

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Chief Financial Officer**

Natwar M. Gandhi  
Chief Financial Officer



**MEMORANDUM**

**TO:** The Honorable Linda W. Cropp  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi  
Chief Financial Officer

**DATE:** February 16, 2001

**SUBJECT:** Fiscal Impact Statement: "Earned Income Tax Credit  
Amendment Act of 2001"

**REFERENCE:** Draft Legislation - Bill Number Not Available ([B 14-021](#))

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**Conclusion**

Funds are not sufficient in the District's FY 2001 through FY 2004 budget and financial plan. **The bill will cost the District an additional \$12.3 million beginning in FY 2002. Implementing the provisions of the proposed legislation will result in \$52.7 million in foregone revenue for FY 2002 through FY 2005.**

**Background**

The proposed legislation amends title 47 of the District of Columbia Code to increase the District's earned income tax credit from the current level of 10 percent of the Federal earned income tax credit to 25 percent of the Federal earned income tax credit. The federal government earned tax income credit was originally intended to provide relief for the regressive impact of social security payroll taxes. It is a refundable tax credit for low-income families with earned income. The value of the credit depends upon the number of children in the family and the family's level of income. There are separate schedules for families with zero, one or two children. The value of the credit rises with earned income to a certain level and then phases out depending upon the family structure.

The proposed legislation increases the District's refundable earned income tax credit to 25 percent of the federal tax credit. Taxpayers must either take the earned income credit or the District's low-income credit, but may not take both. Assuming that 85 percent of the families that are eligible for the earned income credit participated in the first year, the

proposed credit would benefit over 40,000 low to moderate-income families in the District. A small number of taxpayers currently taking the District's low-income credit would continue to use it, because they will benefit more from that than the earned income credit.

**Financial Plan Impact**

For the purpose of this analysis, it is assumed that the credit will be available for the full tax year of 2001. Currently, the language in the bill does not say that the credit is retroactive to January 1, 2001 from the time that the act is implemented.

It is estimated that the proposed earned income tax credit will increase forgone tax revenue by \$12.3 million in FY 2002; \$12.8 million in FY 2003; \$13.5 million in FY 2004; and \$14.1 million in FY 2005. The revenue impact of the earned income tax credit is not reflected in the FY 2001 budget and financial plan. There will be no revenue foregone in FY 2001.

<b>Foregone Revenue Resulting from 10 Percent EITC with Choice of Low-Income Credit</b>						
(\$ in 000s)						
<b>Item</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>TOTAL</b>
25 Percent Earned Income Tax Credit	\$0.0	\$12.3	\$12.8	\$13.5	\$14.1	<b>\$52.7</b>

These estimates assume that the refundable earned income tax credit is equal to 25 percent of the federal credit with an 85 percent participation rate, and that the earned income tax credit and the low-income credit cannot both be taken. The estimates are for revenues foregone over and above current law. These estimates assume a \$2 million per year offset with the low-income credit. The value of this offset is assumed not to change because most taxpayers were assumed to choose the earned income tax credit over the low-income credit in the initial impact analysis. The participation rate is based on the experience in other states that have implemented such a credit.