D.C. Tax Revision Commission Policy Options

Policy Option #48: Reduce the Assessment Limitation

MEMORANDUM

Proposal: Reduce the assessment limitation from 10% to 5%
Tax Type: Property
Origin: Councilmember Jack Evans/David L. Sjoquist
Commission Goal: Competition

Current Law

If a taxpayer qualifies for the homestead deduction then the annual taxable assessment of her residential property cannot rise by more than 10% annually. In 2011, 95,291 taxpayers benefited from the assessment limitation. Notwithstanding the assessment limitation, the taxable assessment of property must always be at least 40% of the current assessed value of the property.

When a homesteaded property is sold, the new owner must pay taxes on the full assessed value (market value) of the property for her first payment. If the new owner is eligible, the taxable limitation then begins again on that new assessed value.

Maryland provides a 10% annual limitation on the taxable value of residential property but Virginia does not.

Proposed Change

Change the assessment limitation from 10% to 5%. A qualified taxpayer's taxable assessment could not rise annually by more than 5%.

Reason for Change

The purpose of the assessment limitation is to mitigate the effects of rising property values on residents' property tax payments. A 5% limitation would further protect residents from rapid growth in property value.

Pros

- Would further reduce many residents property tax assessments and therefore payments—especially residents who live in the same homestead property for an extend period of time.
- Could make living in D.C. more affordable for long-term residents, allowing such residents to remain in D.C.

Cons

- Would lose tax revenue.
- Would exacerbate horizontal equity problem. New homeowners could pay substantially more in property taxes than neighbors (long-term residents) who reside in similarly valued property but have benefited from the limitation in previous years.
- The assessment limitation is available to all homeowners regardless of property value. As a result, residents with valuable property in desirable and economically growing neighborhoods would benefit substantially from additional limitation on property taxes.
- If a more restrictive assessment limitation leads to a higher property tax rate (in order to replace lost revenue), it could make D.C. a less attractive place for families looking to move.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation change the assessment limitation from 10% to 5% would lose $6.3 million in revenue.