D.C. Tax Revision Commission Policy Options

Policy Option #40: Tax All Commercial Property at the Same Rate and Assist Small Businesses with a Tax Credit

MEMORANDUM

Proposal: Apply one tax rate ($1.85 per $100) for all commercial property and assist small businesses with a tax credit
Tax Type: Property
Origin: Ed Lazere
Commission Goal: Business growth

Current Law

Real property in D.C. is separated into four classes for taxation:

1) Residential property
2) Commercial property
3) Vacant buildings
4) Blighted buildings

The tax rate for commercial property is graduated: the first $3 million of assessed value is taxed at $1.65 per $100 of value and any additional amount is taxed at $1.85 per $100. If commercial property tax collections are projected to grow by more than 10% in the upcoming budget year then the rate on assessed value below $3 million is lowered so that total revenue remains below the 10% growth rate threshold.

Proposed Change

Tax all commercial property at the same rate ($1.85 per $100 of assessed value) and provide a tax credit to small businesses.

Reason for Change

The graduated tax rate was established so that owners of relatively inexpensive commercial property would pay lower rates than owners of high-value property. The lower tax rate on the first $3 million of value, however, benefits all commercial property taxpayers regardless of property value. Targeting tax relief directly to small business owners is a more precise way of providing tax relief.

Pros

- Would provide more targeted tax relief to small businesses.
- Would raise tax revenue.

Cons

- Would increase the tax burden on owners of commercial property valued at more than $3 million.
- Could prove more difficult to administer than the split rate as owners requesting the tax credit would have to apply for a credit and be validated.
- Depending on design, could create a “cliff” problem where property valued just below the credit threshold goes untaxed while property valued just above the threshold faces a substantial property tax payment.
- Could make D.C. a less desirable location for businesses looking to locate in the region.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation taxing all commercial property at $1.85 per $100 of assessed value would raise $20.2 million in new tax revenue.

The tax credit for small business would lose tax revenue, but the total is determined by the (undetermined) design of the credit.