DC Tax Revision Commission

Tax Overview

Final Report
May 2014

TAX OVERVIEW

THE DISTRICT'S TAX SYSTEM

Introduction

The District of Columbia took in $6.1 billion in tax revenue in fiscal year 2013.[29] Among the District's taxes are those traditionally collected by states (e.g., individual income taxes and sales taxes) and those traditionally collected by localities (e.g., real property taxes).

The District is often described as a "high-tax" jurisdiction due to some high statutory tax rates and large per capita tax revenue. But other District tax rates are the *lowest* in the Washington region. Thus, different District taxpayers, both residents and businesses, face very different tax burdens.

This chapter analyzes the District's overall tax system and then examines specific taxes.[30] Throughout this review, the District's taxes are compared with the *combined* state and local taxes of other jurisdictions, including those in the greater Washington region.

The chapter begins by describing the District's per capita tax revenue (total tax revenue divided by population), which serves as a broad measure of tax burden. The District has the second-highest per capita tax revenue among states. However, the tax liability of a typical District resident is average or even low when compared with similar residents in other Washington region jurisdictions,[31] in part because nearly half of the District's total tax revenue comes from business taxes. The first section of this chapter puts this tax burden into context.

The chapter's second section examines the tax distribution as a share of District residents' income. Distribution tables show that District taxes as a share of income increase from the lowest-income quintile to the middle-income quintile, making the system progressive in this range. But the tax burden then falls from the middle-income group to the highest-income group, making this range of the District's tax system regressive. The rise and fall of tax liabilities over income ranges suggest that the District's middle-class residents are disproportionally burdened.

The third section of this chapter details the major District taxes examined by the Commission. Those taxes by total revenue are:

DC Taxes Studied by the Commission		
DC Tax	**FY 2013 Revenues**	**Percent of FY 2013 Tax Revenue**
Real Property (Residential and Commercial)	$1,914,840,000	31.4%
Individual Income	$1,640,899,000	26.9%
General Sales and Use	$1,137,892,000	18.6%
Business Franchise	$298,983,000	4.9%
Unincorporated Business Franchise	$154,297,000	2.5%
Deed Recordation	$208,568,000	3.4%
Deed Transfer	$152,889,000	2.5%
Estate	$39,700,000	0.6%
Personal Property	$54,878,000	0.9%
Ballpark Fee (Gross Receipts)	$29,234,000	0.5%

Source: Office of Revenue Analysis, Office of the Chief Financial Officer

[29] All District revenue numbers in this chapter are from the Office of the Chief Financial Officer's Feb. 26, 2014, revenue estimate.
[30] This chapter relies heavily on the expert papers and presentations delivered to the Commission. Those papers and presentations are available on the Commission's website, www.dctaxrevisioncommission.org.
[31] "Tax Rates and Tax Burdens 2012: Washington Metropolitan Area," Office of Revenue Analysis, December 2013.

Many individuals and businesses are NOT INCLUDED in the District's tax base, shifting a GREATER BURDEN to existing taxpayers.

The District's taxes are divided in this section between taxes paid by residents (income, estate, residential property, deed, and sales) and taxes paid by businesses (business franchise, gross receipts, personal property, commercial property, and deed). This section describes the base and rate for the major taxes paid by District residents and businesses—and compares them with similar taxes in Maryland, Virginia, and throughout the country.

Some of the comparisons are favorable. For example, the District has the lowest residential property tax and general sales tax rates of any jurisdiction in the Washington region. But other comparisons are unfavorable. The District's business franchise tax rate is the third highest in the United States, surpassing the rates in Maryland and Virginia. (However, neighboring jurisdictions in Virginia levy a broad gross receipts tax on business income that can be substantial, while the District does not.) The District's commercial property tax rate is the highest in the Washington region.

This section of the report also highlights who is *not* paying District taxes. There are two large gaps in the District's tax base. The first stems from the Home Rule Act, which prevents the DC Council from imposing "any tax on the whole or any portion of the personal income…of any individual not a resident of the District."[32] In other words, the District cannot directly or indirectly tax the income of commuters. The Home Rule Act exempts partnerships of professionals (such as doctors, lawyers, engineers, and accountants) from the city's unincorporated business franchise tax.[33] The second gap results from the large number of government agencies and departments, educational institutions, and nonprofit organizations that are exempt from District property taxes. These gaps mean that District residents and private businesses that pay taxes must shoulder a greater burden.

Overall, the Commission found three major areas of concern in the District tax system:

1. Middle-class residents pay a relatively large share of their incomes in District taxes.
2. The District's business franchise tax and commercial property tax rates are the highest in the region and among the highest in the nation (although a comparison of the burden from all business taxes is less clear). These tax rates may fuel a perception problem.
3. Many individuals and businesses are not included in the District's tax base, shifting a greater burden to existing taxpayers.

[32] DC Code § 1-206.02.
[33] *Bishop v. District of Columbia*, 401 A.2d 955 (D.C. 1979).

COMPARISON OF DC TAX RATES

Regional Comparison of Major Tax Rates			
	DC	Maryland	Virginia
Top Individual Income Tax Rate	8.95%[34]	8.95%[35]	5.75%
Business Franchise Tax Rate	9.975%	8.25%	6.00%
General Sales Tax Rate[36]	5.75%	6.00%	6.00%[37]
Top Estate Tax Rate	16.00%	16.00%	No Tax

Residential Property Tax Rate Comparison						
	DC	Montgomery County	Prince George's County	Alexandria	Arlington County	Fairfax County
Tax Rate per $100	$0.85	$1.068-$1.641	$1.431-$2.921	$1.033	$0.958	$1.096-$1.213

Source: DC Fiscal Policy Institute

Commercial Property Tax Rate Comparison[38]							
	DC	Bethesda	Silver Spring	Alexandria	Rosslyn	Tysons	Reston
Tax Rate per $100	$1.65/$1.857	$1.201	$1.271	$1.033	$1.118	$1.085	$1.085
Total Tax Rate[39]	$1.762/$1.879	$1.246	$1.316	$1.038	$1.334	$1.480	$1.477

Source: Downtown DC Business Improvement District

[34] The District's top individual income tax rate is scheduled to expire on Dec. 31, 2015, and fall to 8.5 percent.
[35] Maryland's top individual income tax rate combines the state's top income tax rate (5.75 percent) and the county's flat income tax rate (3.2 percent) in both Montgomery County and Prince George's County. Other Maryland counties have a lower county income tax rate.
[36] This is the sales tax rate for most goods and some services. The District, Maryland, and Virginia also have special sales tax rates for specific transactions. The District's special tax rates, for example, cover restaurant meals (10 percent), transient accommodations (14.5 percent), and private parking (18 percent).
[37] This is the sales tax rate in Northern Virginia. The Virginia state sales tax rate is 5.3 percent. The counties and cities in the Northern Virginia Transportation Authority add 0.7 percent to the sales tax rate.
[38] The commercial property tax rate in the District is split: The first $3 million of assessed value is taxed at $1.65 per $100 and the value above that threshold is taxed at $1.85 per $100.
[39] The "total tax rate" includes other commercial property taxes such as the Business Improvement Tax, Stormwater Tax, Transportation Tax, Metro Silver Line Special Assessment Tax, and Tysons Service District Tax. Taxes owed vary by jurisdiction. Rates provided by the Downtown DC Business Improvement District, March 2014.

SECTION 1: THE DISTRICT'S PER CAPITA TAX REVENUE

The District Collects a High Level of Tax Revenue Compared With States

Traditionally, there are two methods for measuring and comparing combined state and local tax revenue: per capita and as a percentage of personal income. When applied to the District, both measurements suggest that tax revenues are high relative to states.[40]

The District collected $8,687 in per capita tax revenue in fiscal year (FY) 2011,[41] a total that exceeded nearly every state's combined state and local per capita tax revenue that year.[42] The total also was well above the national average of $4,298. Maryland's per capita tax revenue was also above the national average at $4,982, ranking 11th in the country. Virginia's per capita tax revenue was $3,971, below the national average and the 28th highest among the states.

Measured as a percentage of personal income, the District's revenue is the seventh highest relative to the combined state and local tax revenues of states.

FY 2011 Comparison of Total State & Local Tax Revenue

	Per Capita	Percentage of Personal Income
DC	$8,687 (2)	11.8% (7)
Maryland	$4,982 (11)	9.8% (29)
Virginia	$3,971 (28)	8.6% (46)
U.S. Average	$4,298	10.3%

Source: Census Bureau
Note: State rank is in parentheses.

Why is the District's Per Capita Tax Revenue Comparatively High?

The District's per capita tax revenue is a function of the District's relatively rich tax base–high per capita income, strong property values (particularly commercial property), and substantial levels of consumption by tourists and commuters–and the District's relatively high effective tax rates.[43] But, out of context, per capita tax revenue can mislead.

The District is a city and, as such, it should be compared to a city, not a state. An urban area typically has a richer tax base and higher spending demands than a rural community. And while the District's population is 100 percent urban, a typical state is only 80.7 percent urban.[44] Thus, all states have a per capita tax revenue statistic that is averaged across both urban and rural areas. For example, Pennsylvania's per capita tax revenue is determined by averaging the tax bases and effective tax rates across Philadelphia, Harrisburg, all other urban localities, and all rural areas throughout the state. Unfortunately, there are no publicly available studies that calculate the state and local per capita tax revenue for Philadelphia (or any other urban locality).

Furthermore, a state's per capita tax revenue adds all taxes levied by states and localities, not just taxes on residents. For example, Alaska posted the highest per capita tax revenue of any state in FY 2011 because of tax revenue from severance taxes, which are imposed for the extraction of natural resources.[45] Alaska does not have an individual income or sales tax, so its direct taxes on residents are comparatively low. The District does not have natural resources, but it does have the nation's capital, which generates significant business activity and business taxes. Indeed, business taxes bring in nearly half of the District's tax revenue. [46] This helps explain how the District has high per capita tax revenue but a relatively low tax burden for some residents. In fact, the DC Office of Revenue Analysis (ORA) estimates that a typical three-person family earning $50,000 pays $3,579 in major District taxes (income, property, sales, etc.). That is well below the District's per capita tax revenue of $8,687. [47]

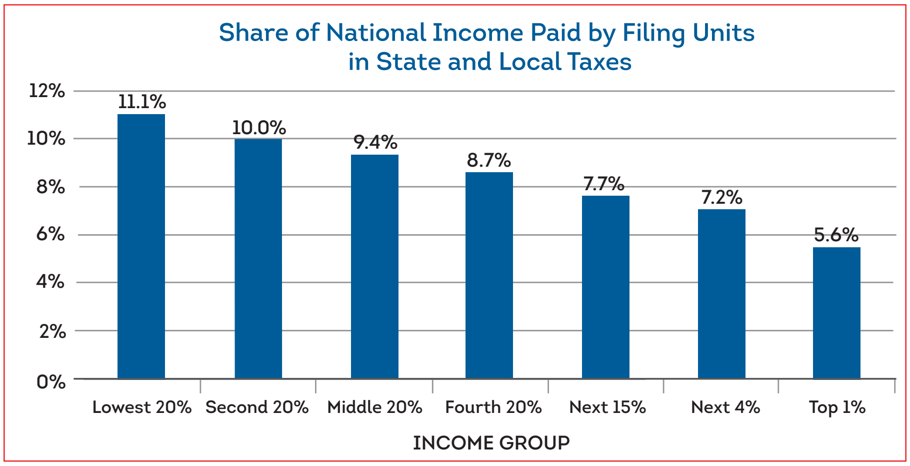
Thus, per capita tax revenue fails to adequately reflect the tax burden on District residents.

[40] We compare the District to the combined state and local tax revenue of states because the District collects both types of taxes. The per capita and percentage measurements are from the U.S. Census Bureau as presented by the Tax Policy Center's website.
[41] This is the most recent year that comparison data are available from the U.S. Census Bureau.
[42] Alaska is the only state with higher per capita tax revenue than the District.
[43] Yilmaz, Yesim and Robert Zahradnik, "Measuring the Fiscal Capacity of the District of Columbia–a comparison of revenue raising capacity and expenditure need Fiscal Year 2005," October 2008.
[44] 2010 Census.
[45] O'Sullivan, Sheila, Lynly Lumibao, Russell Pustejovsky, Tiffany Hill and Jesse Willhide, "State Government Tax Collections Summary Report: 2012," U.S. Census Bureau, April 11, 2013.
[46] Calculations by Norton Francis for FY 2012. These data are available in his paper prepared for the Commission, "Business Franchise Taxes in the District of Columbia."
[47] "Tax Rates and Tax Burdens 2012: Washington Metropolitan Area," Office of Revenue Analysis, December 2013.

SECTION 2: HOW MUCH DO DISTRICT TAXES COST RESIDENTS?

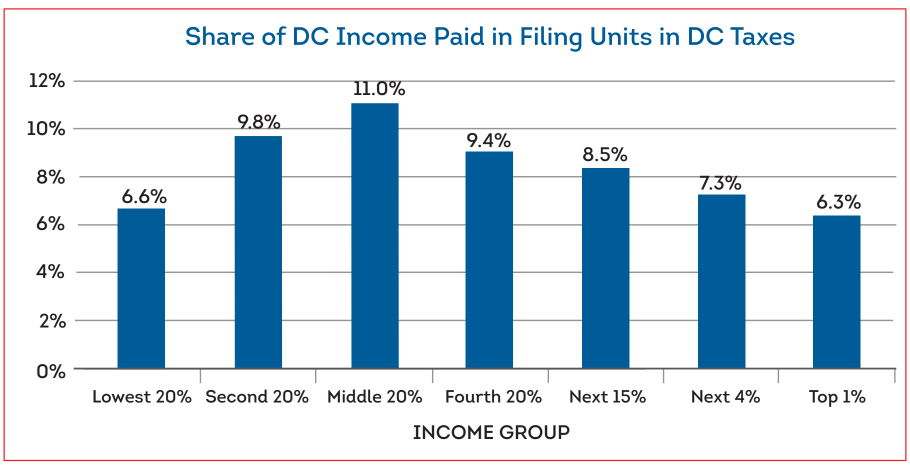
The Institute on Taxation and Economic Policy (ITEP), a non-partisan research organization, calculates the share of income paid in state and local taxes by different income groups. ITEP estimates both the cost of taxes paid directly by individuals (e.g., sales taxes) and the cost of business taxes passed through to individuals via higher prices.[48]

ITEP concludes that "nearly every state and local tax system takes a much greater share of income from middle- and low-income families than from the wealthy" and, therefore, most tax systems are regressive.[49] In fact, on a national average, the lowest income quintile pays 11.1 percent of its income in state and local taxes, the highest share of any income group.[50] Each successive income group pays a smaller share of income in state and local taxes, with the middle 20 percent paying 9.4 percent and the top 1 percent of earners paying 5.6 percent.



Source: Institute on Taxation and Economic Policy

The District, however, is cited by ITEP as having one of the "least regressive" tax systems in the nation.[51] District residents in the lowest-income quintile pay 6.6 percent of their income in District taxes. Furthermore, taxes as a share of income rise from the lowest-income quintile to the middle-income quintile, making the tax system progressive at these levels.



Source: Institute on Taxation and Economic Policy

However, tax liabilities as a share of income then fall from the middle-income group to the highest income group. The middle quintile pays 11 percent of its income in District taxes, while the top 1 percent group pays 6.3 percent. The rise and fall of tax liabilities over the income range disproportionately burdens the District's middle-class residents. Indeed, the tax burden for middle-class residents is relatively large when compared both to that of the District's high-income residents and that of middle-income residents in other states.

[48] ITEP uses a micro-simulation model that calculates by income group the revenue yield and incidence of federal, state, and local taxes. The model comprises five areas: the personal income tax model (including special rates for capital gains, exclusions of various income, deductions, credits, etc.), the consumption tax model (including more than 250 base items), the property tax model (both residential and business), the corporate income tax model, and local taxes (an aggregation of statewide revenue). Federal deductions for state and local taxes are subtracted from the tax burden. The micro-simulation model uses income data from 2010 and tax laws as of Jan. 2, 2013. The full report, including the study's methodology, is available at: http://www.itep.org/whopays/

[49] Institute on Taxation and Economic Policy, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Fourth Edition, January 2013, p. 2.

[50] The ITEP study is limited to non-elderly taxpayers because many states offer special consideration to older taxpayers. Please see p. 18 of the ITEP report for more detail.

[51] "Who Pays?" p. 5.

A comparison of tax distributions is inherently difficult because no two jurisdictions have the same income distribution. That said, the lowest three income quintiles are relatively uniform, especially within the District, Maryland, and Virginia.

The tax burden for District residents in the lowest-income quintile (below $22,000) is comparatively low. In only two states (Montana and Delaware; neither state has a sales tax) is the share of income paid to state and local taxes for this income group lower. District residents in this group pay a far smaller share of their income in taxes (6.6 percent) than do residents in the lowest-income quintiles in Maryland (9.7 percent) and Virginia (8.6 percent).

Tax Distribution Comparison

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
DC	6.6%	9.8%	11.0%	9.4%	8.5%	7.3%	6.3%
Maryland	9.7%	9.5%	9.9%	9.1%	8.0%	8.3%	6.4%
Virginia	8.6%	8.2%	8.2%	7.9%	6.9%	6.7%	4.9%
U.S. Average	11.1%	10.0%	9.4%	8.7%	7.7%	7.2%	5.6%

Source: Institute on Taxation and Economic Policy
*Note: Income groups are not the same in each state.

By contrast, the tax burden for District residents in the middle-income quintile (between $38,000 and $62,000) is comparatively high. In only three states (New York, Hawaii, and Arkansas) is the share of income paid in state and local taxes for this income group higher than in the District. These District residents pay a greater share of income in state and local taxes than comparable residents in Maryland (9.9 percent) and Virginia (8.2 percent).

SECTION 3: DESCRIPTION AND COMPARISON OF MAJOR DISTRICT TAXES

Major District Taxes Paid by Residents

Individual Income Tax

The District has eight filing statuses, compared with six in Maryland, three in Virginia, and five on the federal tax return. All District taxpayers, regardless of filing status, use the same four individual income tax brackets—with rates increasing as income rises. By contrast, many states and the federal income tax use different tax brackets for single filers and married couples filing jointly.

DC Individual Income Tax Rates

Taxable Income	Tax Rate
$0 to $10,000	4%
$10,001 to $40,000	6%
$40,001 to $350,000	8.5%
$350,001 and above	8.95%

A District resident pays a 4 percent tax on his or her first $10,000 of taxable income (i.e., after deductions and exemptions), 6 percent on taxable income between $10,001 and $40,000, 8.5 percent on taxable income between $40,001 and $350,000, and 8.95 percent on all taxable income above $350,000. The 8.95 percent rate and bracket are scheduled to expire on Dec. 31, 2015, at which time all taxable income above $40,000 will be taxed at 8.5 percent.

In a paper for the Commission, Professor Robert Buschman of Georgia State University examined the District's individual income tax. He found that the "current [income tax] structure is steeply progressive at the low end of the income scale."[52] The relatively high 8.5 percent tax rate that District residents pay on a relatively low amount of taxable income (above $40,000) is, in part, why middle-class residents have such a disproportionate tax burden.

The District's individual income tax brackets have changed significantly during the past 15 years. Tax rates were lowered and tax brackets were broadened. In 1999, the first $10,000 of taxable income was taxed at 6 percent, taxable income between $10,001 and $20,000 was taxed at 8 percent, and taxable income greater than $20,000 was taxed at 9.5 percent.

[52] Buschman, Robert D., "The District of Columbia Individual Income Tax: Structure, Competitiveness, and Potential Improvements," July 2013, p.IV.

The number of income brackets varies across states. Seven states have just one tax bracket, a flat rate; the state of Hawaii has the greatest number of tax brackets with 12. Maryland has eight income tax brackets and Virginia has four. The highest state marginal income tax rate is currently in California, where taxpayers pay a 13.3 percent tax on all taxable income above $1 million. On the other end of the spectrum, seven states have no state income tax.[53]

The top marginal state income tax rate in Maryland is 5.75 percent. It applies to all taxable income above $250,000 for single filers and $300,000 for married couples filing jointly.[54] Additionally, residents in Maryland (as in many other states) pay a local income tax. For example, both Montgomery County and Prince George's County residents pay an additional flat 3.2 percent county income tax on all taxable income, creating a combined 8.95 percent top rate in these Maryland counties. Virginia's top state marginal income tax rate is 5.75 percent on all taxable income above $17,000. Virginia levies no local individual income taxes.

The District offers a standard deduction of $4,100 for all filers and a $1,675 personal exemption. Married couples filing jointly, head of household filers, taxpayers ages 65 and older, and blind taxpayers receive two personal exemptions from the District for a total exemption of $3,350. The District limits itemized deductions as income increases; a taxpayer earning more than $200,000 in adjusted gross income (AGI) must reduce his or her itemized deductions by an amount equal to 5 percent of AGI over $200,000. For tax years beginning in 2013, there also is a federal limitation on itemized deductions (see chart). Thus, the itemized deductions of District residents with an AGI above the federal threshold will be reduced twice. The District does not phase out personal exemptions.

Comparison of Standard/Itemized Deductions and Personal Exemptions[55]

	DC	Maryland	Virginia	Federal[56]
Standard Deduction	$4,100	$2,000 (single, head of household); $4,000 (married)	$3,000 (single); $6,000 (married)	$6,100 (single); $8,950 (head of household); $12,200 (married)[57]
Itemized Deduction Limitation	After federal limitation, reduced by 5% of AGI above 200,000	Reduced by 3% of AGI above $178,150 but not more than 80% (in lieu of the federal reduction)[58]	Follows federal reduction	Reduced by 3% of AGI above $250,000 but not more than 80% of deductions
Personal Exemptions	$1,675 (married, head of household, aged, and blind receive two)[59]	**Exemption by AGI Group**[60] $0-$100,000 = $3,200 $100,000-$200,000 = $600-$2,400 $200,000 and above = $0	$930	$3,900 (per person)[61]
Personal Exemption Phase-out	No phase-out	Limits described in text above[62]	No phase-out	Reduce by 2% for each $2,500 above $250,000 (AGI)[63]

[53] Two additional states limit the income tax to dividends and interest income.
[54] Individuals filing as head of household and qualifying widows/widowers use the same income tax brackets as married couples filing jointly.
[55] All the numbers are for tax year 2013.
[56] The federal AGI thresholds for the itemized deduction limitation and personal exemption phase-out are for single filers. The threshold for married couples filing jointly is $300,000. Both the itemized deduction limitation and personal exemption phase-out are annually adjusted for inflation. Certain itemized deductions are not reduced by the federal adjustment (e.g., medical and dental expenses).
[57] Taxpayers ages 65 and older or blind may add $1,200 to their standard deduction. The $1,200 is increased to $1,500 if the taxpayer is also unmarried and not a surviving spouse.
[58] Maryland ignores the federal adjustment and only reduces deductions with its adjustment. In tax year 2013, the threshold was $178,150 for all taxpayers except for those choosing to file as married filing separately ($89,075).
[59] Married couples filing jointly and head of household filers, as well as taxpayers ages 65 and older and blind taxpayers, receive two personal exemptions for a total exemption of $3,350. All other filers (e.g., single filers) and all eligible dependents (including dependents of married couples/head of household and aged/blind taxpayers) receive one exemption.
[60] All AGI totals for the Maryland personal exemption phase-out are for single filers. Married couples filing jointly have higher AGI thresholds.
[61] All taxpayers and dependents, regardless of filing status or age, receive one federal personal exemption.
[62] Maryland's single residents who earn more than $100,000 in AGI get a $1,600 exemption, while residents earning more than $200,000 get no exemption. For Maryland's married residents, the limits apply at $150,000 and $250,000.
[63] Dollar amounts for the standard deduction, personal exemption, and EITC, both federal and for the District and states, are for tax year 2013. All of these amounts are annually adjusted for inflation. For example, in tax year 2014, the federal personal exemption is set to increase by $50 to $3,950.

The District has an Earned Income Tax Credit (EITC) that piggybacks the federal EITC. The federal formula is based on income, marriage status, and family size (i.e., number of children). For example, the maximum federal credit for a worker with three children is $6,044 while the maximum credit for a worker with no children is $487. The District EITC is 40 percent of the federal credit and is refundable. Thus, the District's maximum EITC for a worker with three children is $2,418 and the maximum benefit for a childless worker is $195.[64]

Twenty-six states have an EITC. The District's EITC is the most generous refundable credit in the nation. Maryland has a refundable 25 percent EITC and Virginia has a 20 percent EITC that is not refundable.[65] The District's EITC is one reason why residents in the lowest-income quintile have a relatively low tax burden, in contrast to the District's middle-income residents.

The District has relatively few additional individual income tax credits (seven) compared to Maryland (33) and Virginia (34).[66] Five of the District's credits are for low-income residents. The others are a credit for income taxes paid to other states and the District employee first-time homebuyer credit (which provides an incentive for District government employees to purchase homes in the District).[67]

Commuters who work but do not reside in the District pay no District income taxes. The 40-year-old Home Rule Act, which retained a layer of federal government oversight on the District's operations, states that the Council cannot "impose any tax on the whole or any portion of the personal income, either directly or at the source thereof, of any individual not a resident of the District."[68] If it could impose such a tax, the District would most likely follow the example of other jurisdictions and tax commuters' income at a lower rate than that of residents. The DC Office of Revenue Analysis (ORA) estimated in 2012 that a 3 percent tax on non-resident income could raise $1.2 billion in annual revenue for the District.

Estate Tax

The District imposes a maximum tax rate of up to 16 percent on estates that are worth more than $1 million and do not pass at death to a surviving spouse or charity.

Estate Tax Comparison

	DC	Maryland	Virginia	Federal
Estate Value Exemption Threshold	$1 million	$1 million	--	$5.25 million[69]
Top Estate Tax Rate	16%	16%	--	40%

The District's estate tax formula is tied to an obsolete federal law. Under prior law, the federal estate tax provided a graduated credit for state estate taxes that offset up to 16 percent of an estate's value against the federal tax. As a result, the District and most states had an estate tax with a graduated rate schedule that replicated the credit formula–including the top tax rate of 16 percent. In effect, a taxable estate owed tax to the state, but it was fully reimbursed by the federal government. This allowed states to collect revenue without imposing an additional tax burden on their residents.

The federal estate tax credit was eliminated in 2005 following a gradual phase-out that began in 2001. Some states only imposed an estate tax to the extent of the credit. These states eliminated their estate tax when the federal government eliminated the credit. The District and 14 states, including Maryland but not Virginia, retained the tax. The District also kept its rate schedule tied to the now-defunct federal credit. That rate schedule has 21 graduated brackets that peak at 16 percent on taxable estates at values over $10,040,000.

[64] The District also offers non-custodial parents a child-based DC EITC. To get this credit, a taxpayer must be between the ages of 18 and 30 and be compliant with a court order for child support payments. Because the eligibility diverges from the federal program, taxpayers choosing to claim this credit must fill out an additional form (Schedule N, "Non-Custodial Parent EITC Claim"). Fewer than 10 filers claimed this credit in tax year 2010.
[65] Maryland also has a non-refundable 50 percent EITC. Eligible Maryland residents may choose the more beneficial EITC.
[66] Buschman, p. iii.
[67] Buschman, p. 25.
[68] DC Code § 1-206.02
[69] This threshold is $5.34 million for tax year 2014. The federal threshold is adjusted annually for inflation.

The revenue from the District's estate tax varies wildly. Taxing just one or two valuable estates can produce a significant amount of revenue. For example, in FY 2012, the District's estate tax accounted for more than $100 million in revenue, but in FY 2013 it accounted for just $39 million in revenue.

Maryland also taxes estates worth more than $1 million with a top rate of 16 percent.[70] Virginia is one of 31 states with no estate tax. For tax year 2013, the federal estate tax had a $5.25 million threshold. The federal exemption is adjusted annually for inflation. A 40 percent federal tax rate is imposed on an estate's value after the exemption.

Residential Property Taxes

Residential property in the District is taxed at $0.85 per $100 of assessed value. The rate applies to 100 percent of assessed value. If total property tax collections from residential properties are projected to grow by more than 7 percent in the upcoming budget year then the rate is lowered so that total revenue growth remains below the 7 percent threshold. The residential property tax rate was lowered from $0.96 to $0.85 per $100 of assessed value between 2002 and 2008. Residential property accounts for fully 94 percent of all properties in the District, but only 55 percent of total assessed property value.[71]

While all states have some form of residential property taxation, the rates and base vary widely, making comparisons difficult. Some jurisdictions have very high property tax rates, but apply that rate on only a fraction of a property's assessed value.[72] For example, the city of Columbia, South Carolina, taxes residential property at $49.31 per $100, but the tax applies to just 4 percent of the property's assessed value.[73] Other jurisdictions have far lower statutory tax rates, but levy the tax on most or all of a property's assessed value.

The residential property tax rates in the neighboring jurisdictions of Maryland and Virginia (also applied to 100 percent of assessed value) are universally higher than in the District. In Maryland the rates depend on the specific locality. For example, the residential property tax rates per $100 of assessed value in Montgomery County range from $1.068 to $1.641. In Prince George's County, they range from $1.431 to $2.921. In Virginia, the residential property tax rate per $100 of assessed value in Alexandria is $1.033, in Arlington County it is $0.958, and in Fairfax County it ranges from $1.096 to $1.2131.[74]

District residential property taxes are further reduced by restrictions on the assessment of taxable property value and direct tax credits. For example, in tax year 2013 the taxable value of each District owner-occupied residence (including condominiums) was reduced through a $69,100 homestead deduction.[75] Thus, an eligible property with an assessed value of $400,000 has a taxable value of $330,900. Neighboring jurisdictions in Maryland and Virginia do not offer a homestead deduction, though many other large cities do.

Residential Property Tax Rate Comparison						
	DC	Montgomery County	Prince George's County	Alexandria	Arlington County	Fairfax County
Tax Rate per $100	$0.85	$1.068-$1.641	$1.431-$2.921	$1.033	$0.958	$1.096-$1.213

Source: DC Ficsal Policy Institute

Residential property eligible for the homestead deduction automatically receives a 10 percent limit on the increase in its annual taxable assessed value. When property values increase, this may further reduce a property's taxable value as a percentage of its assessed value. When a property is sold, its taxable assessed value is reset to the market value. As a result, two homes with the same assessed value can have very different property tax liabilities depending on when they were purchased. However, District law requires the taxable value of residential property to always equal or exceed 40 percent of the current assessed value of the property. The assessment limitation took effect in tax year 2002 as District property experienced large increases in market value; the assessment process also transitioned from a triennial assessment to an annual assessment at that time. The limitation–originally 25 percent–was lowered to 10 percent in 2007, and the taxable assessment floor began in

[70] In March 2014, the Maryland House of Delegates and Senate voted to gradually raise the state's estate tax threshold from $1 million to the federal exemption (projected to be $5.9 million) in 2019. The governor is expected to sign the legislation.
[71] Kenyon, Daphne A., "Real Property Tax Classification in Washington, DC," Oct. 24, 2013, p.6.
[72] Property taxes are traditionally local taxes rather than state taxes.
[73] "Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison," Office of Revenue Analysis.
[74] All rates for Maryland and Virginia come from the DC Fiscal Policy Institute, "Revenue: Where DC Gets Its Money," Feb. 7, 2013.
[75] The District's homestead deduction is adjusted annually for inflation. In tax year 2014 the homestead deduction is $70,200.

tax year 2011. Maryland also caps annual increases in a property's taxable assessment at 10 percent, but some counties have a lower growth cap. Virginia does not have an assessment limitation.[76]

The District has a property tax relief program targeted to low-income residents that assists both homeowners and renters when their property tax bill or rent exceeds a percentage of their household income. This refundable tax credit (Schedule H) is referred to as a "circuit breaker" because, much like a circuit breaker does with electricity, it protects taxpayers from a property tax "overload." In 2013, Schedule H was substantially expanded. The income ceiling for eligible residents was raised from $20,000 to $50,000, and the maximum credit was increased from $750 to $1,000 (with annual adjustment for inflation). These changes take effect in tax year 2014. Maryland has a circuit breaker program, but Virginia does not.

District residents older than age 65 and residents with disabilities with adjusted gross income below $125,000 also have their property tax payments reduced by 50 percent. (The FY 2014 budget raised the income threshold to $125,000 from $100,000.) Some jurisdictions in Maryland (e.g., Montgomery County) and Virginia (e.g., Alexandria) also provide targeted property tax relief to seniors and residents with disabilities.

These tax-relief programs create lower effective property tax rates for eligible properties. According to Michael Bell, a research professor at the George Washington University Institute of Public Policy who wrote a paper on property taxes for the Commission, non-homesteaded properties have a median effective tax rate of 0.85 percent, equal to the statutory rate. However, homestead properties in the District (i.e., properties benefiting from both the homestead deduction and the assessment limitation) have a median effective tax rate of 0.63 percent, well below the statutory rate. Furthermore, homeowners ages 65 and older who benefit from homestead policies and the senior tax credit have a median effective tax rate of 0.23 percent. The actual effective tax rates in each group vary, though. For example, according to Bell, effective tax rates range from a low of 0.07 percent to a high of 0.85 percent for the District's 18,000 elderly property taxpayers.[77]

District and Maryland residents do not pay a personal property tax—the tax is limited to business-owned property. However, Virginia residents pay a personal property tax. Notably, resident personal property includes cars. In fact, the tax is generally referred to as the "car tax." For example, the car tax in Arlington County is $5 per $100 of assessed value and the tax in Fairfax County is $4.57 per $100 of assessed value. Virginia's car tax is, in part, why many low- and middle-income families have a lower tax burden in the District than in neighboring Virginia jurisdictions.[78]

Deed Recordation and Deed Transfer Taxes (Deed Taxes)

Deed taxes are imposed when taxable properties in the District are sold, transferred, or refinanced. The deed *recordation* tax is imposed on the recording of all deeds to real estate in the District (and is a tax on the buyer). The deed *transfer* tax is imposed on each transfer of real property (and is a tax on the seller).

The basis of both taxes is the amount paid for the property, including cash, property other than cash, mortgages, liens, and a security interest in non-residential property. If there is no consideration or the consideration is nominal, the tax is based on the fair market value of the property.

For residential property valued at $400,000 or greater, the rate for each deed tax is 1.45 percent of total consideration or fair market value. Therefore, the combined deed tax rate for a transfer of residential property valued above $400,000 is 2.9 percent. For residential properties valued at less than $400,000, the rate for each tax is 1.1 percent of total consideration or fair market value—for a total tax rate of 2.2 percent. The District dedicates 15 percent of deed tax revenue (both residential and commercial) to the Housing Production Trust Fund, which funds a variety of affordable housing programs.

Maryland's deed taxes vary by jurisdiction from 1.5 percent to 2.45 percent. The combined rate in Virginia jurisdictions is 0.433 percent. Despite the wide gap in tax rates, Rodney D. Green, the executive director at Howard University's Center for Urban Progress, concluded in his paper for the Commission that deed taxes are one-time taxes that have only a "modest impact" on sales and economic development.[79]

[76] Sjoquis, David L., "The Residential Property Tax Credit: An Analysis of the District of Columbia's Assessment Limitation," July 11, 2013, p.4.
[77] Bell, Michael E. and Daniel Muhammad, "Overview of Real Property Taxes in the District of Columbia," July 15, 2013, p.46.
[78] Gajdeczka, Aleksandra, "Taxes on DC Families Remain Lowest in the Region," DC Fiscal Policy Institute, February 2011.
[79] Green, Rodney D., "The Deed Recordation and Real Property Transfer Taxes in the District of Columbia," July 3, 2013, p. 33.

Sales Tax

The general sales tax rate in the District is 5.75 percent. In 2010, the tax increased to 6 percent—with a three-year sunset provision—to temporarily stem revenue losses arising from the recession. It was returned to its current rate during the Commission's deliberations in October 2013.

California has the country's highest state general sales tax rate, 7.5 percent, while five states do not levy any sales tax. Many states also have local sales taxes. Tennessee's 9.44 percent rate is the highest combined state and local rate.[80] In Maryland, the general sales tax rate is 6 percent; there are no local sales taxes in the state. The sales tax rate in Virginia is 5.3 percent. Counties and cities in Northern Virginia levy an additional 0.7 percent sales tax, bringing the total sales tax rate in these jurisdictions to 6 percent.[81]

Sales Tax Rates: Regional Comparison		
DC	Maryland	Northern Virginia
5.75%	6%	6%

The District taxes certain purchases at higher rates, such as restaurant meals (10 percent), rental vehicles (10 percent), transient accommodations (14.5 percent), and private parking (18 percent). Maryland taxes restaurant meals and parking at 6 percent, and the hotel tax is 15 percent in Montgomery County and 16 percent in Prince George's County. Virginia taxes restaurant sales at 8.3 percent, parking at 6 percent, and its hotel tax is 8 percent in Fairfax County and 9 percent in Arlington County. The sales tax rates on restaurant meals, hotels, and parking in major cities such as New York, Boston, and San Francisco fall into the same range as the District.[82]

Special Sales Tax Rate Comparison

	DC	MD	VA	New York City	Boston	San Francisco
Restaurant Meal Tax Rate[83]	10.0%	6.0%	8.3%	8.875%	7.0%	8.5%
Hotel Tax Rate[84]	14.5%	15.0%[85]	9.0%[86]	14.375%[87]	14.95%	17.0%
Parking Tax Rate[88]	18.0%	6.0%	6.0%	18.375%	6.25%	25.0%

Source: Tax Foundation; various government websites

The District's general sales tax applies to the purchase of nearly all goods, with some specific exemptions. Two of the biggest exemptions are grocery-type food and non-prescription drugs. Most states with a sales tax, including Maryland, do not tax grocery food. Virginia is among 14 states that tax grocery food, but it does so at a lower 2.5 percent rate than its general sales tax. The District joins 11 states, including Maryland and Virginia, that exempt non-prescription drugs from the sales tax.

The District also taxes some services. An analysis by ORA shows that the District applies its sales tax to 74 of 183 services listed by the Federation of Tax Administrators (FTA). The list of services is used by FTA as a metric for the breadth of a state's sales tax base, but it is not exhaustive. The District taxes far more services than its neighboring states: Maryland taxes 49 services on the FTA list and Virginia taxes 29. Over the past 20 years, the District has expanded its sales tax to laundry services, select telecommunications services, courier services, and employment services.[89]

[80] Drenkard, Scott, "State and Local Sales Tax Rates Midyear," Tax Foundation, Aug. 28, 2013.
[81] The additional 0.7 percent sales tax applies in the counties and cities of the Northern Virginia Transportation Authority, which includes: the City of Alexandria, Arlington County, City of Falls Church, City of Fairfax, Fairfax County, Loudoun County, City of Manassas, City of Manassas Park, and Prince William County.
[82] Fox, William F., "Sales Taxes in the District of Columbia," Sept. 24, 2013, p. 33-35. Some special taxes in major cities were researched by the Commission staff for deliberations.
[83] Professor Fox provided the restaurant meal tax rates for Maryland and Virginia. Tax rates for New York City, Boston, and San Francisco come from the Tax Foundation, "Meals Taxes in Major U.S. Cities," March 1, 2012.
[84] Professor Fox provided all hotel rates in his paper to the Commission, p. 35.
[85] The hotel tax rate in Montgomery County is 15 percent. The hotel tax rate in Prince George's County is 16 percent.
[86] The hotel tax rate in Arlington County is 9 percent. The hotel tax rate in Fairfax County is 8 percent.
[87] New York City also has an additional $3.50 tax per room.
[88] Professor Fox provided the parking tax rates for Maryland and Virginia. The rates for New York City, Boston, and San Francisco were compiled from government websites.
[89] Fox, William F., "Sales Taxes in the District of Columbia," Sept. 24, 2013, p. 14.

Like most states, the District does not include professional services in its sales tax base. In presenting a paper on sales taxes to the Commission, Professor William F. Fox, director of the Center for Business and Economic Research at the University of Tennessee, Knoxville, noted that only Hawaii, New Mexico, South Dakota, and Washington state tax professional services such as accounting, legal advice, and dental work.[90]

The increasing number of online purchases has created another hole in the District's sales tax base. The District cannot require out-of-state retailers to collect a sales tax for online purchases made by its residents if these retailers do not have a physical presence in the District. Only multi-state retailers with a physical presence in the District, such as Target, must collect the sales tax. The physical-presence test was established in a U.S. Supreme Court case, and changes to the law require an act of Congress.[91] District residents are required to pay a use tax on goods purchased online from retailers not collecting a sales tax, but very few people (in the District and states) pay the use tax. One study estimated that the inability to tax online transactions cost the District $35 million in sales tax revenue in 2012.[92]

Major District Taxes Paid by Businesses

Business and Unincorporated Business Franchise Taxes

Business Income Tax Rates: Regional Comparison		
DC	Maryland	Northern Virginia
9.975%	8.25%	6%

Source: Office of Revenue Analysis, Office of the Chief Financial Officer

The District imposes a business franchise tax (BFT) on corporations (including S corporations) that carry on a trade, business, or profession in the District or receive income from District sources. The District BFT rate is 9.975 percent—higher than the business income tax rate in Maryland (8.25 percent) and Virginia (6 percent) and higher than the top rate in all but two states: Pennsylvania (9.99 percent) and Iowa (12 percent). At the same time, some states such as Virginia add a broad gross receipts tax to their business income tax, but the District does not. Four states do not have a business income tax or a gross receipts tax. The District's BFT rate was scheduled to fall from 9.975 percent to 8.5 percent between 1999 and 2004. However, in 2002, it was permanently returned to 9.975 percent.

The District also imposes an unincorporated business franchise tax (UBFT) on partnerships and sole proprietors with more than $12,000 in annual income. The UBFT rate is also 9.975 percent. States can tax the owners of unincorporated businesses via the individual income tax, but the District is precluded from doing so (unless the owners are District residents). The UBFT is levied on all businesses operating in the District regardless of whether the business owners reside in the District.

Notably, the UBFT excludes professionals (such as doctors, lawyers, engineers, accountants, and architects) and trades and businesses in which more than 80 percent of gross income is derived from the personal services actually rendered by the individuals or partners. In contrast, Maryland and Virginia require that pass-through entities engaged in business in those states report the income of partners or owners. The partners then file individual or corporate tax returns. Maryland levies a 1.5 percent surtax on nonresidents.[93]

For both the BFT and UBFT, the minimum tax payable—regardless of deductions and credits—is $250. If a business's gross receipts exceed $1 million, the minimum tax is $1,000. The DC Office of Revenue Analysis (ORA) reports that in 2009, 66.9 percent of business franchise taxpayers and 65.4 percent of unincorporated business taxpayers paid the minimum tax.[94]

The District uses a three-factor formula (sales, property, and payroll) with a double-weighted sales factor to determine a multi-state corporation's business franchise tax payment. Maryland and Virginia generally use a double-weighted sales factor as well, but each changes the formula for the benefit of specific industries. For example, Maryland uses a single-sales factor for manufacturers and Virginia is phasing in a single-sales factor for retail companies.[95] As of 2010, 22 states used the double-weighted sales factor, five allowed for greater than the double-weighted sales factor, four states used a single-sales factor, and 13 states used the traditional three-factor formula for their corporate income tax.[96]

[90] Fox, p. 15.
[91] The U.S. Supreme Court added the "physical presence" requirement in Quill v. North Dakota, 540 U.S. 298, 1992.
[92] Fox, p. 17.
[93] Francis, Norton, "Business Franchise Taxes in the District of Columbia," Oct. 7, 2013, p. 26.
[94] "District of Columbia Data Book: Revenue and Economy," DC Office of Revenue Analysis, September 2013. In 2009 the minimum tax payment was $100 for all corporate franchise taxpayers and unincorporated business taxpayers. The two-tiered minimum tax took effect in tax year 2012.
[95] Francis, p. 17.
[96] The Oxford Handbook of State and Local Government Finance, New York: Oxford University Press, 2012, p. 339.

The District has only four tax credits for business franchise taxpayers. Both Maryland and Virginia have a broader range of credits, but both states also have a wider spectrum of industries (e.g., agriculture and mining). A notable recent District tax credit is the Qualified High Technology Company (QHTC) Credit.[97] The credit exempts a QHTC from five years of business franchise taxes after the company achieves profitability, and lowers the company's BFT rate to 6 percent (from 9.975 percent) when the five-year period ends.

Unfortunately, there is little information about effective business income tax rates because the business income tax—with deductions, credits, and other tax expenditures that affect what a business ultimately pays—is difficult to calculate across types of business.[98] As noted, a majority of District businesses pay the minimum tax, not the statutory rate.

States often add other significant taxes to supplement their business income tax. A study presented to the Commission on regional business tax comparisons described some of these supplements and illustrated how they can increase the business tax burden substantially. The study concluded that, although the District has a higher business income tax rate than Virginia and Maryland, the "tax burden in the District for C-corporations is not significantly different from its Maryland and Virginia neighbors." This is, in part, because "the gross receipts tax in Virginia in some situations eliminated the tax savings of the Commonwealth's 6 percent [business] income tax rate."[99]

Despite this, many view the business franchise tax rate negatively. The study that concluded the District's business tax burden is not significantly different from its neighbors also explained that the "District's reputation as a high tax jurisdiction may be fueled in part by its almost 10 percent business franchise tax rate." An uncompetitive rate may discourage some from choosing the District as a location for their business.[100]

Gross Receipts and Personal Property Taxes

District businesses subject to the BFT or UBFT also pay a gross receipts tax, called the ballpark fee, if they have at least $5 million in annual District gross receipts. Businesses with less than $5 million in gross receipts do not pay the tax. The ballpark fee is $5,500 for a business with $5 million to $8 million in gross receipts, $10,800 for a business with $8 million to $12 million, $14,000 for a business with $12 million to $16 million, and $16,500 for a business with gross receipts over $16 million.

Virginia localities in the Washington region also have a gross receipts tax: the Business, Professional, and Occupational License (BPOL) tax. Unlike the District's gross receipts tax, the Virginia BPOL tax does not exempt businesses with less than $5 million in gross receipts and does not have a maximum annual tax payment. As a result, the Virginia BPOL tax is significant for some businesses and negates the benefits of the state's lower business income tax rate. However, specific industries—such as software developers in Fairfax County—are exempt from the tax. Maryland also has a gross receipts tax, but only heavy equipment rental companies and certain utilities pay it.[101]

District businesses also pay personal property taxes. District residents are excluded from this tax. A District business pays $3.40 per $100 of assessed property value; the first $225,000 of taxable value is excluded from the tax. The personal property tax varies by locality in Maryland and Virginia. In Maryland, the personal property tax rate is $1.898 per $100 of assessed property value in Montgomery County and $2.40 per $100 in Prince George's County. Maryland residents are excluded from this tax. In Virginia, the personal property tax rate is $4.57 per $100 in Fairfax County and $5 per $100 in Arlington County. Residents in Virginia pay the personal property tax and are subject to the same rates as businesses.

Both the ballpark fee and the personal property tax raised less than 1 percent of District tax revenue in FY 2013. The Commission did not receive expert papers on these taxes, but it factored these taxes into the overall deliberations on business taxes.

[97] A high-technology company is considered "qualified" if it has two or more employees in the District and derives at least 51 percent of gross revenues earned in the District from technology-related goods and services such as Internet-related services and sales; information and communication technologies, equipment and systems that involve advanced computer software and hardware; and advanced materials and processing technologies.

[98] Oxford Handbook, p. 333.

[99] Aceituno, Robert and Karen Yingst, "Case Studies of Business Taxes in the District of Columbia: A Comparison with Neighboring Jurisdictions," September 2013, p. 1.

[100] Aceituno and Yingst, p. 1.

[101] Aceituno and Yingst, p. 1.

Commercial Property Tax

The tax rate for commercial property in the District is graduated. The first $3 million of assessed value is taxed at $1.65 per $100 and the value above that threshold is taxed at $1.85 per $100.[102] Both rates apply to 100 percent of a commercial property's assessed value. If commercial property tax collections are projected to grow by more than 10 percent in the upcoming budget year, the rate on assessed value below $3 million is lowered so that total revenue growth remains below the 10 percent threshold. The District's commercial property tax rates have dropped over the past 15 years. In 1999, the commercial property tax rate was $2.15 per $100 of assessed value. The graduated rate took effect in tax year 2009.

Commercial property tax rates are also levied on 100 percent of a commercial property's assessed value in Maryland and Virginia. Because the commercial property tax is imposed locally, jurisdictions within each state have different tax rates. However, the rate is lower in all neighboring jurisdictions than it is in the District. In Maryland, for example, the rate per $100 in Bethesda is $1.201 and in Silver Spring it is $1.271. In Virginia, the rate per $100 is $1.033 in Alexandria, $1.118 in Crystal City and Rosslyn, and $1.085 in Tysons and Reston.[103]

Commercial Property Tax Rate Comparison

	DC	Bethesda	Silver Spring	Alexandria	Crystal City/ Rosslyn	Tysons/Reston
Tax Rate per $100	$1.65/$1.85	$1.201	$1.271	$1.033	$1.118	$1.085

Source: DC Business Improvement District

When other supplemental commercial property tax rates are added to the base commercial tax rate, the District still has the highest commercial property tax rate of any regional jurisdiction—but the difference is somewhat smaller, according to estimates by the Downtown DC Business Improvement District. When including these taxes, the District's top rate rises to $1.879 per $100. In Maryland, the total rate per $100 is $1.246 in Bethesda and $1.316 in Silver Spring. In Virginia, total commercial rates per $100 are: Alexandria $1.038, Crystal City $1.299, Rosslyn $1.334, Tysons $1.480, and Reston, $1.477.[104]

A Minnesota Taxpayers Association study found that the District's effective commercial property tax rate for property valued at $25 million is 1.986 percent. This puts the District 22nd among the 50 cities studied and above the average rate of 1.874 percent. The study did not analyze the property taxes of the District's neighboring jurisdictions.[105]

In presenting a paper on property taxes to the Commission, Daphne Kenyon, a principal of the policy-consulting firm D. A. Kenyon & Associates in Windham, N.H., found that the District's relatively high commercial tax is borne mostly by building owners. Kenyon writes, "According to [the] literature, 55 to 100 percent of commercial property tax differentials of a jurisdiction over its neighbors are absorbed by owners of land and buildings and from 0 to 45 percent of the tax differentials are absorbed by those renting commercial properties."[106] In the short run, however, tenants with triple-net leases (which require taxes to be passed through to the tenants) may bear the burden of higher commercial property taxes.

Commercial property accounts for only 5 percent of all properties in the District, but 44 percent of total assessed property value.[107] The District's commercial property tax base is notable for the amount of property that is *not* taxable. The District's total tax-exempt property had a combined value of $84.7 billion in fiscal year 2013, and nearly 90 percent of this property was commercial.[108]

That meant the District had more tax-exempt commercial property value (roughly $76 billion of the total $84.7 billion) than taxable commercial property value ($70.3 billion). Property owned by the federal government accounts for much of that total, but hospitals, educational institutions, and qualifying nonprofit organizations also own tax-exempt properties. Including

[102] The District also has higher property tax rates for property classified as "vacant" or "blighted."
[103] Maryland and Virginia's commercial property tax rates were compiled by the Downtown DC Business Improvement District (BID), March 2014.
[104] All rates come from the DC Downtown BID, March 2014. Additional local taxes include the Business Improvement Tax, the Stormwater Tax, the Transportation Tax, and the Silver Line Special Assessment. These taxes are not levied in every jurisdiction.
[105] Minnesota Taxpayers Association and Lincoln Institute of Land Policy, "50-State Property Tax Comparison Study," April 2012.
[106] Kenyon, Daphne A., "Real Property Tax Classification in Washington, DC," Oct. 24, 2013, p. 24.
[107] Kenyon, p. 6.
[108] Total tax-exempt property value is provided by the 2013 Comprehensive Annual Financial report, p. 172. Michael Bell calculated the percentage of commercial property within all tax-exempt property in his paper with Daniel Muhammad, "Properties Exempt from Paying Real Property Taxes in the District of Columbia," July 15, 2013.

both residential and commercial property, the District annually loses between $100 million (assuming 25 percent of currently exempt non-federal and non-foreign and non-District government property is taxed) and $1.5 billion (assuming all exempt property is fully taxed) of property tax revenue from exempt property.[109]

Taxable and Tax-Exempt Property in the District in FY 2013		
DC Property	**Estimated Value**	**Percentage of Total**
Residential	$81.4 billion	34.4%
Commercial	$70.3 billion	29.8%
Tax-Exempt	$84.7 billion	35.8%
Total	$236.4 billion	100%

Source: Office of Revenue Analysis, Office of the Chief Financial Officer

Deed Recordation and Deed Transfer Taxes (Deed Taxes)

Deed taxes are imposed when commercial property is sold, transferred, or refinanced. The combined deed tax rate for all commercial property is 2.9 percent. The deed recordation tax must also be paid on the increased value when commercial property is refinanced. The District dedicates 15 percent of deed tax revenue to the Housing Production Trust Fund, which funds a variety of affordable housing programs. Maryland's deed taxes vary by jurisdiction, from 1.5 percent to 2.45 percent. The combined deed tax rate in Virginia jurisdictions is 0.433 percent. However, the District's deed taxes are well below those of New York City, where the rate exceeds 8 percent.[110] Professor Green concluded in his paper for the Commission that these one-time taxes have only a "modest impact" on transactions and economic development.

[109] Bell, p. 3.
[110] Green, p. 3.