DEED RECORDATION AND REAL PROPERTY TRANSFER TAXES IN THE DISTRICT OF COLUMBIA

A COMPARATIVE ANALYSIS WITH POLICY OPTIONS

Rodney D. Green, Ph.D.
Judy Mulusa, Ph.D.
Department of Economics
Howard University

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APPLICATION OF DEED RECORDATION AND REAL PROPERTY TRANSFER TAXES

DC’s Deed Recordation Tax (DRT) and Real Property Transfer Tax (PTT) are charged when
– real property is sold
– a commercial property is refinanced for more than the current balance on outstanding loan(s)
– a residential property with five or more units is refinanced
TAX RATES FOR PROPERTY SALES

• DRT and PTT rates are equal

• For Property Sales
  – The combined DRT (1.45%) and PTT rate (1.45%) = 2.9% for
    • commercial properties
    • residential properties sold for $400,000 or more
  – The combined rate = 2.2% for residential properties sold for less than $400,000.
TAX RATES FOR REFINANCING

• For Property Refinancings
  – The combined DRT (1.45%) and PTT rate (1.45%) = 2.9% of the difference between the currently outstanding financing amount and the new financing amount for both
    • commercial properties
    • residential properties with five or more units

• Continuing uncertainty about legal interpretation of the statute
DC RATES COMPARED TO OTHER JURISDICTIONS

DC’s transfer and recordation tax rates are

- 5 to 6 times higher than in Northern Virginia
- 85% to 193% of rates in Maryland counties
- 36% of rates in New York City
- 111% of rates in San Francisco
- 162% of rates in Seattle
COMBINED RATES IN DC, VA, AND MD
DRT & PTT REVENUES ARE VOLATILE

• Tax revenues from DRT & PPT fluctuate directly with sales and refinancing
• Varied from $105 million (2000) to $379 million (2007)
• Revenues at $285 million for 2012
• Over past 13 years, DRT & PTT revenues ranged from 3.5% to 8.6% of all DC tax revenues
• 15% of DRT and PTT revenues earmarked for the DC Housing Production Trust Fund (HPTF)
• Created in 1998--funded by earmark since 2002
• Set up due to decline of 20,000 units of affordable housing while need in DC rose
• 7,500 affordable housing units built with HPTF funds worth $320 million
• HPTF spending generated additional $794 million financing from private sector, yielding a 2.5:1 private/public benefits ratio for DC
EARMARKS IN DC AND NATIONALLY

Earmarks and dedicated funds are common

• 10 current earmarks in DC
• MD and VA have earmarks for public purposes
• 18 states earmark tax revenues for housing funds
• 8 other states have housing funds supported from other sources
HOUSING MARKET IMPACTS OF DRT & PPT

• One-time tax => Minimal impact on level of residential sales
  – Maximum impact on buyer = $40/month
    • Assumes full incidence on buyer
  – 1% increase would reduce transactions by 0.2%
    • 16 fewer home sales out of 7,904 in 2012

• Other factors (e.g., TOPA) are likely causes of relatively low velocity of sales of multi-family rental properties in DC
OFFICE MARKET IMPACT
OF DRT & PTT

• One-time tax => Minimal impact on office market
• D.C. as a stable secure investment
  – Headwinds significant but less severe here
    • Flat occupancy rates
    • Increasing “ask” rental rates
  – Global/national investment demand
    • Qatar finances CityCenterDC
    • Abu Dhabi finances Marriott Marquis
    • REITs include DC office buildings
• “Export” tax bills
PROGRESSIVITY OF DRT AND PTT

D.C. recognizes need for progressivity

– Maintains 1.1% rate for lower cost housing
– Provides multiple exemptions for lower income households (exemptions had a value of $714,000 in 2012)
– Not as progressive as it may look: progressivity is usually measured by tax divided by income
– Room for further improvement
POLICY OPTIONS

• Abolish or severely reduce both taxes
  – Loss of $150 million to $300 million in revenue per year
  – Destabilize the Housing Production Trust Fund
  – Impair affordable housing production

• Increase tax on high end office properties
  – 2 percentage point increase would yield $83 million additional annual revenue

• Eliminate the “bump up” or “notch” at $400,000
  – Applying 2.9% only to value over $400,000 = $5.6 million reduced annual revenues

• Increase progressivity
  – Raise maximum income for exemption from 120% to 200% of HUD rate
  – Waive taxes for first-time home buyers
  – Raise the maximum tax rate on higher cost properties
  – Increase bracketing