

The Differences Between VA, MD, and DC Taxation

Did you just get a great job offer or are thinking of relocating your practice to better serve your clients? If you're considering moving to or within the Washington DC area, you'll likely be comparing the costs of living in DC proper to opting for nearby Virginia or Maryland. Personal circumstances like commutes and lifestyle choices are often the determinants for deciding which is the best state to move to, but taxes also need to be considered if you're looking to save money on state income taxes in the face of the 2018 tax reform. Here are some of the most crucial differences in the ways that the three states will tax your income.

Income Tax Rates

Of the three states, Washington DC has the highest income taxes. As of 2018, there are six income tax brackets ranging from 4% to 8.95%.

- 4% on the first \$10,000 of taxable income
- 6% on taxable income between \$10,001 and \$40,000
- 6.5% on taxable income between \$40,001 and \$60,000
- 8.5% on taxable income between \$60,001 and \$350,000
- 8.75% on taxable income between \$350,001 and \$1,000,000
- 8.95% on taxable income of \$1,000,001 and above.

Maryland has eight income tax brackets ranging from 2% to 5.75% for 2018:

- 2% on the first \$1,000 of taxable income
- 3% on taxable income between \$1,001 and \$2,000
- 4% on taxable income between \$2,001 and \$3,000
- 4.75% on taxable income between \$3,001 and \$100,000
- 5% on taxable income between \$100,001 and \$125,000
- 5.25% on taxable income between \$125,001 and \$150,000
- 5.5% on taxable income between \$150,001 and \$250,000
- 5.75% on taxable income of \$250,001 and above.

Virginia has four income tax brackets ranging from 2% to 5.75% for 2018:

- 2% on the first \$3,000 of taxable income
- 3% on taxable income between \$3,001 and \$5,000
- 5% on taxable income between \$5,001 and \$17,000
- 5.75% on taxable income of \$17,001 and above.

Of the three states, Maryland has the lowest state income tax rates for most middle-income taxpayers which come out to roughly half of the taxes you'd pay living in DC proper. For taxpayers earning more than \$250,000 per year, both Maryland and Virginia will tax you at the same exact rate which is still about 3% less than what one would pay as a DC resident. However, since Maryland also has taxes at the county and/or city levels, the total state and local income taxes would be very similar to what you would pay in Virginia although still less than DC.

Specific Income Tax Items

For Washington DC residents, if your taxable income is \$50,500 or less (\$61,900 or less if you are age 70 or older) you can get a tax credit of up to \$1,025 for 2018 based on your rent or property taxes with an exception for public housing or property owned by nonprofits or houses of worship. For retirees considering moving to DC, Social Security benefits aren't taxed at the state level and the first \$3,000 of pension income from the military as well as DC and federal governments is also tax-free.

Virginia doesn't have as many additional tax benefits as other states do but has a relatively simple income tax structure. Maryland, however, has more complex local income taxes in addition to a variety of credits and deductions. There is also a 1.75% nonresident tax in addition to your standard Maryland state income tax if you operate a business or have rental property in Maryland. If you live in Virginia, DC, West Virginia, or Pennsylvania however and your only source of income in Maryland is wages, then you don't have to file a nonresident tax return and pay this tax.

Maryland has a tax credit for childcare expenses based on a percentage of your federal Child and Dependent Care Credit. There is also a state-level tuition relief tax credit for Maryland public school teachers and teachers who work in state or local correctional or juvenile facilities and are paying for higher education expenses. Physicians and nurse practitioners working in counties with workforce shortages can also claim a tax credit for education. Certain student loan borrowers can get a refundable tax credit if they owe more than \$20,000 in student debt and obtain certification from the Maryland Higher Education Commission.

Sales Tax

The general sales tax rate in Washington DC is 5.75%. In addition to hotel and commercial parking taxes, there is a specific 10% tax for food eaten or taken out of restaurants, rental cars, calling cards, and alcohol. Most goods are taxed at the general rate except groceries, prescription and over-the-counter drugs, and residential utilities.

Maryland's general sales tax rate is 6% with no additional local rates. Most tangible goods are taxed except for food sold in grocery stores and prescription drugs. Purchases made out of state are subject to a 6% use tax unless the business has a physical location or delivers services in-state.

Virginia's general sales and use tax rate is 4.3% with a 1% additional local sales tax. Most purchases in Virginia are subject to this 5.3% sales tax while some localities in Northern Virginia and Hampton Roads charge 6% due to the 0.7% additional tax imposed in those areas. Some food items are subject to sales tax but at a reduced base rate of 1.5%, making it 2.5% after accounting for local tax. Use taxes apply to purchases over \$100 made out of state throughout the year.

Estate Tax

In Washington DC, an estate tax return is required if your gross estate is worth \$1 million or more. There is no inheritance tax.

Maryland residents with estates worth \$4 million or more as of 2018 need to pay estate taxes. As of 2019 and onward, the federal estate tax thresholds will be used. There is also an inheritance tax paid to the Register of Wills which can be used to reduce the amount of estate tax owed. This tax is based on the value of the property the decedent left to certain beneficiaries (other than their spouse.)

Virginia repealed their estate tax in 2007 and does not collect inheritance tax.

At the end of the day, lifestyle considerations, the housing market, and proximity to your job or business are likely to guide your decision on where to live. If you're considering moving to the metro DC area, you should be aware of the different tax environments that DC, Maryland, and Virginia impose on their residents to make the best choice congruent to your finances and lifestyle.