

Real Property Tax Expenditures in the District of Columbia

**Michael E. Bell
MEB Associates
George Washington Institute of Public Policy**

and

**Daniel Muhammad
Office of Revenue Analysis**

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Real Property Tax Expenditures

- “the revenue losses attributable to provisions of federal law and the laws of the District of Columbia that allow, in whole or in part, a special exclusion, exemption, or deduction from taxes authorized in this title, or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” [47-318(6)]

Consequences of Real Property Tax Expenditures

- Lost tax revenues
- Differential effective tax rates across individual properties
- Shifting the tax burden to properties not receiving preferential treatment
- Undermines fairness, efficiency and transparency of the property tax
- Costs must be balanced with social benefits from tax expenditures

Tax Expenditure Report

- Tax expenditure analysis offers a fuller picture of government resource use, and promotes transparency and accountability;
- Tax expenditures have similar economic effects to direct spending;
- Tax expenditures reduce economic efficiency;
- Tax expenditures are not transparent like direct spending; and
- Tax expenditures usually do not require annual reauthorization.

Tax Expenditure State Comparison

State	Total	Exempt Home	Exempt Other	Assess Limits	Credit/ Refund	Business Incentive	Other	Year
D.C.	1,282	54	1,168	28	20	7	3	FY 12
Florida	16,925	2,807	10,457	2,475	143	6	42	FY 11
Kentucky	399		0.2				399	FY 10
Maine	116				50	66		FY 10
Maryland	223		86	78	57			FY 10
Michigan	8,467	3,670	984	3,400	49	363		FY 10
Minnesota	1,937	490	1,294		11	9	56	FY 10
Oregon	4,674	2	3,625		26	192	23	FY 10
Texas	2,962			293	1,744	185	739	CY 10
Vermont	219		73		116	0.1	30	FY 08
Washington	542		190		198		10	CY 10
Wisconsin	21,072		21,072					FY 08

Abatements

- Forgiveness of property taxes, either completely or in part, for some period of time [Oakman and Clark]
- 8 “by right” tax abatement programs in the DC Official Code
- Cost in terms of foregone tax revenues less than \$8 million annually
- 5 have no participants/beneficiaries

Abatements -- Discretionary

- Requires action by the D.C. Council
- Fiscal note
- “But for” financial analysis
- Must be funded

Abatements -- Discretionary

- 26 properties receive partial real property tax abatements in FY2013 costing the District government foregone property tax revenues of approximately \$13 million
- there are 34 properties receiving full real property tax abatements in FY2013 costing the District government foregone property tax revenues of approximately \$16 million

Source: 2013 *Unified Economic Development Report*, Office of the Chief Financial Officer, Appendix 1: Abatements and Exemptions.

Credits/Deferrals

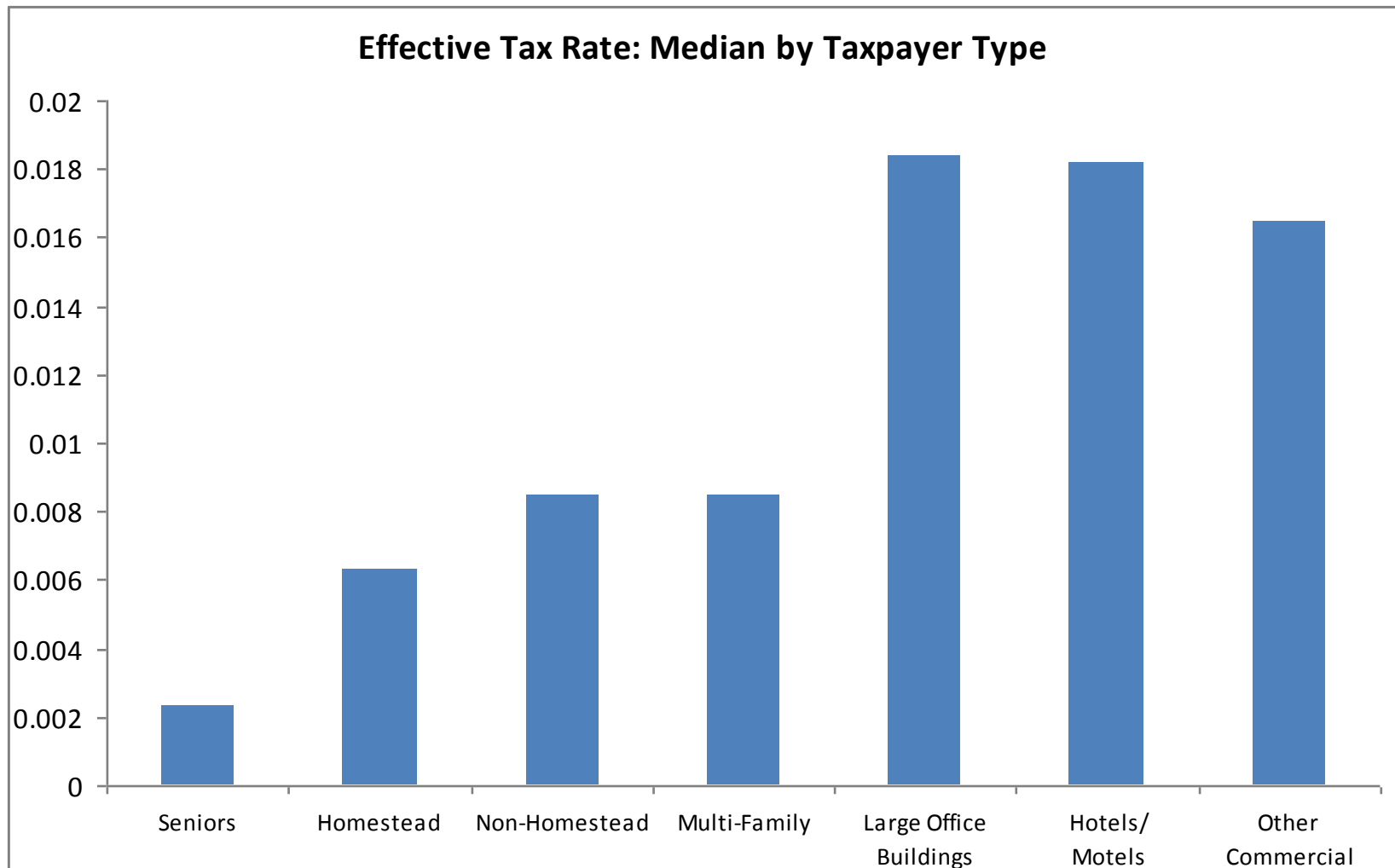
- Unlike exemptions, credits and deferrals do not reduce the property tax base
- Two major credit programs
 - Assessment Cap (95,000+ participants/\$28 million in foregone revenues)
 - Senior citizens (18,000+ properties/\$14 million in foregone revenues)
- Two major deferral programs
 - Low-income homeowners (defer incremental increase)
 - Low-income senior homeowners (defer all)

Impact of Tax Expenditures: Foregone Tax Revenues

Foregone Property Tax Revenues Due to Exemptions (millions)

Scenario 1	\$ 1,473
Scenario 2	\$ 396
Scenario 3	\$ 99

Impact of Tax Expenditures: Effective Tax Rates



Impact of Tax Expenditures: Shifting the Property Tax Burden

- Equal yield analysis
- Estimate distribution of property tax burden across classes under four scenarios
 - Current system
 - Eliminate all tax expenditures and classification
 - Eliminate selective property tax exemptions
 - Tax some exempt property at 25% of estimated market value
 - See Tables 9 and 10 (p. 38-39)

Policy Options

- ***Option 1: Improve D.C. Property Tax Expenditure Oversight***
- ***Option 2: Reduce Exempt Property Tax Expenditures***
- ***Option 3: Improve D.C. Property Tax Abatements Oversight – An Ex Post Analysis of Benefits for District Residents***

Policy Options (Cont.)

- ***Option 4: Reduce Property Tax Abatement Expenditures – Limit the Number or Total Value of Abatements***
- ***Option 5: Improve D.C. Property Tax Abatement Evaluation Process – Adopt Criteria for Granting Tax Abatements***