DEED RECORDATION AND REAL PROPERTY TRANSFER TAXES IN THE DISTRICT OF COLUMBIA

A COMPARATIVE ANALYSIS WITH POLICY OPTIONS

Rodney D. Green, Ph.D.
Judy Mulusa, Ph.D.
Department of Economics
Howard University

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APPLICATION OF DEED RECORDATION AND REAL PROPERTY TRANSFER TAXES

DC's Deed Recordation Tax (DRT) and Real Property Transfer Tax (PTT)are charged when

- real property is sold
- a commercial property is refinanced for more than the current balance on outstanding loan(s)
- a residential property with five or more units is refinanced

TAX RATES FOR PROPERTY SALES

- DRT and PTT rates are equal
- For Property Sales
  - The combined DRT (1.45%) and PTT rate (1.45%) = 2.9% for
    - commercial properties
    - residential properties sold for $400,000 or more
  - The combined rate = 2.2% for residential properties sold for less than $400,000.

TAX RATES FOR REFINANCING

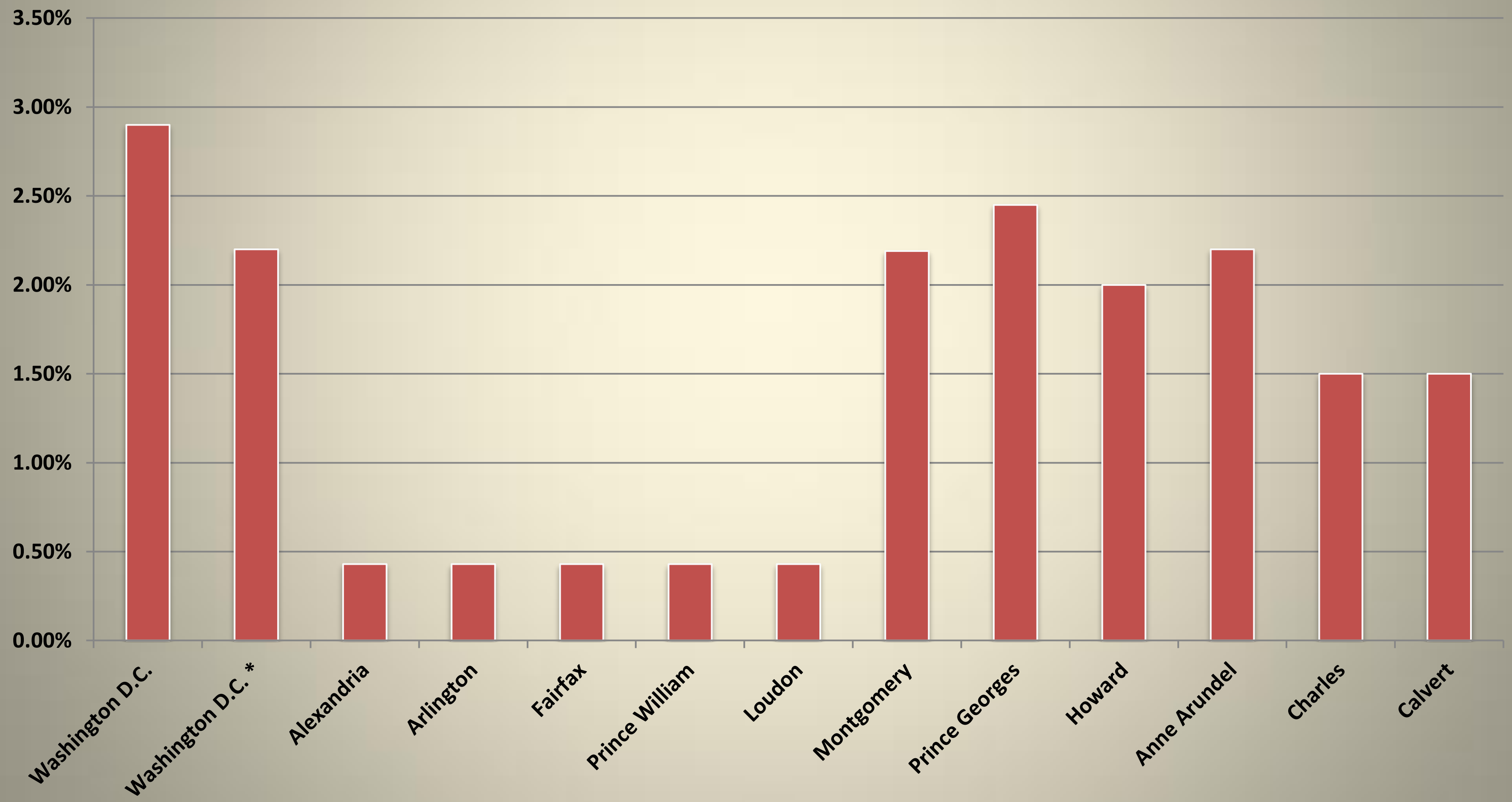
- For Property Refinancings
  - The combined DRT (1.45%) and PTT rate (1.45%) = 2.9% of the difference between the currently outstanding financing amount and the new financing amount for both
    - commercial properties
    - residential properties with five or more units
- Continuing uncertainty about legal interpretation of the statute

DC RATES COMPARED TO OTHER JURISDICTIONS

DC’s transfer and recordation tax rates are

- 5 to 6 times higher than in Northern Virginia
- 85% to 193% of rates in Maryland counties
- 36% of rates in New York City
- 111% of rates in San Francisco
- 162% of rates in Seattle

COMBINED RATES IN DC, VA, AND MD



DRT & PTT REVENUES ARE VOLATILE

- Tax revenues from DRT & PPT fluctuate directly with sales and refinancing
- Varied from $105 million (2000) to $379 million (2007)
- Revenues at $285 million for 2012
- Over past 13 years, DRT & PTT revenues ranged from 3.5% to 8.6% of all DC tax revenues

EARMARK FOR AFFORDABLE HOUSING

- 15% of DRT and PTT revenues earmarked for the DC Housing Production Trust Fund (HPTF)
- Created in 1998--funded by earmark since 2002
- Set up due to decline of 20,000 units of affordable housing while need in DC rose
- 7,500 affordable housing units built with HPTF funds worth $320 million
- HPTF spending generated additional $794 million financing from private sector, yielding a 2.5:1 private/public benefits ratio for DC

EARMARKS IN DC AND NATIONALLY

Earmarks and dedicated funds are common

- 10 current earmarks in DC
- MD and VA have earmarks for public purposes
- 18 states earmark tax revenues for housing funds
- 8 other states have housing funds supported from other sources

HOUSING MARKET IMPACTS OF DRT & PPT

- One-time tax => Minimal impact on level of residential sales
  - Maximum impact on buyer = $40/month
    - Assumes full incidence on buyer
  - 1% increase would reduce transactions by 0.2%
    - 16 fewer home sales out of 7,904 in 2012
- Other factors (e.g., TOPA) are likely causes of relatively low velocity of sales of multi-family rental properties in DC

OFFICE MARKET IMPACT OF DRT & PTT

- One-time tax => Minimal impact on office market
- D.C. as a stable secure investment
  - Headwinds significant but less severe here
    - Flat occupancy rates
    - Increasing "ask" rental rates
  - Global/national investment demand
    - Qatar finances CityCenterDC
    - Abu Dhabi finances Marriott Marquis
    - REITs include DC office buildings
- "Export" tax bills

PROGRESSIVITY OF DRT AND PTT

D.C. recognizes need for progressivity

- Maintains 1.1% rate for lower cost housing
- Provides multiple exemptions for lower income households (exemptions had a value of $714,000 in 2012)
- Not as progressive as it may look: progressivity is usually measured by **tax** divided by **income**
- Room for further improvement

POLICY OPTIONS

- Abolish or severely reduce both taxes
  - Loss of $150 million to $300 million in revenue per year
  - Destabilize the Housing Production Trust Fund
  - Impair affordable housing production
- Increase tax on high end office properties
  - 2 percentage point increase would yield $83 million additional annual revenue
- Eliminate the “bump up” or “notch” at $400,000
  - Applying 2.9% only to value over $400,000 = $5.6 million reduced annual revenues
- Increase progressivity
  - Raise maximum income for exemption from 120% to 200% of HUD rate
  - Waive taxes for first-time home buyers
  - Raise the maximum tax rate on higher cost properties
  - Increase bracketing