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The District Child Tax Credit proposal

Analysis of DC Councilmember Zachary Parker's new legislation.

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along with eight other councilmember District Child Tax Credit Amendment Act of 2023 (DCTC), which proposes a credit of up to $500 per child for eligible filers, depending on their income and family structure.

This report delves into the DCTC, providing an overview of the credit, examples of how households could be affected, scenario analysis for various filer types, and potential impacts on poverty and income inequality. Additionally, the report contextualizes the DCTC within DC's broader tax-benefit system, highlighting the differences in phase-out structures and eligibility criteria compared to other programs.

U.S.

Policy analysis

The District Child Tax Credit

The DCTC proposes that, starting in the tax year 2026, eligible filers would receive a refundable credit of up to $500 for each qualifying child, up to a limit of three children. Refundable credits can reduce a filer's tax liability below zero, effectively functioning as benefits paid through the tax code, independent of regular tax liability.

Qualifying children are defined as those eligible for the federal Child Tax Credit, which includes children under the age of 17. The bill also proposes reducing the credit by $20 for each $1,000 (or fraction thereof) by which the taxpayer's adjusted gross income exceeds the threshold amount, with different thresholds for single filers ($100,000) and joint returns ($145,000). A taxpayer is ineligible to receive this credit if they do not claim the

Columbia for at least one year prior to

Example household

Consider a household with two children, ages 10 and 16, and an adjusted gross income of $110,000. The DCTC would make them eligible for a maximum credit of $1,000 ($500 per child). However, since their income exceeds the threshold amount for single (head of household) filers by $10,000, the credit falls by $200 ($20 for each $1,000, or 2%). Therefore, the household will receive a final credit of $800.

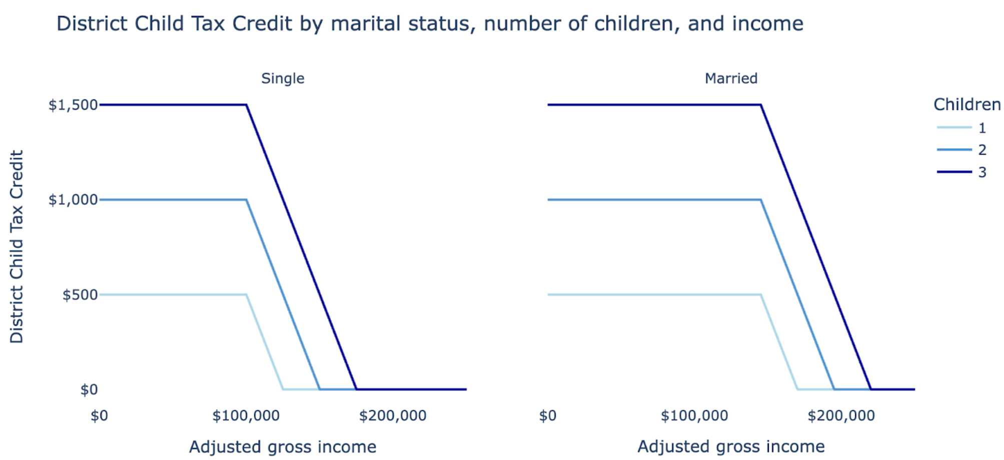
For a single filer with two children, the credit fully phases out if their income reaches $150,000 ($100,000 phase-out threshold + $1,000 credit / 2% phase-out rate = $100,000 + $50,000).

To see how the DCTC would affect your own household, enter your information into our personalized calculator.

Note that our calculator does not reflect the limit of three children or the one-year tenure requirement. It also assumes that your household files taxes together, not married filing separately on the same return.

Scenario analysis

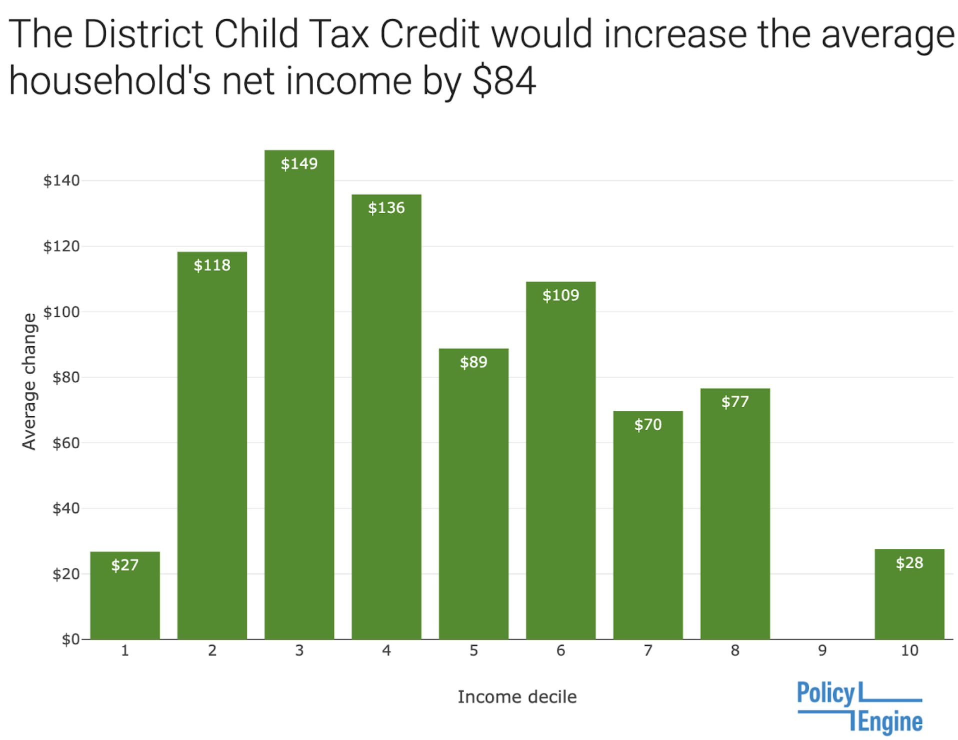
A filer's DCTC depends on their marital status, number of children, and income, as illustrated in the following chart. Applying similar math to the previous section, the credit fully phases out for single filers with one child at $125,000, two children at $150,000, and three children at $175,000. For married joint filers, the credit fully phases



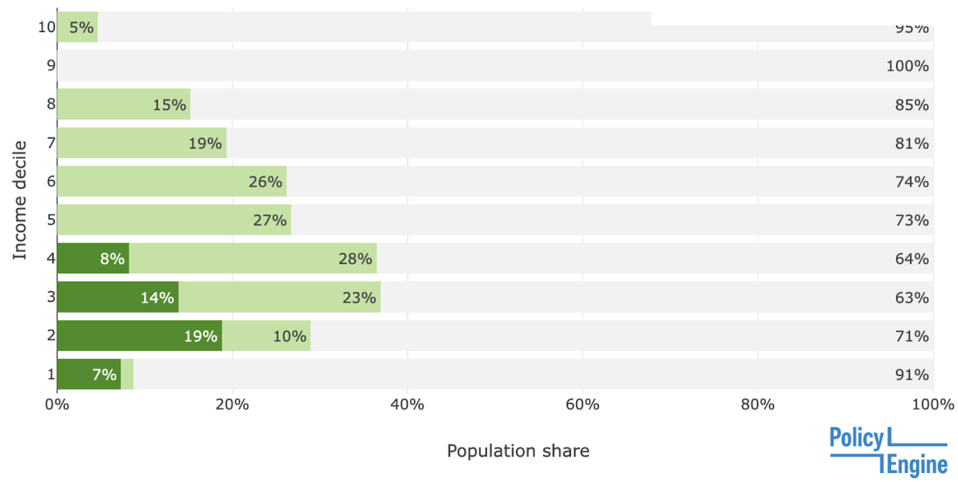
DC-wide impacts

PolicyEngine estimates population-level impacts by pairing its rules engine with representative survey data released by the US Census Bureau. Specifically, it uses the 2021 Current Population Survey March Supplement (CPS), the official source of poverty metrics, and pairs this with policy rules for 2023. Of the 59,148 households in the CPS, 1,135 reside in DC. Given this relatively small sample size, PolicyEngine plans to enhance this dataset in the future, and this will also facilitate farther-out predictions, such as tax year 2026 when the DCTC would take effect. As we have not yet modeled DC income taxes, we also assume that filers apply the same filing status as on their federal return, rather than married couples filing separately on the same return, as DC allows.

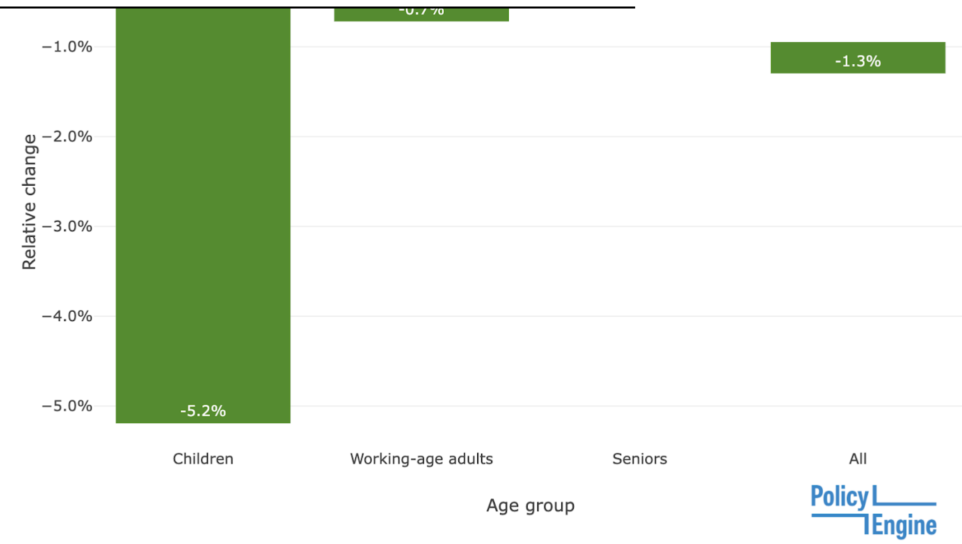
disproportionately to those in the secc
income deciles. Overall, the policy would
reduce income inequality by 0.1–0.2%, depending on the metric.



One in five Washingtonians would benefit from the DCTC, also disproportionately those in the second through fourth income deciles. One in twenty would see their net income rise by at least five percent, including one in five in the second income decile. Those in the bottom decile benefit less because these households have fewer children.



The DCTC would reduce the poverty rate by 1.3%, from 14.0% to 13.8%, as measured by the Supplemental Poverty Measure, which considers taxes, transfers, and local housing costs. Child poverty would fall 5.2%, from 13.8% to 13.0%. PolicyEngine also estimates that the DCTC would disproportionately reduce poverty among men, and that it would not affect deep poverty (people with income below half the poverty line), though these likely result from small sample sizes.



Context of DC’s tax-benefit system

As a refundable tax credit, the DCTC would effectively serve as a benefit paid through the tax system. Some other refundable tax credits and cash benefits in DC include:

- DC Earned Income Tax Credit (EITC), which currently matches 70% of the federal EITC and will match 100% beginning in 2026
- DC Homeowner and Renter Property Tax Credit provides a credit based on property tax or rent paid, age, and income
- DC Keep Child Care Affordable Credit provides a credit based on childcare expenses, children and their ages, and income
- DC Temporary Assistance for Needy Families (TANF), which provides cash assistance to low-income families with children

One difference is the phase out structure. The DCTC phases out more slowly and at a higher income than other DC programs: at 2% of income exceeding $100,000 or $145,000. For comparison, the DC EITC for filers with children phases out at 11–15% of income exceeding $21,560.[1] The Homeowner and Renter Property Credit has a cliff at $57,600 income, or $78,600 for those age 70 or above. The Keep Childcare Affordable Tax Credit also has a cliff, at $157,200 income ($78,600 for married filing separately). TANF too has a cliff at its income limit, which varies with household size (e.g. $712 per month for a family of three). As a result of the DCTC design, it avoids contributing to welfare cliffs.

The DCTC also depends on fewer household characteristics than other programs. The Homeowner and Renter Property Tax Credit depends on rent and property taxes; the Keep Child Care Affordable Credit depends on childcare expenses; TANF depends on assets. The DCTC depends only on children, marital status, and income.

Conclusion

The District Child Tax Credit Amendment Act of 2023 proposes a refundable credit of up to $500 per child. The program would take effect for the 2026 tax year, issuing its first refunds in early 2027.

Given full take-up, PolicyEngine estimates that it would cost about $27 million, reach 20% of the DC population, reduce child poverty by about 5%, and reduce income inequality by 0.1–0.2%. The design of the DCTC, featuring

As PolicyEngine continues to refine its model of other DC programs and improve its microdata, the accuracy of estimates for the DCTC's distributional, budgetary, and incentive effects within the DC public policy environment will also improve. The availability of more data and enhanced capabilities of PolicyEngine could pave the way for future studies, offering additional insights into the potential impact of the DCTC on families in the District of Columbia.

1. The EITC phases out at 15.98% for filers with one child and 21.06% for filers with two or more children. These result in 11–15% when multiplied by DC's 70% multiplier. ↩

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