D.C. Tax Revision Commission Policy Options

Policy Option #56: Eliminate Deed Taxes or Reduce The Combined Rate to 0.433%

MEMORANDUM

Proposal: Eliminate deed taxes or reduce the combined rate to 0.433% (Virginia's rate)
Tax Type: Deed recordation and transfer tax
Origin: Rodney Green
Commission Goal: Competition

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

Abolish the deed taxes or reduce them to the 0.433%, the combined rate in Virginia.

Reason for Change

Eliminating or reducing deed taxes could foster growth in the D.C.'s housing and commercial property markets.

Pros

- Could provide D.C.'s residential and commercial property markets a competitive edge in attracting new residents and businesses.

Cons

- Would lose tax revenue and specifically diminish the Housing Production Trust Fund's resources.
- Reducing or abolishing the tax would provide a windfall for buyers of major office buildings, most of whom do not live in D.C.
- Reducing or abolishing the tax could stimulate further growth in housing prices that are already beyond the reach of many low- and moderate-income individuals and families.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation eliminating the deed taxes would lose $244.4 million in tax revenue while reducing the rate to 0.433% would lose $202.2 million in tax revenue.