

## D.C. Tax Revision Commission Policy Options

# Policy Option #44: Eliminate or Reduce the Homestead Deduction

### MEMORANDUM

**Proposal:** Eliminate or reduce the homestead deduction

**Tax Type:** Property

**Origin:** Mike Bell

**Commission Goal:** Broaden the tax base

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### **Current Law**

Residents who live in their own home can claim a homestead deduction to reduce the taxable value of their property. Residents can only claim the deduction for one home, which must be their principal residence. To receive the deduction, residents must apply to the Office of Tax and Revenue.

The homestead deduction is currently \$69,100. (The amount is adjusted annually to reflect cost-of-living increases.) For example, if a qualified taxpayer owns property assessed at \$500,000, she only pays property taxes on \$430,900 of its value.

### **Proposed Change**

Eliminate or reduce the homestead deduction.

### **Reason for Change**

Eliminating or reducing the homestead deduction would allow D.C. to tax residential property more uniformly and therefore could allow D.C. to lower the tax rate on all residential property.

### **Pros**

- Eliminating or reducing the homestead deduction would generate substantial tax revenue that could fund a reduction in residential property tax rate.
- Elimination would simplify the property tax.
- By benefiting only certain taxpayers, the homestead deduction creates horizontal equity problems. The median effective property tax rate for non-elderly residents claiming the homestead deduction is 0.63% while the effective rate for non-homestead properties is 0.85%.
- The homestead deduction benefits all eligible taxpayers, including residents with high income and expensive property.
- The neighboring jurisdictions in Maryland and Virginia do not offer a homestead deduction.

### **Cons**

- Repealing or reducing the homestead deduction could increase the property tax burden on residents.

- Because the homestead deduction is a fixed dollar amount (as opposed to percentage of value) the relative benefit of the deduction decreases as the value of a property increases, making it more beneficial to owners of lower-value property. Therefore, the deduction is somewhat progressive.

### **Revenue Impact**

The Office of Revenue Analysis estimates that in the first year of implementation eliminating the homestead deduction would raise \$55.6 million in new tax revenue while reducing the deduction by \$5,000 would raise \$4 million in new tax revenue.