October 22, 2013

The Honorable Anthony A. Williams, Chairman
D.C. Tax Revision Commission
Suite W750
1101 Fourth Street, SW
Washington, DC 20024

Dear Chairman Williams,

This letter is on behalf of the District of Columbia Association of REALTORS® (DCAR), representing nearly 2,400 residential and commercial REALTORS®, property managers, title attorneys, and other real estate professionals licensed in the District of Columbia.

DCAR has closely followed the work of the D.C. Tax Revision Commission ("Commission") and submitted testimony advocating lowering D.C.'s unjustifiably high real property deed recordation and transfer ("R&T") taxes. We most recently conducted a survey of our membership regarding the R&T policy options presented by the Commission's staff and welcome the opportunity to share our conclusions.

DCAR strongly urges the Commission to recommend lowering R&T tax rates to .433% (Virginia's rate) across the board.

Among the R&T policy options the Commission is considering, DCAR's membership overwhelmingly believes <u>lowering R&T taxes to a single rate</u> is the best possible course of action. Ideally, it should be around .433% to not only remain regionally competitive, but also to advance the Commission's goal of making D.C.'s tax code fairer and simpler to administer.

For residential properties, D.C.'s unreasonably high R&T taxes are a major impediment because they add thousands of dollars to closing costs. Lending is still stringent, with hefty down payment requirements.[1] DCAR consistently hears from practitioners how the average purchaser uses nearly all of their savings to get to settlement. Lower R&T taxes would make the path to homeownership less burdensome by freeing up money to cover unexpected expenses that often arise with financing or towards the improvement of property.

[1] A 10-20% down payment is still required for most lenders, with requirements of 20% if purchasers want to avoid exorbitantly high mortgage insurance premiums.

In the commercial market, D.C. is already an unfavorable climate. Lower R&T taxes would serve as a simple yet highly positive signal for businesses to invest in the District. This could lead to new jobs, economic development, and add to the District's revenue stream through more productive uses.

DCAR strongly urges the Commission against recommending the creation of additional residential property price brackets for R&T tax rates.

DCAR understands the Commission is reviewing an option that would create additional "progressive" housing price brackets with "marginal" R&T tax rates. While at first glance this may seem logical, upon further evaluation it would unnecessarily complicate the current tax structure. DCAR received a great deal of feedback on how two price brackets are already problematic, and a single R&T rate would be the most financially beneficial for our evolving housing market.

<u>As economists, you will find absolutely no empirical data to suggest a nexus between the price of a property and how much it costs the District at point of sale.</u> As Professors Green and Mulusa point out in their report, there is already a $290 recorder of deeds fee in addition to R&T taxes to cover administrative costs. Higher priced properties should actually yield more revenue in property and income taxes, with less of a cost on social services.

Bottom line, one straightforward tax rate would be equitable and those purchasing more expensive properties would still pay a greater amount. The tax on a $300k home at the 2.2% combined rate is approximately $6,600, where the tax on a $600k home at the same rate would be a $13,200—both excessively high!

DCAR fiercely maintains this rate should be lowered to .433%, and as highlighted above, under no circumstance over 1.1%.[2] The 1.1% rate is already amongst the highest in the country and more than covers overhead costs for any fees associated with the administration of R&T taxes.

Discounting the recordation tax for first-time homebuyers with a corresponding discount for sellers repurchasing in the District is a reasonable option.

DCAR believes incentivizing first-time homebuyers with a discounted recordation tax rate[3] is reasonable. As a first-time homebuyer, there are many ancillary costs associated with moving into a new home (e.g., home improvements and increased utilities). Discounted recordation taxes would free funds necessary to invest in their District homes, neighborhoods, and communities.

While a lower recordation tax for first-time homebuyers is sound policy, R&T taxes particularly have a negative impact on sellers repurchasing in the District. Such sellers incur both the transfer tax when selling their home and a recordation tax if they want to buy another property in the District. The major concern is not everyone who owns a home has equity and sellers often have to come to settlement with cash because their property values have decreased, or worse they are

[2] At the .433% combined rate, R&T taxes on a $300k home would still be $2,598 and $5,196 on a $600k home.
[3] The recordation and transfer tax is typically not full incidence on the buyer—it is split between the buyer and the seller. It should also be reiterated, these are ***upfront*** costs.

still underwater. A lower transfer rate for such purchasers would especially be prudent because they have clearly proven long-term ties to D.C.—a lauded policy objective.

DCAR strongly urges the Commission against recommending any increase in commercial R&T rates.

The proposal to increase commercial R&T tax rates from 2.9% to 4.9% is unconscionable. This 60% increase would just reinforce how D.C. views the commercial real estate market as a limitless ATM. If investors only see higher upfront costs without positive returns, it is a serious misconception to assume they will not go elsewhere—Crystal City and Arlington are prime examples.

The Commission must also consider how increasing the cost of purchasing commercial property may translate into higher rents. Particularly for smaller properties, this would be detrimental as it is already difficult to attract small businesses to a jurisdiction perceived to have the highest taxes in the region.

At this juncture, DCAR does not advise the Commission to recommend restructuring income tax exemption limits as an alternative to lowering R&T taxes.

DCAR is sensitive to the needs of lower to moderate residents and finding ways to encourage their upward mobility. Nevertheless, D.C. is a unique urban jurisdiction and the effectiveness of basing R&T taxes on income has not been studied nearly enough.

If the Commission aims to broaden and make D.C.'s tax code simpler and fairer, manipulating income limits and housing price brackets will not necessarily amount to more affordable housing. A parent or child who meets income guidelines could easily purchase an expensive home at a lower R&T rate, only to turn around and give title to a wealthy family member. One straightforward lower R&T rate would unequivocally give more residents access to housing.

Conclusion

DCAR's recommendations aim to improve D.C's overall vitality. Every dollar residents are not spending on R&T taxes could be spent on home improvement supplies, interior designs, and other products that could improve their home, their neighbor, and the District. **It is our conclusion that a single, lower rate (ideally .433%) is the means to achieve those ends.**

We thank the Commission for considering our views and are happy to answer any questions.

Sincerely,

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