**D.C. Tax Revision Commission Policy Options**

# Policy Option #59: Raise the Exemption from 120% of HUD Low-Income Standard to 200%

**MEMORANDUM**

**Proposal:** Raise exemption from 120% of HUD low-income standard to 200%
**Tax Type:** Deed recordation and transfer tax
**Origin:** Professor Rodney Green
**Commission Goal:** Fairness

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**Current Law**

The deed recordation and transfer taxes (deed taxes) are imposed when taxable properties in D.C. are sold or transferred. The deed recordation tax is imposed on the recording of all deeds to real estate in the District (and is considered a tax on the buyer). At the same time, the deed transfer tax is also imposed on each transfer of real property (but is considered a tax on the seller). The deed recordation tax must also be paid on the increased value when commercial property is refinanced.

The basis of both taxes is the consideration (amount paid) for the property, including cash, property other than cash, mortgages, liens and a security interest in non-residential property. If there is no consideration or the consideration is nominal, the tax is based on the fair-market value of the property.

For all real property (other than residential properties valued at less than $400,000), the rate for each tax is 1.45% of total consideration or fair-market value. Therefore, the combined deed tax rate for a transfer of residential property valued at $500,000 would be 2.9%. For residential properties valued at less than $400,000, the rate for each tax is 1.1% of total consideration or fair-market value—for a total of 2.2%.

The District dedicates 15% of deed tax revenue to the Housing Production Trust Fund, which funds a variety of affordable housing programs. In fiscal year 2012, deed tax revenue totaled $284.9 million, with $163.4 million from the recordation tax and $121.5 million from the transfer tax.

Properties that are transferred to households with annual income no greater than 120% of the regional lower-income guideline established by the U.S. Department of Housing and Urban Development (HUD) are exempt from deed taxes. Presently, the HUD standard translates into an income limit of $56,100 for a single person and $80,100 for a four-person family.

**Proposed Change**

Expand eligibility for the exemption from the deed taxes from households with no greater than 120% of the HUD low-income standard to 200% of the standard. The 200% standard would translate into an income limit of $93,500 for a single individual and $133,500 for a four-person family.

**Reason for Change**

This change would make the deed taxes more progressive by exempting more low- and moderate-income households and would promote homeownership among such households.

**Pros**

- Would make the deed taxes more progressive.
- Could promote homeownership among low- and moderate-income households.

**Cons**

- Would cause a revenue loss and reduce funding for the Housing Production Trust Fund.
- Would extend the deed tax exemption to fairly high income levels.

**Revenue Impact**

The Office of Revenue Analysis estimates that in the first year of implementation that increasing the low-income standard would lose less than $1 million in tax revenue.