

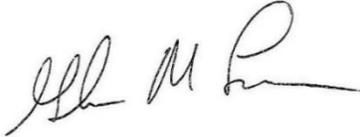
Government of the District of Columbia  
Office of the Chief Financial Officer



**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:** January 29, 2026

**SUBJECT:** UPDATED Fiscal Impact Statement – D.C. Income and Franchise Tax  
Conformity and Revision Temporary Amendment Act of 2025

**REFERENCE:** Act 26-217 (enacted December 20, 2025)

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*This updated Fiscal Impact Statement is also valid for the act's emergency version (B26-457) and incorporates amendments to the bills between introduction and final reading. This statement replaces the one issued November 4, 2025.*

**Conclusion**

Funds are sufficient in the fiscal year 2026 through fiscal year 2029 budget and financial plan to implement the bill. After accounting for the cost of the bill's tax credits, the bill will increase District revenues by an estimated \$161.9 million in fiscal year 2026 and a total of \$353.8 million over the financial plan.

**Background**

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 children<sup>1</sup> 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 bill accelerates the 100 percent match to tax year 2025.

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<sup>1</sup> The amount of the DC EITC for filers with no qualifying children is calculated using a different formula.

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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<sup>2</sup> repealed the child tax credit.

The bill provides 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 adjustment), 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 for a single or head of household filer or \$90,000 for married joint filers.

In 2017, the federal government passed the Tax Cuts and Jobs Act (TCJA)<sup>3</sup> causing the District to make changes to its tax code or remain coupled with the TCJA's tax changes. Several of the TCJA provisions were set to expire after tax year 2025. The One Big Beautiful Bill Act<sup>4</sup> (OBBBA) made additional changes to the federal tax code, including extending and altering some of the TCJA provisions that were set to expire. The bill revises several provisions of District tax law to decouple with federal tax law as amended by OBBBA.

The federal tax code allows taxpayers to deduct various expenses from their income before calculating the tax that they owe to the government. This is known as itemizing deductions. Itemized deductions include, but are not limited to, expenses like mortgage interest, medical expenses, and state and local taxes. In lieu of itemizing deductions, a taxpayer can take a standard deduction that is comprised of a basic standard deduction plus an additional deduction<sup>5</sup> if the taxpayer is blind and/or over 65 years of age. This is simpler for taxpayers and sets a minimum amount of income whereby a taxpayer needs to file taxes, unless they choose to file to receive a refundable tax credit. Currently, the District conforms with the federal tax code's standard deduction amount and requires taxpayers who take the standard deduction on their federal taxes to take the standard deduction on their District taxes. The standard deduction was raised in 2018 as part of the TCJA and is further raised under OBBBA.

The bill decouples the District from the OBBBA's higher basic standard deduction amounts and maintains in the District tax code a standard deduction at the TCJA levels, which were set to expire at the end of tax year 2025. To effectuate the decoupling, the bill adds a new definition for the "basic standard deduction" with an annual cost-of-living adjustment. A taxpayer can combine the new District basic standard deduction with the existing federal additional standard deduction amounts

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<sup>2</sup> Law 26-55, effective December 6, 2025

<sup>3</sup> Public Law 115-97, December 22, 2017, 131 Stat 2054.

<sup>4</sup> Public Law 119-21, July 4, 2025, 139 Stat 72.

<sup>5</sup> The District stays coupled to the additional standard deduction which in tax year 2025 is \$2,000 for each of the additional deductions or \$4,000 if a taxpayer qualifies for both.

for blind and aged. The bill decouples from the federal filing requirement and now requires taxpayers to file a District tax return if a taxpayer's income exceeds the District's basic standard deduction. These changes apply starting in tax year 2025. The following chart outlines the District's basic standard deduction compared to the OBBBA's proposed basic standard deduction.

<b>Filing Status</b>	<b>District/TCJA Amounts</b>	<b>OBBBA Amounts</b>
Single or married filing on separate form	\$15,000	\$15,750
Head of household	\$22,500	\$23,625
Married filing jointly	\$30,000	\$31,500

The bill establishes a standalone D.C. Official Code section for individual, estate, and trust income tax deduction allowances and prohibitions and decouples the District from many of OBBBA's individual income tax provisions. One of the TCJA provisions was to set the amount of a personal exemption at \$0, effectively ending the personal exemption allowance in coordination with the raising of the basic standard deduction. The District was coupled with this provision following TCJA's implementation. OBBBA makes the \$0 personal exemption permanent. Rather than remain coupled with the permanent extension of the \$0 personal exemption, the bill eliminates the personal exemption in the District's tax code. The bill's elimination of the personal exemption requires additional updates to the guidance the District provides to employers and employees around withholding taxes from their paychecks.<sup>6</sup> The bill eliminates the prohibition on using the standard deduction as a way to calculate an employee's tax withholding and grants the Chief Financial Officer the necessary authority to establish and update regulations that are necessary for employers to properly withhold taxes.

In tax year 2021, the federal government also offered taxpayers who took the standard deduction the ability to also deduct charitable cash contributions in computing their adjusted gross income,<sup>7</sup> in an amount up to \$300 (single filer) or \$600 (joint married filer). After tax year 2021, this option went away. The OBBBA reinstates this option for taxpayers and increases the amounts to \$1,000 (single filer) and \$2,000 (joint married filer). The bill decouples from this OBBBA provision and requires District taxpayers to add back any deductions taken under the federal provision to their calculation of adjusted gross income for District purposes. OBBBA also allows a taxpayer to deduct a portion of the proceeds from the exchange or transfer of qualified small business stocks.<sup>8</sup> The bill decouples from this provision, requiring a taxpayer to add back these deductions when calculating their adjusted gross income for District purposes.

The bill decouples from several additional OBBBA provisions by requiring that District taxpayers cannot deduct certain income or expenditures from their income. When filing their District income tax returns, taxpayers cannot deduct qualified tips,<sup>9</sup> overtime earnings,<sup>10</sup> or personal car loan interest payments.<sup>11</sup> Qualified senior taxpayers are also prohibited from taking the OBBBA's \$6,000 deduction<sup>12</sup> on their District tax returns. Each of these tax provisions in the OBBBA are expected to expire at the federal level after tax year 2028.

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<sup>6</sup> D.C. Official Code § 47-1812.08.

<sup>7</sup> § 170(p) of the Internal Revenue Code of 1986.

<sup>8</sup> § 1202(a) of the Internal Revenue Code of 1986.

<sup>9</sup> § 224 of the Internal Revenue Code of 1986.

<sup>10</sup> § 225 of the Internal Revenue Code of 1986.

<sup>11</sup> § 163(h)(4) of the Internal Revenue Code of 1986.

<sup>12</sup> § 151(d)(5)(C) of the Internal Revenue Code of 1986.

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The federal and District government both authorize taxpayers to take a credit against child and dependent care expenses they made in the prior tax year that allowed the taxpayer to work or look for work. Prior to OBBBA, a taxpayer could take a nonrefundable credit of 20 percent to 35 percent, depending on the taxpayer's gross income, of up to \$3,000 (one qualifying child or dependent) or \$6,000 (two or more qualifying children or dependents) of child and dependent care expenses. District taxpayers could take 32 percent of the federal credit amount as a credit against their District income.<sup>13</sup> For federal taxpayers, OBBBA increases the maximum credit amount from 35 percent to 50 percent.<sup>14</sup> Unlike the steady pre-OBBBA reduction in the credit from 35 percent to 20 percent, OBBBA reduces the 50 percent credit by one percent for each \$2,000 in additional income over \$15,000 in income until it reaches 35 percent, holds the credit at 35 percent for income levels from \$45,000 to \$75,000 (\$150,000 for joint married filers), and then resumes a one percent reduction until it reaches 20 percent. The bill maintains a credit for District tax filers, but reduces the credit from 32 percent of the federal credit to 24.25 percent of the federal credit.

The bill amends<sup>15</sup> the deductions businesses (including corporations, financial institutions, unincorporated businesses and partnerships) may make from their gross income to compute their net income for District tax filings. The bill deletes some outdated references to certain types of deductible expenses and replaces them with "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business which are deductible under the provisions of § 162 of the Internal Revenue Code of 1986 except that" (followed by delineated exceptions) to more clearly set forth the federal business deductions from which the District would be coupled and decoupled.

The bill would decouple from OBBBA's changes to Internal Revenue Code § 174 Research & Experimentation Cost (commonly referred to as research and development costs). Under OBBBA, business's research and development costs are fully deductible in the same year as when costs are incurred. OBBBA made this provision retroactive to tax year 2022. Prior to OBBBA, research and development costs incurred since tax year 2022 were required to be capitalized and amortized over 5 years, so that only a portion of the costs were deductible from gross income. The bill prohibits businesses from amending their returns to change net income based on research and development expensing.

The bill would decouple from OBBBA's modifications of the limit on interest that businesses may expense under Internal Revenue Code § 163(j). Prior to OBBBA and beginning in 2022, business interest expenses were subject to certain limitations and is limited to 30% of the business's "adjusted taxable income." Under OBBBA, the adjusted taxable income increases through the add-back of depreciation, amortization and depletion. Additionally, OBBBA expanded the definition of qualifying floor plan financing interest, which the bill does not allow to be expensed.

The bill would decouple from OBBBA's provisions allowing first-year expensing for new investments in qualified production property as provided for in a new Internal Revenue Code § 168(n). The bill would not allow the special depreciation allowances available under OBBBA and instead require such property to be amortized or depreciated per prior federal rules and according to D.C. Official Code § 47-1811.04. The bills also clarifies or moves other current law provisions on depreciation.

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<sup>13</sup> D.C. Official Code § 47-1806.04(c).

<sup>14</sup> § 21 of the Internal Revenue Code of 1986.

<sup>15</sup> By amending D.C. Official Code Section 47-1803.03

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OBBBA establishes a minimum floor of 1% for businesses (including corporations, financial institutions, unincorporated businesses and partnerships) to be allowed to deduct charitable contributions from gross income but also allows businesses, if the minimum floor is not reached in a tax year, to carry forward such contributions to a future tax year. District law currently allows businesses to deduct from gross income contributions or gifts paid within a taxable year for public purposes, or any religious, charitable, scientific, literary, military, or educational institution, up to 15% of gross income. The bill adds a clarification that any unused charitable contributions may not be carried forward.

OBBBA permanently extends the favorable treatment of capital gains when an investor makes a Qualified Opportunity Fund (QOF) investment (and revises the program as well). The District is not fully coupled with the federal tax benefits unless the investment is made in a QOF that has been certified by the Mayor. The bill includes language to allow businesses (including corporations, financial institutions, unincorporated businesses and partnerships) to reduce their capital gains by investing in a QOF certified by the Mayor during the OBBBA-extended timeframe (beginning from 2027).

### Financial Plan Impact

Funds are sufficient in the fiscal year 2026 through fiscal year 2029 budget and financial plan to implement the bill. After accounting for the cost of the bill's tax credits, the bill will increase District revenues by an estimated \$161.9 million in fiscal year 2026 and a total of \$353.8 million over the financial plan.

<b>D.C. Income and Franchise Tax Conformity and Revision Temporary Amendment Act of 2025</b>					
<b>Fiscal Year 2026 – Fiscal Year 2029</b>					
<b>(\$ thousands)</b>					
	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>Total</b>
Increased Revenue from decoupling provisions	\$179,287	\$157,627	\$147,563	\$108,882	\$593,358
Cost of Tax Credits	(\$17,419)	(\$73,184)	(\$73,650)	(\$75,264)	(\$239,517)
<b>Net Revenue</b>	<b>\$161,868</b>	<b>\$84,443</b>	<b>\$73,913</b>	<b>\$33,618</b>	<b>\$353,841</b>

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 bill'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.

<b>Tax Credit Costs</b>					
<b>Fiscal Year 2026 – Fiscal Year 2029</b>					
<b>(\$ thousands)</b>					
	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>Total</b>
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)
<b>Total Revenue (Loss)</b>	<b>(\$17,419)</b>	<b>(\$73,184)</b>	<b>(\$73,650)</b>	<b>(\$75,264)</b>	<b>(\$239,517)</b>

The Office of Revenue Analysis' September 2025 revenue estimate accounted for the impact of OBBBA on the District's tax base.<sup>16</sup> In some cases, OBBBA provisions reduced District tax revenues, while in other cases, OBBBA resulted in higher tax revenues. The bill's provisions decouple from some of the OBBBA provisions that negatively impacted the District's tax revenues, adding approximately \$179 million to estimated FY26 revenues and a total of \$593 million over the financial plan. The revenue from the various provisions is outlined in the chart below:

<b>Increased Revenues from OBBBA Decoupling</b>					
<b>Fiscal Year 2026 – Fiscal Year 2029</b>					
<b>(\$ thousands)</b>					
	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>Total</b>
<b>Personal Income Tax Changes</b>					
Standard Deduction	\$20,358	\$17,996	\$18,454	\$18,831	\$75,639
Charitable Contributions	\$100	\$600	\$700	\$700	\$2,100
Qualified Small Business Stocks	\$22	\$410	\$445	\$670	\$1,547
Qualified Tips	\$8,792	\$6,658	\$7,017	\$4,571	\$27,038
Qualified Overtime	\$28,498	\$22,301	\$19,964	\$7,048	\$77,810
Personal Car Loan Interest	\$4,691	\$7,010	\$8,614	\$4,615	\$24,930
\$6,000 Senior Tax Deduction	\$13,320	\$11,873	\$12,330	\$9,512	\$47,035
Child and Dependent Care Credit	\$3,200	\$3,200	\$3,100	\$3,100	\$12,600
<b>Personal Income Tax Subtotal</b>	<b>\$78,981</b>	<b>\$70,048</b>	<b>\$70,624</b>	<b>\$49,047</b>	<b>\$268,700</b>
<b>Business Income Tax Changes</b>					
Research & Experimentation Expensing	\$46,088	\$28,108	\$18,929	\$10,265	\$177,209
Modifications to business interest expensing	\$11,129	\$10,555	\$9,684	\$8,979	\$54,462
Depreciation provisions	\$43,090	\$48,916	\$48,325	\$40,591	\$184,005
<b>Business Income Tax Subtotal</b>	<b>\$100,306</b>	<b>\$87,579</b>	<b>\$76,939</b>	<b>\$59,835</b>	<b>\$324,658</b>
<b>Total from Decoupling Provisions</b>	<b>\$179,287</b>	<b>\$157,627</b>	<b>\$147,563</b>	<b>\$108,882</b>	<b>\$593,359</b>

The Office of Tax and Revenue can absorb any administrative costs associated with decoupling from OBBBA provisions as well as setting up the new EITC match and child care tax credit.

<sup>16</sup> [09.30.25 September 2025 Revenue Estimates for FY 2026-2029 | ora-cfo](#)