

**D.C. Tax Revision Commission Policy Options**  
**Policy Option #60: Waive Deed Taxes for First-Time Homebuyers**

**MEMORANDUM**

**Proposal:** Waive deed taxes for first-time homebuyers

**Tax Type:** Deed recordation and transfer tax

**Origin:** Rodney Green

**Commission Goal:** Competition

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**Current Law**

The deed recordation and transfer taxes (deed taxes) are imposed when taxable properties in D.C. are sold or transferred. The deed recordation tax is imposed on the recording of all deeds to real estate in the District (and is considered a tax on the buyer). At the same time, the deed transfer tax is also imposed on each transfer of real property (but is considered a tax on the seller). The deed recordation tax must also be paid on the increased value when commercial property is refinanced.

The basis of both taxes is the consideration (amount paid) for the property, including cash, property other than cash, mortgages, liens and a security interest in non-residential property. If there is no consideration or the consideration is nominal, the tax is based on the fair-market value of the property.

For all real property (other than residential properties valued at less than \$400,000), the rate for each tax is 1.45% of total consideration or fair-market value. Therefore, the combined deed tax rate for a transfer of residential property valued at \$500,000 or any commercial property would be 2.9%. For residential properties valued at less than \$400,000, the rate for each tax is 1.1% of total consideration or fair-market value—for a total of 2.2%.

There is a “notch” effect with D.C.’s deed taxes because the rate on the *entire* transaction rises for a residential property valued at \$400,000 or more. The total deed taxes due on a sale of a residential property valued at \$399,000 would be \$8,778 (0.022 x \$399,000), but because of the notch effect the total deed taxes due on the sale of a residential property valued at \$400,000 would be \$11,600 (0.029 x \$400,000), an increase of \$2,822.

The District dedicates 15% of deed tax revenue to the Housing Production Trust Fund, which funds a variety of affordable housing programs. In fiscal year 2012, deed tax revenue totaled \$284.9 million, with \$163.4 million from the recordation tax and \$121.5 million from the transfer tax.

**Proposed Change**

Waive deed taxes on residential property when the purchaser is a first-time homebuyer in D.C.

In Maryland, first-time homebuyers pay a state transfer tax of only 0.25%, compared to the regular rate of 0.5%. In Maryland, recordation taxes are administered by local governments.

## **Reason for Change**

Waiving the tax for first-time homebuyers would increase the progressivity of the deed taxes. First-time homebuyers usually have lower incomes than other homebuyers.

## **Pros**

- Would make the deed taxes more progressive.
- Could make D.C. more competitive with Maryland by matching their lower rate for first-time homebuyers.
- Could encourage groups who often have trouble affording housing in D.C. (younger professional, teachers, police officers, etc.) to purchase a home in the city.

## **Cons**

- The incentive for first-time homebuyers may be unnecessary at a time when the population is expanding, many younger people are moving into D.C. and the housing market is strong.
- By stimulating demand, the incentive could raise home prices, potentially making housing less affordable for other individuals and families.
- The policy change would result in a loss of tax revenue that would in turn reduce funding for the Housing Production Trust Fund. Therefore, first-time homebuyers might benefit at the expense of residents who are less well-off.

## **Revenue Impact**

The Office of Revenue Analysis estimates that in the first year of implementation waiving the deed taxes for first-time homebuyers would lose \$16.6 million in tax revenue.