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DISTRICT OF COLUMBIA EDUCATION CHARITABLE DONATIONS ACT OF 2018

WHAT THIS BILL WOULD DO

This bill creates a new District of Columbia public education fund, for which donors can receive a newly created nonrefundable District income tax credit. This new fund and new income tax credit have several benefits for District taxpayers. For donors who itemize on their federal income taxes, the charitable donation to the new fund would be deductible under current IRS rules. The corresponding DC income tax credit will help taxpayers by lowering their state tax liability and, given the donation to education funding, it will NOT reduce overall DC tax revenue, but would likely slightly increase revenues. It will also allow District residents to support their local public schools.

WHY THIS LEGISLATION IS IMPORTANT

The recently implemented federal tax legislation caps state and local tax deductions on federal income taxes to $10,000. Previously taxpayers had been able to deduct the full amount of any income, sales, or property taxes they had paid during the tax year.

As has been noted by many tax experts, the new federal tax law is disadvantageous for taxpayers who itemize, specifically for its reduction in state and local tax deductions. In 2015, the most recent year that data is available, more than 130,000 filers in the District deducted more than $2 billion in taxes on their federal tax forms. That is an average of more than $17,000 per tax filer. The new tax law would not allow these filers to deduct on average $7,000 of DC income and property taxes for their federal income taxes. This is why many residents rushed to pre-pay 2018 property taxes, so the payment could be included in 2017 deductions before the new rules took effect.

By creating a nonrefundable DC income tax credit for donations to a DC public education fund, District taxpayers who itemize will be able to support education funding and get a local income tax credit that will reduce their local tax liability. Once again, even though tax liability will be lowered for individual filers, District revenues will not go down, and would likely see a slight increase.

This is because the credit is not a full dollar-for-dollar match of money donated to the fund. Instead, the credit will match 90% of donations, to conform to IRS rules on charitable donations, which require charitable intent by the donor. Even with the 90% match, donors will get both a local tax credit and a federal tax benefit, while the District will see a small increase in revenue from the larger donation.

Here's how it would work: Before December 31st of each tax year, District taxpayers can decide if they want to make a donation to the District of Columbia Public Education Investment Fund. If they do so, when they do their taxes in the following months, they are eligible for a nonrefundable tax credit (meaning it cannot be higher than their tax liability) worth 90% of the donation.

Let's take a hypothetical taxpayer named "Sue," who has $17,000 in District income and property taxes, which is around the average amount of state taxes District taxpayers deducted in 2015. This is more than the new $10,000 cap in the new federal tax legislation.

Under the old tax system, all of that $17,000 paid in DC income taxes could be deducted on federal returns, and assuming a top tax rate of 39.6%, Sue could receive a benefit worth about $6,732 on her federal return.

Under the new system, since Sue is capped at deducting just $10,000, she would only be able to deduct $10,000, which translates into $3,700 in a tax benefit. This is $3,032 less than before, when she had been able to deduct the full $17,000.

Under the DC Education Charitable Donations Act, Sue would pay $10,000 in taxes as normal, but she could then donate $7,778 to the DC Public Education Investment Fund. That $7,778 would generate a $7,000 tax credit, which would satisfy her remaining tax liability of the original $17,000 ($10,000 in taxes paid and $7,000 in credits). Since it is a charitable donation, Sue could also deduct it on her federal return.

Assuming Sue falls into the new top federal tax rate of 37%, the $7,778 donation could translate to a $6,578 federal tax benefit ($3,700 of the benefit is from the capped $10,000 in state and local taxes deducted, and $2,878 is from the new charitable deduction).

In the end, Sue would have received a net tax benefit of $5,800 ($6,578 of a federal benefit, minus the extra $778 paid to the District). And the District would receive a net benefit of $778 to support District schools (the $7,778 donation minus the $7,000 state tax credit).

	Old federal law	**New federal law**	**What the Council bill would allow**
Sue's State tax liability	$17,000	$17,000	$17,000
Sue's maximum state tax deduction	no limit	$10,000	$10,000
Sue's DC Ed Investment Fund donation	no fund	no fund	Sue can donate $7,778 to the fund which would equal her $7,000 in additional state tax liability
Sue's state tax credit	no fund	no fund	**$7,000** (at 90% credit rate set in bill)
Sue's federal tax benefit	$6,732 (39.6% tax rate)	$3,700 (37% tax rate)	**$6,578** ($3,700 fed tax benefit + Sue's $7,778 donation at 37% tax rate)
Net benefit to Sue	$6,732	$3,700	**$5,800** ($6,578 fed tax benefit - $778 donation to District)
Net benefit to the District	$0	$0	**$778** (Sue's $7,778 donation – $7,000 state tax credit)