D.C. Tax Revision Commission Policy Options

Policy Option #45: Introduce “Equal Yield Budgeting” for Commercial Property

<u>**MEMORANDUM**</u>

Proposal: Introduce “equal yield budgeting” for commercial property
Tax Type: Property
Origin: Public
Commission Goal: Competition

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

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.

Under current law, if commercial property tax collections are projected to grow by more than 10% in the upcoming budget year then the rate on assessed value below $3 million is lowered so that total revenue remains below the 10% growth rate threshold.

Proposed Change

Limit the growth and decline in total commercial property tax revenue from assessment increases or decreases from existing commercial property to 3% per year. If commercial property tax collections are projected to grow by more than 3% then the commercial property tax rates would be lowered to meet the 3% growth rate. If commercial property tax collections are projected to decline by more than 3%, then the rates would be increased to limit the commercial tax revenue decline to the 3% rate.

Reason for Change

Establishing a growth rate for total commercial property tax revenue would both shield taxpayers from higher property taxes resulting from increased assessments and protect D.C. from a drop in revenue when assessments substantially decrease.

Pros

- Would shield taxpayers from higher commercial property taxes when citywide assessments increase by more than 3%. This could make D.C. more competitive in attracting businesses to the city.

- Would protect city commercial property tax revenues during periods of economic contraction.

Cons

- Would complicate the property tax system.
- Would forego tax revenue during periods of economic expansion.
- When the total assessed commercial property value is projected to grow less than 3%, the *increased tax* rate on commercial property would become an additional burden for businesses in a poor economic environment.
- The tax on commercial property helps “export” D.C.’s tax burden. If the revenue lost from the commercial property tax cut is offset with increases in other taxes, that burden might shift to residents.

Revenue Impact

There is no revenue estimate for this option at this time.