D.C. Tax Revision Commission Policy Options

Policy Option #47: Eliminate the Assessment Limitation

MEMORANDUM

Proposal: Eliminate the assessment limitation on residential property
Tax Type: Property
Origin: David L. Sjoquist
Commission Goal: Broaden the tax base

Current Law

If a taxpayer qualifies for the homestead deduction then her property's annual taxable assessment cannot rise by more than 10%. In 2011, 95,291 taxpayers benefited from the assessment limitation. Notwithstanding the assessment limitation, the taxable assessment of property must be at least 40% of the current assessed value of the property.

When a homesteaded property is sold, the new owner pays taxes on the full assessed value (market value) of the property for her first payment. If the new owner is eligible, the taxable limitation then begins again on that new assessed value.

Maryland provides a 10% annual limitation on the taxable value of residential property but Virginia does not.

Proposed Change

Eliminate the limitation on the taxable value of residential property. The assessed value of residential property would become the taxable value (minus any other applicable deductions or credits). The repeal could be immediate or phased in over a set time period so that residents currently benefiting from the limitation are not subject to a substantial one-year increase in their property tax payment.

Reason for Change

The assessment limitation creates horizontal equity problems. Two homeowners with similar property values could have disparate property tax payments.

For example, Resident A is a new homeowner paying taxes on the full assessed value of her property. Her neighbor, Resident B, owns property assessed at roughly the same value as her home. But Resident B is a long-term resident, and therefore the taxable value of his property has been diminished over the past few years by the assessment limitation. (The limitation was first applied in tax year 2002.) While Resident A and Resident B own very similar property, Resident A's property tax payment is significantly larger than Resident B's.

Eliminating the assessment limitation would make the property tax more equitable. Additionally, the new revenue generated from repealing the limit could fund a reduction in the residential property tax rate or another form of tax relief.

Pros

- Would make the property tax more equitable. Residential property taxpayers with similar property values would have similar tax payments.
- Would raise new tax revenue that could fund a reduction in the residential property tax rate.
- Would make the property tax simpler.

Cons

- Would increase the property tax burden for residents currently benefiting from the limitation.
- Residents would be vulnerable to significant increases in property tax payments if their property's annual assessment dramatically increased. Increases in a resident's property value often do not correspond with increases in income and therefore ability to pay.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation eliminating the assessment limitation would raise $15.7 million in new tax revenue.