Washington, DC

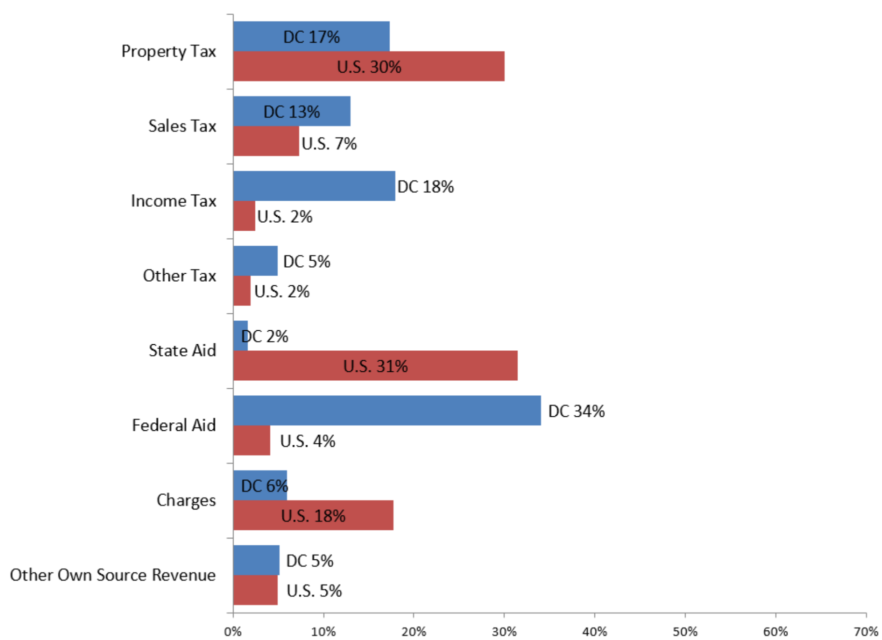
Highlights

The District of Columbia is constitutionally prohibited from being located within the boundaries of any state, and, as a result, the government in the District takes on both state and local revenue-raising responsibilities. In this diversified revenue system, in which the city levies both sales and income taxes, property taxes account for only 17 percent of local general revenues (figure DC-1).

As the nation's capital, Washington, DC has a large federal presence. The U.S. government owns 2,808 properties exempt from paying property taxes (25.4 percent of all exempt properties in DC), with an estimated market value of $52 billion (58 percent of all exempt value in DC) accounting for $917.7 million in foregone property tax revenue annually. Foreign governments own an additional 617 exempt properties, accounting for $50.2 million in foregone property tax revenue (District of Columbia Office of the Chief Financial Officer 2018). Federal aid accounts for 33 percent of local general revenue in the District, compared to 4 percent for the U.S. on average.

The District of Columbia has the lowest residential property tax rate and the highest commercial property tax rate in the Washington-Arlington-Alexandria Metropolitan Area. As a result of low real property taxes, families in the District have the lowest overall tax burden in the metropolitan area (District of Columbia Office of the Chief Financial Officer 2018).

Figure DC-1
Sources of Local General Revenue, District of Columbia and U.S., 2017



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

In 2017, the District had the highest per capita property tax levy in the nation and an above-average percentage of personal income paid in property taxes, but one of the lowest effective property tax rates on median-valued owner-occupied homes (table DC-1). These statistics reflect the fact that the District of Columbia shifts its property tax significantly away from homeowners toward commercial properties. Washington, DC ranks 11th among 53 large cities in terms of the degree to which property taxes are shifted away from homeowners to owners of commercial property (Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 2019).

Table DC-1
Selected District of Columbia Property Tax Statistics, 2017[1]

	District of Columbia	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$3,500	$1,618	*1*
Property tax percentage of personal income	4.4%	3.1%	*6*
Total property tax as percentage of state-local revenue	17.6%	16.2%	*17*
Median owner-occupied home value[2]	$568,400	$222,041	*2*
Median real estate taxes paid for owner-occupied home[2]	$3,113	$2,412	*14*
Effective tax rate, median owner-occupied home[3]	0.5%	1.1%	*47*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2014-2018.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

In the District of Columbia, the property tax is administered by the city (table DC-2). The District's property tax system differs from that of the 50 states as there is only one rather than multiple taxing bodies responsible for assessing, levying, and collecting taxes. All real property is assessed annually at 100 percent of market value. Personal property except for inventory is taxed, and personal property less than or equal to $225,000 in assessed value is exempt from taxation.

The District of Columbia has a classified property tax system, whereby four different classes of real property are taxed at different tax rates:

- Residential property is taxed at $0.85 per $100 of assessed value;

- Nonresidential property (mostly commercial) is taxed at $1.65 per $100 of the first $5 million in assessed value, at $1.77 for value over $5 million but less than $10 million, and 1.89 per $100 for value over $10 million;
- Vacant buildings are taxed at $5 per $100 of assessed value; and
- Blighted buildings are taxed at $10 per $100 of assessed value.

As a result, commercial properties in the District account for 6.9 percent of taxable properties, 44.7 percent of assessed value, but 65.1 percent of tax liabilities (District of Columbia Office of the Chief Financial Officer 2018).

Limits on Property Taxation

The District has levy limits for both residential and commercial property. It also limits the annual increase in assessed value for owner-occupied residential property to a maximum of 5 percent for elderly or disabled residents with income under $125,000. If the assessed value increases by more than 5 percent, the owner receives a nonrefundable credit to offset the corresponding increase in the tax bill. The property tax revenue lost to the District government as a result of this limit has fluctuated with the rise and fall of property values. The cost of the assessment cap credits increased from $23.9 million in 2003 to $118.4 million in 2007, but decreased to $37.1 million in 2011 and cost $28.3 million in fiscal year 2018 (District of Columbia Office of Revenue Analysis 2018; Sjoquist 2013). In 2018, the District lowered the assessment cap credit from 10 percent to 5 percent, expanding the number of eligible properties (District of Columbia Office of the Chief Financial Officer 2018).

Property Tax Relief and Incentives

The District has many property tax relief programs, the most popular of which are the Homestead Deduction (a type of homestead exemption) and the credit for senior citizens or disabled property owners. For fiscal year 2019, the Homestead Deduction provides a $73,350 reduction in assessed value for all homeowners, and the credit reduces by 50 percent the property tax liability for taxpayers 65 and older with incomes of $133,100 or less, as well as for the disabled. Circuit breaker programs for elderly and non-elderly homeowners or renters provide additional relief (District of Columbia Office of Tax and Revenue).

The District also offers a wide array of property tax incentives for economic development, including economic development zones and tax increment financing.

Table DC-2
District of Columbia Property Tax Features, 2018

Feature	District of Columbia	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	Yes	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

The District enacted property tax classification in 1979, establishing three classes of property with different tax rates. The classification system has been changed several times since then, and the assessment limit was enacted in 2002 (District of Columbia, Office of Revenue Analysis 2014).

Between 1978 and 2011, the District Council responded to rapidly increasing property values by providing a variety of tax relief measures to homeowners. These measures resulted in a large number of homeowners having zero tax liability. In response, the District Council in 2011 required all homeowners to have a tax liability that is at least equal to the residential tax rate ($0.85) applied to 40 percent of their home value. This ensures that every homeowner will pay something toward the cost of city-provided goods and services. These tax relief measures resulted in substantial differences in effective tax rates across and within groups of taxpayers. For example, homeowners 65 or older pay a median effective property tax rate of 0.23 percent, and nonelderly homeowners in the District who receive the homestead deduction pay a median effective property tax rate of approximately 0.63 percent. Non-homestead residential property and multi-family residential property are taxed at a median effective rate of 0.85 percent, and large office buildings and hotels/motels have effective tax rates of approximately 1.8 percent.

In 2013, the District enacted the Property Tax Relief Act of 2012 which doubled the income limit for the non-elderly circuit breaker program, tripled the income limit for the elderly circuit breaker, and increased the benefit cap for both programs effective for 2014. However, it also imposed stricter eligibility criteria for the elderly circuit breaker by increasing the minimum age to 70 and eliminating eligibility for the non-elderly disabled (D.C. Act 19-649 and Significant Features of the Property Tax). In 2014, the city council enacted an interest-free property tax deferral for low- and moderate-income seniors over 75 who have owned a house in the District for 25 years or more, effective 2015 (District of

Columbia, Office of the Chief Financial Officer 2017). Between 2015 and 2018, the District continued to expand tax relief by incrementally increasing homestead exemptions.

Recent Developments

In response to growing concerns over vacant and blighted property, the District enacted the "Vacant Property Enforcement Amendment Act of 2016" authorizing the Department of Consumer and Regulatory Affairs (DCRA) to designate property as vacant or blighted, reducing the time limit for property tax exemptions for vacant properties under construction, increasing penalties, and requiring semi-annual reporting of vacant and blighted property (Drake and Lebowitz 2017). Following these reforms, in 2017 the Office of the DC Auditor released a report charging the DCRA with mismanagement of the city's vacant and blighted property program in fiscal year 2015. The auditor alleged, among other failures, that the agency granted property tax exemptions for ineligible vacant and blighted properties allowing them to avoid taxation at the higher tax rates for vacant and blighted property, resulting in considerable revenue loss to the District. The report recommended ending the granting of special exemptions, reforming the appeals process for exemption limits, and regular evaluation of the vacant property program (Drake and Lebowitz 2017).

The District's fiscal year 2020 budget (Fiscal Year 2020 Budget Support Act of 2019) reduced the threshold for the homestead assessment cap credit from 10 percent to 5 percent for qualifying residents over age 65 or disabled with household income under $125,000 (District of Columbia Office of the Chief Financial Officer 2018).

In 2018, the District restructured its commercial property taxes to help fund improvements to the Washington Metropolitan Area Transit Authority (WMATA). The Fiscal Year 2019 Budget Support Emergency Act of 2018, proposed by Mayor Muriel Bowser, raised new revenue to fund the Metro in part by restructuring Class 2 property tax rates. The law raises the assessed value threshold for property to receive the lowest-tier rate of $1.65 per $100 value from $3 million to $5 million, adds a new rate of $1.77 for commercial property with assessed value greater than $5 million but less than $10 million, and raises the third-tier commercial property tax rate back to $1.89 per $100 of assessed value on properties with an assessed value higher than $10 million. Prior to the new law, commercial property with assessed value over $3 million was taxed at a rate of $1.85 per $100 of assessed value. The rate was temporarily cut from $1.89 to $1.85 in December 2018 thanks to new revenue from taxing online sales (D.C. Law 22-258, Internet Sales Tax Amendment Act of 2018).

Resources

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