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Washington, DC

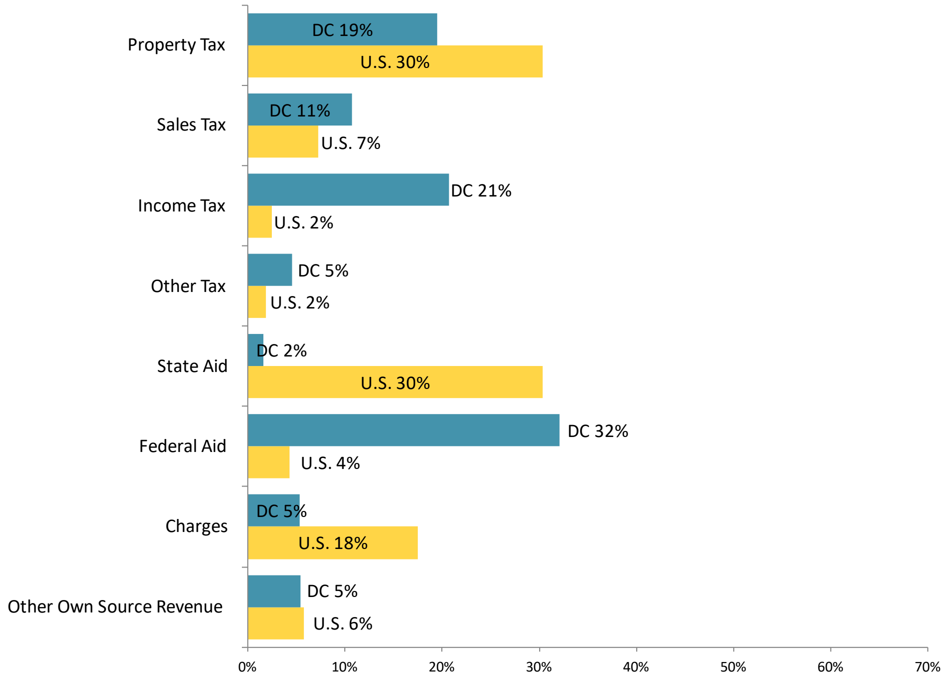
Highlights

The District of Columbia is constitutionally prohibited from being located within the boundaries of any state; 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 19 percent of general revenues—far lower than the property tax's share of local revenues nationally (figure DC-1), but higher than the property tax's share of combined state and local revenues nationally (table DC-1).

As the nation's capital, Washington, DC has a large federal presence. The U.S. government owns about a quarter of all exempt properties in DC, with an estimated market value of $63 billion (53 percent of all exempt value in DC) accounting for nearly $91.2 billion in foregone property tax revenue annually. Foreign governments own an additional 613 exempt properties, accounting for $80.7 million in foregone property tax revenue (District of Columbia Office of the Chief Financial Officer 2022, 52).

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 2022, 26).

Figure DC-1
Sources of Local General Revenue, District of Columbia and U.S., 2020



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

Property Tax Reliance

In 2020, the District had the highest per capita property tax levy in the nation, 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 has high property values and shifts its property tax away from homeowners toward commercial properties.

Table DC-1
Selected District of Columbia Property Tax Statistics, 2020[1]

	District of Columbia	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$4,242	$1,810	*1*
Property tax percentage of personal income	4.7%	3.1%	*5*
Total property tax as percentage of state-local revenue	19.8%	16.6%	*10*
Median owner-occupied home value[2]	$618,100	$229,800	*2*
Median real estate taxes paid for owner-occupied home[2]	$3,551	$2,551	*10*
Effective tax rate, median owner-occupied home[3]	0.6%	1.1%	*44*

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 2016–2020.

[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, with the first $225,000 in assessed value exempt from taxation (Significant Features of the Property Tax).

The District of Columbia has a classified property tax system, whereby four different classes of real property are taxed at different tax rates (District of Columbia, Office of the Chief Financial Officer):

- 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 41.9 percent of assessed value, but 62.3 percent of tax liabilities (District of Columbia, Office of the Chief Financial Officer 2022, 52). Two elements of the District's property tax system that are fairly unique for U.S. jurisdictions are its graduated rate structure for nonresidential property and its imposition of higher tax rates for vacant and blighted properties.

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 10 percent, or 2 percent for elderly or disabled residents with income under $133,100. If the assessed value increases by more than 10 percent (or 2 percent for qualifying seniors or disabled residents), the owner receives a nonrefundable credit to offset the corresponding increase in the tax bill (District of Columbia, Office of the Chief Financial Officer 2022).

Property Tax Relief and Incentives

The District has many property tax relief programs, the most popular of which are the Homestead Deduction, the credit for senior citizens or disabled property owners, and the Schedule H circuit breaker. For 2023, the Homestead Deduction provides an $84,000 reduction in assessed value for all primary residents, and the credit reduces the property tax liability by 50 percent for taxpayers 65 and older with incomes of $149,400 or less, as well as for the disabled. The Schedule H circuit breaker provides additional relief to both homeowners and renters with incomes below $78,600 (if 70 and older) or $57,600 (if under age 70) (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, 2021

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	17	
Circuit breaker property tax relief program	Yes	31	

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 that the taxable assessed value of homestead properties must be at least 40 percent of their assessed value. This was meant to ensure that every homeowner pays something towards the cost of city provided goods and services, although the credit for senior citizens and disabled persons, schedule H circuit breaker, and other credits and abatements are not subject to the 40 percent limit. These tax relief measures also resulted in substantial differences in effective tax rates across and within groups of taxpayers. For example, in 2012, homeowners 65 or older paid a median effective property tax rate of 0.23 percent, and nonelderly homesteads paid a median effective property tax rate of 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 (Bell and Muhammad 2013).

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 (D.C. Act 19-649; Significant Features of the Property Tax). More recent changes were enacted in 2019, which further increased the maximum credit and the income ceiling and established annual cost-of-living increases for future years. The Homestead Deduction nearly doubled to $60,000 in fiscal year 2006, and has since been increased by annual cost-of-living adjustments, other than a few years during and after the 2007–2009 recession (District of Columbia, Office of Revenue Analysis 2023). In 2005, the District enacted a property tax deferral option for seniors with incomes up to $50,000 and allowed younger homeowners with incomes up to $50,000 to defer property tax increases above 5 percent. In 2014, the city council made the senior deferral interest-free for seniors over 75 with incomes under $12,500 and who have owned a house in the District for 25 years or more (District of Columbia, Office of Revenue Analysis 2022).

In 2018, the District restructured its commercial property taxes to help fund improvements to the Washington Metropolitan Area Transit Authority (WMATA). The law raised the assessed value threshold for property to receive the lowest-tier rate of $1.65 per $100 of assessed value from $3 million to $5 million, added a new rate of $1.77 for commercial property with assessed value greater than $5 million but less than $10 million, and raised the third-tier commercial property tax rate from $1.85 to $1.89 per $100 of assessed value on properties with an assessed value higher than $10 million (D.C. Law 22-258, Internet Sales Tax Amendment Act of 2018).

Recent Developments

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). The Seniors and Individuals with Disabilities Real Property Tax Increase Limit Amendment Act of 2022 further reduced the assessment cap to 2 percent (MyTaxDC 2022).

The Fiscal Year 2020 Budget Support Act of 2019 included the Nonprofit Workforce Housing Properties Real Property Exemption Amendment Act, which exempts non-profit owners of rental properties from property taxes (District of Columbia Office of the Chief Financial Officer 2022, 25). The exemption only applies to rental property owners who are non-profit entities that lease their units based on income thresholds and comply with additional requirements.

According to city officials, the District of Columbia became the first jurisdiction in the United States to fully integrate its property tax system with systems for income, sales, and business taxes when it completed a five-phase technology initiative in 2020. In December 2020, the District's Modernized Real Property Tax System (MRPTS) went live, allowing customers to manage and pay property taxes online at the District's MyTax.DC.gov domain. With the 2020 update, residents could view and pay property taxes, apply for relief online, and appeal assessments. They could also access income tax, business tax, and sales tax systems within the same portal (MyTax.DC.gov; State Tax Today 2019). However, the web site roll out was plagued with errors and documentation issues (Cryder 2021). Although a paper form can be requested, taxpayers are required to apply electronically for the Senior Citizen Tax Relief Program and the Disabled Property Tax Relief Program effective October 1, 2021 (District of Columbia, Office of Tax and Revenue).

In 2022, Mayor Muriel Bowser and the DC Department of Housing and Community Development (DHCD) launched a $50 million Homeowner Assistance Fund to provide financial assistance for payments related to housing, including the property tax. To be eligible for assistance, homeowners must be behind on payments, earn less than 100 percent of median family income, and be impacted by COVID-19 (Executive Office of the Mayor 2022).

In early 2023, District CFO Glen Lee projected that property tax revenue would decline slightly in fiscal years 2023 and 2024 largely due to economic conditions and a "deteriorating real property market"—specifically, declining commercial office building values caused by growth in remote work. Declines in the value of office buildings valued over $50 million was the primary reason for reduced property tax revenue in fiscal year 2022. Lee estimated that between fiscal year 2023 and fiscal year 2027, commercial property tax revenue would fall 0.6 percent per year while residential property tax revenue would grow about 3 percent per year (Office of the Chief Financial Officer 2023).

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