DC Can Raise Nearly $200 Million With a Simple Tax on Proceeds from Wealth

By Erica Williams

To solve DC's mounting budget crisis without deepening entrenched racial and economic inequalities, DC lawmakers should tax DC's extreme concentration of wealth to help turn the fiscal tide. DC is not collecting enough revenue to meet growing needs and costs, with the latest revenue forecast projecting a decline by $736 million across the fiscal year (FY) 2027-2030 financial plan, compared to estimates in February.[1] Lawmakers must also confront an annual fiscal cliff of more than $660 million just from the loss of one-time spending alone in FY 2028—a figure that grows larger each year.[2] Failing to raise revenue will mean that thousands of children and residents will lose access to critical services and supports, exacerbating child poverty, economic hardship, and racial disparities in DC.

DC can raise needed revenue and reduce inequities by taxing more of the gains, or proceeds, generated by wealth—such as capital gains, dividends, royalties, and other forms of passive income—through a policy called the Wealth Proceeds Tax (WPT). DC's tax system protects and grows wealth concentration through myriad preferences and loopholes, exacerbating inequality. This special treatment prevents the District from generating the revenue needed to adequately fund programs and services. Applying a tax on proceeds generated from wealth is a simple way for DC to raise hundreds of millions of dollars to help struggling residents withstand the local recession and drastic federal safety net cuts.

The DC Council should adopt B26-0749, Wealth Proceeds Amendment Act of 2026, that Councilmember Nadeau introduced to create a WPT that would be retroactive to tax year (TY) 2026. The measure could raise $200 million in FY 2027, according to the Office of Revenue Analysis's (ORA) preliminary estimates.[3] This publication explains how this tax works at the federal level, how B26-0749 would differ, and who pays.

DC Can Raise Revenue and Improve Equity With a Wealth Proceeds Tax

DC can levy an additional local percentage (or a surcharge) to the federal Net Investment Income Tax (NIIT), as recommended by the Institute on Taxation and Economic Policy (ITEP).[4] Federal lawmakers adopted the NIIT to support implementation of the Affordable Care Act, asking people with passive income, largely from capital gains (e.g., from cashed-in stocks), to pay a 3.8 percent tax on wealth that exceeds a relatively high threshold. The federal NIIT applies only to wealth that exceeds a modified adjusted gross income (MAGI) of $200,000 for single filers and $250,000 for married filers.[5] For example, a resident with $150,000 in wage income and $75,000 in capital gains would owe NIIT on just $25,000 of their capital gains.

DC could add a tax of 3 percent on wealth but at a higher MAGI threshold starting at $400,000 for single filers and $500,000 for married filers to yield substantial new annual revenue, as Councilmember Nadeau proposed. This measure would raise $200 million in FY 2027, according to ORA's preliminary

estimates (*Table 1*). They estimate that the revenue raised from a WPT would be higher in FY 2027 because it would be retroactive to TY 2026, covering almost two tax years, and because those paying the tax would have less ability to avoid it in 2026 (reflecting an overly cautious assumption about behavioral shifts in the outyears).

TABLE 1.

A Wealth Proceeds Tax in DC Would Raise Substantial Revenue, With a Dip in Out Years

Estimated Local Revenue by Fiscal Year, in Millions

DC Wealth Proceeds Tax	FY 2027	FY 2028	FY 2029	FY 2030
3 Percent	$198.8	$115.5	$117.2	$118.9

Source: Preliminary estimates from the Office of Revenue Analysis for Councilmember Nadeau's Wealth Proceeds Tax Amendment Act of 2026, B26-0749, June 2026.

In addition, a WPT would help DC recoup some of the revenue lost from the massive tax breaks that went to DC's wealthiest households under the One Big Beautiful Bill Act (OBBBA).[6] Over 70 percent of the nearly $1.4 billion in federal tax cuts to DC went to families within the top 20 percent of incomes and 42 percent went to the top 5 percent alone, which are predominantly white families in DC.[7] Federal lawmakers paid for those tax cuts in part through severe cuts to health care, food assistance, and other critical programs DC residents rely on, all of which puts massive pressure on DC's budget.[8] This coincided with mass federal layoffs that are reducing DC revenue and lawmakers' ability to maintain local basic needs programs. A local WPT would help offset these losses and the increased tax inequity fueled by federal tax cuts.

A Wealth Proceeds Tax Would Largely Apply to Very Wealthy, Predominantly White Households

The WPT would largely fall on very wealthy residents. Approximately 98 percent of the new revenue would come from households with incomes over $1 million, according to ITEP's rough but reasonable estimates based on Internal Revenue Service data (*Figure 1*).[9]

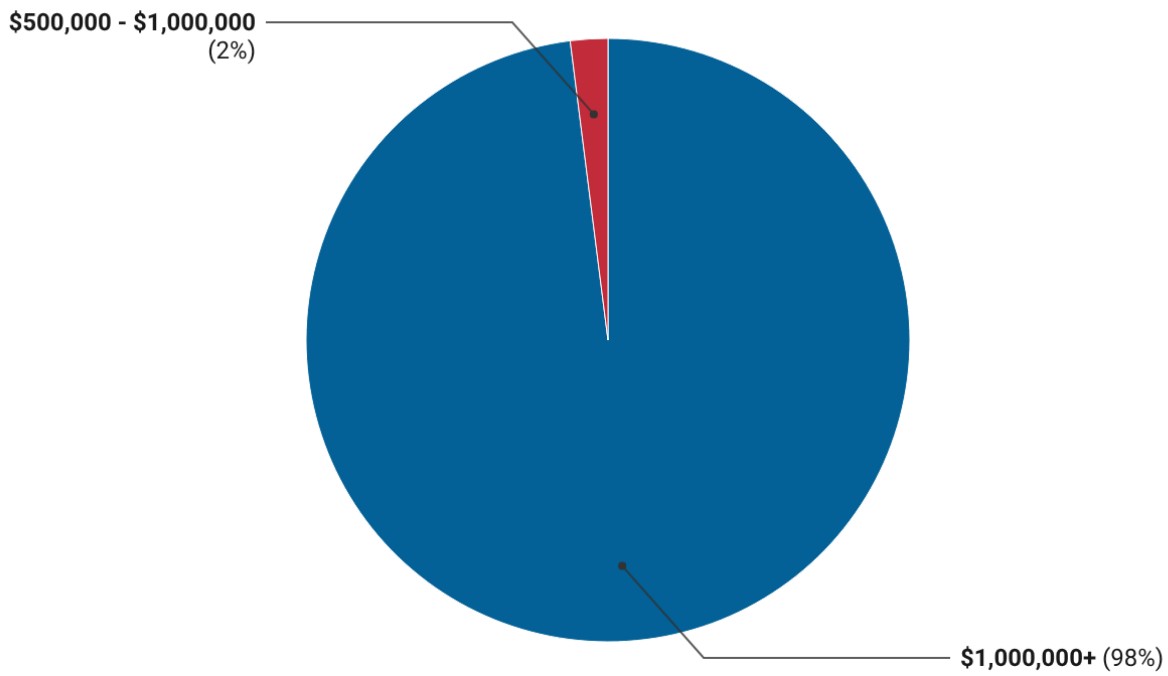
Further, estimates also show that, on average, the share of overall income paid in local taxes by taxpayers in the top 1 percent of the income distribution—households with incomes over $1.4 million and on average $4.7 million—would barely budge under a WPT, rising by just 0.56 percent, according to unpublished ITEP analysis using their new income simulation. Even with a small increase in taxes owed by the top 1 percent, taxpayers in that income group would still have lower taxes relative to last year because they are on average receiving a 1.1 percent decrease in federal taxes owed as a share of their income under the aforementioned OBBBA tax breaks.[10]

This tax would advance racial equity. A history of racist policies that denied Black and non-Black people of color wealth-building opportunities has meant that high levels of wealth in DC and nationally continue to be predominantly held by white people. Nationally, 82 percent of stocks—which make up the lion's share of capital gains—held by people with incomes above the NIIT thresholds are held by white people, while just 0.5 percent of those stocks are held by Black people and 0.5 percent are held by Hispanic people, according to ITEP.[11]

FIGURE 1.

A Wealth Proceeds Tax Would Largely Apply to Very Wealthy Households

The Percent of the Tax Increase Falling on Each Income Group



ITEP estimates the vast majority of filers paying NIIT at this range of income are married, and they expect few single filers in the $400,000 to $500,000 range would pay a local version of this tax.

Source: ITEP's "rough but reasonable" estimates based on tabular Internal Revenue Service data. • Created with Datawrapper

Below are examples of how a 3 percent wealth proceeds tax would work under B26-0749's higher MAGI thresholds and who would and would not pay it:[12]

For those with small amounts of wealth, the tax would be very small…

> Example 1: A married couple with joint earned income of $425,000 and realized capital gains of $90,000, or $515,000 in combined earned and passive income, would pay 3 percent on the $15,000 of their wealth that exceeds the $500,000 NIIT threshold. This couple would pay $450 in the DC WPT under a joint return.

For those with vast amounts of wealth, the tax would still be manageable relative to their income…

> Example 2: A single person with earned income of $2,000,000, and another $1,500,000 in passive income derived from realized capital gains, would pay 3 percent of the $1,500,000 in wealth-derived income (all of which exceeds the $400,000 NIIT threshold), or $45,000. That's 1.3 percent of their total income.

For those with one-time inherited wealth, the tax may not apply…

Example 3: A married couple with $250,000 in income and $300,000 from the sales of newly inherited stocks from a deceased parent, which are sold before they appreciate, would not pay any tax on the $50,000 in gains that exceeds the $500,000 threshold. That's because under current law, a person inheriting wealth does not pay on any of the gains accrued before they held the asset(s).

For those below the NIIT threshold, the tax does not apply at all…

Example 4: A single person has earned income of $75,000 and proceeds from the sale of an inherited home from a deceased parent of $500,000, with $275,000 of those proceeds reflecting gains accrued by the deceased parent and $225,000 reflecting gains accrued to them since inheriting the home. This person has a total income of $575,000 but still would not owe the wealth proceeds tax. That's because, under current law, they would not owe tax on any gains accrued to the home while owned by their parent. In addition, the gains accrued under their ownership of the home ($225,000) before the sale plus their earned income ($75,000) do not exceed the $400,000 threshold.

A Wealth Proceeds Tax Would Be Simple to Administer

Taxing wealth through a surcharge on an already existing federal tax would also be simple to implement. DC can piggyback on federal tax filings simply by adding a local tax, which minimizes administrative costs for both taxpayers and the Office of Tax and Revenue. The federal government already defines what counts as wealth-derived passive income, so DC can simply adopt that framework. And DC would not be the first jurisdiction to do this. In 2023, Minnesota decided to piggyback on the federal NIIT, using a straightforward law to tax wealth.[13] The state is now generating substantial new revenue.

Increased Local Taxes on the Top Will Not Lead to Mass "Tax Flight"

Progressive state taxes do not lead to a meaningful level of "tax flight" among top earners, evidence shows. The myth that increased taxes will drive mass flight of high-earning residents has survived on cherry-picked anecdotes and research has disproven this claim many times over.

For example, a groundbreaking study by Cristobal Young on taxes and millionaire migration—which examined the tax returns for every household reporting income of at least $1 million between 1999 and 2011—fully debunks the notion that millionaires flee en masse from higher- to lower-tax states.[14] In fact, millionaires have a slightly lower migration rate (2.4 percent) than the general population (2.9 percent). In a given year, just 0.3 percent of all US millionaires are motivated to move to another state for lower taxes, and if millionaires who move to Florida were excluded, that rate would drop to roughly 0.07 percent.[15] Young's later update to this analysis with 2016 to 2019 data, largely produced the same findings. The rate of millionaire migration was unchanged. For the millionaires who did move, they were more likely to move to states with lower-than-average taxes due to the capping of the deduction for state and local taxes paid under the Tax Cuts and Jobs Act (TCJA), which affected millionaires in higher tax states the most.[16] The TCJA didn't increase migration, but it made lower tax states more attractive for millionaires who moved.[17]

Importantly, Young's research shows that the magnitude of the effects of taxes on migration would need to be 8 to 15 times higher for it to be a relevant consideration in tax policy decisions. In fact, Young estimates that the combined federal and state top marginal income tax rate needs to reach 68 percent to induce a problematic level of millionaire tax flight.[18] Moreover, because of the small number of millionaires who move based on taxes, revenue raised through a tax increase affecting millionaires would exceed any revenue loss from those moves.

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[1]Glen Lee, "September 2026 Revenue Estimates," Office of Chief Financial Officer, September 30, 2026.
[2] DC Council Chairman's Letter on the Local Budget Act to Mayor Bowser on July 29, 2026.
[3] "Wealth Proceeds Tax Amendment Act of 2026," B26-0749, July 8, 2026. And, preliminary estimates from the Office of Revenue Analysis for B26-0749.
[4] Sarah Austin and Carl Davis, October 30, 2025, "The Wealth Proceeds Tax: A Simple Way for States to Tax the Wealthy," Institute on Taxation and Economic Policy.
[5] "Questions and Answers on the Net Investment Income Tax," Internal Revenue Service, webpage updated September 13, 2025.
[6] "Trump Tax Law: Research and Resources," Institute on Taxation and Economic Policy, May 2, 2025. See both the downloadable spreadsheet and graphic for the District of Columbia.
[7] *Ibid.*
[8] Erica Williams, May 16, 2025, "US House Details its Cruel Plan to Take Food and Health Care from the Poor to Give to the Rich," DC Fiscal Policy Institute.
[9] This reflects an across-the-board $500,000 threshold for all filing statuses due to data limitations. ITEP estimates the vast majority of filers paying NIIT at this range of income are married, and they expect few single filers in the $400,000 to $500,000 range would pay a local version of this tax.
[10] Steve Wamhoff *et al.,* "Analysis of Tax Provisions in the Trump Megabill as Signed into Law: National and State Level Estimates," Institute on Taxation and Economic Policy, July 7, 2025.
[11] Sarah Austin and Carl Davis, October 30, 2025, "The Wealth Proceeds Tax: A Simple Way for States to Tax the Wealthy," Institute on Taxation and Economic Policy. See footnote 27.
[12] For additional examples of who the federal NIIT applies to, see: "Questions and Answers on the Net Investment Income Tax," Internal Revenue Service, webpage updated September 13, 2025.
[13] 2024 Minnesota Statutes, Section 290.033, "Net Investment Income Tax," accessed February 2026. In addition, other states may follow suit with bills in Hawaii, Virginia, Vermont, Indiana, Colorado, New Mexico, and New York.
[14] Cristobal Young, "The Myth of Millionaire Tax Flight: How Place Still Mattes for the Rich," Stanford University Press, 2017.
[15] DCFPI's calculation based on Young's methods and data in a presentation on his book's findings. See slides 28-32 and slide 40 here.
[16] *Ibid,* see slide 47.
[17] Cristobal Young and Ithai Lurie, "Taxing the Rich: How Incentives and Embeddedness Shape Millionaire Tax Flight," Washington Center for Equitable Growth, Working Paper Series, July 2022.
[18] Cristobal Young, "Millionaire Migration and Taxation of Top Incomes: Evidence from Big Administrative Data," A Presentation for the DC Tax Revision Commission, accessed October 25, 2023. See slide 44.