Real Property Tax Expenditures in the District of Columbia

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Real Property Tax Expenditures

• “the revenue losses attributable to provisions of federal law and the laws of the District of Columbia that allow, in whole or in part, a special exclusion, exemption, or deduction from taxes authorized in this title, or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” [47-318(6)]
Consequences of Real Property Tax Expenditures

- Lost tax revenues
- Differential effective tax rates across individual properties
- Shifting the tax burden to properties not receiving preferential treatment
- Undermines fairness, efficiency and transparency of the property tax
- Costs must be balanced with social benefits from tax expenditures
Tax Expenditure Report

• Tax expenditure analysis offers a fuller picture of government resource use, and promotes transparency and accountability;
• Tax expenditures have similar economic effects to direct spending;
• Tax expenditures reduce economic efficiency;
• Tax expenditures are not transparent like direct spending; and
• Tax expenditures usually do not require annual reauthorization.
## Tax Expenditure State Comparison

<table>
<thead>
<tr>
<th>State</th>
<th>Total</th>
<th>Exempt Home</th>
<th>Exempt Other</th>
<th>Assess Limits</th>
<th>Credit/Refund</th>
<th>Business Incentive</th>
<th>Other</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>D.C.</td>
<td>1,282</td>
<td>54</td>
<td>1,168</td>
<td>28</td>
<td>20</td>
<td>7</td>
<td>3</td>
<td>FY 12</td>
</tr>
<tr>
<td>Florida</td>
<td>16,925</td>
<td>2,807</td>
<td>10,457</td>
<td>2,475</td>
<td>143</td>
<td>6</td>
<td>42</td>
<td>FY 11</td>
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<tr>
<td>Kentucky</td>
<td>399</td>
<td>0.2</td>
<td></td>
<td></td>
<td></td>
<td>399</td>
<td></td>
<td>FY 10</td>
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<tr>
<td>Maine</td>
<td>116</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>50</td>
<td>66</td>
<td>FY 10</td>
</tr>
<tr>
<td>Maryland</td>
<td>223</td>
<td>86</td>
<td>78</td>
<td>57</td>
<td></td>
<td></td>
<td></td>
<td>FY 10</td>
</tr>
<tr>
<td>Michigan</td>
<td>8,467</td>
<td>3,670</td>
<td>984</td>
<td>3,400</td>
<td>49</td>
<td>363</td>
<td></td>
<td>FY 10</td>
</tr>
<tr>
<td>Minnesota</td>
<td>1,937</td>
<td>490</td>
<td>1,294</td>
<td>11</td>
<td>9</td>
<td>56</td>
<td></td>
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<tr>
<td>Oregon</td>
<td>4,674</td>
<td>2</td>
<td>3,625</td>
<td>26</td>
<td>192</td>
<td>23</td>
<td></td>
<td>FY 10</td>
</tr>
<tr>
<td>Texas</td>
<td>2,962</td>
<td></td>
<td>293</td>
<td>1,744</td>
<td>185</td>
<td>739</td>
<td></td>
<td>CY 10</td>
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<tr>
<td>Vermont</td>
<td>219</td>
<td>73</td>
<td>116</td>
<td>0.1</td>
<td>30</td>
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<td></td>
<td>FY 08</td>
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<tr>
<td>Washington</td>
<td>542</td>
<td>190</td>
<td>198</td>
<td></td>
<td></td>
<td>10</td>
<td></td>
<td>CY 10</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>21,072</td>
<td>21,072</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>FY 08</td>
</tr>
</tbody>
</table>
Abatements

• Forgiveness of property taxes, either completely or in part, for some period of time [Oakman and Clark]
• 8 “by right” tax abatement programs in the DC Official Code
• Cost in terms of foregone tax revenues less than $8 million annually
• 5 have no participants/beneficiaries
Abatements -- Discretionary

- Requires action by the D.C. Council
- Fiscal note
- “But for” financial analysis
- Must be funded
Abatements -- Discretionary

• 26 properties receive partial real property tax abatements in FY2013 costing the District government foregone property tax revenues of approximately $13 million

• there are 34 properties receiving full real property tax abatements in FY2013 costing the District government foregone property tax revenues of approximately $16 million

Credits/Deferrals

• Unlike exemptions, credits and deferrals do not reduce the property tax base

• Two major credit programs
  – Assessment Cap (95,000+ participants/$28 million in foregone revenues
  – Senior citizens (18,000+ properties/$14 million in foregone revenues

• Two major deferral programs
  – Low-income homeowners (defer incremental increase)
  – Low-income senior homeowners (defer all)
# Impact of Tax Expenditures: Foregone Tax Revenues

Foregone Property Tax Revenues Due to Exemptions (millions)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
<td>$1,473</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>$396</td>
</tr>
<tr>
<td>Scenario 3</td>
<td>$99</td>
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</tbody>
</table>
Impact of Tax Expenditures: Effective Tax Rates

Effective Tax Rate: Median by Taxpayer Type

- Seniors
- Homestead
- Non-Homestead
- Multi-Family
- Large Office Buildings
- Hotels/Motels
- Other Commercial
Impact of Tax Expenditures: Shifting the Property Tax Burden

• Equal yield analysis
• Estimate distribution of property tax burden across classes under four scenarios
  – Current system
  – Eliminate all tax expenditures and classification
  – Eliminate selective property tax exemptions
  – Tax some exempt property at 25% of estimated market value
  – See Tables 9 and 10 (p. 38-39)
Policy Options

• **Option 1: Improve D.C. Property Tax Expenditure Oversight**

• **Option 2: Reduce Exempt Property Tax Expenditures**

• **Option 3: Improve D.C. Property Tax Abatements Oversight – An Ex Post Analysis of Benefits for District Residents**
Policy Options (Cont.)

• **Option 4: Reduce Property Tax Abatement Expenditures – Limit the Number or Total Value of Abatements**

• **Option 5: Improve D.C. Property Tax Abatement Evaluation Process – Adopt Criteria for Granting Tax Abatements**