



December 3, 2012

D.C. Tax Revision Commission  
1101 4th St., NW, Suite W770  
Washington, D.C. 20024 (via: ashley.lee@dc.gov)

Dear Commissioners:

Please accept our testimony on behalf of the Coalition for Smarter Growth. My organization works to ensure that transportation and development decisions in the Washington D.C. region accommodate growth while revitalizing communities, providing more housing and travel choices, and conserving our natural and historic areas.

The Tax Revision Commission is considering the following criteria to evaluate proposals about the District's revenue system:

- A balance between stable revenues and encouragement of full employment and price stability
- Equitable distribution of the burden of paying for public goods and services;
- Neutrality of revenue measures so that the private market can allocate resources efficiently
- In relation to neighboring jurisdictions and comparable cities, the District's revenue system must be "competitive" so as not to induce residents or businesses to locate in or do business in other jurisdictions.
- Transparency and accountability. The Council must be clear to the public about the costs of essential public goods and services and about how revenues will be raised to pay those costs.
- Simplicity. Taxes and fees must be easily to understand, easy to administer and easy to comply with in order to ensure compliance and a sense of fairness.

Unfortunately, the traditional property tax does not satisfy these criteria. For example, perhaps a home's porch needs repair. If the owner repairs it, the home assessment will rise and the owner will be punished with higher taxes for many years. However, if the owner allows the porch to fall down, the building assessment will fall too and the owner will be rewarded with a lower tax. Clearly, these economic incentives – punishing responsible owners and rewarding slumlords – are not neutral. Indeed, they are upside-down. And by making property maintenance and improvement more expensive, we are reducing the amount of this activity and reducing jobs.

A no-cost solution would entail reducing the property tax rate on building values and increasing the rate on land values. The lower rate on buildings makes them cheaper to build, improve and maintain. This is good for residents and businesses alike. Surprisingly, higher taxes on land values lead to lower land prices by reducing real estate speculation. Lower land prices would make the District more competitive with neighboring jurisdictions and comparable cities for residents and businesses. And reducing real estate speculation would help reduce the ups and downs of the real estate market – thereby making the District's economy and tax revenues more stable.

The following attachments are based on actual D.C. assessments from 1990 (we apologize for the poor quality of the images). The impacts of the existing property tax rates were compared with a set of hypothetical rates that reduced the tax rate on buildings to half the rate on land. Both sets of rates raised the same total revenue.

**Map 1** shows that average homeowner taxes fell in all neighborhoods. But they declined most substantially in the central and eastern neighborhoods.

**Map 2** shows that taxes on typical rental properties were also reduced.

**Map 3** shows that typical commercial properties in the downtown and Connecticut and Wisconsin Ave Corridors experienced modest tax increases of 4 percent to 7 percent. However, typical neighborhood retail experienced significant tax reductions. This is important because neighborhood retail is a key factor in making neighborhoods convenient and attractive. Furthermore, neighborhood retail provides employment to District residents. Easing the financial situation of neighborhood businesses is important at any time – but particularly so during this recession.

### **Conclusion**

Today's property tax favors speculators. With a little creativity, we can get the D.C. property tax to work in our favor -- for affordable housing and job creation.

Thank you for your consideration.

Sincerely,



Cheryl Cort  
Policy Director

Attachments

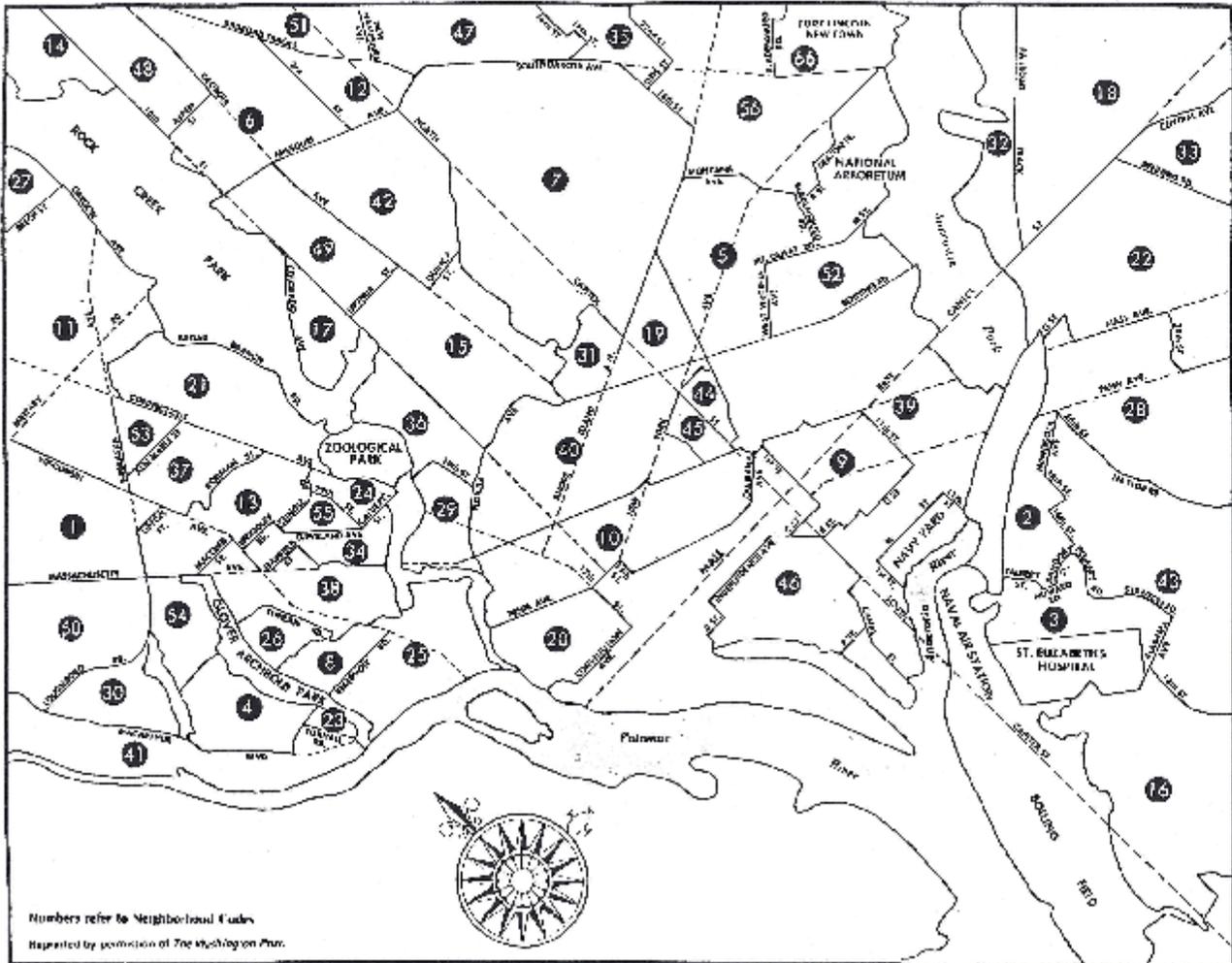
1992 TAX BURDEN COMPARISON

1991 DC Rates Versus Hypothetical Split Rates

		DC 1991 Rates	Hypothetical Split Rates
Class 1	(Owner-Occupied Residential)	\$0.96	B = \$0.65 L = \$1.30
Class 2	(Rental Residential)	\$1.54	B = \$0.95 L = \$1.90
Class 3	(Hotel / Motel)	\$1.85	B = \$1.25 L = \$2.50
Class 4	(Improved Commercial / Industrial)	\$2.15	B = \$1.45 L = \$2.90
	(Vacant Commercial / Industrial)	\$2.15	\$3.29

Hypo 1992 Tax Liabilities (less homeowner deduction) in \$000s

ASSESSED 1990 VALUES (\$000s)							Hypo 1992 Tax Liabilities (less homeowner deduction) in \$000s					
		Number Properties		Land Bldg		Land As % of Total		"I"	"II"	"III"	Change from	
1	2	3	4	5	6	7	'90 Assmnts '92 Calc	'90 Assmnts '91 Rates	Change from "I"	Split-Rate B-L/2	Change from "I"	Change from "II"
							8	9	10	11	12	13
Class 01												
IMPROVED	60009	3051400	7063204	11724692	33%		95638.178	92740.051	-3%	81183.010	-15%	-12%
VACANT	570	28625	0	28625	100%		283.388	274.800	-3%	372.125	31%	35%
Class 02												
IMPROVED	47290	1893368	3880119	5773487	33%		92375.792	88911.700	-4%	72835.123	-21%	-16%
VACANT	2091	60419	0	60419	100%		966.704	930.453	-4%	1147.961	19%	23%
Class 03												
IMPROVED	147	696107	929972	1626079	43%		31747.541	30119.462	-5%	29077.325	-4%	-3%
VACANT	23	24056	0	24056	100%		469.092	445.036	-5%	601.400	28%	35%
Class 04												
IMPROVED	7813	9606704	8423315	18030019	53%		384039.401	387645.405	1%	400732.482	4%	3%
VACANT	8848	1764557	0	1764557	100%		37585.070	37937.982	1%	38053.935	54%	53%
Totals	135501	17937245	21096690	39033935	46%		643105.165	639004.887	-1%	644003.368	0%	1%

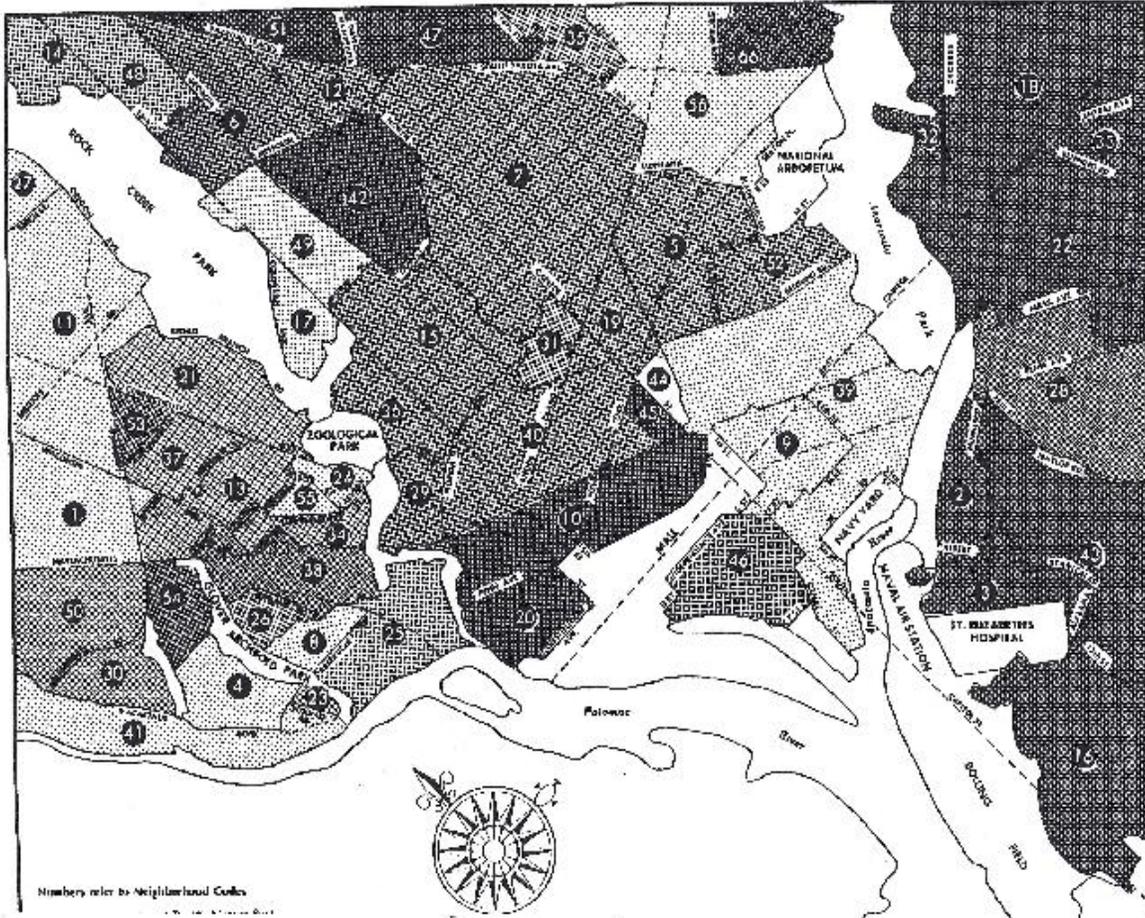


Map 1

Map #1

**CLASS 1 IMPROVEMENTS:**

(1990 Assessments - Homestead Deduction) X Split Tax Rates (\$0.65/\$100 on Building Value)  
 Compared to (\$1.30/\$100 on Land Value)  
 (1990 Assessments - Homestead Deduction) X 1992 Tax Rate (\$0.86/\$100 on Total Value)



**KEY**

- 20% or more
- 15% to -19%
- 10% to -14%
- 3% to -9%
- +3% to +2%
- +4% to +7%

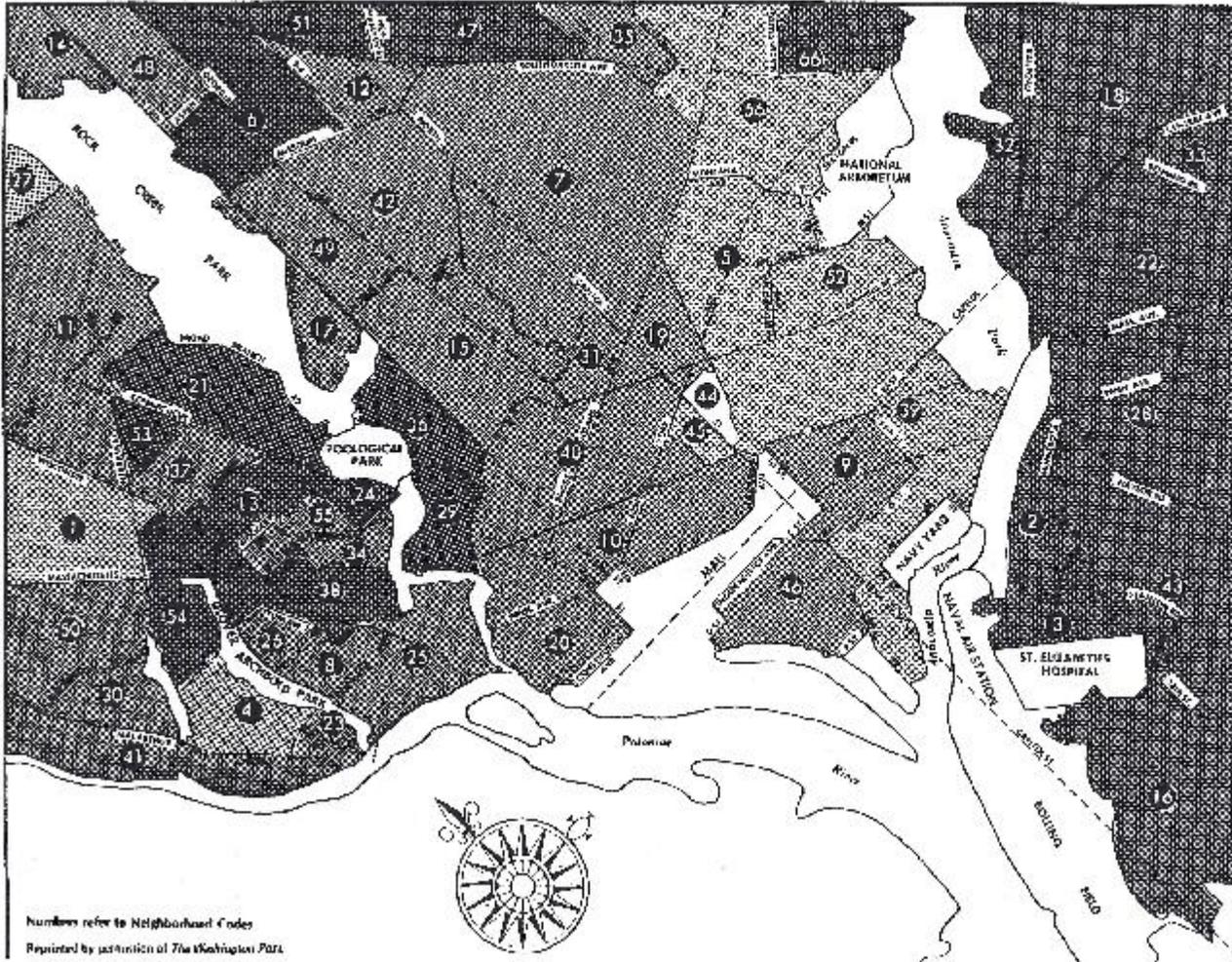
Numbers refer to Neighborhood Codes

Map 2

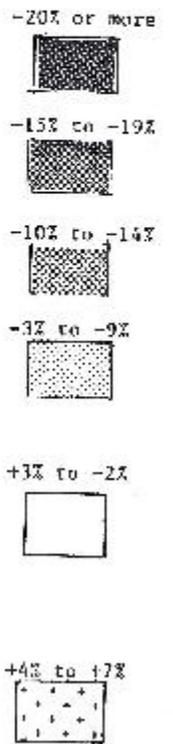
Map #2

CLASS 2 IMPROVED:

1990 Assessments X Split Rate (30.95/\$100 on Building Value)  
 Compared to: (31.90/\$100 on Land Value)  
 1990 Assessments X 1992 Tax Rate (31.54/\$100 on Total Value)



KEY

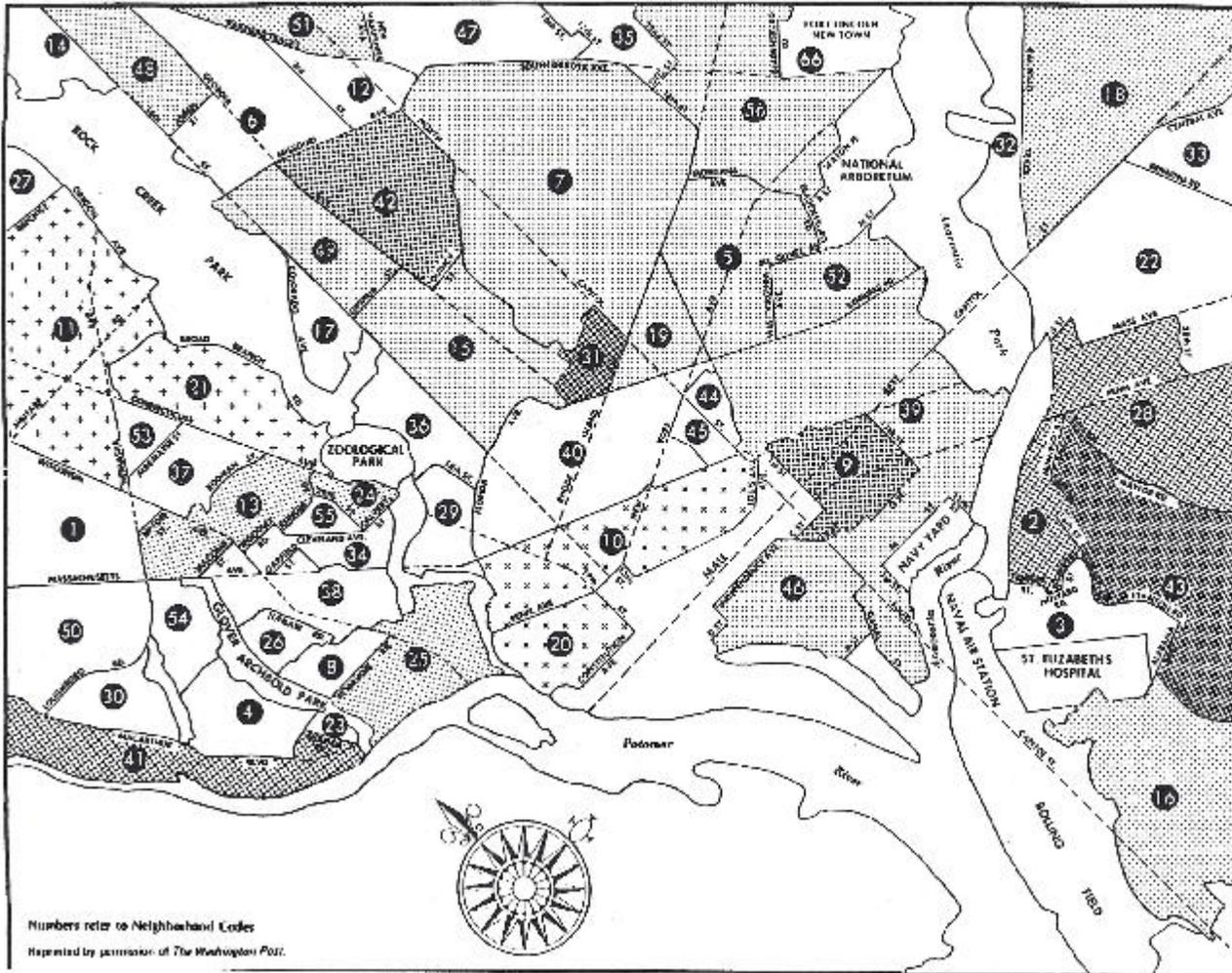


Numbers refer to Neighborhood Codes  
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Map #3

CLASS 4 IMPROVED:

1990 Assessments X Split Tax Rates (\$1.45/\$100 on Building Value)  
 (\$2.90/\$100 on Land Value)  
 Compared to  
 1990 Assessments X 1992 Tax Rate (\$2.15/\$100 on Total Value)



Numbers refer to Neighborhood Codes  
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