

Government of the District of Columbia
Office of the Chief Financial Officer



Glen Lee
Chief Financial Officer

MEMORANDUM


TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Glen Lee
Chief Financial Officer

DATE: November 4, 2025

SUBJECT: Fiscal Impact Statement – Councilmember Parker, Councilmember Frumin et al Amendment to D.C. Income and Franchise Tax Conformity and Revision Emergency Amendment Act of 2025

REFERENCE: As provided to the Office of Revenue Analysis November 3, 2025



Conclusion

Funds are sufficient to include the amendment in the underlying D.C. Income and Franchise Tax Conformity and Revision Emergency Amendment Act of 2025. The amendment will reduce the revenue gain estimated from the underlying bill by approximately \$32.6 million in fiscal year 2026 and a total of \$284.4 million across the fiscal year 2026 through fiscal year 2029 financial plan. The bill's revenue gain has not been incorporated into the budget and financial plan, therefore there is no cost to reduce the revenues as proposed in the amendment.

Background

Prior to the Income Tax Secured Bond and Out-of-State Municipal Bond Tax Amendment Act of 2024¹, interest on all state and local municipal bonds was exempt from District individual income taxation. The Act amended District tax law so that beginning in tax year 2025, District taxpayers could exempt interest only from District bonds, including obligations of the District as well as bonds issued by DC Water, the Washington Metropolitan Area Transit Authority (WMATA), and the District of Columbia Housing Finance Agency (DCHFA). Interest on bonds from other states and localities is includable as income and thus subject to tax.

¹ Subtitle, VII-V of the Fiscal Year 2025 Budget Support Act of 2024, effective Sept. 18, 2024 (D.C. Law 25-217; 71 DCR 11542).

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The amendment provides a limited exemption from individual income taxation for bonds from other states and localities, provided they were purchased by the taxpayer prior to January 1, 2025. The amount of such interest that a taxpayer may exclude from taxable income is limited to \$40,000 per taxable year. In addition, the amendment permanently exempts interest from bonds issued by the state of Maryland or the commonwealth of Virginia.

The District of Columbia has its own Earned Income Tax Credit (EITC) for working adults with and without dependent children. The amount of the DC Earned Income Tax Credit (DC EITC) for filers with qualifying children² is a percentage of the federal EITC that was 70 percent for tax year 2024, currently stands at 85 percent of the federal credit for tax years 2025 through 2028, and is scheduled to increase to a 100% match in tax year 2029. The amendment accelerates the 100 percent match to tax year 2025.

The Child Tax Credit Amendment Act of 2024 in the Fiscal Year 2025 Budget Support Act of 2024 established a fully refundable child tax credit for District families with dependent children under the age of 6 during the tax year. Starting with tax year 2025, a credit of \$420 per child for up to three children was available. The Child Tax Credit Amendment Act of 2025 in the Fiscal Year 2026 Budget Support Act of 2025 repealed the child tax credit.

The amendment would offer a new fully refundable child tax credit beginning in tax year 2026. The credit would be available for dependent children under 18 years of age at the end of the tax year and would not be limited to three children. For single and head of household tax filers earning up to \$55,000 of adjusted gross income (the threshold amount), the credit amount would be \$1,000 per qualifying child. For married joint filers, a \$1,000 credit per qualifying child would be available if adjusted gross income is \$70,000 or less (the threshold amount). Above these income amounts (to be adjusted annually for a cost-of-living adjustments), the credit would decline by \$50 for each \$1,000 of adjusted gross income exceeding the threshold amount for the taxpayer's filing status. With the credit decline, no credit would be available when adjusted gross income reaches \$75,000 of for a single or head of household filer or \$90,000 for married joint filers.

Financial Plan Impact

Funds are sufficient to include the amendment in the underlying bill. The amendment will reduce the revenue gain estimated from the underlying bill by approximately \$32.6 million in fiscal year 2026 and a total of \$284.4 million across the fiscal year 2026 through fiscal year 2029 financial plan.

The amendment's changes to the tax treatment of municipal bond interest, beginning in tax year 2025, will reduce individual income receipts once taxpayers begin making final estimated payments in January 2026 and filing returns in the spring of 2026. The amendment's changes reduce personal income tax revenue through (1) the expansion of tax exempt interest from municipal bonds to include interest earned on bonds of Maryland and Virginia, and (2) the exemption of up to \$40,000 of interest from non-District municipal bonds, provided the taxpayer purchased such bonds prior to January 1, 2025. In total, the municipal bond provisions cost \$15.1 million in fiscal year 2026 and \$44.9 million through fiscal year 2029.

² The amount of the DC EITC for filers with no qualifying children is calculated using a different formula.

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Expansion of the District's match to the EITC for filers with qualifying children from 85% of the federal amount to 100% of the federal amount, beginning in tax year 2025, will cost \$17.4 million beginning in fiscal year 2026, when individual tax returns for tax year 2025 are filed. In total, the cost of the EITC provisions is \$72.6 million over the financial plan.

The amendment's refundable child tax credit is available beginning in tax year 2026 and will reduce income tax revenue beginning in fiscal year 2027. The credit will cost \$55.3 million in fiscal year 2027, and a total of \$167 million over the financial plan.

Parker, Frumin et al amendment to D.C. Income and Franchise Tax Conformity and Revision Emergency Amendment Act Fiscal Year 2026 - Fiscal Year 2029 (\$ thousands)					
	FY 2026	FY 2027	FY 2028	FY 2029	Total
Change in individual income tax revenue					
Municipal Bond interest changes	(\$15,145)	(\$9,408)	(\$9,900)	(\$10,420)	(\$44,873)
EITC match to 100%	(\$17,419)	(\$17,924)	(\$18,390)	(\$18,832)	(\$72,565)
Child Tax Credit	0	(\$55,260)	(\$55,260)	(\$56,432)	(\$166,952)
Total	(\$32,564)	(\$82,592)	(\$83,550)	(\$85,683)	(\$284,390)

The Office of Tax and Revenue will utilize existing resources to establish the tax form and programming changes required by the amendment.