Income Tax Subtraction

District of Columbia Code: DC Official Code § 47-1803.02(a)(2)(M)
Sunset Date: None
Year Enacted: 1985

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Personal Income Tax Loss	$87	$89	$95*	$27	$27	$28	$25	$27

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016 from 2016 Tax Expenditure Report; FY 2017 updated based on actual 2017 income tax data and estimates for FY 2018-2021 from 2018 Tax Expenditure Report; and estimate for FY 2020-2021 from 2020 Tax Expenditure Report.
*Note: there was a gap in data collection prior to 2017 so several years of estimate were based on 2008 data.

Description:
Taxpayers may exclude from adjusted gross income up to $5,200 in disability payments, provided that (1) they were permanently and totally disabled when they retired, (2) they had not reached the age required to retire under their employer's regular (non-disability) retirement program as of the first day of the taxable year, and (3) their other income was less than $15,000.

This provision does not apply to Social Security disability benefits, which are excluded from taxation under another provision of DC law (see the tax expenditure in the following section, "Social Security benefits for the disabled").

Virginia allows permanently and totally disabled taxpayers to exclude up to $20,000 in disability plan income. Virginia taxpayers who claim the state's age deduction for those over the age of 62 are not eligible for the exclusion. Maryland does not have a similar tax provision.

Purpose:
The purpose of the subtraction is to maintain in DC law a provision of the US Internal Revenue Code that was abolished by the Social Security Amendments of 1983, thereby preserving in local law a tax benefit to certain individuals with disability income.[45]

Impact:
Permanently and totally disabled individuals who receive disability payments, are not eligible for their employer's regular retirement plan, and meet the income standards benefit from this provision. In tax year 2017, about 28 taxpayers have claimed the subtraction.

Because of the income limit, the subtraction assists only low-income individuals and households. Moreover, the real value of the benefit has declined over time because the amount that can be

[45] Specifically, the federal government replaced disability income exclusion with a new credit for the permanently and totally disabled. Because a credit is not automatically mirrored in the D.C. income tax system, D.C. policymakers apparently decided to retain the disability income exclusion in local law.

excluded ($5,200) as well as the limitation on other income ($15,000) have not been adjusted for inflation or income growth.

Logic Model:

The Need:
To maintain in DC law a provision of the US Internal Revenue Code that was abolished by the Social Security Amendments of 1983, thereby preserving in local law a tax benefit to certain individuals with disability income.

Resources/Inputs:

In tax year 2017, revenue forgone was $27,000.

Outputs:

In tax year 2017, about 28 taxpayers claimed the subtraction.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term
Improved income security of DC residents with disability benefits.

Medium-term
Improved income security of DC residents with disability benefits.

Long-term
Improved income security of DC residents with disability benefits.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Income of persons with a permanent and total disability
Income Tax Subtraction

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(V)
Sunset Date: None
Year Enacted: 2005

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Personal Income Tax Loss	$553	$567	$604	$630	$605	$631	$618	$645

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2021 from 2018 Tax Expenditure Report; and estimate for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
A taxpayer who has been determined to have a permanent and total disability by the U.S. Social Security Administration may exclude up to $10,000 from District of Columbia gross income if he or she (1) is receiving supplemental security income or social security disability, railroad retirement disability, or federal or District of Columbia government disability payments, and (2) has a household adjusted gross income of less than $100,000.

Neither Maryland nor Virginia offers a similar exclusion, although Virginia allows permanently and totally disabled taxpayers to exclude up to $20,000 in disability plan income.

Purpose:
The purpose of this exclusion is to provide income support to people who cannot work due to a permanent and total disability.

Impact:
People with a permanent and total disability benefit from this provision. During tax year 2017, 893 tax filers claimed this subtraction. As shown in the table below, the benefits accrue almost entirely to low-to-moderate income taxpayers: tax filers with income of $50,000 or less accounted for 91percent of the total amount subtracted.

Table 5: Income for people with a permanent and total disability – 2017

Number of Claimants and Amount of Income Subtracted, by Income Category

Income Category (AGI)	Number	Share	Amount ($)	Share
Breakeven or Loss	225	25.20%	1,810,158	23.70%
$1 to $25,000	459	51.40%	3,699,338	48.44%
$25,001 to $50,000	156	17.47%	1,429,584	18.72%
$50,001 to $75,000	39	4.37%	324,640	4.25%
Over $75,000	14	1.57%	373,922	4.90%
Total	**893**	**100.0%**	**7,637,642**	**100.00%**

Source: ORA Analysis of DC Individual Income Tax data.

Logic Model:

The Need:
The purpose of this exclusion is to provide income support to people who cannot work due to a permanent and total disability.

Resources/Inputs:

Revenue forgone was $630,000 in tax year 2017.

Outputs:
During tax year 2017, 893 tax filers claimed this subtraction; the benefits accrue almost entirely to low-to-moderate income taxpayers

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term
Improved income security of DC residents with a permanent and total disability.

Medium-term
Improved income security of DC residents with a permanent and total disability.

Long-term
Improved income security of DC residents with a permanent and total disability.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Social security and railroad retirement benefits for retired workers; benefits for survivors, dependents, and the disabled
Income Tax Subtractions

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(L)
Sunset Date: None
Year Enacted: 1985

Dollars in thousands	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Personal Income Tax Loss	$16,877*	$17,304*	$27,819	$27,922	$29,318	$31,077	$34,307	$35,790

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimate for FY 2016 from 2016 Tax Expenditure Report; and estimates for FY 2017-2019 based on ORA analysis of 2017 Individual Income tax data projections for out years; and estimate for FY 2020-2021 from 2020 Tax Expenditure Report.
Notes: For FY 2016-2021 the estimated revenue loss shown in the table above covers *all* social security income tax subtractions available to District residents because they are combined into one sum in the District's tax database. The revenue loss applies to Social Security benefits for retired workers; Social Security benefits for survivors and dependents; and Social Security benefits for the disabled. In the 2014 Tax Expenditure Report, Railroad retirement system benefits were reported separately. For FY 2014: $93,000; and FY 2015: $95,000.

Description:
The District exempts all Social Security benefits from taxation, including all railroad retirement benefits, a policy that is more generous than the federal treatment of Social Security benefits. Under federal law, up to 50 percent of Social Security benefits are taxable for taxpayers with "provisional income" between $25,000 and $34,000 (single filers) or $32,000 and $44,000 (joint filers). Above those income ranges ($34,000 for a single filer and $44,000 for joint filers), up to 85 percent of Social Security benefits are subject to federal income tax.[46] Railroad retirement benefits are taxed at the federal level to varying degrees, depending on the specific type of payment. However, federal law prohibits railroad retirement annuities from being taxed at the state level.[47]

Social Security benefits were originally tax exempt at the federal level but beginning in 1984 a portion of the benefits above certain thresholds became taxable, with the goal of treating Social Security benefits more similarly to other pension and retirement income and contributing the taxes to the Social Security program's solvency as the taxes paid are directed to Social Security trust funds. In 1993, a second threshold was added, leading to more higher income recipients paying higher taxes on their Social Security benefits. Because the thresholds used to determine the taxable share of benefits were not indexed to inflation or wage growth, more Americans fall into the category of owing taxes on their benefits each year. Currently, about half of recipients owe federal income tax on a portion of their benefits.[48] There are 30 other states that provide a full exemption

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[46] Provisional income consists of federal adjusted gross income, tax-exempt interest, some foreign-source income, and one-half of Social Security benefits.
[47] USA Railroad Retirement Board. "The Taxation of Railroad Retirement Act Annuities." Page 1. Available at this link.
[48] "Social Security: Taxation of Benefits." Congressional Research Service. RL32552: Updated June 12, 2020. Available at this link.

of Social Security benefits from taxation, including Maryland and Virginia.[49] A 2019 report by the Center for Budget and Policy Priorities (CBPP) notes that the full exemption for Social Security benefits at the state level is a result of most states not changing their tax treatment of Social Security benefits when the federal government did so in the mid-1980s.[50]

The estimate of forgone revenue shown above represents the incremental revenue loss resulting from the District's decision to exempt the Social Security benefits of retired workers, retirees, survivors, dependents, and the disabled that are subject to federal taxation. In addition, non-Social Security equivalent benefits provided to railroad retirees, such as supplemental annuity benefits, are subject to federal income tax regardless of any other income that the retiree receives.

Purpose:
The purpose of exempting these sources of income from District taxation is to ensure that Social Security benefits provide adequate income support to the elderly, dependents and survivors, and people with disabilities during their retirement. Additionally, states are not allowed to tax railroad retirement benefits, which further protects these benefits as a source of income support, therefore this provision ensures equitable tax treatment of railroad retirement and Social Security benefits.

Impact:
Individuals receiving railroad retirement payments benefit from this subtraction, as well as retired Social Security recipients, survivors and dependents who receive Social Security, and Social Security recipients with disabilities. According to the Railroad Retirement Board, in the District of Columbia there are approximately 400 current beneficiaries of the railroad retirement program, who receive average benefits of $1,573 per month.[51] Because DC taxpayers report their railroad retirement and Social Security income on the same line of the income tax form, there are no data on the railroad retirement subtraction by income level.

As of December 2018, there were 57,338 retired workers, 2,061 spouses of retired workers, and 865 children of retired workers receiving Social Security benefits in the District of Columbia.[52]
As of December 2018, there were 7,320 survivors (including children) receiving Social Security benefits in the District of Columbia.[53] Lastly, there were 13,896 disabled workers, 33 spouses of disabled workers, and 1,546 children of disabled workers receiving Social Security benefits in the District of Columbia during the same time.[54]

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[49] Wisconsin Legislative Fiscal Bureau, Individual Income Tax Provisions in the States, Informational Paper 4. January 2019. Pgs. 3; 33; and 56. Retrieved April 3, 2020 at this at this link. According to WLFB, 14 states taxed Social Security benefits in 2017, including five that followed the federal tax treatment and nine states that had their own tax provisions.
[50] McNichol, Elizabeth C. "States Should Target Senior Tax Breaks Only to Those Who Need Them, Free up Funds for Investments," Center on Budget and Policy Priorities. June 19, 2019. Page 9. Retrieved April 3, 2020 at this link.
[51] U.S. Railroad Retirement Board, "Annual Railroad Retirement Act & Railroad Unemployment Insurance Act Data, Table B27: Retirement and Survivor Benefits in Current-Payment Status on September 30, 2018, by Class and State (amounts in thousands)," retrieved on April 3, 2020 at this link.
[52] U.S. Social Security Administration, OASDI Beneficiaries by State and County, 2017, SSA Publication No. 13-11954, released July 2018, p. 2. Retrieved on April 3, 2020 at this link.
[53] Ibid.
[54] Ibid.

The estimated revenue loss for tax year 2017 was $27,921,852, which is presented by DC AGI in the table below, as well as in Chart 11 below. The table and chart show the aggregate distribution of all Social Security *and* railroad retirement income subtractions by income group. Almost two-thirds of the Social Security recipients in the District are retirees and the number of railroad retirement beneficiaries in the District is small (approximately 400). As the distribution of both the table and Chart 15 below show, taxpayers with incomes of $150,000 or less claim just over 60 percent of the benefits of the subtraction while taxpayers with annual incomes over $150,000 claim over 36 percent of the benefit. Taxpayers with incomes over $500,000 a year claim about eight percent of the benefit.

The table below shows that 26,266 tax *filers* claimed the subtraction for Social Security or Railroad Retirement benefits in 2017. The number is lower than the numbers of recipients cited in the previous paragraphs because those figures include all household members rather than tax filing units. It is also possible that some recipients of Social Security benefits file jointly on one form, or some may not claim the benefits on their income tax returns.

Table 6: Social Security and Railroad Retirement Benefits – 2017

Number of Claimants, Amount of Income Subtracted, and Revenue Forgone, by Income Category

Income Category (AGI)	Number	Share (%)	Income Amount Subtracted ($)	Revenue Forgone[1] ($)	Share (%)
Breakeven or Loss	271	1.03%	3,327,497	219,264	0.8%
$1 to $25,000	3,539	13.47%	17,128,001	1,128,643	4.0%
$25,001 to $50,000	7,070	26.92%	72,109,987	4,751,660	17.0%
$50,001 to $75,000	4,177	15.90%	66,198,670	4,362,136	15.6%
75,001 to $100,000	2,564	9.76%	46,602,788	3,070,873	11.0%
$100,001 to $150,000	3,046	11.60%	63,708,081	4,198,020	15.0%
$150,001 to $200,000	1,699	6.47%	40,922,346	2,696,563	9.7%
$200,001 to $500,000	2,842	10.82%	80,090,052	5,277,504	18.9%
Over $500,000	1,058	4.03%	33,647,484	2,217,188	7.9%
Total	**26,266**	**100.00%**	**423,734,906**	**27,921,852**	**100.0%**

Source: ORA Analysis of DC Individual Income Tax data.

[1]Revenue forgone calculated using average tax rate for all taxpayers in 2017, 6.6%.

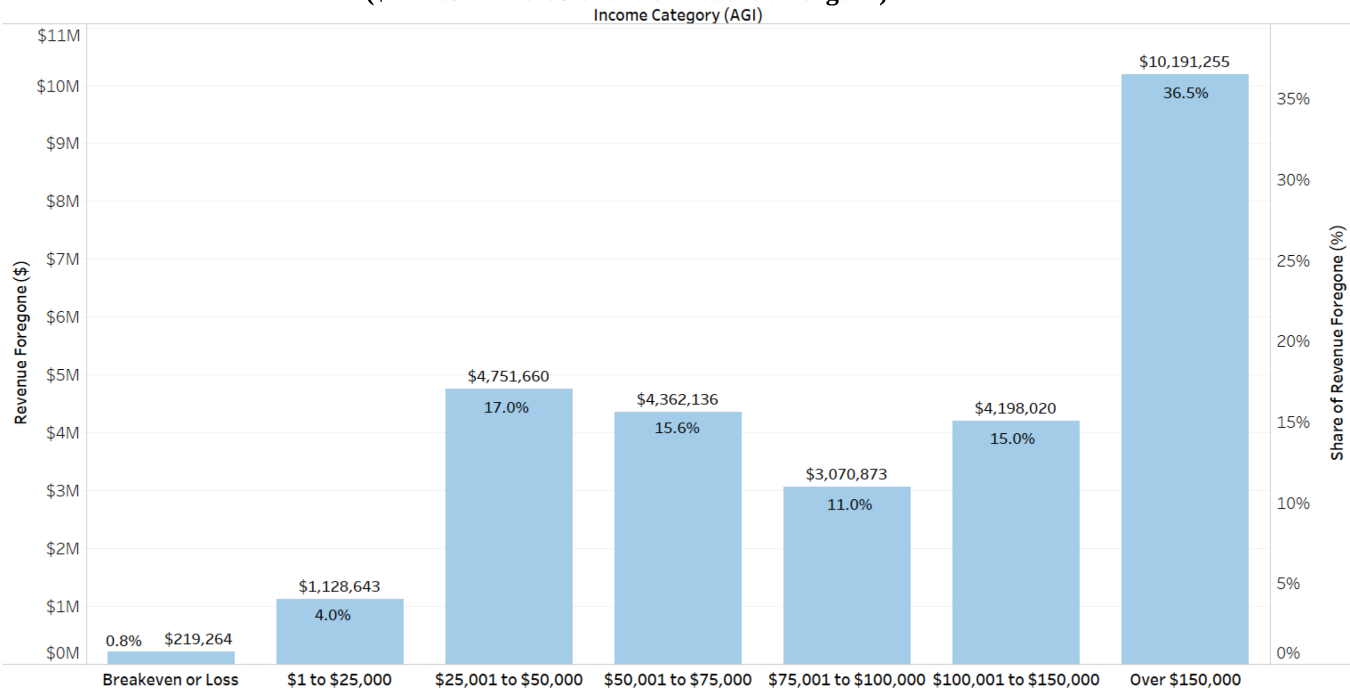
Note: The table shows the income levels of Social Security beneficiaries (old-age, survivors and dependents, and disability benefits) as well as Railroad Retirement beneficiaries in 2017. Approximately two-thirds of these beneficiaries are Social Security old-age (retired worker) beneficiaries.

Given that the purpose of the provision for exempting Social Security benefits is to ensure that Social Security provides adequate income support to the elderly, dependents and survivors, and people with disabilities during their retirement, the sizeable share of high-income beneficiaries of this provision indicate it may be broader than necessary to achieve the intended policy goals. There are other provisions in both the federal and District tax code that have income limits for eligibility, or phase outs, depending on the specific structure of the tax provision, and such limits could be applied to this provision.

While such tax benefits are often considered an incentive to retain or attract retirees, CBPP summarizes several academic studies that failed to find an impact of state tax policies on the migration patterns of seniors.[55] To better target this provision to seniors who need more income support, policymakers may wish to consider limiting the eligibility of high-income filers. The specific amount of revenue forgone realized would depend on the structure of the limits, however, as an example, capping the AGI for filers at $150,000 in 2017 would have increased income tax revenues by approximately $10.2 million.[56]

Chart 11: Distribution of 2017 Revenue Forgone by Income Category

($ Amount and % Share of Revenue Forgone)



Source: ORA Analysis of 2017 DC Individual Income tax data.

[55] McNichol, Elizabeth C. "States Should Target Senior Tax Breaks Only to Those Who Need Them, Free up Funds for Investments," Center on Budget and Policy Priorities. June 19, 2019. Pg. 19. Retrieved April 3, 2020 at this link.

[56] Since Railroad Retirement Benefits be taxed but are reported on the same line of the District income tax form, we do not know what portion they comprise of this total and those benefits cannot be taxed. However, they are likely a very small amount of the totals in whichever income category they fall, as there are about 400 railroad filers in DC.

Logic Model:

The Need:
The purpose of subtracting this income before calculating income tax is to help protect railroad retirement benefits as a source of income support, and to ensure equitable tax treatment of railroad retirement and Social Security benefits.

Resources/Inputs:
There was a revenue loss of $27,921,852 in 2017.

Outputs:
In 2017, 26,266 tax *filers* claimed the subtraction for Social Security or Railroad Retirement benefits. Approximately two-thirds of these beneficiaries are Social Security old-age (retired workers).

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term
Improved income security of DC residents receiving railroad retirement or Social Security benefits.

Medium-term
Improved income security of DC residents receiving railroad retirement or Social Security benefits.

Long-term
Improved income security of DC residents receiving railroad retirement or Social Security benefits.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Summary of Income Security Tax Provisions

Of the provisions focused on protecting the income security of recipients, the EITC is the largest in terms of revenue forgone and numbers of recipients. In FY 2020, an estimated 57,692 Washingtonians will claim about $51 million in earned income tax credits that the program represents in forgone revenue to the District. ORA's analysis shows that the DC EITC is meeting the goals set by the DC Council to reduce tax burdens for low-income workers when the legislation was enacted.

Between 2001 and 2017, on average 53,101 filers claimed $796 in benefits each year, with the majority earning incomes between $10,000 to $25,000 per year. Our analysis shows that thousands of DC tax filers were lifted out of either deep poverty or poverty due to the credits, including over 10 percent of children in households claiming the EITC. Specifically, we find that in 2017, the DC EITC was effective in lifting the households of about 3,386 children out of poverty. This illustrates the broad impact of the program despite strict eligibility limits that target low-income families. We also find that the DC EITC has lowered the average tax and effective tax rates for its claimants compared to tax filers with the same income and reference income level not claiming the credit, respectively.[57]

Despite the benefits of the program, our analysis also highlights some of the shortcomings of the credit, such as the structural inequity for married childless workers due to the marriage penalty in the eligibility requirements of the DC EITC, and inefficiencies in the administration of the credit related to the self-reporting of individual income tax returns and subsequent difficulties discovering errors and fraud, which can lead to significant fiscal costs for a jurisdiction. To obtain better results and improve accountability, the DC EITC could be amended in a variety of ways, including taking steps to reduce the marriage penalty for married childless workers, among other recommendations that are listed below.

For FY 2020, the second largest income security provision was a set of provisions allowing DC residents to subtract Social Security retirement benefits, railroad retirement benefits or Social Security survivor, dependent, or disability benefits before paying income tax. In 2017, the estimated revenue forgone from all these provisions combined[58] was $27.9 million with 26,266 tax filers receiving these benefits, while more residents lived in the households of these tax filing units. About two-thirds of beneficiaries are retired workers.

Examining the income distribution of recipients of these programs shows that the recipients of all but one of the provisions generally earn less than $75,000 per year and many earn less than $25,000 per year. However, for the exemption for Social Security retirement benefits, railroad retirement benefits or Social Security survivor, dependent, or disability benefits, taxpayers with annual incomes over $150,000 claim over a third (36 percent) of the benefit and those with incomes over $500,000 a year claim nearly eight percent of the benefit. Given the large share of higher income

[57] For more on benefits of the EITC, Appendix 3 provides further analysis of the distribution of EITC benefits and Appendix 4 provides detail on EITC claimants' tax burdens by family structure, and Appendix 5 offers a summary of additional benefits of the EITC beyond the original goals of the program. Appendix 6 estimates the level of federal and DC EITC that is left unclaimed in the District, and what the economic impact of those funds would be for the city.
[58] These three provisions are all reported in the same field in the tax data.

recipients benefiting from the provision it may be broader than necessary to achieve the intended goals of providing adequate income support for Social Security recipients. As such, policymakers may wish to consider limiting the eligibility of high-income filers, which would decrease the revenue forgone under this provision.

The recommendations below are largely focused on the EITC, the largest income security tax expenditure. As noted above, ORA found that the DC EITC has provided positive outcomes for its beneficiaries and has been successful in meeting the program's goals. Nevertheless, below are some suggested recommendations to improve efficiency in the program's structure and administration. Lastly, a recommendation is made regarding the income tax subtraction for Social Security retirement benefits.

1) **Reduce the marriage penalty that exists for married childless workers** by extending the DC EITC income eligibility limit for married workers without children.

2) **Consider passing legislation to penalize fraudulent tax return preparers.** For example, consider requiring a tax return preparer that prepares more than 25 returns or claims for refunds in a calendar year to file such returns electronically, and suspending a preparer's EFIN (Electronic Filing Identification Number) if preparers file fraudulent DC tax returns. The legislation would be similar to the IRS' policy on tax return preparers, which require those tax return preparers who erroneously claim the credit on behalf of clients "may be subject to financial penalties, suspension or expulsion from e-file, injunction preventing them from preparing returns or subjecting them to certain limitations, and other disciplinary action."[59]

3) The District could **provide more 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.

4) **Continue to support OTR monitoring and enforcement activities** by providing more resources to OTR CID for criminal investigation into fraudulent practices and ensuring more access to relevant data, especially federal data with tax preparers' electronic identification number, to properly perform their jobs.

5) **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.

The remainder of the report will focus on the District's tax expenditures with a Social Policy purpose.

[59] Crandall-Hollick, M.L. (2015). The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges. Congressional Research Service, April 9, 2015. P. 6

Part III: Review of the District's Social Policy-Related Tax Expenditures

As noted in the introduction, tax preferences for social policy make up the largest category of the District's spending through the tax code (excluding the categories of 'general law' and 'tax administration and equity' provisions). Social policy tax preferences cover at least five types of taxes and the three largest include two sales tax exemptions for purchases made by nonprofit (501(c)(4)) organizations, the exemption of groceries from the sales tax, and the property tax exemption for religious institutions. In addition to the 23 categorical tax expenditures for social policy, which any eligible entity may enjoy, 34 individual tax provisions for organizations that have a legislated tax preference are presented at the end of Part III. As explained in that section, there is some overlap in the accounting for the individual tax expenditures and the categorical ones, therefore, we do not add them together to avoid double counting.

As previously noted, a common thread among the District's tax expenditures with a Social Policy purpose is that, with a few exceptions, most are for nonprofit organizations. There are many types of nonprofit organizations, and therefore a variety of tax provisions affecting nonprofits in DC's tax code. Many nonprofit organizations provide services that governments might otherwise need to provide in their absence. (To provide context for the various District social policy tax exemptions available, Appendix 8 offers a high-level overview of how nonprofits are structured and taxed in the District.) A review of both categorical and individual social policy tax expenditures follows.

Categorical Social Policy-Related Tax Expenditure Provisions

Categorical provisions, or those for which anyone who is eligible may take, comprise most of the District's forgone revenue due to social policy tax expenditure provisions. The total estimated revenue forgone for all categorical tax expenditures in FY 2020 was $363 million.[60] Of these, sales tax expenditures make up 65 percent of the total ($236 of $363 mil). These are tax expenditures that allow certain groups (such as nonprofits) to purchase items that support their mission without paying sales taxes on those items; or alternatively, certain items (such as groceries), to be sales tax exempt when anyone purchases them.

The three largest social policy-related categorical provisions make up 73 percent of the total ($264 out of $363 mil). These three include the sales tax exemption for charitable organizations (501(c)4s), the real property tax exemption for religious institutions, and the sales tax exemptions for groceries. As previously noted, the estimates for sales tax provisions are imprecise, because there is a lack of data on actual sales that are exempted from tax. For example, the estimate for nonprofit purchases makes assumptions of sales for all federally tax-exempt nonprofits in DC to estimate the revenue forgone (this applies to both 501(c)(4) organizations (the largest), as well as the exemption for semi-public institutions). Further, federal estimates of consumer purchases on food for home consumption are apportioned to the District and used to estimate the amount of sales tax not collected on groceries.

[60] 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.

The 23 social policy categorical tax expenditure provisions generally support the following activities:

- Exempt real property, sales, and other taxes of various nonprofit organizations based on the type of services they provide, including art galleries, charitable organizations, cemeteries, religious organizations, theaters, civic associations, and urban farms (15);
- Exempt certain types of income from taxation, such as compensation for damages awarded and loan assistance to poverty lawyers (2);
- Assist taxpayers by subsidizing care for children of working parents (2);
- Assist taxpayers by exempting certain purchases that are considered necessities from sales taxation (3); and
- Support the provision of war memorials by exempting the materials used in their construction from sales taxation in the District (1).

The following table and chart present an itemization of categorical tax expenditures for social policy, sorted by amount of revenue forgone. In Table 7, below, the provisions are listed in descending order by revenue forgone. However, in Chart 12 below, similar tax expenditures have been grouped together, such as the property and deed and recordation tax expenditures for both religious organizations and charitable organizations, and provisions with no estimate of forgone revenue are excluded. In the following sections, each provision is described in more detail, and a logic model is provided for each. The provisions are presented in order of the DC Code reference, beginning with the real property tax, then personal property, income tax, and lastly, the sales tax provisions.

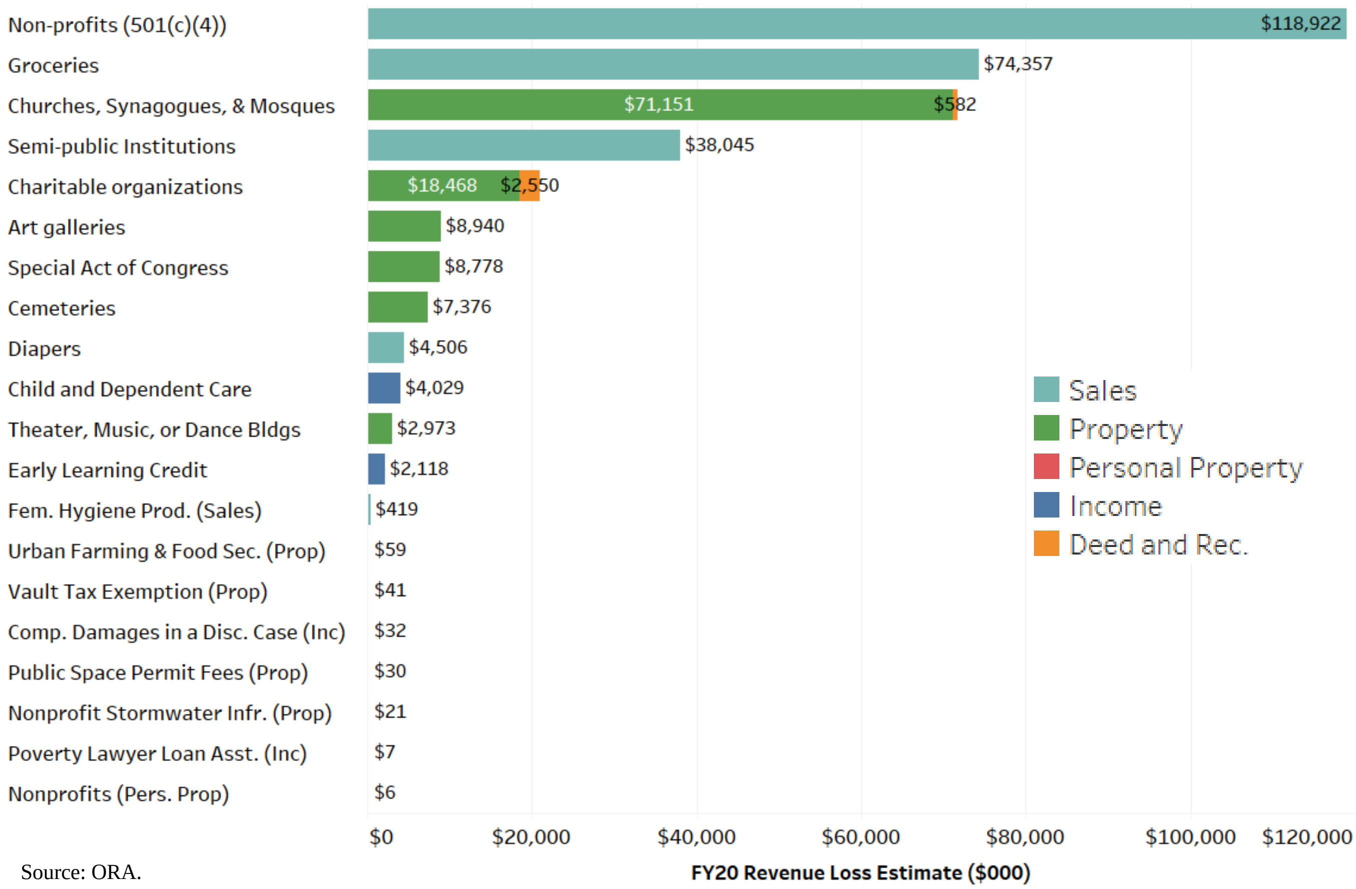
Table 7: Categorical Social Policy Tax Expenditures

Name of Tax Expenditure	Tax	Type of Provision	Date Enacted	D.C. Code	FY 2020 Revenue Loss Estimate ($000)
Non-profit (501(c)(4)) Organizations	Sales	Exemption	1987	§ 47-2005(22)	118,922
Groceries	Sales	Exemption	1949	§ 47-2001(n)(2)(E)	74,357
Churches, Synagogues, and Mosques	Property	Exemption	1942	§ 47-1002(13)	71,151
Semi-public Institutions	Sales	Exemption	1949	§ 47-2005(3)	38,045
Charitable organizations	Property	Exemption	1942	§ 47-1002(8)	18,468
Art galleries	Property	Exemption	1942	§ 47-1002(6)	8,940
Special Act of Congress	Property	Exemption	1942	§ 47-1002(11)	8,778

Cemeteries	Property	Exemption	1942	§ 47-1002(12)	7,376
Diapers	Sales	Exemption	2019	§47-2005 (39)	4,506
Child and Dependent Care	Income	Credit	1977	§ 47-1806.04(c)	4,029
Theater, Music, or Dance Buildings	Property	Exemption	1996	§ 47-1002(19)	2,973
Charitable organizations	Deed and Rec.	Exemption	1962 and 1980	§ 42-1102(3) and § 47-902(3)	2,550
Early Learning Credit	Income	Credit	2018	§47-1806.15	2,118
Churches, Synagogues, and Mosques	Deed and Rec.	Exemption	1962 and 1980	§ 42-1102(3) and § 47-902(3)	582
Feminine Hygiene Products	Sales	Exemption	2019	§47-2005 (38)	419
Urban Farming and Food Security	Property	Abatement	2015	§ 47-868	59
Vault Tax Exemption	Property	Exemption	2016	§ 10-1103.04(d) and § 47-1002(19)	41
Comp. Damages in a Disc. Case	Income	Subtraction	2002	§ 47-1803.02(a)(2)(U) and § 47-1806.10	32
Public Space Permit Fees	Property	Rebate	2016	§ 10–1141.03a	30
Nonprofit Stormwater Infrastructure	Property	Exemption	2018	§ 47-1005(d)	21
Poverty Lawyer Loan Assistance	Income	Subtraction	2007	§ 47-1803.02(a)(2)(X)	7
Nonprofit Organizations	Personal Property	Exemption	1902	§ 47-1508(a)(1)	6
Materials in War Memorials	Sales	Exemption	1957	§ 47-2005(16)	minimal
TOTAL*					**$363,410**

Source: ORA.
* 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.
Note: The personal income tax provision for Farm to Food Donations was repealed, effective in 2017, and is therefore not included.

Chart 12: 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.

Art galleries
Real Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1002(6)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$2,374	$2,380	$2,423	$2,435	$2,443	$8,722	$8,940	$9,163

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2021 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
Art gallery buildings belonging to and operated by "organizations which are not organized or operated for private gain" are exempt from real property taxation if they are open to the public generally and do not charge admission more than two days per week.

Non-profit art and cultural organizations are exempt from real property taxation in Maryland and not in Virginia. Virginia localities may exempt nonprofits from property taxes.

Purpose:
The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the public.

Impact:
Art galleries benefit from the exemption, but there may be a wider social benefit because the galleries are open to the public and provide general cultural enrichment. At the same time, the tax exemptions given to certain properties shift the burden of paying for public services to taxable properties and may result in those properties paying a higher property tax rate.

There are several galleries or museums that benefit from this exemption, including the Arts Club of Washington, the Hillwood Estate Museum, the David Lloyd Kreeger Foundation, the Phillips Collection, the Museum of the Bible, the National Museum of Women in the Arts, and the Newseum. Many other galleries or museums are exempt through other provisions of the property tax code; for example, some are located on federal property and others have been exempted from real property taxation by a special act of Congress.

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the public.	In FY 2019, revenue forgone was estimated to be $8,721,935.	Several art galleries and museums benefit from the exemption, but there may be a wider social benefit because some of the galleries are open to the public and provide general cultural enrichment.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Art galleries do not have to pay property taxes.	Art galleries stay open and provide community benefits.	Art galleries stay open and provide community benefits.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Charitable organizations:
Real Property Tax Exemption

District of Columbia Code: DC Official Code § 47-1002(8)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$14,534	$14,571	$16,324	$16,406	$18,211	$18,666	$18,468	$18,930

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2021 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Deed Recordation and Transfer Tax Exemption

District of Columbia Code: D.C. Official Code § 42-1102(3) for the deed recordation tax
D.C. Official Code § 47-902 (3) for the transfer tax
Sunset Date: None
Year Enacted: 1962 (deed recordation tax) and 1980 (transfer tax)

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$2,004	$2,004	$401	$413	$2,427	$2,488	$2,550	$2,614

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2021 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
Buildings belonging to and operated by institutions "which are not organized or operated for private gain," and are used "for purposes of public charity principally in the District of Columbia,"[61] are exempt from real property taxation. Organizations that are exempt from real property taxation in the District of Columbia pursuant to D.C. Official Code § 47-1002 are also exempt from the deed recordation tax and transfer taxes. Charitable entities are among the groups covered by § 47-1002 that qualify for this blanket exemption.

Real property exemptions for charitable organizations represent standard practice throughout the United States. Maryland and Virginia exempt charitable organizations from the real property tax.

Purpose:
The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the public.

[61] DC Official Code § 47-1002(8)

Additionally, the real property tax exemption for charitable entities is extended to the other two taxes on real property: the deed recordation tax and the transfer tax. As a result, there is uniform treatment under the real property, deed recordation, and transfer taxes for charitable organizations.

Impact:
Charitable organizations benefit directly from the exemption, which is also expected to provide broader societal benefits by encouraging the voluntary provision of social services. During tax year 2019, 488 properties received the charitable use exemption.[62] The recipients include organizations such as: The Salvation Army, The Hearth Foundation, Kingman Boys & Girls Club, So Others Might Eat (SOME), Sasha Bruce Youthwork, Community Connections, as well as many nonprofit housing and health organizations, neighborhood corporations, religious charitable organizations, and many others.

Some experts have pointed out that the exemption may be poorly targeted because it favors charitable non-profits that own real estate and may encourage some non-profits to invest more in real property than is optimal from the standpoint of maximizing social welfare (for example, the investment in real estate could come at the expense of an organization's charitable mission itself).

Property owned by charitable organizations accounts for 1.2 percent of the total assessed value of tax-exempt property in the District of Columbia.[63] The tax exemptions given to certain properties shift the burden of paying for public services to taxable properties and may result in those properties paying a higher property tax rate.

[40] "Property Exempt from Taxation TY 2019." Office of Tax and Revenue. OCFO. Available at this link.

[63] In tax year 2018, tax-exempt property of charitable organizations was valued at $1.2 billion. The total value of all tax-exempt property in the District of Columbia was $100 billion. From "Tax Facts 2019." Office of Revenue Analysis, OCFO, page 49. Available at this link.

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
To support a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the public.	In FY 2019, the estimated revenue loss was $18,666,000, and the estimated revenue loss for the deed and recordation tax exemption was $2,488,000. The total is roughly $21,154,000.	In 2019, 488 properties received the real property tax exemption.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Immediate changes	*Intermediate changes*	*Long-term changes*

Assumptions:
Underlying principles about how outputs will affect outcomes.

Special Act of Congress
Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1002(11)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2021**	**FY 2022**
Revenue Loss						$8,778	$8,997	$9,222

Note: Each of these provisions is counted elsewhere in the Tax Expenditure Report; therefore, this entry will not be presented separately in that document.

Description:
This tax expenditure stems from a single provision in the DC Code that specifically identified property owned by institutions such as The Brookings Institution, The Carnegie Institute, the National Geographic Society, and the American Chemical Society, among others as being exempt from District property taxes. Each of these properties were granted a property tax exemption with the statement that other similar institutions that were granted exemptions by a Special Act of Congress would also receive DC property tax exemptions.[64]

Purpose:
The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or social benefits to the public.

Impact:
Non-profits listed in the statute benefit from the exemption, and there may be a wider social benefit as well based on the social goods that these institutions provide to the community.

[64] Additional organizations that were also listed in the statute but were not found in the Exempt Property Reports or the DC real property tax database include the Medical Society of the District of Columbia, National Lutheran Home, American Forestry Association, American Tree Association, and American Association to Promote the Teaching of Speech to the Deaf.

Table 8: Tax-Exempt Provisions Due to a Special Act of Congress

Recipient of Tax Expenditure	Address	Suffix Square and Lot	FY 2019 Revenue Loss Estimate ($)
Brookings Institution	1775-1780 Massachusetts Ave NW	0157 0864 0158 0077	1,219,486
Carnegie Institution of Washington	1530 P St NW	0195 0838 0195 0848 2288 0813	1,144,689
National Geographic Society	1145 17th St NW & 1600 M St NW	0183 0884	2,265,669
National Academy of Sciences	2101 Constitution Ave NW	0088 0058	2,407,460
American Chemical Society	1155 16th St NW and 1550 M St NW	0197 0853 0197 0854	1,740,738
TOTAL			**8,778,042**

Source: ORA. Note: Estimates for this tax expenditure are not presented in the District's Tax Expenditure Report because each of the properties is already included in the tax expenditure for Miscellaneous Properties, which is found on page 268 of the 2018 Tax Expenditure Report.

Logic Model:

The Need:
To support a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the public.

Resources/Inputs:
In FY 2019, the projected revenue loss to the property tax exemptions was $8,778,042.

Outputs:

In 2019, at least 9 properties (5 owners) received the property tax exemption.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term

Immediate changes

Medium-term

Intermediate changes

Long-term

Long-term changes

Assumptions:
Underlying principles about how outputs will affect outcomes.

Cemeteries
Real Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1002(12)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$5,723	$5,728	$6,358	$6,389	$6,418	$6,578	$7,376	$7,560

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2021 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
Cemeteries dedicated to and used solely for burial purposes and not organized or operated for private gain, including buildings and structures reasonably necessary and usual to the operation of a cemetery, are exempt from real property taxation.

Real property tax exemptions for non-profit cemeteries are standard nationwide. Both Maryland and Virginia exempt non-profit cemeteries from real property taxation.

Purpose:
The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or social benefits to the public.

Impact:
Non-profit cemeteries benefit from the exemption, but there may be a wider social benefit as well. During tax year 2019, 24 cemetery properties received this exemption. Cemeteries account for 0.37 percent of the total assessed value of tax-exempt property in the District of Columbia.[65]

The Oak Hill Cemetery received an Individual Tax Provision in the District under code § 47-1015. Additionally, three other cemeteries are noted in § 47-1000 (Mount Olivet Cemetery, St. Mary's Cemetery, and the Methodist Cemetery Association). Data for these cemeteries is included in the estimates of revenue forgone on this page and therefore they are not presented separately in the Individual Tax Provisions section.

[65] In tax year 2018, tax-exempt property of cemeteries was valued at $347 million. The total value of tax-exempt property in the District of Columbia was valued at $100 billion. A list of tax-exempt properties categorized as cemeteries in FY19 is available at this link, pages 195-196.

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or social benefits to the public.	In FY 2019, the revenue forgone was $6,578,000.	In FY 2019, 24 cemeteries were exempt from property taxation, however there is a wider social benefit to the community.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Immediate changes	*Intermediate changes*	*Long-term changes*

Assumptions:
Underlying principles about how outputs will affect outcomes.

Churches, Synagogues, and Mosques:
Real Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1002(13)
Sunset Date: None
Year Enacted: 1942

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$60,626	$60,778	$67,350	$67,686	$67,322	$69,005	$71,151	$72,930

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2021 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Deed Recordation and Transfer Tax Exemption

District of Columbia Code: D.C. Official Code § 42-1102(3) for the deed recordation tax
D.C. Official Code § 47-902(3) for the transfer tax
Sunset Date: None
Year Enacted: 1962 (deed recordation tax) and 1980 (transfer tax)

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$129	$129	$0	$0	$554	$568	$582	$597

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2021 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
Churches, including buildings and structures reasonably necessary and usual in the performance of the activities of the church, are exempt from real property taxation. A church building is defined as a building "primarily and regularly used by its congregation for public religious worship."[66] Organizations that are exempt from real property taxation in the District of Columbia pursuant to D.C. Official Code § 47-1002 are also exempt from the deed recordation tax and transfer taxes. Churches, synagogues, and mosques are among the groups covered under § 47-1002 that qualify for this blanket exemption.

In addition, the following types of property belonging to religious orders or societies are exempt from real property taxation: buildings belonging to religious corporations or societies primarily and regularly used for religious worship, study, training, and missionary activities; pastoral residences owned by a church and actually occupied by the church's pastor, rector, minister, or rabbi (with a limit of one pastoral residence for any church or congregation); and Episcopal residences owned by a church and used exclusively as the residence of a bishop of the church.

[66] See D.C. Official Code § 47-1002(13).

Real property tax exemptions for churches, synagogues, mosques, and other places of religious worship are standard nationwide. Both Maryland and Virginia exempt churches, synagogues, and mosques from real property taxation.

Purpose:
The exemption reflects a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the public. More specifically, the exemption is intended to promote the free exercise of religion and respect the separation of church and state.

Further, the real property tax exemption for places of worship is extended to two other taxes related to real property: the deed recordation tax and the transfer tax. As a result, there is uniform treatment under the real property, deed recordation, and transfer taxes for churches, synagogues, mosques, and other places of worship.

Impact:
Churches, synagogues, mosques, and other places of worship benefit from the exemption, but the exemption is also intended to benefit society more broadly by promoting the free exercise of religion and the separation of church and state. During tax year 2019, there were 1,200 tax-exempt church properties (sometimes one church owns several properties).[67] Property owned by churches, synagogues, and mosques accounts for 3.9 percent of the total assessed value of tax-exempt property in the District of Columbia.[68] When churches, synagogues, mosques, and other places of worship are sold, they benefit from the deed recordation and transfer tax exemption.

Sometimes property owned by a religious institution is given a statutory property tax exemption, or Individual provision, to fix administrative issues preventing all religious property from being treated equitably within the property tax. For example, if a church partners with a developer to create affordable housing on its property, it may need to seek a legislative exemption for the part that remains in religious use. Additionally, a church may need a legislative exemption for vacant property that is being used for religious purposes. Because the value of those exemptions is included in the estimate of revenue forgone above, we do not highlight these Individual provisions separately in this report.

[67] A list of properties receiving the religious exemption can be found in online Exempt Property Report, located at this link, pages 114 – 149.
[68] In tax year 2018, tax-exempt property of churches, synagogues, and mosques was valued at $3.9 billion. The total value of tax-exempt property in the District of Columbia was valued at $100 billion. From “Tax Facts 2019.” Office of Revenue Analysis, OCFO, page 49. Available at this link.

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
To provide property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the public. The exemption also is intended to promote the free exercise of religion and respect the separation of church and state.	In FY 2019, tax-exempt religious property represented $69,005,000 in forgone revenues, and properties exempt from the deed and recordation tax represented roughly $568,000.	In 2019 approximately 1,200 properties with religious use received a property tax exemption.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Immediate changes	*Intermediate changes*	*Long-term changes*

Assumptions:
Underlying principles about how outputs will affect outcomes.

Theater, Music, or Dance Buildings
Real Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1002(19)
Sunset Date: None
Year Enacted: 1996

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	*	*	*	*	*	$2,900	$2,973	$3,047

Source: ORA. FY 2019 is the first year for which theater-related property tax exemptions have been identified and counted as a group.

*In previous Tax Expenditure Reports, the exemption amounts have been included in the Property Tax Exemption for Miscellaneous Properties.

Description:
Buildings that are owned by, occupied, and used for legitimate theater, music, or dance purposes (and open to the public and not organized or operated for commercial purposes or for private gain) are exempt from all real property taxation so long as the property continues to be so owned and occupied, and used for the exempt purposes described in § 47-1002(18) and § 47-1002(19), providing for exemption of certain real properties.

Purpose:
The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide religious, charitable, scientific, literary, educational, or cultural benefits to the public.

Impact:
Theaters benefit from the exemption, but there may be a wider social benefit because the theaters provide general cultural enrichment. At the same time, the tax exemptions given to certain properties shift the burden of paying for public services to taxable properties and may result in those properties paying a higher property tax rate.

There are at least nine theaters identified that benefit from this exemption, including the Ford's Theater Society, the Avalon Theater Project, the Andrew Keegan Theater, the Studio Theater, the Lansburgh Theater, the Shakespeare Theater, the Atlas Performing Arts Center, the Capital Fringe Festival, and DC Wheel Productions (Dance Place).

Further, Individual property tax expenditures for two additional theaters are included in the estimate of forgone revenue above. The Wooly Mammoth Theater Company has a full property tax exemption granted by DC Code § 47-1051.[69] It is not clear why the theater could not receive an exemption under § 47-1002(19), though it may be related to the ownership of the theater at the time the exemption was granted (in 2001). Further, the GALA Hispanic Theater has a partial

[69] SSL 0457 7002; 0457 0876; and 0457 0886.

property tax abatement granted by DC Code § 47-4660.[70] The legislative abatement may have been necessary for GALA as it is leasing the space. A 2013 Tax Abatement Financial Analysis found that a tax abatement was necessary for GALA to continue to serve as a community theater.[71]

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
To support a general policy of providing property tax exemptions to non-profit organizations that provide cultural benefits to the public.	Revenue forgone in FY 2019 for property tax exemptions for theaters was $2,900,072.	At least nine theaters received property tax exemptions, and therefore many residents benefiting from the theater productions were also beneficiaries.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Immediate changes	*Intermediate changes*	*Long-term changes*

Assumptions:
Underlying principles about how outputs will affect outcomes.

[70] SSL 2837 79
[71] See https://cfo.dc.gov/node/428672.

Nonprofit Stormwater Infrastructure
Real Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1005(d)
Sunset Date: None
Year Enacted: 2018

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss						$21	$21	$22

Source: Estimates of revenue forgone from the OCFO, Fiscal Impact Statement – "Fiscal Year 2019 Budget Support Act of 2018," June 26, 2018, pg. 65.

Description: This property tax exemption allows a tax-exempt entity that uses its property to generate stormwater retention credits to maintain its exemption from District property taxation.

Purpose: The property tax exemption is necessary to prevent tax-exempt organizations that generate revenue from stormwater retention credits from being subject to real property taxation on the portion of land leased for the management of stormwater. The portion of land protected by the provision generally represents less than 0.5 percent of the nonprofits' total lots.

Impact: Nonprofit organizations that generate stormwater retention credits due to the installation of green infrastructure or the removal of impervious surfaces will benefit from this exemption. Nine organizations currently use the provision and a Department of Energy and Environment official confirmed that the exemption is an important assurance for nonprofit organizations that install river-protecting green infrastructure that their tax-exempt status will not be affected.

Logic Model:

The Need:
The property tax exemption is necessary to prevent tax-exempt organizations that generate revenue from stormwater retention credits from being subject to real property taxation on the portion of land leased for the management of stormwater.

Resources/Inputs:

In FY 2019, it is estimated that the revenue forgone due to the provision was $21,000.

Outputs:

Currently, 9 nonprofit organizations use this provision.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term
Some nonprofit organizations will install green infrastructure to reduce urban stormwater runoff.

Medium-term
Stormwater runoff into DC's water ways will be reduced; potential reducing pollution in the rivers.

Long-term
The quality and cleanliness of DC's rivers will improve, along with improved benefits for the entire aquatic watershed.

Assumptions:
Based on the assumption that urban stormwater runoff is detrimental for the long-term health of rivers.

Vault Tax Exemption
Real Property Tax Exemption

District of Columbia Code: D.C. Official Code §10-1103.04(d) and §47-1002(19)
Sunset Date: None
Year Enacted: 2008; 2011; 2016

(Dollars in thousands)	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Revenue Loss					$40	$41	$41	$42

Source: Estimates for FY 2018-2019 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
Theaters, music venues, and dance studios that are exempted from real property taxes are exempted from vault taxes. In 2016, real property located at Square 287, Lot 812 for the National Museum of Women in the Arts was also granted an exemption from vault taxes. A vault is an underground storage area like a parking garage, electrical transformers or other utilities that travel underneath the roadway. Vaults are taxed separately from a building's real property taxes in the District. The vault tax rate is dependent on the type of vault, and the assessed value of the land where the vault is located times the square footage of the vault times the utilization factor.

Purpose:
The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide cultural benefits to the public.

Impact:
Owners of theaters, music venues, and dance studios benefit from the exemption, but there may be a wider social benefit because the galleries are open to the public and provide general cultural enrichment.

Logic Model:

The Need:

The exemption supports a general policy of providing property tax exemptions to non-profit organizations that provide cultural benefits to the public.

Resources/Inputs:

It is projected that the exemption will result in $41,000 in forgone revenue in FY 2020.

Outputs:

Currently one organization, the National Museum of Women in the Arts, is benefitting from the exemption.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term

Immediate changes

Medium-term

Intermediate changes

Long-term

Long-term changes

Assumptions:
Underlying principles about how outputs will affect outcomes.

Public Space Permit Fees
Real Property Tax Rebate

District of Columbia Code: D.C. Official Code § 10–1141.03a
Sunset Date: None
Year Enacted: 2016

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss					$30	$30	$30	$30

Source: Estimates for FY 2018-2019 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

DESCRIPTION: The Civic Associations Public Space Permit Fee Waiver Amendment Act of 2016 allows civic associations to waive or reduce permit fees, except application fees, for the use of public space, public rights of way, and public structures for events or projects that are conducted by civic associations. Civic associations are organizations comprised of residents of the community within which the public space, public right of way, or public structure is located; mostly used for the improvement of the community within which the public space, public right of way, or public structure is located; and are exempt from taxation under section 501(c)(3) or (4) of the Internal Revenue Code of 1954 (68A Stat. 163; 26 U.S.C. § 501(c)(3), (4)).

PURPOSE: The purpose of the provision is to reduce the operating cost of civic associations that provide various services to local communities in DC.

IMPACT: Civic organizations like farmers market would benefit from this provision. The public permit waiver or fee reduction reduces the operating cost of civic organizations that provides valuable services to the community.

Logic Model:

The Need:	Resources/Inputs:	Outputs:
To reduce the operating cost of civic associations that provide various services to local communities in DC.	Estimate of revenue loss in FY 2020 is $30,000.	Unknown.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	Medium-term	Long-term
Immediate changes	*Intermediate changes*	*Long-term changes*

Assumptions:
Underlying principles about how outputs will affect outcomes.

Urban Farming and Food Security
Real Property Tax Abatement

District of Columbia Code: D.C. Official Code § 47-868
Sunset Date: None
Year Enacted: 2015

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss			$0	$0	$0	$0	$59	$150

Source: Estimate for FY 2020-2021 based on five abatement recipients thus far for 2020; with five more projected to take the abatements in FY 2021. Previous Tax Expenditure Reports projected small amounts for FY 2016-2019, however, no claimants took advantage of the abatement in those years.

Description:
If real property is used as an urban farm, 90 percent of the real property tax on the land value of the relevant portion of the real property can be abated for each real property tax year that the real property is used for an agricultural use. The land must produce a food commodity or be put to another season-appropriate agricultural-related use, such as providing cover crops, a beehive, or growing seedlings in a greenhouse. Food commodity means vegetables, fruits, grains, mushrooms, honey, herbs, nuts, seeds, or rootstock grown in the District by urban farming, or by a community garden, that are intended to be used as food in its perishable state and are approved by regulatory authorities.

To be eligible to apply for an abatement under this section, an applicant, before the property is used as an urban farm, was originally to submit a proposed annual planting plan to the Department of General Services (DGS) for approval. Certification and approval will now be taken on by the Department of Energy and the Environment (DOEE). Further, DOEE must ensure that the soil on the property is free from arsenic, lead and heavy metals and is safe for growing food fit for human consumption.

DC Act 23-226, the "Urban Farming Land Lease Amendment Act of 2020" amends this provision by allowing for alternative growing methods (raised bed, greenhouse, and hydroponic tower) for private property owners operating an urban farm where the site soil is not substantially free of contamination.[72] The abatement cannot exceed the real property tax liability on which the urban farm is located and is capped at $20,000 per parcel of real property, per tax year. Subtitle (VI)(M), The Urban Agriculture Funding Amendment Act of 2020, in The Fiscal Year 2021 Budget Support Act of 2020 limits the total real property tax abatements to $150,000 per year beginning in FY 2021.

If the farm is located on or in an improvement to real property not fully used as an urban farm, the portion of the improvement in use as an urban farm is abated and is computed by dividing the square footage of the portion of the improvement used for urban farming by the gross building area of the improvement.

[72] DC Act 23-226, effective April 29, 2020.

In 2014, Maryland enacted the Urban Agricultural Property Tax Credit that authorizes counties and the city of Baltimore to implement a property tax credit for urban land used for agricultural purposes. The real property must be between one-eighth of an acre and five acres. To qualify for the tax credit, the real property must be used for urban agricultural purposes, may not be used for any other for-profit purpose that would subject the parcel to property tax liability, produce agricultural products valued at at-least $2,500 per tax year. The credit is capped at $5,000 for each applicant per fiscal year. Baltimore city, Montgomery and Prince George's Counties are among the jurisdictions that have implemented the credit.

Purpose:
The intent of this tax expenditure is to encourage urban farming, improve access to fresh and healthy food in the District, and the productive use of District property.

Impact:
Property owners will benefit from the provision. Residents will also benefit from the provision as there will be an increase of healthy foods available in the District. No properties were certified to take the abatement before 2020, and five have been certified for 2020.

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
To encourage urban farming, improve access to fresh and healthy food in the District, and the productive use of District property of the policy.	Estimate of revenue loss beginning in FY 2020 is $59,000.	Five properties have been certified for 2020 property tax exemptions, and more are expected to take the abatement in the future.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Increase in local fresh food supply.	Increase in local fresh food supply.	Improved access to fresh and healthy food would contribute to improved health for District residents.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Nonprofit Organizations
Personal Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1508(a)(1)
Sunset Date: None
Year Enacted: 1902

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$4	$4	$6	$6	$6	$6	$6	$6

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2019 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
The personal property of any non-profit organization organized exclusively for religious, scientific, charitable, or educational purposes, including hospitals, is exempt from personal property taxation, provided that that the organization obtains a letter from the Chief Financial Officer stating that it is entitled to the exemption. Any personal property used for activities that generate unrelated business income subject to tax under section 511 of the U.S. Internal Revenue Code of 1986 is not exempt from the personal property tax.

Purpose:
The exemption supports a general policy of providing tax exemptions to non-profit organizations that provide religious, scientific, charitable, educational, or cultural benefits to the public.

Impact:
Non-profit organizations organized exclusively for religious, scientific, charitable, educational, or cultural purposes benefit from this exemption. By narrowing the tax base, it is possible that this and similar exemptions increase the tax rate on entities that must pay the tax.

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
To support the activities of non-profit organizations that promote social welfare.	In FY 2020, it is estimated that the revenue forgone will be $6,000.	It is unknown how many entities benefit from this exemption.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Immediate changes	*Intermediate changes*	*Long-term changes*

Assumptions:
Underlying principles about how outputs will affect outcomes.

Compensatory Damages Awarded in a Discrimination Case
Income Tax Subtractions

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(U) and § 47-1806.10
Sunset Date: None
Year Enacted: 2002

(Dollars in thousands)	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Personal Income Tax Loss	$31	$58	$16	$32	$32	$32	$32	$33

Source: Estimates for FY 2014 from 2014 Tax Expenditure Report; estimates for FY 2015-2019 are based on ORA analysis of income tax data that was not available at the time previous Tax Expenditure Reports were released, and therefore data for these years differ from projections that were previously published in the 2014, 2016, and 2018 Tax Expenditure Reports. Estimates for FY 2020-2021 from the 2020 Tax Expenditure Report.

Description:
A taxpayer may exclude from District of Columbia gross income a court award intended to compensate him or her for the pain and suffering associated with unlawful employment discrimination. The exclusion does not apply to back pay, front pay (future wages), or punitive damages.[73] A review did not identify similar provisions offered in Maryland or Virginia.

Purpose:
The purpose of the subtraction is to preserve the full value of the awards that are intended to compensate individuals for the pain and suffering associated with unlawful employment discrimination.

Impact:
Individuals who have won an employment discrimination suit or received a monetary settlement of an employment discrimination claim benefit from this provision. In tax year 2017 (the last year for which data are available), 15 tax filers claimed a total of $390,826 in awards. The maximum award amount in that year was $100,000.

[73] DC law provides that damages pertaining to back pay and front pay are to be averaged over the period of back and future wages involved. This spreading of back pay and front pay protects the taxpayers from having to pay a large lump sum in taxes in one year and avoids the perverse result in which a taxpayer could be pushed into a higher tax bracket due to the award of back pay and front pay.

Logic Model:

The Need:
To preserve the full value of the awards that are intended to compensate individuals for the pain and suffering associated with unlawful employment discrimination.

Resources/Inputs:

In FY 2019, revenue forgone under this provision was estimated to be $32,000.

Outputs:

In 2017, 15 tax filers claimed benefits, the latest year income tax data are available. In 2016, 14 tax filers claimed benefits.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term

Individuals that have experienced unlawful employment discrimination will have the full value of their compensation awards preserved.

Medium-term

Individuals that have experienced unlawful employment discrimination will have the full value of their compensation awards preserved.

Long-term

Individuals that have experienced unlawful employment discrimination will have the full value of their compensation awards preserved.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Poverty Lawyer Loan Assistance
Income Tax Subtractions

District of Columbia Code: D.C. Official Code § 47-1803.02(a)(2)(X)
Sunset Date: None
Year Enacted: 2007

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Personal Income Tax Loss	$0	$17	$4	$7	$7	$7	$7	$7

Source: Estimates for FY 2014-2017 are based on ORA analysis of income tax data that was not available at the time previous Tax Expenditure Reports were released, and therefore data for these years differ from projections that were previously published in the 2014, 2016, and 2018 Tax Expenditure Reports. Estimates for FY 2020-2021 from the 2020 Tax Expenditure Report.

Description:
Loans that are awarded and subsequently forgiven through the District of Columbia Poverty Lawyer Loan Repayment Assistance Program (LRAP) can be excluded from District of Columbia gross income.

LRAP is intended to encourage law students and attorneys to practice in areas of civil law deemed to serve the public interest. Participants who practice law in the designated areas, live in the District of Columbia, have an individual annual adjusted gross income of less than $90,000 or a joint annual adjusted gross income of less than $200,000,[74] and exhaust all other loan assistance opportunities, can receive loans to repay the debt incurred while obtaining a law degree. The loans are forgiven when the participant completes his or her service obligation. The maximum amount of loan repayment assistance is $1,000 per month and $60,000 per participant.

The District of Columbia Bar Foundation administers LRAP on behalf of the Deputy Mayor for Public Safety and Justice, who oversees the program. The D.C. Bar Foundation determines which areas of legal practice qualify for LRAP. According to the D.C. Bar Foundation, LRAP provided $245,000 in loan repayment assistance awards to 46 attorneys who represent low-income DC residents in 2018.[75] That same year, $179,425 of loans were forgiven for 40 attorneys. The average participant in 2018 owed $170,071 in educational debt and had a salary of $64,012. The average LRAP award in 2015 was $5,444.[76]

Purpose:
The purpose of this subtraction is to encourage attorneys to enter public-interest work and thereby expand access to legal services for low-income residents.

[74] The income ceiling will be increased by 3 percent on October 1 of each year. The next increase will take effect on October 1, 2019. See D.C. Official Code § 4-1704.03(4), and the 2019 LRAP guidelines.
[75] Information was retrieved via email from Imoni Washington, Director of Programs at DC Bar Foundation, and from DC Bar Foundation's web site, available at this link
[76] Ibid.

Impact:
LRAP participants benefit from this provision, as do the organizations and clients who receive legal services from the participants. In tax year 2017 (the last year for which data were available), 12 tax filers subtracted $86,843 of income related to LRAP awards. The median income of the filers in that year was and $37,000. Organizations that have employed program participants include the Legal Aid Society of the District of Columbia, Legal Counsel for the Elderly, Washington Legal Clinic for the Homeless, and the Whitman-Walker Health Legal Services Program.

Logic Model:

The Need:	Resources/Inputs:	Outputs:
To encourage attorneys to enter public-interest work and thereby expand access to legal services for low-income residents.	In FY 2017, revenue forgone under this provision was roughly $7,000.	In 2017, 12 tax filers claimed benefits, the latest year data are available. In 2016, 16 tax filers claimed benefits.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	Medium-term	Long-term
More attorneys will enter public-interest work than otherwise might have, providing social benefits to the District and its low-income residents.	More attorneys will enter public-interest work than otherwise might have, providing social benefits to the District and its low-income residents.	More attorneys will enter public-interest work than otherwise might have, providing social benefits to the District and its low-income residents.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Child and Dependent Care
Income Tax Credits

District of Columbia Code: D.C. Official Code § 47-1806.04(c)
Sunset Date: None
Year Enacted: 1977

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Personal Income Tax Loss	$3,575	$3,575	$4,118	$4,029	$4,029	$4,029	$4,029	$4,029

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2019 updated from Tax Expenditure Reports to reflect actual data; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
An individual who receives a federal child and dependent care tax credit, as authorized by section 21 of the U.S. Internal Revenue Code (26 U.S.C. § 21), is eligible for a District of Columbia income tax credit equal to 32 percent of the federal credit. The credit is not refundable (it cannot exceed the amount of the individual's tax liability).

The U.S. Internal Revenue Code limits the credit to care provided for a dependent child under the age of 13, or a spouse or certain other dependents who are incapable of self-care. The care must have been provided in order that the taxpayer, and his or her spouse if the taxpayer is married, can work, or look for work. The individual receiving the care must have lived with the taxpayer for at least half of the year. The value of the federal credit ranges from 35 percent to 20 percent (declining as income rises; incomes over $43,000 my only receive 20 percent) of dependent care expenses of up to $3,000 for one qualifying individual and $6,000 for two or more qualifying individuals. The expenses qualifying for the credit must be reduced by the amount of any employer-provided dependent care benefits that the taxpayer excluded from his or her gross income.

Maryland offers a child and dependent care tax credit like the District's: single filers with income up to $20,500 and joint filers with income up to $41,000 receive credits equal to 32.5 percent of the federal credit which are phased out near the top of the eligibility scale. The Maryland credit is gradually phased out over income ranges of $20,501 to $25,000 (single filers) and $41,001 to $50,000 (joint filers). Maryland also allows filers to deduct up to $3,000 for one child and up to $6,000 for two or more children. Virginia does not provide a child and dependent care credit but allows taxpayers who qualify for the federal credit to deduct up to $3,000 in care expenses for one dependent and up to $6,000 for two or more dependents.

Purpose:
The purpose of the credit is to assist families in paying for child and dependent care so that a parent or caretaker may work or look for work.

Impact:
Individuals and families eligible for the federal child and dependent care tax credit benefit from the D.C. credit. During tax year 2017, 19,744 tax filers claimed the credit. Urban Institute

researchers have noted that, "Because the credit is nonrefundable, under current law the high credit rates remain elusive. Those for whom the highest credit rates apply rarely owe taxes, and as a result they rarely receive any benefit from this provision."[77] The same pattern would apply to the District's credit because it follows the federal rules.

Table 9: Child and Dependent Care Credit-2017

Number and Share of Claimants and Amount of Revenue Forgone, by Income Category				
Income Category (AGI)	**Number**	**Share**	**Amount ($)**	**Share**
Breakeven or Loss	44	0.22%	4,645	0.12%
$1 to $5,000	79	0.40%	10,897	0.27%
$5,001 to $10,000	176	0.89%	28,862	0.72%
$10,001 to $15,000	376	1.90%	90,256	2.24%
$15,001 to $20,000	660	3.34%	163,534	4.06%
20,000 to 25,000	1,232	6.23%	309,055	7.67%
$25,000 to $50,000	6,038	30.54%	1,398,028	34.70%
$50,000 to $100,000	3,391	17.15%	668,808	16.60%
$100,000 to $150,000	1,614	8.16%	280,843	6.97%
Greater than $150,000	6,164	31.17%	1,073,630	26.65%
Total	**19,774**	**100.00%**	**4,028,558**	**100.00%**

Source: ORA Analysis of 2017 Individual Income Tax Data, the most recent available for this provision.

[77] Elaine Maag, Stephanie Rennane, and C. Eugene Steuerle, "A Reference Manual for Child Tax Benefits," Urban-Brookings Tax Policy Center, Discussion Paper No. 32, April 2011, p. 13. Available at this link.

Logic Model:

The Need:

To assist families in paying for child and dependent care so that a parent or caretaker may work or look for work

Resources/Inputs:

In 2017, an estimated $4,029,000 in revenue was forgone.

Outputs:

In tax year 2017, 19,774 filers claimed $14.1 million in childcare expenses.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term
Families with children can afford childcare and therefore parents can enter the workforce.

Medium-term
Parents who otherwise would not have entered the workforce are now able to do so.

Long-term
Longer-term economic stability for parents who enter the workforce due to assistance with childcare; and economic benefits to the city resulting from their employment.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Early Learning Credit
Income Tax Credit

District of Columbia Code: D.C. Official Code § 47-1806.15
Sunset Date: none
Year Enacted: 2018

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Personal Income Tax Loss	n/a	n/a	n/a	n/a	$3,362	$2,030	$2,118	$2,209

Source: FY 2018: MITS Data retrieved on 4/9/20. FY 2019 – 2021 projections based on 2018 data.

***Description*:**

The District of Columbia Early Learning Tax Credit (ELC) is a refundable income tax credit that was enacted in the Fiscal Year 2019 Budget Support Act, effective October 30, 2018 (D.C. Law 22-0168). The ELC is available to taxpayers based on the amount of eligible childcare expenses paid by the taxpayer, up to $1,000, per eligible child. The ELC was originally only available for tax year 2018 for taxpayers earning up to $750,000 per year. The Fiscal Year 2020 Budget Support Act of 2019 extended the credit indefinitely but lowered the maximum income allowed for eligibility to $150,000 per year for those filing single, head of household, or married filing jointly, and $75,000 per year for those married filing separately. Taxpayers may not be receiving childcare subsidies under the Office of the State Superintendent of Education Subsidy Program. Beginning in FY 2021, the law increases the maximum credit available by the amount of inflation.

An eligible child must be a dependent of the taxpayer; and be 3 or under as of September 31 in the applicable tax year. For example, for tax year 2018 a child turning 4 between October 1, 2018 and December 31, 2018 was still eligible. Eligible childcare expenses are payments that are made to a qualified child development facility for childcare services provided to an eligible child.

A child development facility is a center, home, or other structure that provides care and other services, supervision, and guidance for children, infants, and toddlers on a regular basis, regardless of its designated name. Child development facilities must be in the District of Columbia and either be licensed by the District of Columbia or operated by either the federal government or by a private provider on federal property.

Purpose: The purpose of this act is to assist DC residents with the costs of early childhood care. Research shows that the costs of early childhood care in the District of Columbia are among the highest in the country.[78]

[78] ChildcareAware. "The US and the High Price of Child Care: Examination of a Broken System." 2019 Report; page 18. Available at this link.

Impact: In 2018, 3,752 tax filers claimed a total of $3,362,448 in credits for 4,298 total children (a tax filer may claim multiple children). As the distribution below shows, in 2018, just over 40 percent of the total credit awarded went to filers earning $150,000 or higher (up to $750,000). Fewer will claim the credit beginning in tax years 2019 based on the reduced income eligibility levels.

While the reduced income level will better ensure the credit is targeted to families with lower incomes, a DC-based advocacy group contends that the tax credit is not the best way to improve childcare affordability because the $1,000 credit only offsets a small amount of total annual childcare costs.[79]

Table 10: Early Learning Tax Credit - 2018

Number and Share of Claimants and Credit Amounts, and Number of Children, by Income Category

Taxable Income Level	Number of Filers	Share	Amount of Credit ($)	Share	Number of Children
Breakeven or Loss	273	7.28%	162,058	4.82%	309
$1 to $25,000	1,029	27.43%	612,222	18.21%	1,140
$25,001 to $50,000	369	9.83%	312,080	9.28%	417
$50,001 to $75,000	192	5.12%	176,834	5.26%	210
$75,000 to $100,000	186	4.96%	184,923	5.50%	199
$100,000 to $125,000	214	5.70%	232,869	6.93%	244
$125,000 to $150,000	234	6.24%	254,635	7.57%	267
$150,000 to $750,000	1,255	33.45%	1,426,827	42.43%	1,512
TOTAL	**3,752**	**100.00%**	**3,362,448**	**100.00%**	**4,298**

Source: ORA Analysis of 2018 Individual Income Tax data, Office of Tax and Revenue.

Note: For tax years beginning January 1, 2019, the income limit is reduced to $150,000.

[79]DC Fiscal Policy Institute. "What's in the Proposed Fiscal Year 2020 Budget for Early Childhood Development?" April 5, 2019. Available at this link.

Logic Model:

The Need:

To help offset costs of high early childhood care in the District of Columbia.

Resources/Inputs:

In tax year 2018, $3,362,448 in in revenue was forgone to this provision.

Outputs:

In 2018, 3,752 filers claimed the credit, covering 4,298 children. The number likely will go down for future years as the eligible income level is reduced.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term
Assist parents of young children with the cost of childcare.

Medium-term
Assist parents of young children with the cost of childcare; possibly allowing some parents who otherwise would not have to enter the workforce.

Long-term
Longer-term economic stability for parents who enter the workforce due to assistance with childcare; and economic benefits to the city resulting from their employment.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Nonprofit Organizations
Sales Tax Exemptions

Semipublic Institutions (Incl. 501(c)(3)s)
District of Columbia Code: D.C. Official Code § 47-2005(3)
Sunset Date: None
Year Enacted: 1949

Nonprofit (501(c)(4)) Organizations
District of Columbia Code: D.C. Official Code § 47-2005(22)
Sunset Date: None
Year Enacted: 1987

(Dollars in thousands)	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Revenue loss (Semipublic Institutions)	$49,377	$51,056	$57,412	$31,321	$32,940	$36,794	$38,045	$40,708
Revenue Loss (501(c)(4))	$33,171	$34,299	$37,890	$97,904	$102,965	$115,012	$118,922	$127,247
Total	**$82,548**	**$85,355**	**$95,302**	**$129,225**	**$135,905**	**151,806**	**$156,967**	**$167,955**

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report and estimates for FY 2016 from 2016 Tax Expenditure Report; these estimates were based on Data from the 2012 Economic Census and were made using a different methodology. Estimates for FY 2017-21 reflect an updated methodology and data from the 2017 Economic Census.

Description:
<u>*Semipublic Institutions*</u>
Gross receipts from sales to semi-public institutions are exempt from the sales tax if (1) the institution obtains a certificate from the Mayor stating that the institution is entitled to the sales tax exemption, (2) the vendor keeps a record of each sale, (3) the institution is located in the District of Columbia, and (4) the property or services purchased are for use or consumption, or both, in maintaining and operating the institution for the purpose for which it was established, or for honoring the institution or its members.

A semi-public institution is defined as "any corporation, and any community chest, fund, or foundation, organized exclusively for religious, scientific, charitable, or educational purposes, including hospitals, no part of the net earnings of which inures to the benefit of any private shareholder or individual."[80] This would include many 501(c)(3) organizations.

[80] See D.C. Official Code § 47-2001(r).

Nonprofit 501(c)(4) Organizations

Gross receipts from sales to an organization that is exempt from federal corporate income tax under section 501(c)(4) of the Internal Revenue Code are exempt from District of Columbia sales taxation when the organization's membership is limited to a state, territory, or possession of the United States or any political subdivision of a state, territory, or possession. Organizations covered by section 501(c)(4) include "civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes."[81]

Maryland and Virginia exempt non-profit organizations from the sales tax, as do all but five states with a broad-based sales tax.[82]

Purpose:

The purpose of these exemptions is to support the activities of non-profit organizations and semipublic institutions that promote social welfare such as private, non-profit institutions that provide religious, educational, social, philanthropic, and other services that have important public benefits. The exemption recognizes and encourages the public benefits provided by many non-profit entities, such as hospitals and libraries.

Impact:

Organizations that are tax-exempt under section 501(c)(4) of the Internal Revenue Code as well as semi-public institutions, which includes many organizations that are federally tax exempt under IRC 501(c)(3), and the people those organizations serve, benefit from this exemption. Still, sales tax exemptions for organizations narrow the tax base and may result in a higher sales tax rate for non-exempt individuals and organizations. Another consideration is that tax benefits for non-profits give them an advantage in direct competition with for-profit firms.[83]

A study by the Virginia Joint Legislative Audit and Review Commission (JLARC) found that the rate of increase in non-profit activity (as measured by per-capita expenditures) did not change significantly after 2004, when statutory changes broadened the number of non-profits eligible for Virginia's sales tax exemption. In fact, JLARC found that many charitable non-profits operating in Virginia did not use the exemption. Nevertheless, JLARC concluded that the exemption helps organizations that meet important needs such as emergency medical services, food, and housing assistance, and that the non-profits which provide the services reduce the state's burden of directly providing or funding the services.[84]

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[81] See 26 U.S.C. 501(c)(4)(A).

[82] Virginia Joint Legislative Audit and Review Commission, p. 62. Available at this link.

[83] William Fox, "Sales Taxes in the District of Columbia," paper prepared for the D.C. Tax Revision Commission, May 2013, p. 9.

[84] Virginia Joint Legislative Audit and Review Commission, pp. 58-61. Available at this link

According to a review of DC sales tax data, roughly 3,162 DC nonprofit organizations had active sales tax exemptions from the DC sales tax on file in 2020.[85] We do not have data on the amount of exempt sales made in DC, therefore ORA estimated the revenue forgone due to these provisions using the 2017 Economic Census' data on federally tax-exempt nonprofits' "sales, value of shipments, or revenue," and assumed that a portion of that figure is sales activity. In 2017, this data represented 3,194 federally tax-exempt nonprofits in DC.[86]

As a comparison, a 2011 Virginia Sales and Use Tax Expenditure Study noted that the estimate of revenue forgone for the state and local sales tax exemption for eligible nonprofit entities was projected to be $157 million in 2013, and that figure represents 1,665 organizations.[87] Further, a recent report from the Maryland Department of Budget and Management estimates that its sales tax exemptions for nonprofit entities, including charitable organizations, religious organizations and educational institutions, totals almost $170 million for FY 2020.[88]

The state of North Carolina offers a different example of how to track the tax expenditure related to exempt sales for certain nonprofit organizations.[89] In that state, the sales tax exemption for certain nonprofits (including hospitals, some 501(c)(3)s, qualified retirement facilities, and volunteer fire departments and emergency medical service squads) is administered as a refund for which those organizations must apply to the Department of Revenue after purchases are made. North Carolina's sales tax refund provision does not apply to 501(c)(3)s having a community improvement and capacity building purpose, public and societal benefit, or mutual and membership benefit. Exempting these organizations from the refund system likely shields smaller nonprofits or charities from the administrative burden of keeping and submitting receipts, which if applicable, could make the exemption less effective for them.

Implementing the sales tax expenditure in this way still could increase the administrative burden on the nonprofits subject to the refund provisions, to some degree, as well as the tax office processing the refunds. However, such a system would provide more transparency and a more precise accounting of the total revenue forgone. As such, this report recommends reviewing the possibility of a refund system to provide more revenue certainty within these sales tax exemptions for nonprofit organizations. As a first step, data on the nonprofit organizations that have applied

[85] ORA analysis of DC sales tax data.
[86] "2017 Economic Census," U.S. Census Bureau. U.S. Department of Commerce. Accessed at this link, on September 15, 2020.
[87] "2007-2011 Virginia Retail Sales and Use Tax Expenditure Study." VA Department of Taxation. November 2011. Pg. 40. Available at this link.
[88]"Maryland Tax Expenditures Report Fiscal Year." MD Department of Management and Budget. February 2019. Pgs 13, 14, and 27. Available at this link.
[89] North Carolina G.S. 105-164.14(b) offers a refund for the sales taxes paid on purchases (except for electricity, telecommunications piped natural gas, video programming, and prepaid meal plans), that are used to carry out the work of certain nonprofits as well as indirect purchases of building materials and related equipment. The eligible nonprofits include hospitals and some 501c3s (does not include those having a community improvement and capacity building purpose, public and societal benefit, or mutual and membership benefit), qualified retirement facilities, and volunteer fire departments and volunteer emergency medical service squads. The revenue forgone estimate for this provision in North Carolina is $288.1 million for FY20-21.
"North Carolina Biennial Tax Expenditure Report 2019." North Carolina Department of Revenue. December 2019. Available at this link.

to be exempt from the DC sales tax could be used to administer a survey to exempt nonprofits to request information on their exempt purchases and thereby produce a better estimate of the total revenue forgone through these provisions.

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
To support the activities of non-profit organizations that promote social welfare and offer public goods and services that may fill gaps government provisions of those goods and services.	An estimate is made based on business activity of both categories of nonprofits in DC as reported in the 2017 Economic Census. Using those figures, we estimate that $157 million in revenues is forgone in FY 2020.	The estimate is based on assumptions of sales activity for 3,194 federally tax-exempt organizations in DC.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Costs are reduced for nonprofits, allowing them to allocate more funds to provision of public goods and services.	More people are served by the nonprofits.	People benefiting from nonprofit services have improved quality of life and better outcomes.

Assumptions:
Provision of a subsidy to nonprofit organizations will allow the nonprofits to spend more money providing public goods and services that will improve quality of life and well-being for beneficiaries.

Groceries
Sales Tax Exemption

District of Columbia Code: D.C. Official Code § 47-2001(n)(2)(E)
Sunset Date: None
Year Enacted: 1949

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$54,382	$56,231	$68,457	$71,332	62,781	$66,360	$74,357	$76,950

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2019 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description: Gross receipts from sales of food or drinks that are defined as eligible foods under the federal Supplemental Nutrition Assistance Program (SNAP, which was formerly known as the "Food Stamp" program) are exempt from sales tax, except sales of food or drink for immediate consumption or the sale of soft drinks.[90] Snack food is exempt from the sales tax, due to a statutory change that the District adopted in 2001.[91]

Maryland exempts groceries from the sales tax, while in Virginia groceries are subject to a sales tax of 2.5 percent instead of the 6.0 general sales tax rate imposed in Northern Virginia.[92] Virginia is one of only 13 states to impose the sales tax on food: three of these states apply the general rate, four states apply the general rate but offer credits or rebates for some; and six states (including Virginia) charge a lower sales tax rate on groceries.[93]

Purpose: The purpose of the exemption is to make the sales tax more equitable by exempting necessities that absorb a large share of the income of low-income households.

Impact: All residents benefit from the exemption of groceries from the sales tax, but the exemption is particularly important for low-income individuals and families. Some have observed that the benefit for low-income families is smaller than one might expect, because federal law bars sales taxation of food purchased through the SNAP program.

Some experts further contend that sales tax exemptions and reductions for food are poorly targeted because they do not depend on income. Virginia's Joint Legislative Audit and Review Commission reported that households earning more than $70,000 accounted for 44 percent of Virginia households in 2008 but claimed 58 percent of the reduction in tax liability from the partial sales tax exemption for food. At the same time, households earning less than $20,000 comprised 14

[90] Food prepared for immediate consumption is taxed at a 10.25 percent rate, compared to the 6 percent general sales tax rate.
[91] This change was part of D.C. Law 13-305, the "Tax Clarity Act of 2000," effective June 9, 2001.
[92] Virginia's base rate for the general sales tax is 5.3 percent, but in the Northern Virginia and Hampton Roads areas, a 0.7 percent add-on raises the total tax to 6 percent. The regional add-on generates revenue for transportation projects.
[93] Figueroa, Eric, and Juliette Legendre. "States That Still Impose Sales Taxes on Groceries Should Consider Reducing or Eliminating Them." Center on Budget and Policy Priorities. April 1, 2020. Available at this link.

percent of Virginia households, but received only 7 percent of the total benefit from the lower tax rate.[94]

In a 2013 report prepared for the DC Tax Revision Commission, University of Tennessee professor William Fox stated that, "Food could be taxed and low-income households compensated with credits against the personal income tax or a smart card could be provided to low-income households to use as payment of sales tax on food purchases."[95] However, those opposing the use of credits for low-income families note that while this would be less expensive for states, it may fail to offset the full amount of grocery taxes that many people in poverty pay, and families would need to know about the credit and apply for it after their purchases are made.[96]

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
To make the sales tax more equitable by exempting necessities that absorb a large share of the income of low-income households.	In FY 2019, it is estimated that the revenue forgone due to the provision was $66.4 million.	It is unknown how many residents benefit from this provision. All DC residents that purchase groceries in the District, as well as any non-residents who do so, would benefit.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Immediate changes	*Intermediate changes*	*Long-term changes*

Assumptions:
Underlying principles about how outputs will affect outcomes.

[94] Virginia Joint Legislative Audit and Review Commission, p. 33.
[95] William Fox, "Sales Taxes in the District of Columbia," paper prepared for the D.C. Tax Revision Commission, May 2013, p. 7.
[96] Figueroa, Eric, and Juliette Legendre. "States That Still Impose Sales Taxes on Groceries Should Consider Reducing or Eliminating Them." Center of Budget and Policy Priorities. April 1, 2020. Available at this link.

Exemption for Feminine Hygiene Products
Sales Tax Exemption

District of Columbia Code: D.C. Official Code §47-2005 (38)
Sunset Date: None
Year Enacted: 2019

(Dollars in thousands)	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Revenue Loss							$419	$436

Source: Estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
Gross receipts from sales of feminine hygiene products are exempt from the sales tax. The definition of feminine hygiene products for the purposes of the exemption includes a "sanitary napkin, sanitary towel, tampon, menstrual cup, or sanitary pad."[97]

Purpose: The purpose of the sales tax exemption of feminine hygiene products is to remove items that many consider a necessity from the tax code.

Maryland exempts feminine hygiene products from the sales tax as they are considered medical products. In 2019, Virginia reduced the sales tax rate on feminine hygiene products to 2.5 percent, the same as the tax rate on food.

Impact: Proponents of the exemption note that sales taxes in general are regressive and therefore disproportionately impact lower income women.[98] Researchers on the topic of menstrual equity have noted that limited access to feminine hygiene products is a problem both across the globe and in the US, leading to school absenteeism, among other problems.[99]

[97] DC Official Code § 47-2005 (38)
[98] Davis, Aaron C. "The 'tampon tax' fight has reached D.C." *The Washington Post*, April 4, 2016.
[99] Evans, Tonjanique; Smith, Whitney; and Themistocles, Demetria. "Periods, Poverty, and the Need for Policy," Washington, DC: BRAWS. May 2018. Available at this link.

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
The sales tax exemption is necessary to remove items that many consider a necessity from the tax code.	In FY 2020, it is estimated that the revenue forgone due to the provision will be $418,798.	It is unknown how many people have benefitted from the exemption at this time.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Exempting feminine hygiene products from the sales tax will increase equity in the tax code and improve access to these necessary products.	Exempting feminine hygiene products from the sales tax will increase equity in the tax code and improve access to these necessary products.	Exempting feminine hygiene products from the sales tax will increase equity in the tax code and improve access to these necessary products.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Exemption for Diapers
Sales Tax Exemption

District of Columbia Code: D.C. Official Code §47-2005 (39)
Sunset Date: None
Year Enacted: 2019

(Dollars in thousands)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss							$4,506	$4,660

Source: Estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
Gross receipts from sales of diapers are exempt from the sales tax. The definition of a diaper for the purposes of the exemption is "an absorbent incontinence product that is washable or disposable and worn by a person, regardless of age or sex, who cannot control bladder or bowel movements."[100]

Purpose: The purpose of the sales tax exemption of diapers is to remove items that many consider a necessity from the tax code.

Maryland exempts adult diapers from the sales tax as they are considered medical products; however, diapers for babies and children are fully taxable. Virginia reduced the sales tax rate on diapers and other personal hygiene products to 2.5 percent, the same as the tax rate on food.

Impact: Proponents of the exemption note that sales taxes in general are regressive and therefore disproportionately impact lower income families.[101]

[100] DC Official Code § 47-2005 (39)
[101] Davis, Aaron C. "The 'tampon tax' fight has reached D.C." *The Washington Post*, April 4, 2016.

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
The sales tax exemption removes items that many consider a necessity from the tax code.	In FY 2020, it is estimated that the revenue forgone due to the provision will be $4,506,000.	It is unknown how many people will benefit from the exemption at this time.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Exempting diapers from the sales tax will increase equity in the tax code and improve access to these necessary products.	Exempting diapers from the sales tax will increase equity in the tax code and improve access to these necessary products.	Exempting diapers from the sales tax will increase equity in the tax code and improve access to these necessary products.

Assumptions:
Underlying principles about how outputs will affect outcomes.

Materials Used in War Memorials
Sales Tax Exemption

District of Columbia Code: D.C. Official Code § 47-2005(16)
Sunset Date: None
Year Enacted: 1957

(Dollars in thousands)	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Revenue Loss	$0	$0	$0	$0	$0	minimal	minimal	minimal

Source: Estimates from FY 2014-2015 from 2014 Tax Expenditure Report; estimates for FY 2016-2017 from 2016 Tax Expenditure Report; and estimates for FY 2018-2021 from 2018 Tax Expenditure Report; and estimates for FY 2020-2021 from 2020 Tax Expenditure Report.

Description:
Gross receipts from the "sales of material to be incorporated permanently in any war memorial authorized by Congress to be erected on public grounds of the United States" are exempt from the sales tax.[102]

Purpose:
The purpose of the exemption is to facilitate the construction of war memorials on public grounds in the District of Columbia.

Impact:
The exemption benefits the U.S. government by providing a sales tax exemption for materials used in the construction for war memorials that are authorized by Congress and built on federally owned land.

According to the National Capital Planning Commission, construction of the World War I Memorial at Pershing Park in Washington, DC is currently underway. However, because no further information could be obtained, it is assumed that the sales tax revenue losses of exempted materials used in that year will be minimal, or less than $50,000.

The World War II Memorial, dedicated in 2004, was the most recent war memorial constructed in Washington, DC.

[102] See D.C. Official Code § 47-2005(16).

Logic Model:

The Need:	**Resources/Inputs:**	**Outputs:**
The sales tax exemption is to facilitate the construction of war memorials on public grounds in the District of Columbia.	In FY 2020, it is estimated that the revenue forgone will be minimal, or less than $50,000.	At this time, it is expected that one memorial will benefit from this exemption.

Expected Outcomes or Benefits
(changes in short, medium, or long-term measures)

Short-term	**Medium-term**	**Long-term**
Immediate changes	*Intermediate changes*	*Long-term changes*

Assumptions:
Underlying principles about how outputs will affect outcomes.

Individual Social Policy Tax Provisions

In addition to the categorical tax expenditure provisions previously described, Individual tax expenditure provisions resulting from legislation passed for a particular entity which engages in a socially desirable activity in the District are another way tax exemptions, abatements, or credits are granted.

While Individual tax provisions in other policy areas, such as the area of economic development, for example, often explicitly require that the entity receiving an Individual tax preference do something beneficial for the District in return for the special tax treatment, such as create jobs or hire District residents or provide affordable housing, Individual tax provisions in the social policy area tend not to have such requirements. Rather, an organization may be granted an Individual tax provision because of the type of organization it is and an assumption of community benefits, rather than based on a requirement for specific actions or results in the community.

When an organization does not qualify for a categorical property tax exemption (as codified in statute), it may request a legislative tax exemption (or Individual tax provision). Some of these social policy-related Individual provisions provide administrative fixes to allow the nonprofit in question to receive the same tax-exempt status as other nonprofit organizations that are already receiving a categorical tax exemption.

For example, if a nonprofit organization (a church, charity, theater, art gallery, etc.) did not apply to receive a property tax exemption until 10 years after it was created, the administrative real property tax exemption would not be retroactive, but it could appeal to the Council to write legislation forgiving its back taxes and any penalties accrued. Further, if a religious institution partners with a real estate developer to use part of its land for affordable housing, it may need to request a legislative provision to maintain a property tax exemption on the part of the land that remains in use as a religious institution. Similarly, religious institutions may need a legislative exemption for plots of land that are vacant but attached to tax exempt property used for religious purposes. A handful of individual property tax exemptions for churches and theaters were found but are not included here because they are counted in the categorical property tax exemptions for religious institutions, and theaters, respectively, that were previously listed in this report.

With one exception, all the Individual tax provisions within the Social policy area are through the real property tax, (there is one sales and use tax credit for the National Law Enforcement Museum). For the purposes of the current report, ORA for the first time has collectively identified 34 Individual tax provisions in the DC Code that are related to Social policy, representing over $11.5 million in forgone revenue in FY 2019.[103]

These Individual provisions include property tax exemptions for organizations such as those serving veterans; historical and patriotic organizations such as Daughters of the American Revolution, The American Legion, and Society of the Cincinnati; community organizations such as the YMCA/YWCA and community gardens; as well as historic houses or foundations. In recent years, Individual property tax exemptions have been granted to nonprofits such as the Pew

[103] Because many of the organizations with property tax exemptions include more than one lot, these 34 provisions include over 100 individual properties in the real property tax database.

Charitable Trusts, the Urban Institute, the Africare Foundation, the Meridian House International, and the Washington Ballet.

Under laws in effect since 2011, a Tax Abatement Financial Analysis (TAFA) was submitted for several of these provisions and the analyses often found that the exemptions were not necessary based on the finances of the institution. The TAFA is an informational document for the Council to use as it makes decisions about whether to grant a tax exemption.

The $11.5 million total in the Individual Provisions listed below should not be added to the categorical numbers in the sections above as some double counting may occur. For example, any of the properties receiving Individual exemptions that are charities would be counted in the categorical exemption for charitable organizations. While most of the Individual provisions are coded miscellaneous, a few are coded as charities.

Table 11: Social Policy-Related Individual Property Tax Provisions

Name	DC Code Reference	Address	Suffix Square Lot (SSL)	FY 2019 Revenue Forgone ($)
Disabled American Veterans	§ 47–1003	807 Maine Ave	0153 0439	275,588
National Society of the Colonial Dames of America	§ 47–1004	2715 Q St NW	1285 0801	129,126
Phyllis Wheatley Young Women's Christian Association	§ 47–1022	901 Rhode Island Ave NW and 1719 13th St NW	0364 0151 0276 0132	277,894
Young Men's Christian Association Community Investment Initiative	§ 47–1024; § 47–1092	1325 W St NW C-2;	0234 2010	526,858
National Society of the Daughters of American Revolution	§ 47–1028 – § 47–1032	1776 D St NW	0173 0809	1,889,471
National Society United States Daughters of 1812	§ 47–1033	1461 Rhode Island Ave NW	0210 0133	41,503
The American Legion Washington Headquarters	§ 47–1035	1608 K St NW	0185 0824	282,552
Society of the Cincinnati	§ 47–1037	2118 Massachusetts Ave NW	0067 0005; 0042; 0043; 0049; 0837	624,218
Veterans of Foreign Wars	§ 47–1039	0235 2nd St NE; 0200 Maryland Ave NE	0757 0841	405,862
National Woman's Party	§ 47–1040	0144 Constitution Ave NE	0725 0885	131,906
National Guard Association	§ 47–1042	1 Massachusetts Ave NW	0625 0060	374,163
Woodrow Wilson House (National Trust for Historic Preservation US)	§ 47–1043	2340 S Street, NW	2517 0037	110,420
American Institute of Architects Foundation	§ 47–1044	1735 and 1799 New York Avenue, NW Washington, DC 20006	0170 0038; 0039	88,743
Prince Hall Freemason and Eastern Star Charitable Foundation	§ 471045	1000 U St NW	0333 0828; 0037	285,857
American Legion, James Reese Europe Post No. 5	§ 47–1046	2027 North Capitol St NE	3508 0033	4,473

Arch Training Center (Arch Development Corporation)	§ 47–1047	1227 Good Hope Rd, SE	5769 0801	12,545
Bread for the City (community garden)	§ 47–1062	1523 7th St NW	0445 0219	261,553
Department of the District of Columbia Veterans of Foreign Wars	§ 47–1063	1601 Kenilworth Ave NE	5167 0040	12,347
American Psychological Association	§ 47–1069; 47 1002(11)	750 1st St NE	0677 0146	761,794
Meridian International Center (parking spaces)	§ 47–1088.01	2201 17th St NW G-2 to G-33; G-45 to G-49; G55; G73; G74.	2370 various lots	17,425
Meridian House International	§ 47–1088.01	1624 Crescent Pl NW	2568 0806	709,516
International Campaign for Tibet[1]	§ 47–1088.01	1825 Jefferson Pl NW	0139 0030	41,491
Supreme Council of Scottish Rite Free Masonry of the Southern Jurisdiction of the United States	§ 47–1094	1733 16th St NW	0192 0108	319,930
Naval Lodge Building, Inc	§ 47–1097	0 0330 Pennsylvania Ave SE	0789 0800	115,443
Woman's National Democratic Club[1]	§ 47–1099.01	1526 New Hampshire Ave NW	0135 0005	127,069
Africare	§ 47–1099.02	0440 R St NW	0509 0805; 0806; 0817; 0816; 0808	103,883
Washington Parks and People (community garden)	§ 47–1099.04	2437 15th St NW	2662 0871	1,725
The Urban Institute[2]	§ 47-4624	L'Enfant Plaza SW	0387	1,000,000
Randall School Contemporary Art Museum and Housing (Corcoran Gallery of Art)[3]	§ 47–4626.01	820 Half St SW	0643 0801	529,512
Pew Charitable Trusts	§ 47–4637	900 F Street, NW	0377 0040	1,165,021
The Washington Ballet	§ 47–4655	3704 Porter St NW	1911 0019	19,569
International Spy Museum[4]	§ 47–4666	L'Enfant Plaza SW	0387 7006	902,000
The National League of American Pen Women	§ 47–1099.09	1300 17th St NW	0158 0825	n/a
National Law Enforcement Museum[5]	§ 47-4622	444 E St, NW	n/a	[6]
TOTAL				**$11,549,524**

Source: ORA compilation from the DC Code, the Office of Tax and Revenue's FY 2019 Exempt Properties Report, Office of Tax and Revenue Real Property Tax Data, April 20, 2020; and the FY 2019 Unified Economic Development Report.
Note: Many Individual social policy tax provisions listed above are captured in the ORA Tax Expenditure Report in the entry for Miscellaneous properties (#154).

[1] This is a one-year provision passed to exempt past debt.
[2] The Urban Institute's property tax abatement is for 10 years, not to exceed $1 million per year, for a total of $10 million.
[3] Once the Randall House Museum transfers from the Corcoran Art Gallery to the developers who will renovate the museum and build new housing, it will receive another 20-year property tax abatement. At that point it is likely this abatement will be categorized as Housing and/or Economic Development.
[4] The International Spy Museum is scheduled to receive property tax abatements totaling $18.3 million. A 2017 Tax Abatement Financial Analysis found that the exemption was not necessary. See: "Fiscal Year 2018 Budget Support Act of 2017," Office of the Chief Financial Officer. Washington DC. April 19, 2017. Page 3.
[5] This sales tax credit was created in 2009, not to exceed "the amount that would be necessary to pay principal and interest for one year on a loan of $5.5 million amortized in equal semiannual payments over a 20-year period at the lesser of an 8% interest rate or an interest rate equal to the true interest cost (as the term "true interest cost" is defined by the Municipal Securities Rulemaking Board) on the District of Columbia revenue bonds issued for the Museum." (From DC Code § 47-4622).
[6] According to the Office of Tax and Revenue (OTR), this credit should be no more than $500,000 per year in revenue forgone for a 20-year period. At this time of this writing, OTR did not have information on the amount of revenue forgone to date. Based on annual merchandise sales for the Memorial fund between 2009 to 2018, plus sales made in the museum in 2018 (it opened 10/13/08) published in the Annual Reports of the National Law Enforcement Memorial Fund, ORA estimates the sales tax revenue forgone during this time averaged about $34,000/year, with a 10-year total of $341,078.

Summary of Social Policy

Twenty-three categorical provisions, or those for which anyone who is eligible may take, constitute most of the District's forgone revenue due to social policy tax expenditure provisions. The total estimated revenue forgone for all categorical tax expenditures in FY 2020 was $363 million. Of these, sales tax expenditures make up 65 percent of the total ($236 out of $363 mil). These are tax expenditures that allow certain groups (such as nonprofits) to purchase items that support their mission without paying sales taxes on those items; or alternatively, certain items (such as groceries), to be sales tax exempt when anyone purchases them.

The three largest social policy-related categorical provisions make up 73 percent of the total ($264 out of $363 mil). These three include the sales tax exemption for charitable organizations (501(c)(4)s), the real property tax exemption for religious institutions, and the sales tax exemptions for groceries. It is important to note that the estimates for sales tax provisions are difficult to measure because there is a lack of data on actual sales that are exempted from tax.

Aside from religious institutions, other real property tax provisions for social policy support organizations such as art galleries, theaters, nonprofits, and cemeteries. In addition to the sales tax exemption for groceries, there are several other sales tax expenditures as well as a handful of social policy-related tax expenditures through the personal income tax.

Individual social policy tax expenditures are compiled for the first time in this report and listed in a table with estimates of revenue forgone. ORA has identified 34 Individual tax provisions in the DC Code that are related to Social policy, representing almost $12 million in forgone revenue in FY 2019. We present the totals for informational purposes, but do not add the totals of Individual Tax provisions to the categorical tax provisions for this policy area to avoid double counting because some of the revenue forgone is captured in other categorical provisions.

Many of the social policy provisions are hard to measure quantitatively as the data are not tracked in a way that allows precise measurement, nor are beneficiaries known. As such, it is harder to assess these provisions against their goals, or to compare the benefits versus costs in terms of forgone revenue. This compilation provides a first step in describing the provisions together and will provide a basis for future research and evaluation. One recommendation emerges from the review of social policy tax expenditures to review the possibility of a refund system that would provide more transparency and revenue certainty within the sales tax exemption for nonprofit organizations.

Part IV: Overall Summary and Recommendations

This report provides an overview and description of all the District's income security and social policy tax expenditures. The two policy areas are similar in terms of their overall purpose. Income security provisions directly assist low-income residents and those who are most at risk of becoming adversely affected by loss of income in any number of ways, just as many of the resources in the social policy area are directed to nonprofit organizations with similar goals of serving low-income residents and providing vital services in the community. Further, many nonprofits provide benefits that all District residents, as well as visitors to the city, may enjoy.

Recommendations

The recommendations offered in this report are primarily focused on the Earned Income Tax, the largest income security tax expenditure and the provision of this report reviewed in the most detail. ORA found that the DC EITC has provided positive outcomes for its beneficiaries and has been successful in meeting the program's goals. Nevertheless, below are some suggested recommendations to improve efficiency in the program's structure and administration, as well as one recommendation each emerging from the review of the other income security and social policy provisions.

1) Reduce the marriage penalty that exists for married childless workers by extending the DC EITC income eligibility limit for married workers without children.

2) Consider legislation to penalize fraudulent tax return preparers.

3) The District could provide more 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.

4) Continue to support OTR monitoring and enforcement activities by providing more resources to OTR CID for criminal investigation into fraudulent practices and ensuring more access to relevant data, especially federal data with tax preparers' electronic identification number, to properly perform their jobs.

5) 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.

6) Review the possibility of a refund system that would provide more transparency and revenue certainty within the sales tax exemption for nonprofit organizations.

Appendix

Appendix 1: Legislative Requirement

Subtitle N. Tax Transparency and Effectiveness

Sec. 7141. Short title. This subtitle may be cited as the "Tax Transparency and Effectiveness Emergency Act of 2014."

Sec. 7142. Definitions.

For the purposes of this subtitle, the term:

(1) "Categorical preference" means a tax preference that sets eligibility criteria and is potentially available to all entities that meet the criteria, subject to any funding limitations.

(2) "CFO" means the Chief Financial Officer of the District of Columbia.

(3) "Economic development purpose" means a goal to increase or retain business activity, including attracting new businesses or retaining existing ones, encouraging business expansion or investment, increasing or maintaining hiring, or increasing sales.

(4) "Individual preference" means a tax preference, such as a tax abatement, applied to one entity, project, or associated projects.

(5) "On-cycle tax preference" means a tax preference being reviewed in a current year.

(6) "Tax preference" shall have the same meaning as the phrase "tax expenditures" as defined in section 47-318(6) of the District of Columbia Official Code.

Sec. 7143. Tax preference review.

(a) The CFO shall review all locally adopted tax expenditures on a 5-year cycle and publish annually a report complying with the requirements of this section.

(b) By October 1, 2015, and by October 1 of every year thereafter, the CFO shall submit for publication in the District of Columbia Register a report for on-cycle tax preferences that complies with the requirements of this section.

(d) An on-cycle individual preference shall be analyzed and reported in the following manner:

(1) An individual preference shall be analyzed and reported in groupings of similarly purposed preferences, with the report focusing on collective effects or trends that emerge.

(2) The report shall include the stated purpose of the of tax preferences within the grouping, if clarified in the authorizing legislation. (3) The report shall include the amount of lost revenue due to the tax preferences within the grouping.

(4) The report shall include an assessment of the general effects on the District resulting from the preferences.

(5) The report on groupings of individual preferences shall include recommendations on how to improve similar preferences in the future.

(6) For groupings of individual tax preferences with an economic development purpose, the analysis shall consider the economic impact of the preferences, and where sufficient data are available, take into account factors including:

A) Whether the economic impact of the tax preferences would have been expected without the preferences;

(B) The extent to which the economic impact of the tax preferences was offset by economic losses elsewhere;

(C) The average economic impact for a level of direct expenditures equal to the cost of the tax preferences;

(D) The indirect economic impact of the tax preferences;

(E) The number of jobs created by the preference;

(F) The wages of the jobs created;

(G) The percentage of jobs filled by District residents; and

(H) Whether any terms of the tax preferences have been or are being satisfied.

(e) Except as provided in subsection (f) of this section, on-cycle categorical preferences shall receive a full review that, where sufficient data are available, includes:

(1) The purpose of the tax preference, if clarified in the authorizing legislation;

(2)The tax preference's cost in terms of lost revenue;
(3) An assessment of whether the tax preference is meeting its goals;
(4) An assessment of whether the tax preference is achieving other goals; (5) Recommendations for improving the effectiveness of the tax preference; (6) Recommendations for whether the tax preference should be modified, discontinued, or remain in its existent state; and (7) For tax preferences with an economic development purpose, an analysis that measures the economic impact of the preference, including:
(A) Whether the economic impact of the tax preference would have been expected without the preference;
(B) The extent to which the economic impact of the tax preference was offset by economic losses elsewhere;
(C) The average economic impact for a level of direct expenditures equal to the cost of the tax preference; and
(D) The indirect economic impact effect of the tax preference.

(f) For on-cycle categorical tax preferences that the CFO determines do not merit a full review, the CFO shall instead perform a summary review. In determining which tax preferences are appropriate for a summary review, the CFO shall consider factors including, at a minimum:
(1) The revenue lost due to the tax preference and the number of potential or actual claimants;
(2) Whether the revenue lost due to the preference has increased or decreased since the preference was last reviewed;
(3) Whether the preference has been included in legislative or administrative proposals to modify or repeal; and
(4) Whether the preference is required by the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 774; DC Official Code §1-201.01 et seq.).
(g) A report on a categorical preference designated for summary review shall include:
(1) A narrative summary of the preference, including its purpose;
(2) The source and year of statutory authorization;
(3) The fiscal impact of the preference; and
(4) A description of the beneficiaries of the tax preference.
(h) All District agencies, offices, and instrumentalities shall cooperate with the CFO and shall provide any records, information, data, and data analysis needed to complete the reviews and reports required by this section.[104]

[104]http://lims.dccouncil.us/Download/32103/B20-0849-Enrollment.pdf

Appendix 2: Summary of DC EITC Tax Provisions by Enactment Year

Year	*Description*
2000	The Earned Income Tax Credit Act of 2000 created the District’s earned tax credit program at 10% of the federal earned income tax credit allowed under section 32 of the Internal Revenue Code of 1986 for calendar year 2000 individual income taxes.
2001	The Earned Income Tax Credit Act of 2001 increased the District’s earned tax credit program to 25% of the federal earned income tax credit allowed under section 32 of the Internal Revenue Code of 1986.
2005	The Fiscal Year 2006 Budget Act of 2005 extended the credit to equal 35% of the earned income tax credit allowed under the federal earned income credit program. The Act also allowed non-custodial parents to qualify for the credit if: • The non-custodial parent is a District resident taxpayer; • between the ages of 18 and 30; • the parent of a minor child not residing in the same home; • there is a court order requiring the taxpayer to make child support payments, payable through a government-sponsored support collection unit, and the order must have been in effect for at least one-half of the taxable year for which the non-custodial parent is seeking the credit; and • the non-custodial parent has paid an amount in child support in the taxable year at least equal to the amount of current child support due during the taxable year for which the taxpayer is seeking the credit
2008	The “Earned Income Tax Credit Expansion Amendment Act of 2008” increased the amount of the District’s earned income tax credit program to 40 percent of the federal income tax credit.
2014	The Fiscal Year 2015 Budget Act of 2014 increased the earned income tax credit program for childless workers. The credit was increased at least 100 percent of the federal credit for childless workers. It also lengthened the eligibility of the credit for childless workers by extending the phase-out income range from the federal criteria to a D.C. calculated adjusted gross income, increased annually by the cost-of-living adjustment.

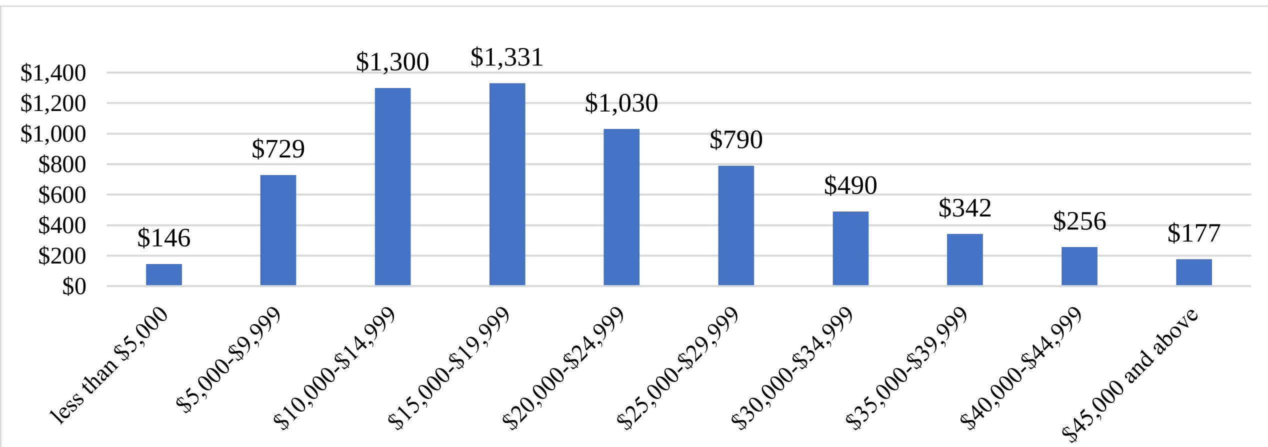
Appendix 3: Distribution of DC EITC Benefits by Demographic Group and Location

We analyze the distribution of the credit to DC EITC tax filers by income, qualifying children and childless workers, and the geographic location.

Distribution of Credits by Income

Historical analysis of the DC EITC by income shows that from 2006 to 2017, most (78 percent) DC EITC tax filers had a DC adjusted gross income of less than $25,000. DC EITC tax filers with incomes between $10,000 and $25,000 benefitted the most, receiving on average over $1,000 per year in refundable credits between 2006 and 2017 (see Appendix Chart 1 below for a breakdown of median EITC credit by income). Generally, the median EITC credit received by the various income groups corresponds to the structure of the program with the median claim increasing at lower income levels consistent with the phase-in range of the program and decreasing at higher income levels with the phase-out range of the program.

Appendix Chart 1: Median EITC by DC AGI 2006-2017



Source: ORA.

Distribution of Credits Between DC EITC Filers with Qualifying Children and Childless Workers

Appendix Table 1 shows that DC EITC tax filers with one or two qualifying children comprised about 55.3 percent of claimants with qualifying children and received over 76 percent of the credit between 2007 to 2017. An average of about 69,826 children per year (includes children in households that claimed the credit multiple times between 2007 and 2017) lived in households that benefitted from the DC EITC and 52 percent of those children lived in poverty during the same period. Furthermore, about eleven percent of the children of EITC claimants living in poverty were lifted out of poverty because of the local earned income tax credit in the same 11-year period.

Appendix Table 1: Total EITC Filers and Credits Claimed, by Number of Qualifying Children from 2007-2017

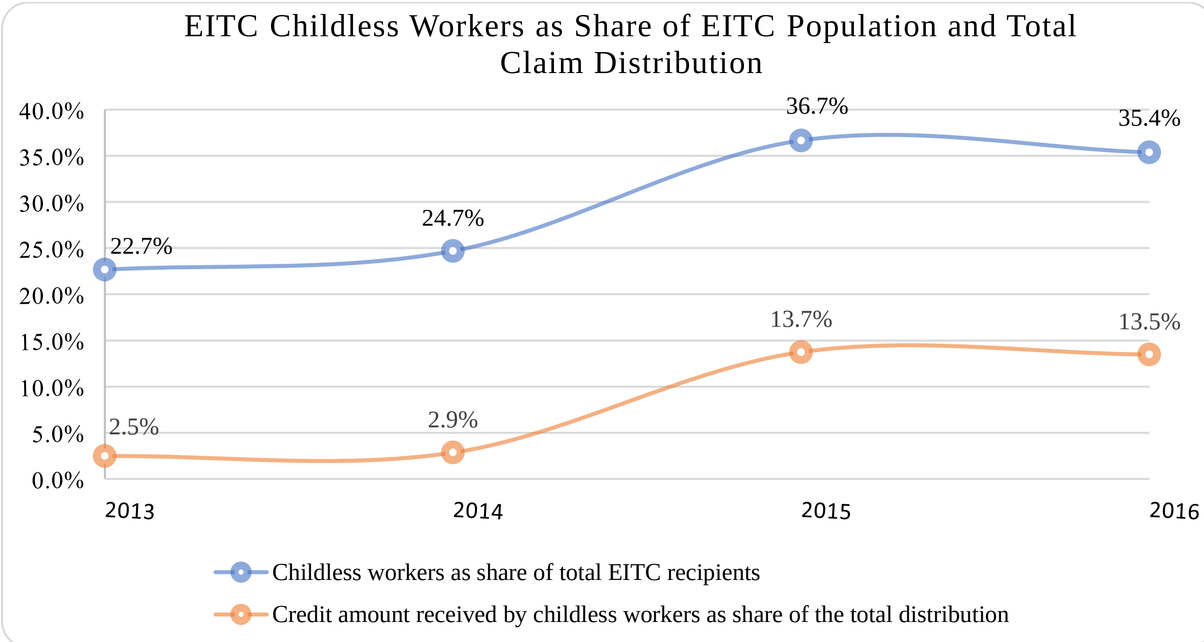
Number of Qualified EITC Children	*Number of DC EITC Tax Filers*	*Amount of Claims $*	*Distribution of Claims*	*Average Claims $*	*Median Claims $*
None	100,158	$35,927,722	6.22%	$217	$157
One	88,175	$191,725,915	33.19%	$858	$940
Two	68,127	$247,910,032	42.91%	$1,371	$1,468
Three	25,285	$100,293,072	17.36%	$1,697	$1,878
More than three	954	$1,872,860	0.32%	$1,412	$1,450
*Total***	**213,557**	**$577,729,600**	**100.00%**	**$916**	**$840**

**Number of DC EITC tax filers does not equal total because of the change in the number of qualified EITC children for some claimants at different periods. A repeat EITC claimant may be double counted depending on the number of qualified children between 2007 and 2017. Total however represents the number of unique tax filers (with identified number of qualified children in the tax data) that claimed the credit between 2007 and 2017.
Note: ORA analysis of individual income tax data by number of qualifying children from 2007-2017. The total amount of claims by qualifying children do not equal the total claims because it excludes DC EITC recipients with missing information.

The 2014 law expanding the eligibility requirements for DC EITC childless workers increased the number of childless workers eligible for EITC by about 33 percent—especially those with incomes between $14,850 (the federal eligibility limit for childless workers to claim the credit) and $24,254 (DC's income eligibility limit). allowed childless workers with higher income who were not eligible for the federal credit to become eligible for the DC credit.

To analyze the impact of the 2014 law, we examine the distribution of the DC EITC claims and how the credit covered the tax liability of childless workers immediately before and after the law became effective. Appendix Chart 2 below additionally shows the increase in the distribution of claims received by childless workers due to the increase in the benefit amount childless workers can receive. Prior to the expansion of the credit, the share of childless workers on EITC averaged about 24 percent in 2013 and 2014, but they only received about 2.7 percent of the total distribution of the credit. As a result of the EITC expansion for childless workers, the share of childless workers as a portion of the total number of households on EITC increased by 52 percent to an average of 36 percent in 2015 and 2016.

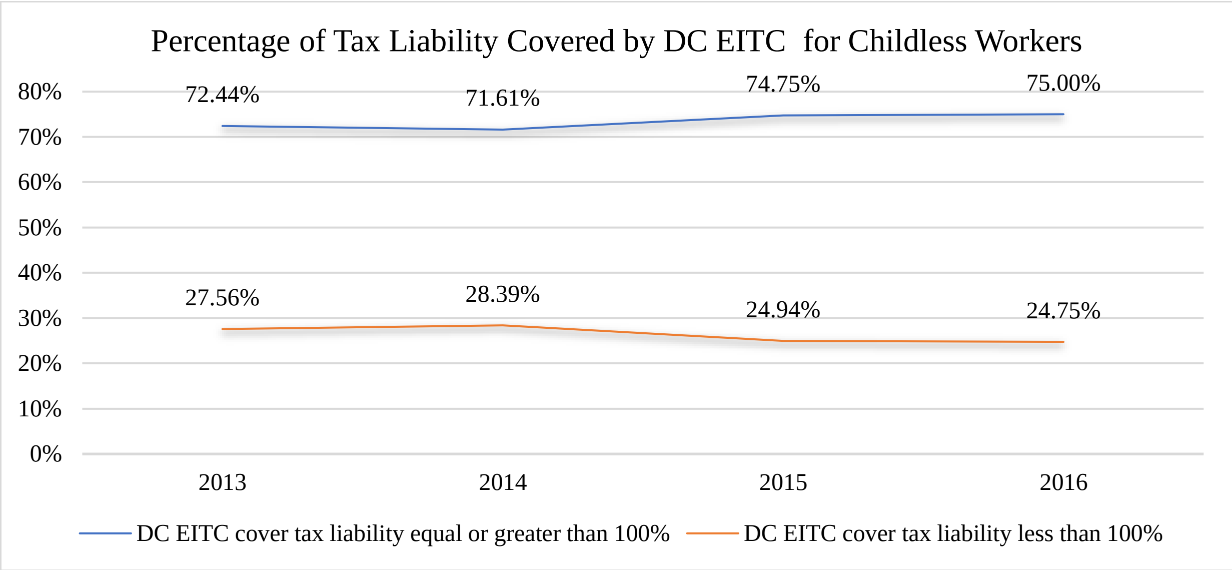
Appendix Chart 2: Percent of Childless Population and Claim Distribution Before and After the Expansion (2013-2016)



Source: ORA.

Additionally, the share of the credit received by childless workers significantly increased by over 400 percent to about 14 percent in 2015 and 2016. Furthermore, the expansion has eliminated all tax liability for additional childless workers as shown by the upward bump in the number of EITC recipients without children whose taxes were covered by the credit in Appendix Chart 3 below. Specifically, the law increased the number of childless workers whose tax liability would be completely removed by the credit by about an average of 3 percent while also decreasing the number of childess workers whose tax burden was partially eliminated by an average of 11 percent.

Appendix Chart 3: Percent of DC Tax Liability Covered by DC EITC Before and After the 2014 Expansion



Source: ORA.

Distribution of Credits by Ward and Neighborhood

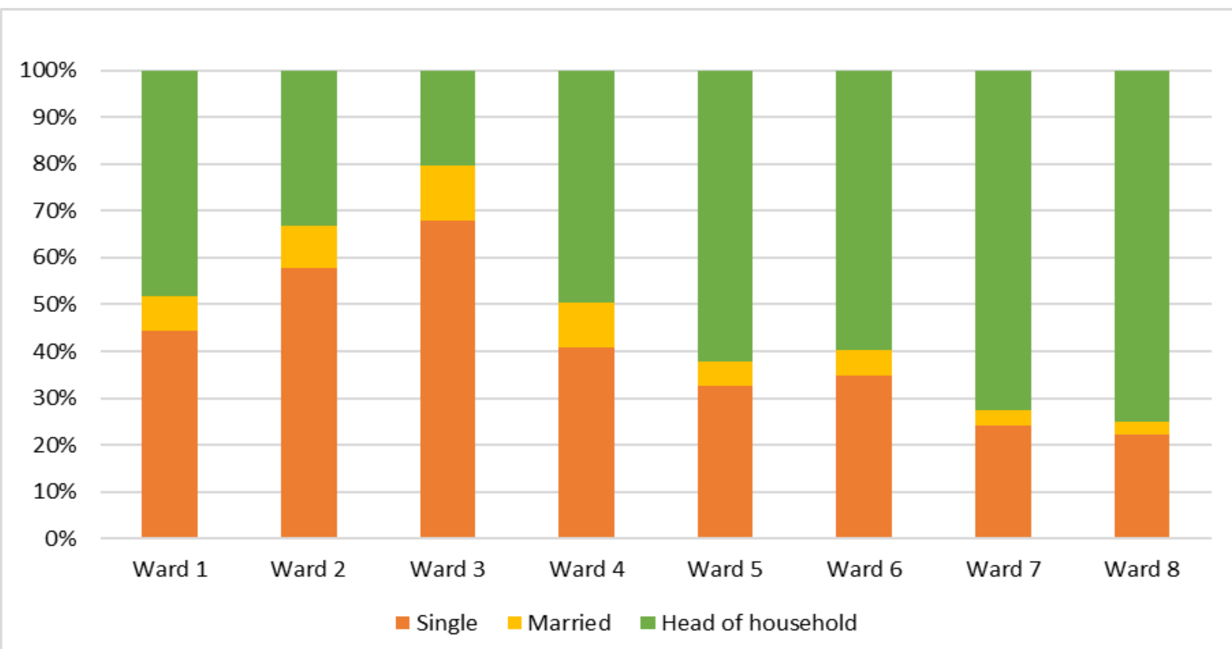
The geographic distribution of the DC EITC benefits in the District depends on where DC EITC tax filers live. We analyze the distribution of EITC claimed first by Ward in Appendix Table 2, then by neighborhood in Appendix Map 1 and Appendix Table 3. The distribution of EITC claimed by Ward shows that EITC filers (noted as number of households in Appendix Table 2 below) living in Wards 7 and 8 between 2001 and 2017 received the largest share of the credit—$278 million in credits or 45.3 percent of the total credit claimed in the same period. Also, the highest share of DC EITC tax filers lived in Wards 7 and 8, and further, among those filers, the most common filing status during the same time was ‘head of household’ (see Appendix Chart 4 below).

Appendix Table 2: Total Number of EITC Households and Credits Claimed, by Ward from 2001- 2017

Wards	*Number of Households*	*Distribution of households*	*Amount of Claims*	*Distribution of Claims*	*Average credit*	*Median credit*
Ward 1	33,164	13.42%	$83,525,277	13.60%	$896	$716
Ward 2	12,268	4.97%	$19,676,754	3.20%	$770	$506
Ward 3	8,433	3.41%	$6,118,383	1.00%	$417	$188
Ward 4	35,645	14.43%	$90,463,120	14.73%	$854	$670
Ward 5	36,784	14.89%	$82,330,286	13.40%	$774	$627
Ward 6	26,261	10.63%	$54,219,759	8.83%	$747	$600
Ward 7	44,019	17.82%	$122,114,336	19.88%	$836	$728
Ward 8	50,490	20.44%	$155,857,245	25.37%	$877	$794
Total	**247,064**	**100.00%**	**$614,305,160**	**100.00%**	**$828**	**$677**

**Number of households does not equal total because it includes repeat claimants that moved to another Ward between 2001 and 2017. The claimant is therefore captured in both Wards at different time periods.
Note: ORA analysis of individual income tax data. The total credit claimed by Ward does not equal the total credit claimed by all DC EITC recipients because the addresses of some recipients were out of state, missing, or could not be geocoded.

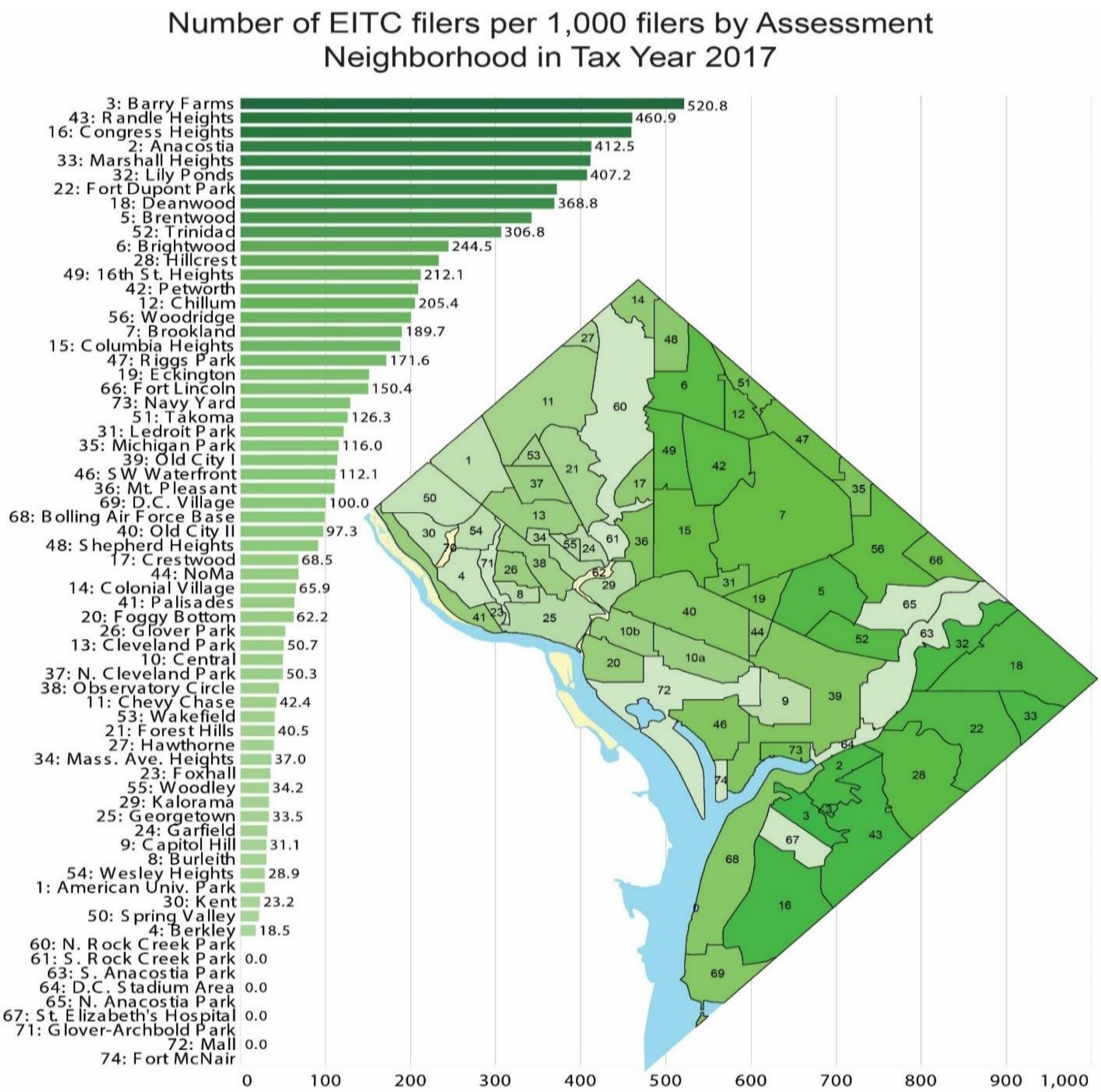
Appendix Chart 4: Percent of DC EITC Filers by Filing Status and Ward



Source: ORA. Note: Head of household filers are unmarried filers with dependents.

Next, we analyze the distribution of the DC EITC by neighborhood. Appendix Map 1 below shows the density per square-mile of DC EITC filers per 1,000 tax filers in 2017 to provide a one-year neighborhood-level analysis of the distribution of the credit. We control for the number of tax filers by neighborhood because some neighborhoods have a higher (or lower) proportion of DC EITC tax filers in relation to the total number of tax filers in the same neighborhood. For example, while the Columbia Heights neighborhood is ranked third among neighborhoods with the highest number of DC EITC tax filers in 2017 (see Appendix table 3 below), the Columbia Heights neighborhood's rank changed to 18th once we considered the total number of tax filers by neighborhood in Appendix Map 1 below. That is, proportionally, a tax filer in Barry Farms in Ward 8 was almost three times more likely to be an EITC claimant compared to a tax filer in the Columbia Heights neighborhood in 2017. The map shows that in 2017, the top nine neighborhoods with the highest density of DC EITC filers were in Wards 7 and 8.

Appendix Map 1: Neighborhoods by Share of EITC Claimed, 2017



Source: ORA.

Appendix Table 3: Total DC EITC Claimed by Top 20 Neighborhoods, 2017

Neighborhoods	*Number of households*	*Distribution of households*	*Amount of Claims $*	*Distribution of Claims*	*Average credit $*	*Median credit $*
Congress Heights	5,824	10.79%	$6,042,628	11.89%	$1,038	$976
Randle Heights	4,754	8.80%	$5,130,752	10.10%	$1,079	$1,060
Columbia Heights	4,432	8.21%	$4,334,482	8.53%	$978	$675
Deanwood	4,119	7.63%	$4,020,008	7.91%	$976	$828
Fort Dupont Park	2,703	5.01%	$2,733,497	5.38%	$1,011	$923
Old City 2	3,063	5.67%	$2,572,335	5.06%	$840	$510
Old City 1	2,875	5.32%	$2,494,499	4.91%	$868	$510
Petworth	2,381	4.41%	$2,186,611	4.30%	$918	$622
Brightwood	2,370	4.39%	$2,154,115	4.24%	$909	$510
Brookland	2,381	4.41%	$2,113,535	4.16%	$888	$520
Trinidad	1,850	3.43%	$1,713,602	3.37%	$926	$690
Barry Farms	1,422	2.63%	$1,572,691	3.09%	$1,106	$1,092
Lily Ponds	1,510	2.80%	$1,572,531	3.09%	$1,041	$974
Anacostia	1,429	2.65%	$1,518,881	2.99%	$1,063	$1,029
Marshall Heights	1,415	2.62%	$1,440,239	2.83%	$1,018	$936
Hillcrest	1,401	2.59%	$1,264,897	2.49%	$903	$677
Mt. Pleasant	1,215	2.25%	$1,073,519	2.11%	$884	$510
16th Street Heights	1,010	1.87%	$1,030,943	2.03%	$1,021	$693
Brentwood	869	1.61%	$860,715	1.69%	$990	$757
Woodridge	813	1.51%	$727,030	1.43%	$894	$588
Top 20 Total	**47,836**	**88.60%**	**$46,557,510**	**91.62%**	**$968**	**$692**
All Neighborhoods Total	**53,994**	**100.00%**	**$50,815,635**	**100.00%**	**$941**	**$704**

Note: ORA analysis of individual income tax data, 2017. The total credit claimed by neighborhood does not equal the total credit claimed by all DC EITC recipients and DC EITC recipients by Ward because the addresses of some recipients were out of state, missing, or could not be geocoded.

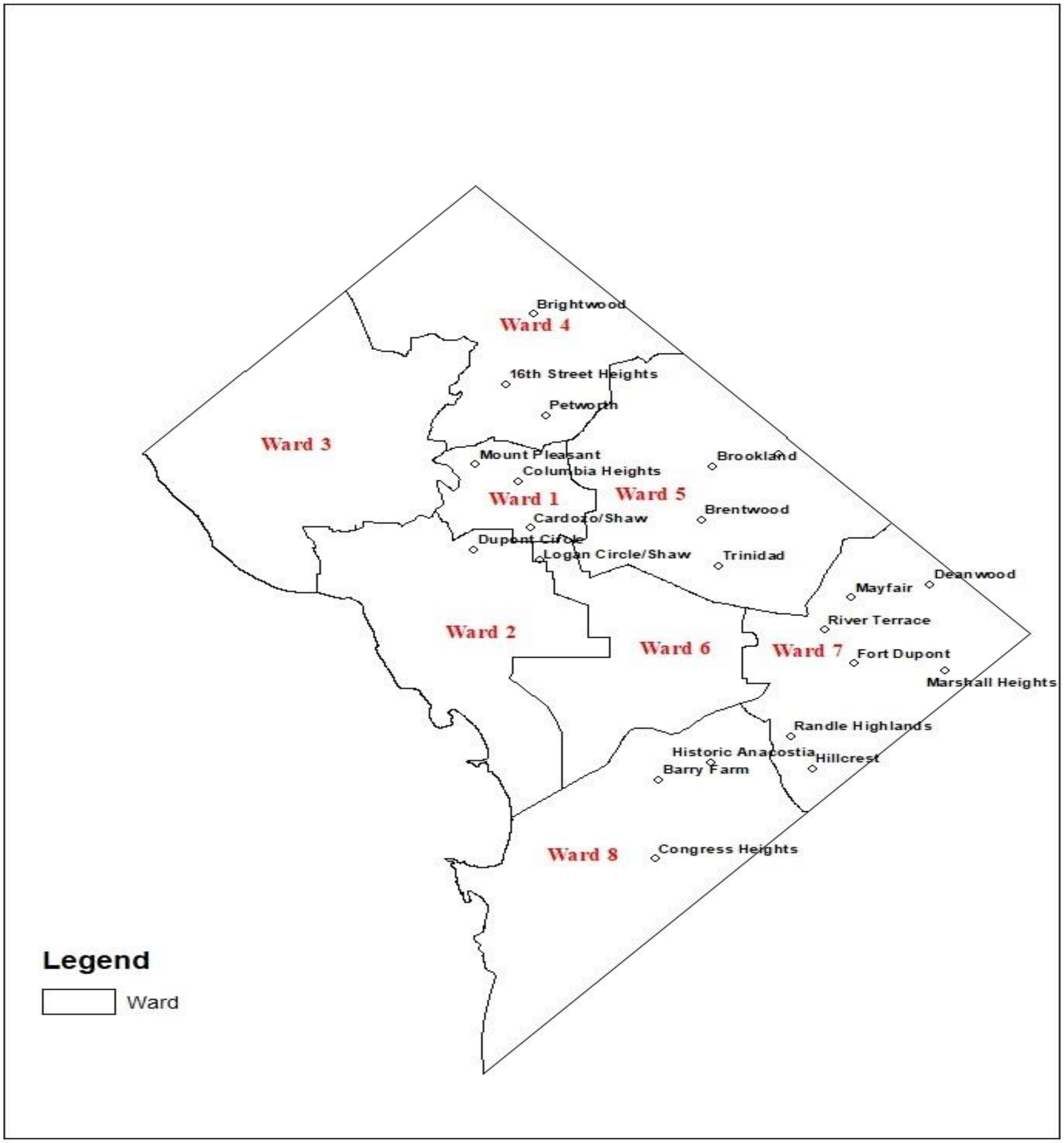
Historical neighborhood-level analysis shows that most (about 88 percent) of DC EITC tax filers lived in only 20 of DC's 74 assessment neighborhoods and DC EITC tax filers in those 20 neighborhoods claimed 93 percent of the total credit between 2001 and 2017, as shown in Appendix Table 4 below. While Columbia Heights, located in Ward 1, had the highest percentage of DC EITC tax filers (26,697 new and repeat tax filers) and largest distribution of the total claims ($74.7 million) for a single neighborhood in the District between 2001 and 2017, the highest concentration of neighborhood clusters with DC EITC filers was still Wards 7 and 8 in the same period. In fact, nine of the top 20 neighborhoods, namely Congress Heights, Randle Heights, Deanwood, Fort Dupont Park, Barry Farms, Anacostia, Lily Ponds-Mayfair-River Terrace, Marshall Heights, and Hillcrest, all in Wards 7 and 8, made up about 43 percent of tax filers claiming DC EITC living in the District. DC EITC filers in these nine neighborhoods had a higher percentage of single-parent households (or head of households) compared to all other neighborhoods in DC. Further, filers in these neighborhoods received an estimated $275.7 million in credits between 2001 and 2017, or about 45 percent of the total DC EITC during that time with an average claim of about $855 per household per year. (See Appendix Table 4 and Appendix Map 2 below for the top 20 neighborhoods by share of EITC claims from 2001 - 2017).

Appendix Table 4: Total DC EITC Claimed by Top 20 Neighborhoods, 2001-2017

Neighborhoods	*Number of Households*	*Amount of Claims $*	*Distribution of Claims*	*Average credit $*	*Median credit $*
Columbia Heights	26,697	$74,748,711	12.17%	$955	$833
Congress Heights	23,777	$63,747,885	10.38%	$866	$779
Randle Heights	19,641	$54,570,478	8.88%	$887	$803
Deanwood	16,783	$43,028,543	7.00%	$844	$739
Old City 2/Shaw/Cardozo	18,437	$40,848,583	6.65%	$819	$627
Fort Dupont Park	11,844	$31,101,772	5.06%	$846	$748
Old City 1/Dupont Circle/Logan circle/Shaw	15,353	$30,662,287	4.99%	$743	$607
Petworth	12,609	$30,223,076	4.92%	$838	$673
Brightwood	10,179	$24,908,548	4.05%	$842	$647
Brookland	11,462	$24,361,033	3.97%	$779	$622
Trinidad	10,019	$22,505,127	3.66%	$787	$651
Barry Farms	7,320	$20,941,459	3.41%	$918	$858
Anacostia	6,869	$16,634,210	2.71%	$863	$774
Lily Ponds-Mayfair-River Terrace	5,770	$16,450,841	2.68%	$864	$780
Mt. Pleasant	7,675	$16,170,057	2.63%	$852	$614
Marshall Heights	6,294	$15,899,500	2.59%	$849	$748
Hillcrest	6,662	$13,276,874	2.16%	$758	$613
16th Street Heights	5,216	$12,607,510	2.05%	$904	$727
Brentwood	4,127	$9,990,710	1.63%	$839	$710
Woodridge	3,790	$8,014,869	1.30%	$784	$627
Top 20 Total*	**183,758**	**$570,692,073**	**92.90%**	**$852**	**$721**
All Neighborhoods Total**	**209,555**	**$614,302,794**	**100.00%**	**$828**	**$677**

** Number of households does not equal top 20 total because it includes repeat claimants that moved to another neighborhood between 2001 and 2017. The claimant is therefore captured in both neighborhoods at different time period.
*** Is the total number of unique tax filers whose address was geocoded that benefitted from DC EITC between 2001 and 2017.
Note: ORA analysis of individual income tax data from 2001-2017. The total credit claimed by neighborhood does not equal the total credit claimed by all DC EITC recipients and DC EITC recipients by neighborhood because the addresses of some recipients were out of state, missing, or could not be geocoded.

Appendix Map 2: Map of Top 20 Neighborhoods by Share of EITC Claimed, (2001-2017)



Appendix 4: EITC Tax Burdens by Family Structure

Like the CRS report, we examine the effect of the DC EITC on a household's tax burden compared to families with a similar living standard. The tax burdens of an "equivalent" family with the same standard of living and "ability-to-pay" taxes are evaluated to determine if the DC EITC tax policy is horizontally equitable. In other words, after accounting for the EITC, do families with similar income and circumstances have the same tax burden?[105] A family's ability to pay is affected by the size of the family and as the family size increases, it would require additional income to have the same standard of living as that of a smaller family. For example, one study found that using an equivalence scale to adjust for family size, "a family composed of one individual with a cash income of $10,000, was equivalent to (i.e., had the same standard of living) as a family with two members and a cash income of $14,142, a family with three members and cash income of $17,321, and a family of four and cash income of $20,000."[106] Using a similar equivalence scale, another study showed that the federal EITC policy resulted in tax rates among low-income tax filers that were horizontally inequitable, even when taking into account the additional income needed for families with children to have a similar standard of living to those without children. That is, when comparing families with income equivalent to $10,000, "the study found that all effective tax rates are negative, and the rates range from -1.47 percent for a married couple with no children to -39.21 percent for a head-of-household return with two children, a difference of more than a third of income."[107]

We use the equivalence scale to calculate the 2018 effective DC tax rates of DC EITC recipients based on different income levels and family compositions. Appendix Table 5 below shows that the EITC increases horizontal inequity across different income levels. This is because without the DC EITC, the effective tax rates across the equivalent families is similar with small variations in the effective tax rate. However, with the DC EITC, the variation in the effective tax rates becomes larger showing the reduction in horizontal equity among equivalent families. The larger credit received by low-income families with children compared to childless workers contributes to the horizontal inequity shown by the large variation in the effective tax rates from -3.7 percent for a married family with no children to -12.8 percent for a single parent with two children. The variation in the effective tax rates becomes smaller however, as the income level of the reference family increases to $25,000, ranging from -0.6 percent for a married family without children to a -2.9 percent for a head of household with two children. The decrease in the effective tax rate variation among equivalent families at higher incomes is in part because fewer households are still eligible for the credit or are eligible for a smaller credit because they are in the phase-out range of the credit.[108]

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[105] Crandall-Hollick, M. L. & Hughes, J. S. (August 13, 2018). The Earned Income Tax Credit (EITC): An Economic Analysis. Congressional Research Service, R44057.
[106] Ibid, pages 22 and 23.
[107] Gravelle, J. & Gravelle, J. (September 2006). "Horizontal Equity and Family Tax Treatment: The Orphan Child of Tax Policy," National Tax Journal, vol. 59, no. 3, p. 636 September 2006.
[108] Crandall-Hollick, M. L. & Hughes, J. S. (August 13, 2018). The Earned Income Tax Credit (EITC): An Economic Analysis. Congressional Research Service, R44057.

Appendix Table 5: DC Effective Tax Rates for Families with the Same Reference Income, 2018

	Single	Married 0 Children	Married 1 Child	Married 2 Children	HOH 1 Child	HOH 2 Children	HOH 3 Children
Reference Income Level: $15,000 for a HOH with 1 Child							
Equivalent Income	$9,940	$14,058	$18,878	$21,448	$15,000	$17,808	$20,437
Effective Tax Rate (w/ DC EITC)	-5.2%	-3.7%	-7.3%	-10.7%	-9.2%	-12.8%	-11.4%
Effective Tax Rate (w/o DC EITC)	0%	0%	0%	0%	0%	0%	0.5%
Reference Income Level: $20,000 for a HOH with 1 Child							
Equivalent Income	$13,254	$18,744	$25,171	$28,597	$20,000	$23,744	$27,249
Effective Tax Rate (w/ DC EITC)	-3.5%	-2.8%	-5.1%	-6.1%	-6.1%	-6.9%	-5.4%
Effective Tax Rate (w/o DC EITC)	0.4%	0%	0.2%	0.6%	0.4%	0.9%	1.4%
Reference Income Level: $25,000 for a HOH with 1 Child							
Equivalent Income	$16,567	$23,430	$31,464	$35,747	$25,000	$29,680	$34,061
Effective Tax Rate (w/ DC EITC)	-2.0%	-0.6%	-2.0%	-2.3%	-2.8%	-2.9%	-1.5%
Effective Tax Rate (w/o DC EITC)	1.1%	0%	0.9%	1.4%	1.1%	1.7%	2.2%

Note: Negative tax rates means that that the tax filer receives a refund. The effective tax rates are calculated as the total tax divided by income. Income is assumed to be wage income, there are no above-the line deductions, and the tax filer takes the standard deduction ($12,000 for single tax filers, $18,000 for head of households (HOH), and $24,000 for married filers) and appropriate number of personal exemptions when calculating their taxable income. The number of children is assumed to be under 17 and assumes no other tax credits like the child tax credit were claimed. The methodology used in Appendix Table 5 follows the calculations in Table 4, p. 25 of the CRS report.

Appendix Table 5 also shows the local tax burden of families at the different income levels without the benefit of the DC EITC. At the $15,000 income reference level, only a head of household with three children has a positive income tax burden, paying 0.5 percent of their income in taxes (or $97), without the DC EITC. The tax owed by the head of household with three children results from the income not covered by the standard deduction. As the reference income increases, the effective tax rates of more family groups become positive for tax filers not claiming the DC EITC, except for a married couple with zero children whose income is still lower than the standard deduction. For example, at the $25,000 income reference level, a head of household with three children would have a positive income tax burden of 2.2 percent (or $764), without the DC EITC while the same family that claimed the credit would have their tax liability covered and receive a refund of $511. Appendix Table 5 therefore, shows how the DC EITC covers the tax liability for families at different income levels as it simultaneously provides additional income to its claimants.

Appendix 5: Additional benefits of EITC: Work Encouragement; Positive Educational and Health Outcomes

One of the goals of the federal earned income tax credit, which DC supplements, is to encourage work among low-income households. Generally, studies on how EITC encourages work have focused on the effect of the federal EITC program on recipients' labor force participation decisions.[109] Eissa and Liebman (1996), Meyer and Rosenbaum (2001), and Eissa and Hoynes (2006) have shown a positive relationship between the federal EITC and an increase in the number of hours worked per week for unmarried workers receiving the benefit, specifically single mothers, and an inconclusive effect for secondary earners (that is, the spouse/domestic partner that earns less income among households that file their taxes jointly). For single mothers, Wilson (2020) further suggested that the EITC is effective at encouraging work by keeping people in the labor force who would have otherwise dropped out in the short-run, rather than pulling in new participants.[110] Additionally, Nichols and Rothstein (2015) contend that "there is really only one unambiguous pro-work incentive in the EITC: Single parents are encouraged to work at least a bit each year rather than to remain out of the labor force."[111] For married workers, on the other hand, Eissa and Hoynes (2006) found that EITC caused a one to four percentage point reduction in hours worked for married mothers.[112] The findings for married mothers notwithstanding, research shows that the overall effect of the federal EITC on the working decisions of its recipients can either encourage recipients to join the labor force to access the financial benefit of the credit, or provide additional financial incentive to keep people receiving the credit in the labor force who would have otherwise dropped out in the short-run.

Furthermore, other studies of the federal EITC program have found additional positive effects of the credit on its recipients. For example, research from the Center on Budget and Policy priorities suggests that working-family tax credits like the federal EITC lead "to benefits at virtually every stage of life."[113] Other research has shown that the benefit of EITC extends beyond the stated goals of the credit. For example, recent research suggests a positive correlation between EITC and educational and health outcomes. A study of EITC on childhood education found that "EITC expansions improve both contemporaneous and long-run educational outcomes of children."[114]

[109] Wilson, R. (2020). The EITC and Employment Transitions: Labor Force Attachment and Annual Exit. *National Tax Journal*, March 2020, 73 (1). See also, Eissa, N. & and Hoynes, H. W. (2006). Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply. *Tax Policy and the Economy*, Vol. 20 (2006), pp. 73-110. The University of Chicago Press; Meyer, B.D. & Rosenbaum, D. T. (2001). Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers. *Quarterly Journal of Economics* 116 (3), 1063-1014. Available at this link; and Hotz, V. J., Mullin, C. H., & Scholz, J. K. (2003). Examining the Effect of the Earned Income Tax Credit on the Labor Market Participation of Families on Welfare. NBER Working Paper No. 11968. National Bureau of Economic Research, Cambridge, MA. Available at this link.

[110] Wilson, R. (2020). The EITC and Employment Transitions: Labor Force Attachment and Annual Exit. *National Tax Journal*, March 2020, 73 (1).

[111] Nichols A. & Rothstein, J. (2015). The Earned Income Tax Credit (EITC). *National Bureau of Economic Research* Working Paper 21211, p. 19. Available at this link.

[112] Eissa, N. & and Hoynes, H. W. (2006). Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply. Tax Policy and the Economy, Vol. 20 (2006), pp. 73-110. The University of Chicago Press

[113] Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon DeBot (October 1, 2015). EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds. Center Budget and Policy Priorities. Available at this link.

[114] Maxfield, M. (2013). The Effects of the Earned Income Tax Credit on Child Achievement and Long-Term Educational Attainment.

Specifically, increasing the benefit of EITC by $1,000 has been shown to raise math and reading test scores. Other studies found that improvements in maternal health can be linked to EITC. These improvements include reduction in maternal smoking and smoking among pregnant women, earlier occurrence, and increased frequency in receiving prenatal care, reduction in stress (for adults and children) and a decreased likelihood of having high blood pressure, inflammation, and the number of bad mental health days.[115]

[115] Simon, D., McInerney, M., & Goodell, S. (2018). The Earned Income Tax Credit, Poverty, And Health. Health Affairs Health Policy Brief, October 4, 2018. DOI: 10.1377/hpb20180817.769687. and Margot L. Crandall-Hollick and Joseph S. Hughes (August 13, 2018). The Earned Income Tax Credit (EITC): An Economic Analysis. Congressional Research Service, R44057.

Appendix 6: Amount of Federal and DC EITC Benefits Left Unclaimed by Eligible DC Residents

In addition to the previous presentation of the distribution of EITC benefits, we are also able to analyze demographic and income level characteristics in DC's Individual Income Tax data to estimate how many did *not* claim EITC that were eligible to do so. As Appendix Table 6 below shows, in 2017, DC had an estimated 87.3 percent federal EITC participation rate with 52,937 filers claiming $122.2 million in tax credits.[116] Another 7,683 tax filers were eligible to benefit from the federal credit but did not claim the EITC, leaving about $6.2 million in additional income "on the table." Similarly, about 86.1 percent of families eligible for the DC EITC claimed the credit, receiving $56.8 million in benefits while an additional $6.1 million was left unclaimed. In total, eligible DC residents claimed about $179 million in both federal and DC EITC, while an additional $12.2 million was left unclaimed by EITC eligible recipients in 2017. (See Table 6 (B) below for a breakdown of non-claimants by filing status.)

Appendix Table 6: Total Claimed and Unclaimed EITC Credits by Filing Status, 2017

(A)

	EITC Eligible Households in DC Claiming the Fed Credit		EITC Eligible Households Claiming the DC Credit	
Filing Status	*Number of tax filers*	*EITC Amount Claimed*	*Number of tax filers*	*EITC Amount Claimed*
Single	19,405	$21,412,759	29,022	$17,240,602
Married	3,342	$8,891,621	3,226	$3,560,684
Head of Household	30,190	$91,890,179	30,265	$36,022,479
Total	**52,937**	**$122,194,559**	**62,513**	**$56,823,764**

Source: ORA Calculations. Note: The total number of recipients who received the federal credit in 2017 include households that filed federal returns for previous years. For example, some tax filers may file their 2014 tax return in 2017. Therefore, the total number of recipients and EITC benefits received in 2017 would include those filing their 2014 return in 2017.

(B)

	EITC Eligible Households in DC Not Claiming the Fed Credit		EITC Eligible Households Not Claiming the DC Credit	
Filing Status	*Number of tax filers*	*EITC Amount not Claimed*	*Number of tax filers*	*EITC Amount not Claimed*
Single	5,459	$1,527,303	6,881	$2,798,083
Married	675	$1,277,356	891	$798,607
Head of Household	1,549	$3,391,360	2,279	$2,455,296
Total	**7,683**	**$6,196,019**	**10,051**	**$6,051,986**[117]

Source: ORA Calculations based on the eligibility requirements to qualify for the credit using the 2017 federal and DC individual income tax returns.

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[116] The table does not consider any refunds received by the IRS due to overpayments. See also IRS Statistics for 2017 Tax Returns With EITC. available [at this link](#).

[117] As the table shows, the total amount of federal and DC EITC not claimed are similar. This is because a lot of filers not claiming the DC EITC are single and DC EITC eligibility requirements allows more childless workers to claim the credit and offers a larger credit amount than the federal EITC.

There are a variety of reasons why eligible taxpayers do not claim the EITC. Berube (2006) contends that "some eligible nonparticipating taxpayers are not aware that the credit exists, some face language or cultural barriers, and some may be afraid that by claiming the credit they will sacrifice their eligibility for other important income-support programs."[118] Additionally, Holt (2006) suggests that some of the characteristics of eligible non-EITC filers include families with lower incomes, households eligible for a smaller credit,[119] larger families, income from self-employment, and taxpayers with limited education or language barriers. Holt notes that "[f]rom a purely economic standpoint, some of those not claiming the EITC may be making a rational decision. The benefit of claiming a small credit, for instance, may not be considered worth the cost of obtaining it, in time or in tax preparation fees…[f]or many eligible non-filers, though, the significant value of the credit would likely outweigh these considerations."[120] Therefore, Berube (2006) argues that cities with large proportions of eligible non-filers should enhance family and community well-being by fostering greater participation in the EITC.

If more low-income DC residents claim EITC benefits for which they are eligible but currently not claiming, the income would lead to local spending, higher sales tax revenue, and other indirect results that would be beneficial to the local economy.[121] Based on these findings, policymakers may wish to take steps to raise awareness of the EITC to ensure that DC residents are receiving the federal and District benefits for which they are eligible. There are several organizations like Capital Area Asset Builders (CAAB) that provide free taxpayer assistance to residents while raising awareness about the EITC in DC. Policymakers could support these organizations by providing additional resources as they continue to take steps to raise awareness of the EITC in DC.

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[118] Berube, A. (2006). Using the Earned Income Tax Credit to Stimulate Local Economies. *The Brookings Institution and The Living Cities Policy Series, Diverse Perspectives on Critical Issues, 2006.* P. 4. Available at this link.

[119] ORA finds that about 16 percent (1,207 out of 7,683) of eligible federal filers, and about 10 percent DC tax filers (1,106 out of 10,051), that did not claim the credits would have received less than $101 if they claimed the federal and DC EITC.

[120] Holt, S. (2006). The Earned Income Tax Credit at Age 30: What We Know. Metropolitan Policy Program, The Brookings Institute. P. 12. Available at this link.

[121] Meekin, A. (2015). Found that "One quarter of refund dollars went to regular monthly expenses, like groceries or rent. Another quarter went to back bills and debts, such as past-due utilities and credit card bills. The average household that allocated tax-time funds to debt payment reduced its debt load by nearly half. One-fifth of refund dollars were spent on assets, like a used car or furniture. One-sixth went into savings accounts (although much of that was spent within six months). Finally, one tenth of the tax check went to treats like gifts or eating out (p. 9). Excerpt from Meekin, A. (Fall 2015). It's Not Like I'm Poor: Perceptions of the Earned Income Tax Credit. Federal Reserve Bank of Boston. Available at this link.

Appendix 8: Nonprofit Structure and District Taxation of Nonprofits

Not for profit organizations (nonprofits) are generally defined by the fact that they are organizations that are not set up to distribute profits to shareholders or individuals, and any profits are reinvested into the organization for furthering the mission. The structure of a nonprofit's organization is determined by state level regulatory requirements. In DC, an organization must register as a nonprofit through the Department of Consumer and Regulatory Affairs (DCRA).[122] Once a nonprofit has been created, it may apply to the IRS to be exempt from federal income taxes under section 501(c) of the Internal Revenue Code.

A nonprofit that is federally tax-exempt may apply for tax exemptions from several District taxes, including the corporate franchise (income) tax, real property tax, deed and recordation tax, sales tax, and personal property tax. Once a nonprofit receives federal tax-exempt status, it must then register with the DC Office of Tax and Revenue (OTR) as a business entity (by filing form F5-500).[123] Nonprofits may then request tax exempt status from OTR for several District taxes.

According to MyTaxDC.gov, most federally tax-exempt organizations qualify as exempt from DC franchise (income) tax, with a few exceptions.[124] Following the federal treatment of income tax-exempt nonprofits, there is no designated franchise (income) tax expenditure for nonprofit organizations in the District.[125, 126]

Within the District's sales tax (§47-2005), any 'semi-public institution'—which covers many organizations federally tax-exempt under IRC code 501(c)—may apply for a sales tax exemption through OTR such that the gross receipts of sales to the organization are exempt from the District sales tax. This includes charitable organizations, such as those "operated exclusively for religious, charitable, scientific, testing for public safety, literary, educational, or other specified purposes."[127] Additionally, churches and religious organizations that qualify as exempt under 501(c)(3), as well as private foundations, and some types of 501(c)(4) organizations are eligible for District sales tax exemptions.[128]

Under the District's real property tax laws (§ 47-1002), there are various categorical tax exemptions available for a variety of types of nonprofits. (Categorical tax exemptions are those for which any eligible organization [or individual] may apply; they also may be called "as-of-right" exemptions). For example, public charities, churches, cemeteries, art galleries, and theaters

[122] Most nonprofits in DC register as a nonprofit corporation. More information available at this link.
[123] OTR Form F5-500
[124] MyTax.dc.gov
[125] The Joint Committee on Taxation explains that nonprofits, such as charities', "tax-exempt status is not classified as a tax expenditure because the nonbusiness activities of such organizations generally must predominate, and their unrelated business activities are subject to tax." JCX-34-18. Available at this link.
[126] To apply for exemption from both District sales and income taxes a nonprofit should file Form 164 (Exemption to file) to OTR. Starting January 1, 2019, DC OTR began to expire the current DC tax-exempt status of nonprofit organizations and require all organizations to renew their exemptions or be reclassified to a fully taxable status every five years.
[127] IRS information on tax-exempt charities available at this link.
[128] As previously footnoted, sales tax and personal property tax data are aggregated (by tax), so the estimates of revenue forgone under sales and personal property tax exemptions cover all types of nonprofits, including those with a housing, health, or education purpose, for example.

are among the types of organizations for which categorical exemptions exist. If an organization qualifies under one of these provisions of the tax code, it is eligible for an exemption. A nonprofit that is eligible for a categorical real property tax exemption under a provision of DC Code § 47-1002 must apply to the Office of Tax and Revenue (OTR) for the exemption using Form FP-300.[129] Organizations must provide the deed conveying the real property to the organization, a copy of their nonprofit articles of incorporation, and a letter from the IRS recognizing their tax-exempt status, among a variety of other documents.

In addition to categorical tax expenditures mentioned above available through the property tax, there are also categorical income tax, sales tax, and personal property tax exemptions, available to both organizations and individuals, depending on the tax type. Nonprofit organizations whose purpose is not covered by one of the categorical property tax exemptions in the tax code may request that a property tax exemption be conferred through legislative action. Those types of tax expenditures are referred to as Individual tax expenditures in our reporting, as a property owner/recipient is specifically named in legislation. In the social policy area, there are more individual tax expenditure provisions—those that have received a tax expenditure through individual legislation—than in other policy areas previously studied. For this reason, we have condensed the information provided and listed the individual tax expenditures with a social policy purpose in a table at the end of Part III.

For the purposes of this report, there are some individual tax expenditures that are related enough to a categorical tax expenditure that they are included with those categorical estimates. For example, a handful of churches requested a legislative property tax exemption because an administrative issue precluded the property from receiving a full exemption in its current status (such as if a church partnered with a development corporation to build housing on the property while keeping the church on part on the property, then the church would have to apply of the portion of the property still operated as a church to continue to receive a property tax exemption). Additionally, there is an administrative provision for a single theatre company that leases its space, so we include that with the categorical property tax exemption for theaters.

In 2011, the DC Council passed a law requiring that all Individual property tax (or deed tax) exemptions introduced by legislation receive a Tax Abatement Financial Analysis (TAFA), which would provide the Council certain information about the entity seeking the tax exemption.[130] Among other things, a TAFA should include the purpose of the abatement, the amount of the abatement, the expected community benefits provided by the abatement recipient, including jobs to be created, and whether, in the Office of the Chief Financial Officer's opinion, the grantee's purpose could be fulfilled without the abatement (e.g. whether the tax abatement is financially required for the organization's viability).[131] The TAFA is an informational requirement and the Council is not bound by the findings therein; there may be reasons that the Council will pass an Individual property tax exemption even if the TAFA deems it not necessary.

Data Collection and Reporting on Tax-exempt Properties

[129] OTR Form FP-300

[130] Fiscal Year 2012 Budget Support Act of 2011; 2011 District of Columbia Laws 19-21 (Act 19-98).

[131] See District Code § 47-4701. TAFA requirements.

There are several reporting requirements for nonprofits receiving tax exemptions, as well as methods the Office of Tax and Revenue (OTR) uses to track data on exempt properties. We present this information by tax type in the following sections.

Reporting to OTR from Property Tax-Exempt Organizations

DC law requires all nonprofit organizations or business entities that are receiving a real property tax exemption or abatement[132] (whether the provisions are categorical or Individual) to file an annual use report on or before April 1 of each year.[133] This report asks a series of questions related to the type of institution, whether any rent or income is earned from the buildings on the property, or whether there have been changes to the buildings or property. Additionally, some recipients of property tax exemptions (generally those with a housing or economic development purpose) are asked to list the community benefits provided by the property that year, or the progress made toward providing those benefits.

Data Available on Property Tax Exemptions

A good deal of information on real property tax exemptions in the District is publicly accessible on the Office of the Chief Financial Officer's web site, from both the Office of Tax and Revenue and the Office of Finance and Treasury (OFT). OTR manages the database of real property in the District, and properties receiving exemptions are coded in the database according to the type of exemption. For example, properties used for religious purposes are coded E1 and charities are coded E3, with a total of twelve codes for different tax-exempt categories, including DC- and Federally tax-exempt property. As we have documented in a Tax Expenditure Review of District Housing Tax Expenditures,[134] there is a miscellaneous exemption category (E8) which contains many housing-related exemptions, as well as those for supermarkets, and theatres, among others. An examination of the list of tax-exempt properties for fiscal year 2019 revealed that many nonprofit organizations receiving property tax exemptions are tracked in this miscellaneous category.

OTR provides a PDF report on its web site listing all tax-exempt properties in the District each year and among other things, it includes the value of each property tax exemption in terms of forgone revenues.[135] Further, many tax expenditures with an economic development purpose are captured and reported in the District's Annual Unified Economic Development Report. Given that many property tax exemptions have more than one purpose (for example, both social and economic development goals), some provisions counted as Social policy-related here are included within the Unified Annual Economic Development Report.[136]

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[132] Under chapters 10 (Property Tax Exemptions) or 46 (Special Tax Incentives) of Title 47 of the District of Columbia Official Code

[133] DC OTR Form FP 161. As of 2019, nonprofit organizations could access and submit the forms to OTR online. The printed forms are still available and OTR will now manage a dual process until all forms are submitted online. For 2020, about a quarter of the forms were submitted online, while just under three quarters were submitted on paper.

[134] "District of Columbia Housing Tax Expenditure Review," Office of the Chief Financial Officer. District of Columbia Government, 2015. https://cfo.dc.gov/node/1120632.

[135] "Property Exempt from Taxation in FY19, Tax Types DC, E0-E8, and US," available at this link.

[136] District's Unified Annual Economic Development Report.

Sales Tax Exemptions

Nonprofits seeking to obtain a franchise, sales, or personal property tax exemption have been required to file through the MyTaxDC.gov portal since 2017. Up to now, OTR has not typically been asked to report on the number of nonprofits that have filed for an exemption. As part of our research for this report, ORA requested and obtained data from OTR on sales tax-exempt organizations, which allowed us to analyze how many organizations had an active exempt certificate on file (3,162 organizations in 2020).

However, because sales data related to sales tax exemptions are not tracked by the District at the transaction level, the estimates of revenue forgone for the sales tax exemptions are based on the number of District organizations with federal tax-exempt status in the Economic Census Survey and estimates of the purchases made by those organizations. For the sales tax, the estimates in this report include all types of nonprofits, even if they serve a housing, education, or health-related purpose, as those types of organizations cannot be disaggregated from one another in the original data source.

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