

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF TAX AND REVENUE



FY 2006 BUDGET SUPPORT ACT TAX LAW CHANGES

The following tax law changes were required by the tax provisions of the Fiscal Year 2006 Budget Support Act.

Income Tax

- **Individual Income Tax Rates**

Tax year 2005: \$0-10,000 – 5%; \$10,001-30,000 – \$500 plus 7.5% of the excess over \$10,000; \$30,001 and above – \$1,900 plus 9% of the excess over \$30,000

Tax year 2006: \$0-10,000 – 4.5%; \$10,001-40,000 – \$450 plus 7% of the excess over \$10,000; \$40,000 and above – \$2,550 plus 8.7% of the excess over \$40,000.

- **Personal Exemption Increase** – An exemption can be claimed for each dependent of the taxpayer whose gross income is less than \$1,500 or who is a child of the taxpayer and has not attained the age of 19 or is a student. (*Effective on tax year 2006 returns*).
- **Standard Deduction** – The deduction under the new law will increase to \$2,500 for a single individual, head of household, surviving spouse, or married person filing jointly. For married person filing separately, the standard deduction will increase to \$1,250. (*Effective on tax year 2006 returns*).
- **Earned Income Tax Credit** – The allowable credit increased from 25 percent to 35 percent of the credit allowed by the IRS. (*Effective for tax year 2005 returns*). Expands credit to non-custodial parent, which is subject to certain conditions. (*Effective for 2006 tax returns*).
- **Income Exclusion for Disabled Persons** – Excludes from the calculation of District gross income, income derived from any source, not to exceed \$10,000 if the person is disabled and has a household adjusted gross income of less than \$100,000. (*Effective on tax year 2006 returns*).

Franchise Tax

- **Corporations and Unincorporated Business** – Tax rates for these entities will remain at 9.975%.

Real Property Tax

- **Residential Property Tax Rate and Tax Cap** – The new law decreases the Class 1 Residential property tax rate to \$0.92 per \$100 of value for FY 2006. The taxable assessment increase factor (tax cap) is reduced from 1.12 to 1.10 percent. (*Effective as of October 1, 2005*).
- **Homestead Deduction Increase** – The new law increases the Homestead deduction from \$38,000 to \$60,000 of the assessed value. (*Effective as of October 1, 2005*).

(continued)

- **Low Income and Senior Property Owners** – The new law indicates that eligible low-income property owners may defer increases from the prior year's real property taxes due and senior households may defer each year's real property taxes. (*Effective as of October 1, 2005*).
- **Limited Equity Cooperative (LEC)** – The new law defines an LEC as one required by a government agency or non-profit to limit the resale price of membership shares to keep the housing affordable for low and moderate income buyers. The assessed value of improved residential real property owned by an LEC is calculated under a three-factor test. (*Effective as of October 1, 2005*).
- **Property Recordation and Transfer Tax Exemption** – The new law expands the existing tax exemptions to include transfers of real property between grandparent and grandchild. (*Effective as of July 26, 2005*).
- **Affordable Housing Preservation** – The new law establishes a new category of property called "resale restricted properties", and places restrictions on the sale or transfer of properties intended for low or moderate income purchasers and establishes assessment of the assessed value of these properties through a specific formula. (*Effective as of October 1, 2005*).
- **Reduced Tax liability for Disabled Property Owners** – The new law creates a new exemption for a deed to residential property to be granted to a trustee for a trust created on behalf of a disabled person or that terminates upon the death of a disabled person. (*Effective as of October 1, 2005*).
- **Historic Housing Credit** – The new law amends existing code by making the allotted credits permanent and eliminates the sunset scheduled to occur after FY 2006. (*Effective as of July 26, 2005*).

Collections

- **Collection Fees** – The new law establishes a Compliance and Real Property Tax Administration Fund for the deposit of collections and tax sales fees. (*Effective as of July 26, 2005*).