Policy Option #41: Eliminate the Vacant and Blighted Property Classifications or Combine Them

MEMORANDUM

Proposal: Eliminate the classifications for vacant (Class 3) and for blighted (Class 4) property or combine these two classes into one classification
Tax Type: Property
Origin: Daphne Kenyon
Commission Goal: Simplification

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

Class 3 properties are taxed at $5 per $100 of assessed value and Class 4 properties are taxed at $10 per $100 of assessed value. Only land with buildings is placed into Class 3 and Class 4. Raw land is assigned only to Class 1 and Class 2. Property is placed into Class 3 and Class 4 to incent owners to use their buildings productively (and to prevent buildings from falling into such disrepair that they negatively affect the other properties in their neighborhood).

Buildings in Class 3 and Class 4 account for less than 1% of both total D.C. properties and assessed value.

Proposed Change

Eliminate Class 3 and Class 4 (that is, all property would be classified as residential or commercial). Alternatively, combine Class 3 and Class 4 so that all vacant and blighted buildings have the same classification and tax rate ($5, $7.50 or $10 per $100 of assessed value).

Reason for Change

While the Office of Tax and Revenue (OTR) establishes the assessed value for properties in Class 1 and Class 2, they do not assign properties in disrepair to Class 3 and Class 4. Instead, the Department of Consumer and Regulatory Affairs (DCRA) is responsible for this assignment. This adds complexity and creates administrative burdens as two organizations are forced to coordinate. Eliminating these classes would obviate DCRA's role in the property tax system. Alternatively, assigning just one class to these properties would make the task simpler.

No other state or locality uses classification to address vacant and blighted buildings.

Pros

- D.C. could levy a fine against vacant and blighted properties instead of taxing them at a higher rate. This would maintain an incentive to keep buildings productive and allow one organization to execute the entire process in a simpler way.
- There are numerous exemptions available for properties in danger of being placed in Class 3 and Class 4. Eliminating the classes (and therefore exemptions) would make tax administration simpler and treat property more equally.
- Little tax revenue is collected from Class 3 and Class 4 properties. Owners of these properties are usually in financial distress and unable to pay the tax bill. As a result, many of these buildings accumulate large tax bills, making them unattractive to possible new buyers at tax sales.

Cons

- If the tax is eliminated and not replaced with a fee or other penalty, D.C.'s would lose a policy tool for addressing vacant and blighted buildings.
- Could lose tax revenue.

Revenue Impact

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

- Eliminating both Class 3 and Class 4 would lose $9.2 million in revenue.
- Combining Class 3 and Class 4 and taxing those properties at $5 per $100 of assessed value would lose $1.8 million in tax revenue.
- Combining Class 3 and Class 4 and taxing those properties at $7.50 per $100 of assessed value would raise $0.2 million in new tax revenue.
- Combining Class 3 and Class 4 and taxing those properties at $10 per $100 would raise $3.7 million in new tax revenue.