

Real Property Tax Classification in Washington, DC

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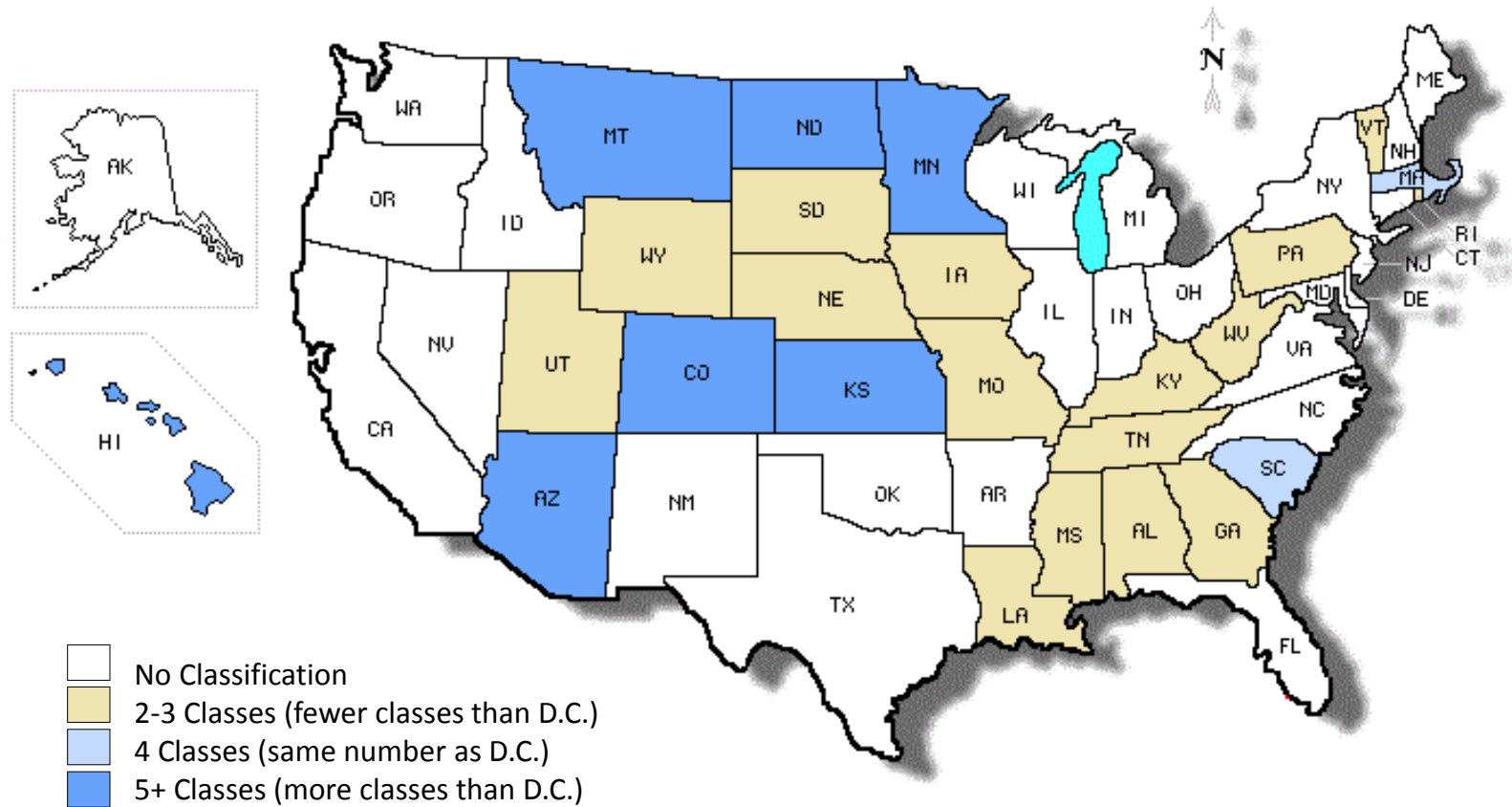
May 20, 2013

D.C. Tax Revision Commission

Current Classification System

- Class 1: Residential property
 - taxed at \$ 0.85 per \$100 of assessed value, after subtracting the homestead exemption (valued at \$69,350 in 2013) from each home's assessed value
- Class 2: Non-residential property including vacant land
 - taxed at \$1.65 per \$100 of assessed value for the first \$3 million in assessed value
 - \$1.85 per \$100 for amounts over \$3 million
- Class 3: Vacant buildings
 - taxed at \$5 per \$100 of assessed value
- Class 4: Blighted buildings
 - taxed at \$10 per \$100 of assessed value

Real Property Tax Classification in the United States, 2012



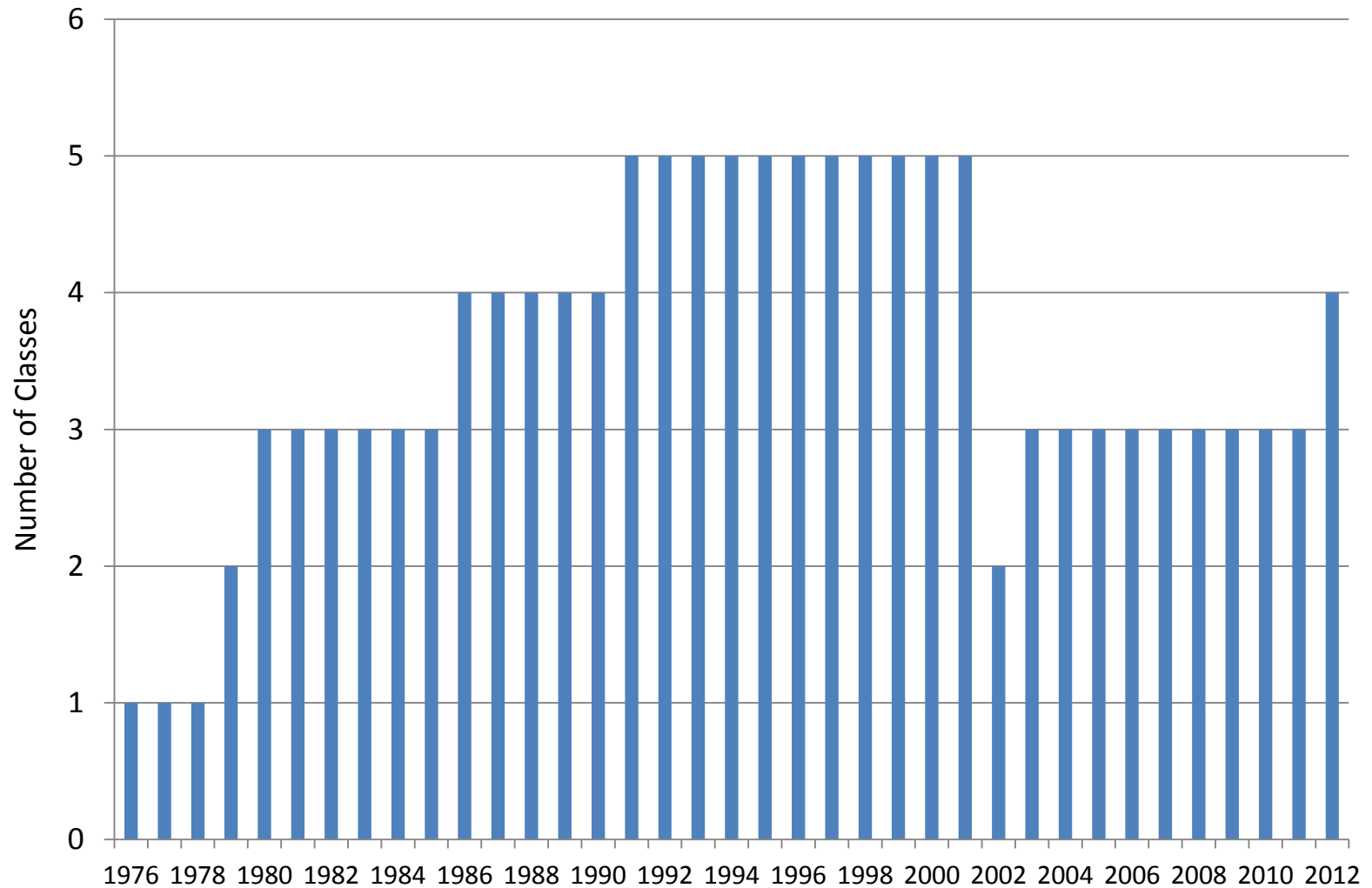
Source: Sexton, 2012

Notes:

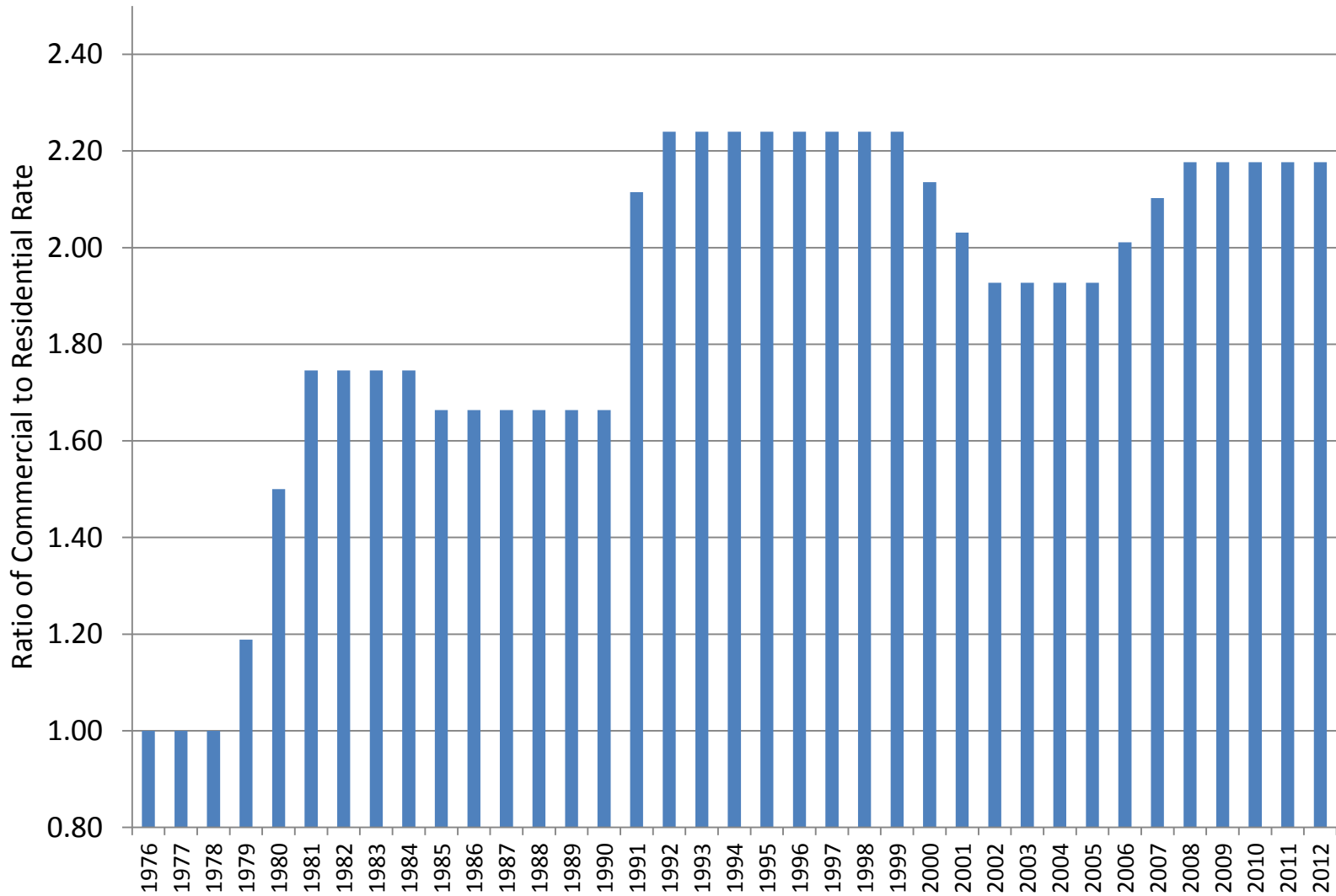
New York City has a classified property tax system with two assessment ratio classes and four tax rate classes.

Cook County, Illinois taxes three classes of property using different assessment ratios.

Number of D.C. Real Property Tax Classes by Year, 1976-2012



Ratio of Commercial to Residential Real Property Tax Rates in D.C. by Year, 1976-2012



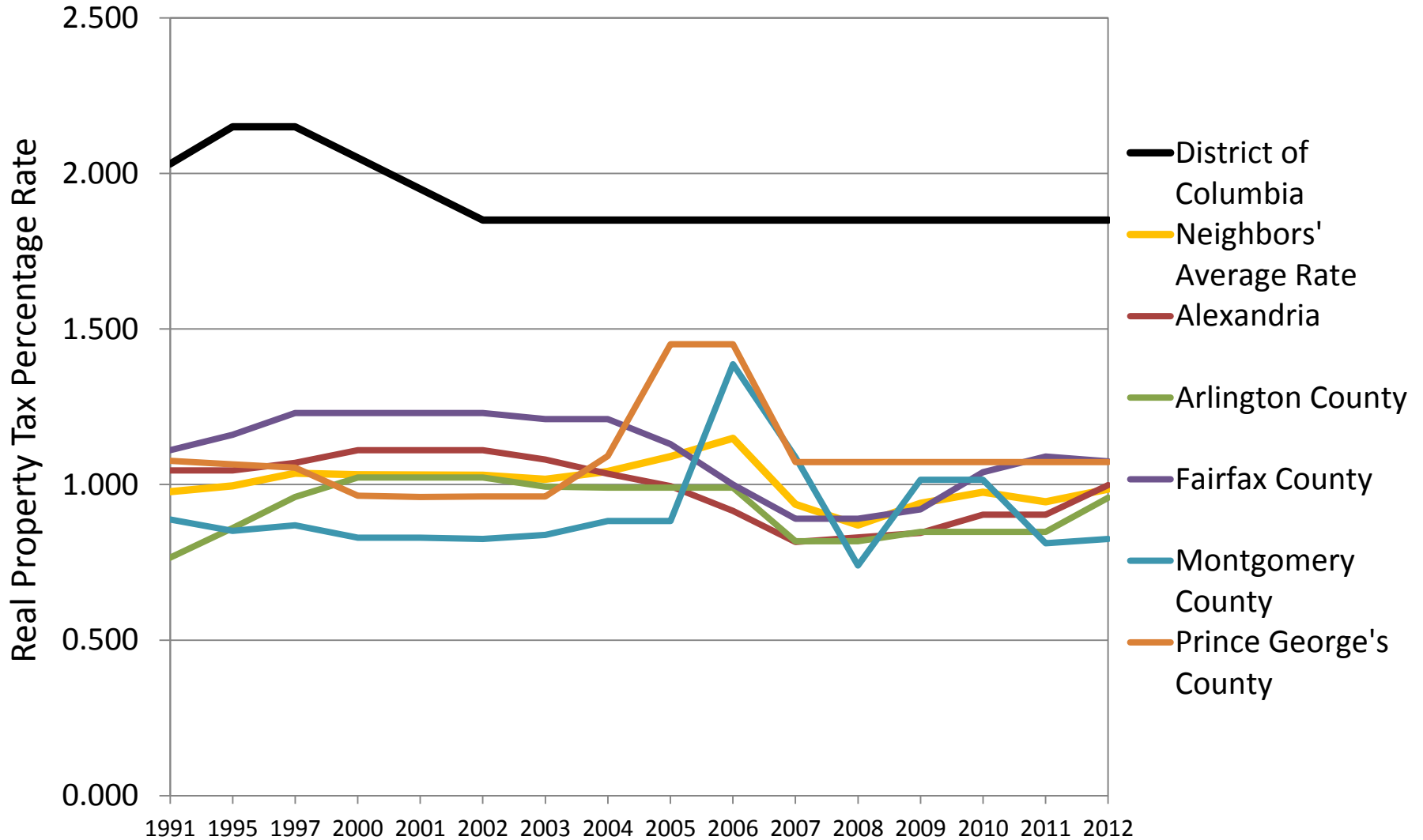
Real Property Assessed Value and Tax Liability by Class, FY 2012

| Class | Percent of Assessed Value | Percent of Tax Liability |
|--|---------------------------|--------------------------|
| Class 1 (Residential) | 55.3% | 32.8% |
| Homestead | 23.8% | 12.7% |
| <i>Non-Senior</i> | 19.9% | 11.7% |
| <i>Senior</i> | 3.9% | 1.0% |
| Non-Homestead | 7.7% | 5.4% |
| Class 2 (Commercial/Industrial) | 44.4% | 66.0% |
| Class 3 (Vacant Buildings) | 0.2% | 0.6% |
| Residential | 0.2% | 0.6% |
| Commercial | 0.0% | 0.1% |
| Class 4 (Blighted Buildings) | 0.1% | 0.6% |
| Residential | 0.1% | 0.5% |
| Commercial | 0.0% | 0.1% |
| Total | 100% | 100% |

Ratio of Commercial to Residential Effective Tax Rate, Selected Cities, 2011

| City | Classified Property Tax System | Ratio of Commercial to Residential ETR |
|-----------------------------|--------------------------------|--|
| New York | Yes | 6.040 |
| Boston | Yes | 3.509 |
| Denver | Yes | 3.465 |
| District of Columbia | Yes | 2.280 |
| Minneapolis | Yes | 1.991 |
| Chicago | Yes | 1.889 |
| Atlanta | Yes | 1.799 |
| Philadelphia | Yes | 1.509 |
| Houston | No | 1.220 |
| Los Angeles | No | 1.025 |
| Seattle | No | 1.000 |

Real Property Tax Percentage Rates for Commercial Property, D.C. and Neighboring Jurisdictions, 1991-2012



Key Issues

- **Classes 3 and 4**
 - Provide an incentive for property owners to fix blighted buildings and use vacant buildings
 - Yet these unique classes add complexity to the District's property tax system
- **Class 2**
 - Allows the District to export DC taxes to non-DC residents
 - Yet taxing commercial properties at a significantly higher rate than DC neighbors will put the District at a competitive disadvantage

Alternative Recommendations

- **Status Quo**

Maintain the current property tax classification structure and rates.

- **Reduce Class 2 Tax Rate Relative to Class 1 Tax Rate**

At present the top commercial tax rate is over twice that for residential properties - over time that differential could be decreased by lowering the tax rate for class 2 property.

Alternative Recommendations

- **Reduce Class 2 Tax Rate and Increase Class 1 Tax Rate**
At present the top commercial tax rate is over twice that for residential properties. Compared to neighboring jurisdictions, the District's residential property tax rate is low and its commercial property tax rate is high.
- **Reduce Class 2 Tax Rate Relative to Class 1 Tax Rate, Financed by Reducing Property Tax Incentives**
Rather than differentially providing property tax abatements, this would provide an across the board tax reduction for all commercial development.

Alternative Recommendations

- **Eliminate Classes 3 and 4**

Residential properties now in Classes 3 or 4 would now revert to Class 1 and commercial properties would revert to Class 2. The 1,213 properties now in these classes could be given an alternative incentive to repair and rent their properties.

- **Eliminate Class 3 and Lower the Tax Rate for Class 4 to the Current Rate for Class 3**

The District could, through an alternative system, provide an incentive for owners of the 817 properties now in this class to rent their properties.

Alternative Recommendations

- **Eliminate Class 4**

The district could, through an alternative system, provide an incentive for the rehabilitation of 342 blighted properties now included in Class 4.

- **Phase in the \$10/\$100 Tax Rate on Class 4**

The tax rate on Class 4 property is so high than many consider it confiscatory. If the tax were phased in so that a Class 4 property faced a tax rate that increased by 1-2 percentage points per year, the same incentive for property redevelopment might be exerted, and taxpayers may view it as more fair.

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