D.C. Tax Revision Commission Policy Options

Policy Option #49: Increase the Minimum for Taxable Assessment

MEMORANDUM

Proposal: Increase the minimum taxable assessment from 40% to 50% of current assessed value
Tax Type: Property
Origin: David L. Sjoquist/Public
Commission Goal: Broaden the tax base

Current Law

The taxable value of residential property is reduced by two major tax relief programs: the homestead deduction (an annual subtraction from the property's assessed value) and a 10% limit on annual increases in assessed value.

Regardless of these provisions, the taxable assessment of residential property must equal or exceed 40% of the current assessed value of the property. For example, if a resident's property is assessed at $700,000, but the calculated taxable value is $250,000, the resident would pay taxes on $280,000 of the property's value.

The minimum currently affects few taxpayers. During a period of substantial increases in property values, however, the provision's impact could become extensive. For example, had the 40% minimum been in effect in 2007, roughly 35% of taxpayers would have been subject to it. (The 40% provision became effective for tax year 2011.)

Proposed Change

Increase the percentage of assessed value that a taxpayer is required to pay residential property taxes on from 40% to 50%. For example, the resident with property assessed at $700,000 but with taxable value of $250,000, would now pay taxes on $350,000 of the property's value instead of $280,000.

Reason for Change

The taxable assessment minimum was created to limit the amount of tax relief a resident can receive from the homestead deduction and assessment limitation. Increasing the minimum might further limit that relief. While two taxpayers with similar property values might still pay very different property taxes, the extent of that difference could be reduced.

Pros

- Would somewhat mitigate the equity problems created by the assessment limitation.
- Could raise new tax revenue.

Cons

- Would negatively affect some taxpayers benefiting from the assessment limitations.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation:

- Increase the minimum from 40% to 45% would raise $0.045 million in new tax revenue.
- Increase the minimum from 40% to 50% would raise $0.145 million in new tax revenue.
- Increase the minimum from 40% to 55% would raise $0.660 million in new tax revenue.
- Increase the minimum from 40% to 60% would raise $1.807 million in new tax revenue.