

April 26, 2024

The Hon. Phil Mendelson, Chairman  
Councilmembers  
Council of the District of Columbia  
The John A. Wilson Building  
1350 Pennsylvania Avenue N.W.  
Washington, DC 20004

Dear Chairman Mendelson and Councilmembers:

This is the first of what we expect will be three “budget briefs” in which we provide an update to earlier work by the Office of the D.C. Auditor (ODCA) that may be useful to the Council during your budget deliberations. We anticipate publishing the three updates as a single report once they are completed, but share as correspondence today to be as timely as possible.

You may recall that in 2019, we began contracting with outside, independent consultants to design and build a revenue forecasting model to serve as an independent assessment for ODCA certifications of the accuracy of the Office of the Chief Financial Officer’s revenue estimate when the District of Columbia goes to the bond market to borrow money, a certification as required by D.C. Official Code § 1-206.03 (b) (1).

We published the first such methodology for building a forecasting model developed by District Economics Group (DEG) in November 2019.<sup>1</sup> Incorporated into the methodology report was a presentation DEG made to ODCA in September 2019 that included a chart with a count of tax changes by type and effective fiscal year examining fiscal years 2002 to 2019. A copy of the 2019 chart is included in Appendix A.

As shown in the 2019 chart, there were a surprisingly large number of tax changes made—a total of 178. Figure 1 on the next page summarizes the total number of tax changes by type. Income and Sales and Excise taxes were the two tax types that saw the greatest number of changes from 2002 to 2019, with 48 and 47 changes respectively. Of note is that in 2016 alone policymakers approved 10 changes to the District’s Income taxes.

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<sup>1</sup> [Modeling the D.C. Economy, Revenues, and Debt Service Obligations](#) (November 13, 2019).

**Figure 1: Summary of the Number of Tax Changes by Type in 2019 Published Chart**

Tax Type	Number of changes FY 02-FY 19
Property	34
Sales and Excise	47
Income	48
Gross Receipts	29
Other Tax	20
<b>Total</b>	<b>178</b>

Source: DEG analysis of 2018 D.C. Tax Facts

Today as the Council considers additional changes to the D.C. tax code, we are sharing an update to the 2019 chart to include the number of tax changes by type by fiscal year (FY) for FYs 2020-2023. An updated chart can be found in Appendix B. From 2002 through 2023 there were a grand total of 212 changes made to the District’s tax code with the highest number of tax changes being made to Sales and Excise and to Income taxes (58 total for each)<sup>2</sup>.

For the four additional years we reviewed, there were at total of 34 tax changes made, as summarized in Figure 2.

**Figure 2: Summary of the Number of Tax Changes by Type for Fiscal Years 2020-2023**

Tax Type	Number of Changes FYs 2020-2023
Property	4
Sales and Excise	11
Income	10
Gross Receipts	3
Other Tax	5
Non-tax	1
<b>TOTAL</b>	<b>34</b>

Source: ODCA Analysis

Of these 34 tax changes, 21 or 63.6% were changes made to Sales and Excise taxes or Income taxes. In reviewing the revenue to be generated (or lost) by the city due to these tax changes, according to the 2023 D.C. Tax Facts<sup>3</sup> published by the Office of the Chief Financial Officer, these tax changes alone generated an estimated net revenue for the city as shown in Figure 3 on the following page.

<sup>2</sup> The 212 includes one non-tax change in FY 2023 that is not included in the charts found in the Appendix.

<sup>3</sup> 2023 DC Tax Facts. <https://cfo.dc.gov/node/1671991>

**Figure 3: Net Revenue Generated by Tax Changes**

<b>Fiscal Year</b>	<b>Net Revenue</b>
FY 2020	\$ 17,928,000
FY 2021	\$ 47,683,000
FY 2022	\$ 71,065,000
FY 2023	\$ N/A*

\*Not available in Tax Facts.  
Source: ODCA Analysis.

The FY 2022 estimated net revenue projection was just over \$71 million in additional revenue for the city from three tax changes being made. These were the addition of two new income tax brackets<sup>4</sup> and an increase to the tax rate on income over \$1,000,000, which provided a full year revenue projection of \$101 million. The third change, also taking effect starting in FY 2022, was an expansion to the District Earned Income Tax Credit (EITC) which increased, for filers with a qualifying child, the amount of federal EITC matched by the District from 40% to 70% beginning in tax year 2022,<sup>5</sup> with a projected cost to the city of \$30 million.

FY 2020 and FY 2021 brought five changes to the Qualified High Technology Company (QHTC) credits resulting in a total of \$44 million in revenue collected over the two years. Three changes occurred for FY 2020 with a \$15,865,000 projected revenue increase for the city, and two changes in FY 2021 with \$28,159,000 revenue projected to be collected by the city.

In looking at highlights of the 2023 Annual Comprehensive Financial Report (ACFR) as summarized by the CFO in testimony, FY 2023 in comparison to 2022, showed modest local revenue growth, with minimal growth to income (2%) and property taxes (1%) and larger growth to non-tax revenue (18%) and sales tax (10%). According to the 2023 ACFR, “[I]ncreases in interest income as a result of higher interest rates contributed to the increase in non-tax revenue...”<sup>6</sup>

For this update on recent tax policy changes, we used publicly available information and did not engage any agencies or ask for any updates or additional information. We reviewed the 2023 edition of D.C. Tax Facts produced by the Office of the Chief Financial Officer,<sup>7</sup> and confirmed the tax categories with Table 1 of the February 2024 revenue estimate<sup>8</sup> and Volume 1 of the Fiscal Year 2024 Budget and Financial Plan<sup>9</sup> (Table 3-15 or Table 3-18). We also reviewed the 2023 ACFR and highlights. This update was drafted, reviewed, and approved in accordance with the standards outlined in ODCA’s Audit Policies and Procedures.

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<sup>4</sup> Added a new tax bracket for income between \$250,000 and \$500,000 taxed at 9.25% and income between \$500,000 and \$1,000,000 taxed at 9.75%. Income over \$1,000,000 is taxed at 10.75%.

<sup>5</sup> The amount of federal EITC matched by the District increased from 40% to 70% for tax years 2022 through 2024, increased to 85% for tax year 2025, and increases to 100% for tax years after 2025.

<sup>6</sup> Office of the Chief Financial Officer, [Annual Comprehensive Financial Report 2023](#), February 1, 2024, Page 27.

<sup>7</sup> Office of the Chief Financial Officer, [DC Tax Facts 2023](#).

<sup>8</sup> Office of the Chief Financial Officer, [February 2024 Revenue Estimates](#).

<sup>9</sup> Office of the Chief Financial Officer, [FY 2024 Approved Budget and Financial Plan](#), Volume 1 Executive Summary.

We hope this update on our previously published report and all the details that follow will be useful to Councilmembers and to the public as you consider additional changes to the DC tax code in deliberations on the proposed FY 2025 budget.

Thank you.

Sincerely yours,

A handwritten signature in blue ink that reads "Kathleen Patterson". The signature is written in a cursive, flowing style.

Kathleen Patterson  
District of Columbia Auditor

cc: Officers of the D.C. Council

## Appendix A: 2019 District Economics Group Chart

**Table 9. Count of Tax Changes by Type and Effective Fiscal Year**

FY Effective	Property	Sales and Excise	Income	Gross Receipts	Other Tax	Total
2002	0	0	0	0	1	1
2003	2	3	4	2	6	17
2004	2	0	1	0	0	3
2005	2	4	2	4	2	14
2006	5	2	4	2	0	13
2007	1	0	1	0	4	6
2008	3	1	4	0	0	8
2009	4	1	1	3	2	11
2010	2	5	2	1	0	10
2011	2	2	3	4	0	11
2012	2	6	3	1	0	12
2013	1	3	1	0	0	5
2014	1	3	1	0	0	5
2015	2	4	5	3	0	14
2016	1	5	10	2	1	19
2017	1	2	3	2	0	8
2018	1	3	2	2	3	11
2019	2	3	1	3	1	10
<b>Total</b>	<b>34</b>	<b>47</b>	<b>48</b>	<b>29</b>	<b>20</b>	<b>178</b>

*Source: District Economics Group, 2018 D.C. Tax Facts from the Office of the Chief Financial Officer.*

## Appendix B: Updated Chart of Tax Changes

### Updated Count of Tax Changes by Type and Effective Fiscal Year

FY Effective	Property	Sales and Excise	Income	Gross Receipts	Other Tax	Total
2002	0	0	0	0	1	1
2003	2	3	4	2	6	17
2004	2	0	1	0	0	3
2005	2	4	2	4	2	14
2006	5	2	4	2	0	13
2007	1	0	1	0	4	6
2008	3	1	4	0	0	8
2009	4	1	1	3	2	11
2010	2	5	2	1	0	10
2011	2	2	3	4	0	11
2012	2	6	3	1	0	12
2013	1	3	1	0	0	5
2014	1	3	1	0	0	5
2015	2	4	5	3	0	14
2016	1	5	10	2	1	19
2017	1	2	3	2	0	8
2018	1	3	2	2	3	11
2019	2	3	1	3	1	10
<b>Sub Total</b>	<b>34</b>	<b>47</b>	<b>48</b>	<b>29</b>	<b>20</b>	<b>178</b>
<b>2020</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>14</b>
<b>2021</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>14</b>
<b>2022</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>3</b>
<b>2023</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>
<b>Sub Total</b>	<b>4</b>	<b>11</b>	<b>10</b>	<b>3</b>	<b>5</b>	<b>33*</b>
<b>Grand total</b>	<b>38</b>	<b>58</b>	<b>58</b>	<b>32</b>	<b>25</b>	<b>211</b>
Changes within last 10 years	13	34	33	15	10	105

Source: Tax Facts and ODCA analysis.

\*Does not include one non-tax change in FY 2023.