

D.C. Tax Revision Commission Policy Options

Policy Option #39: Lower the Tax Rate on Commercial Property

MEMORANDUM

Proposal: Lower the tax rate on commercial property

Tax Type: Property

Origin: Mayor Vince Gray

Commission Goal: Competition and business growth

Current Law

Real property in D.C. is separated into four classes for taxation:

- 1) Residential property
- 2) Commercial property
- 3) Vacant buildings
- 4) Blighted buildings

The tax rate for commercial property is graduated: the first \$3 million of assessed value is taxed at \$1.65 per \$100 of value and any additional amount is taxed at \$1.85 per \$100. If commercial property tax collections are projected to grow by more than 10% in the upcoming budget year then the rate on assessed value below \$3 million is adjusted so that total revenue remains below the 10% growth rate threshold.

Proposed Change

Reduce the commercial property tax rates by \$0.75: lower the rate on the first \$3 million of property value from \$1.65 to \$0.90 per \$100 of assessed value and lower the tax on every dollar above the \$3 million threshold from \$1.85 to \$1.10 per \$100.

Reason for Change

D.C. has the highest commercial property tax rate (\$1.65/\$1.85 per \$100) in the region. Rates vary among localities—property taxes are generally local and not state taxes—but neighboring jurisdictions in Maryland tax commercial property at roughly \$1.22 to \$1.42 per \$100 of assessed value and jurisdictions in Virginia tax property at just over \$1 per \$100 of value. These lower rates may induce companies looking to locate in the region to locate outside of D.C. Lowering D.C.'s rates to the proposed levels (\$0.90 and \$1.10 per \$100) would make D.C.'s property tax rate comparable with a Virginia jurisdictions and lower than Maryland's jurisdictions.

Pros

- Could attract more businesses to buy property in D.C., possibly spurring business growth and job creation.

Cons

- Would lose tax revenue.
- Commercial property taxes are only one factor in location decisions. Other factors might be more important.
- The high tax rate on commercial property helps “export” D.C.’s tax burden. If the revenue lost from the commercial property tax cut is offset with increases in other taxes, that burden might shift to residents.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation lowering the property tax rates to \$0.90 and \$1.10 per \$100 would lose \$516.2 million in revenue.