

D.C. Tax Revision Commission Policy Options
Policy Option #46: Tax Land and Buildings at Different Rates

MEMORANDUM

Proposal: Tax land and buildings at different rates

Tax Type: Property

Origin: Public

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

Residential property is taxed at \$0.85 per \$100 of assessed value. 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.

Total assessed value is a combination of the value of land and the value of the building(s) on the property.

Proposed Change

Tax land at a higher rate than buildings.

Please see “Possible Rates and Revenue Estimates” below for a detailed description of proposed changes to the rate structure.

Reason for Change

Taxing land at a higher rate than buildings would reduce the tax penalty for improving the value of buildings.

Pros

- A lower tax rate on buildings could encourage construction as the tax penalty to improve property would be reduced.
- A higher tax rate on land could penalize owners of valuable land who fail to develop their land.

Cons

- Changing the tax rates could create “winners and losers,” which cannot be identified at this time.
- Would require the Office of Tax and Revenue (OTR) to create and implement a new property tax assessment system. This would require new training and possibly additional staff.
- Calculating two assessments (land and building for each property) could increase valuation challenges (and controversies).

Possible Rates and Revenue Estimates

The Office of Revenue Analysis (ORA) estimates that in the first year of implementation the following property tax rates would be revenue neutral (i.e., raise as much tax revenue as the current tax rates).

<u>Property</u>	<u>Land Rate (per \$100)</u>	<u>Building Rate (per \$100)</u>
Residential Property	\$1.24	\$0.35
Commercial Property	\$3.00	\$0.92
All Property (no classification)	\$2.45	\$0.30