

D.C. Tax Revision Commission Policy Options

Policy Option #51: Create a PILOT Program for Tax Exempt Properties

MEMORANDUM

Proposal: Create a payment in lieu of taxes (PILOT) program for tax exempt properties

Tax Type: Property

Origin: Stefan Tucker/Mike Bell

Commission Goal: Broaden the tax base

Current Law

There are generally three types of property exempt from property taxes in D.C.

1. Properties “immune” from taxation such as property belonging to the U.S. government.
2. Properties exempt by tradition such as property owned by religious or educational groups.
3. Properties exempt from taxes by a special act of Congress or the D.C. government.

Proposed Change

Create a payment in lieu of taxes (PILOT) program. Properties held by exempt organizations would still not be subject to property taxes but would be subject to a negotiated amount based on the services provided by the D.C. government.

D.C. could model its PILOT on a similar program in Boston. That government has calculated that 25% of its budget is dedicated to services (fire protection, public works, etc.) that directly benefit exempt organizations. The city then negotiates PILOTs with individual organizations, starting with the premise that each should pay a PILOT equal to 25% their hypothetical property tax payment.

Reason for Change

Exempting some organizations from property taxes means that those paying property taxes (both residents and business) must shoulder a larger share of the tax burden. A PILOT program would more fairly spread the tax burden and possibly allow for rate reductions.

Pros

- Would require organizations currently exempt from property taxes to contribute to the costs of services that they benefit from.
- Would make the property tax fairer by broadening the tax base.
- Would raise new tax revenue that could be used to lower property tax rates.
- Provides exempt organizations a means for contributing to the cost of services without exposing them to the full property tax.

Cons

- Would make the property tax more complex for both numerous organizations and the Office of Tax and Revenue by creating a new system that is potentially ad hoc, secretive and contentious.
- Tax revenue from the PILOT could be limited and unreliable.
- Many organizations receiving an exemption bring people to D.C. as employees. Asking these organizations to pay a PILOT may incent some organizations to leave the city or make D.C. less competitive in attracting such organizations.
- Currently exempt organizations may shift a PILOT to their workers (by paying lower wages) or customers (by charging higher tuitions, for example).
- Exempt organizations such as hospitals and universities provide government-like services that benefit the community.

Revenue Impact

The Office of Tax and Revenue Analysis estimates that in the first year of implementation, a Boston-like PILOT program (where organizations pay 25% of an assumed property tax payment) could raise \$25.4 million from educational organizations and \$6.35 million from hospitals.