

The Residential Property Tax Credit: **An Analysis of the District of Columbia's** **Assessment Limitation**

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Background

- **Established in 2002**
- **Cap rate originally set at 25%**
- **Cap rate has been 10% since 2006**
- **Applies only to homesteaded property**
- **Limits the increase in net assessed value**

- 1. Subtract the 2012 homestead exemption from the 2012 assessed value.**
- 2. Multiply the result by 110 percent.**
- 3. Subtract the increase in the homestead exemption between 2012 and 2013.
(This is the 2013 taxable assessment.)**
- 4. Subtract the 2013 homestead exemption and the 2013 taxable assessment from the 2013 assessed value.**
- 5. Multiply the result by the tax rate.
(This is the value of the residential property tax credit.)**
- 6. Subtract the 2013 homestead exemption from the 2013 assessed value and multiply by the tax rate.
(This would be the property tax in the absence of the credit.)**
- 7. Subtract the credit.**

Economic Effects

- **Revenue**
- **Equity**
- **Turnover**

I. Revenue Loss

Depends on:

- **Growth in market values**
- **Cap rate**
- **Turnover**

Estimated Revenue Loss Due to Assessment Limitation

[1] Year	[2] Revenue Loss (in millions of \$)	[3] Revenue Loss/ Non-Capped Revenue	[4] Percent With Tax Reduction
2003	\$23.9	13.5%	55.1%
2004	49.4	21.2	74.9
2005	55.9	20.4	78.9
2006	84.1	28.1	82.5
2007	118.4	33.4	85.5
2008	118.0	31.2	81.4
2009	99.6	26.4	75.0
2010	59.8	17.1	65.4
2011	37.1	11.0	55.6

II. Equity

Figure 2. Distribution of Ratio of Capped Value to Net Assessed Value
2007

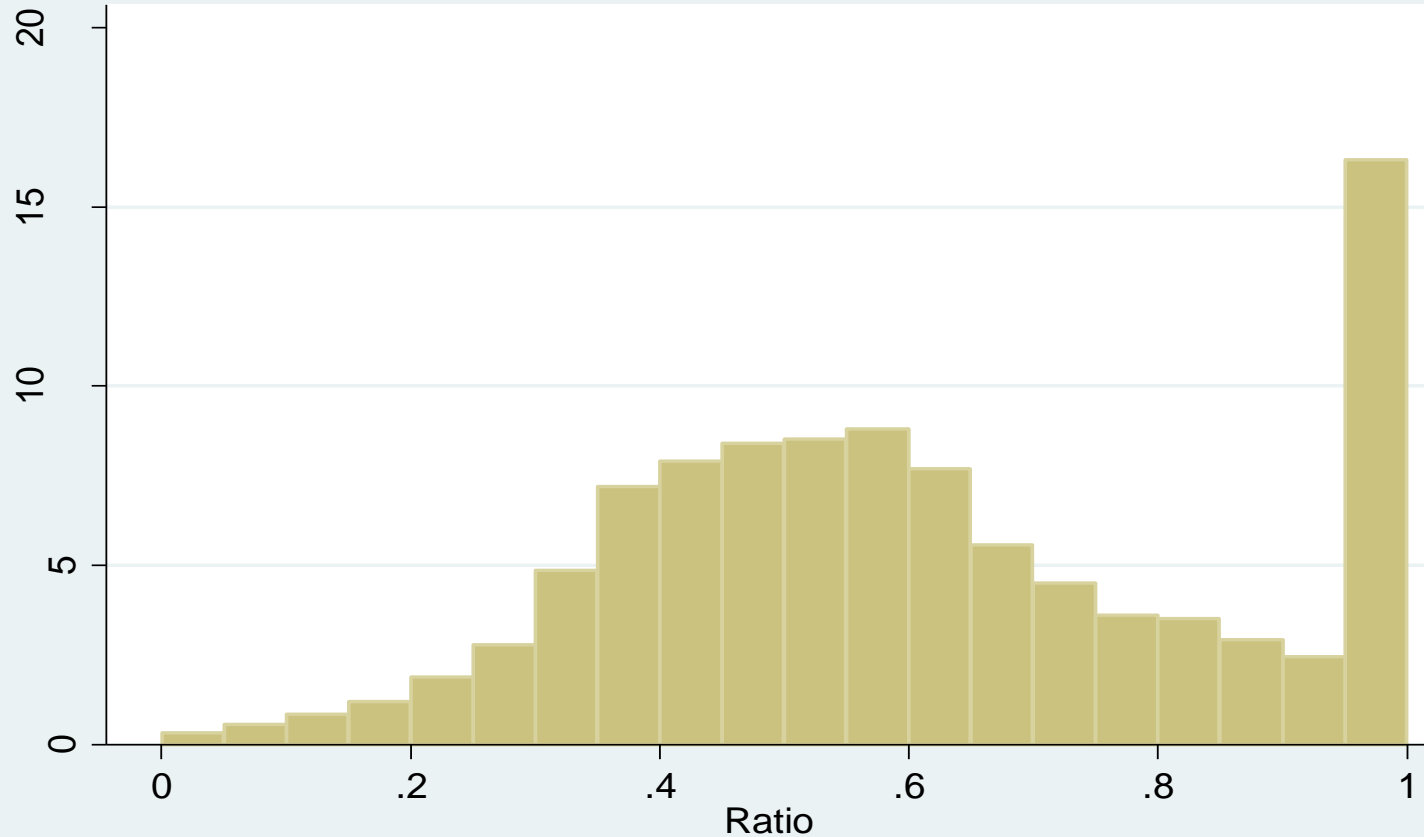
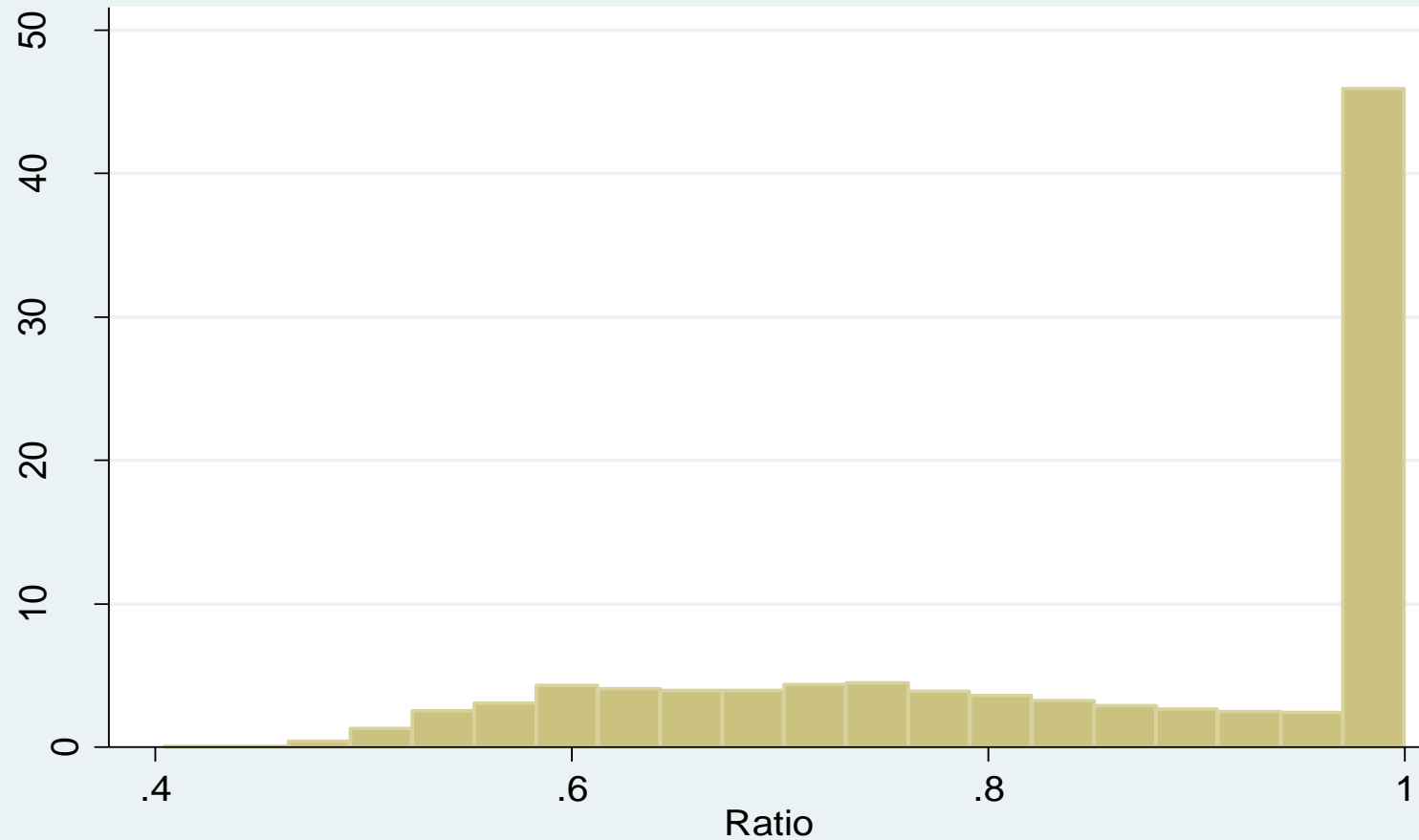
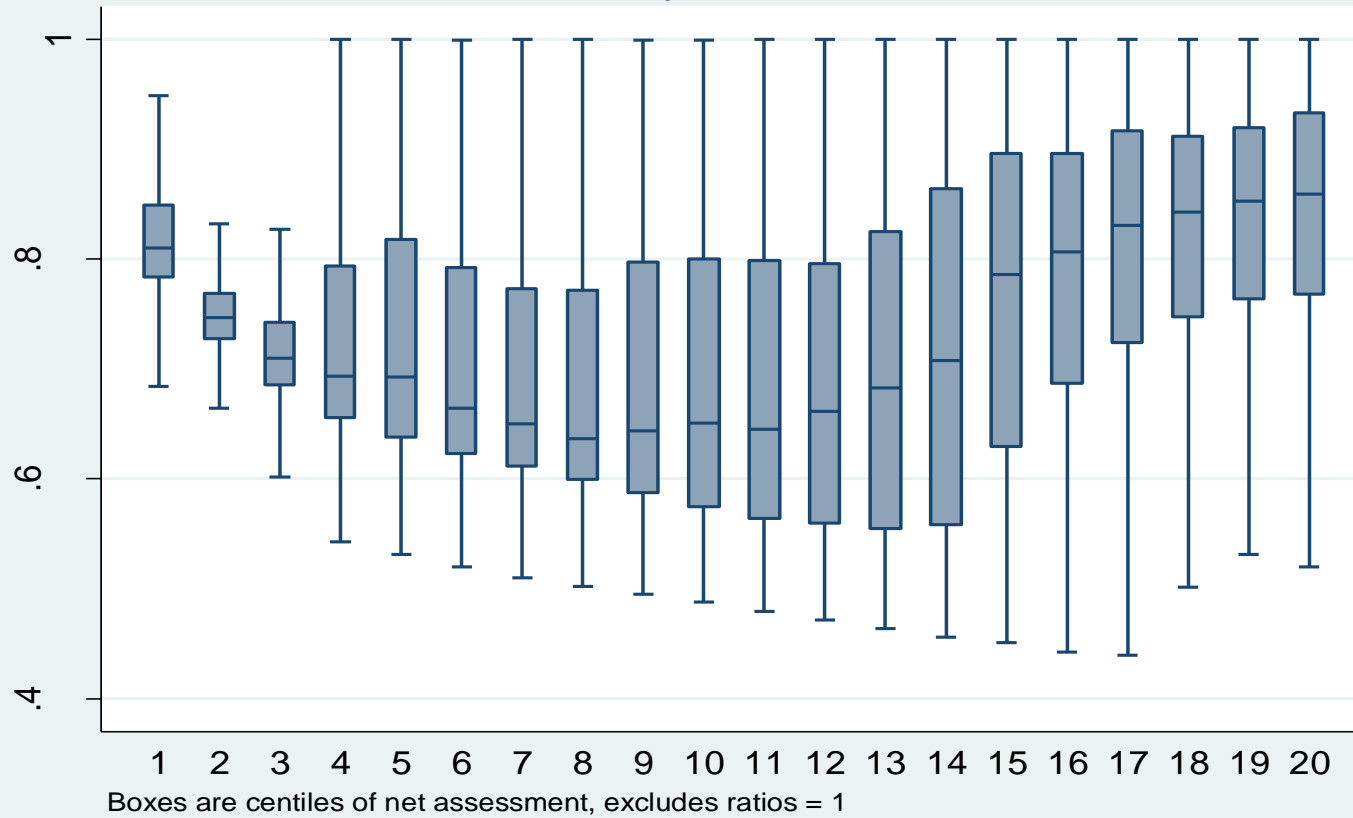


Figure 3. Distribution of Ratio of Capped Value to Net Assessed Value
2011



Distribution of Ratio by Net Assessed Value, 2011



III. Turnover (Lock-in Effect)

10 percent increase in the tax saving

reduces the probability of selling by 2.26 percent

Policy Options

Objectives:

- **reduce the revenue loss**
- **reduce the effect of property value appreciation**
- **reduce property tax inequities**
- **reduce property taxes for various groups**

Policy Options

- **Make no change**
- **Eliminate the assessment limitation**
- **Phase out the assessment limitation**
- **Make the capped value portable**

Policy Options

- **Change the 40 percent provision**
- **Change the cap rate**
- **Convert the limitation to one that applies to the aggregate tax base**
- **Change how improvements affect capped value**

QUESTIONS?