

**REAL PROPERTY TAX CLASSIFICATION
IN WASHINGTON, DC**

By Daphne A. Kenyon, Ph.D.

Principal
D. A. Kenyon & Associates

Windham, NH 03087

Daknh2012@gmail.com

October 24, 2013

FINAL DRAFT

ABSTRACT

Washington, DC has a classified property tax system, whereby four different classes of property (residential, commercial, vacant buildings and blighted buildings) are taxed at different tax rates. This report describes the classification system in the District and how it has changed over time. It compares property tax classification and property tax rates in the District to local governments that adjoin the District, and provides a brief review of classification nationally. It examines the consequences of the District's system of property tax classification on property tax incidence (i.e., who ultimately pays the property tax), tax exporting (i.e., the extent to which non-District residents ultimately pay the tax), economic competitiveness, administrative costs, and equity. Various alternatives for reforming the system of property tax classification are provided. When deciding whether to alter taxation of commercial property there is a tradeoff between the desire for tax exporting and the desire to maintain the District's economic competitiveness. When deciding whether to alter taxation of vacant and blighted buildings there is a tradeoff between the desire to incentivize property owners to repair or make active use of their buildings and the desire to reduce the complexity of the District's property tax system.

Table of Contents

Tables and Figures	3
Introduction.....	4
Effective Tax Rates vs. Nominal Tax Rates	6
Part 1: History of Classification in the District.....	8
Taxation by Adjoining Governments.....	10
Classification Nationwide.....	16
Complexity of the District’s Classification System.....	21
Part 2: Analysis of the District’s Classification System	23
Who Pays? Or Who Bears the Burden of the Commercial Property Tax?.....	23
Tax Exporting or Where Do They Live?	24
Economic Competitiveness.....	26
Administrative and Compliance Costs.....	28
Equity.....	29
Part 3: Policy Options	33
Option 1: Status Quo.....	33
Option 2: Reduce Class 2 Tax Rate Relative to Class 1 Tax Rate	34
Option 3: Reduce Class 2 Tax Rate and Increase Class 1 Tax Rate.....	35
Option 4: Reduce Class 2 Tax Rate Relative to Class 1 Tax Rate, Financed by Reducing Property Tax Incentives.....	36
Option 5: Eliminate Classes 3 and 4	37
Option 6: Eliminate Class 3 and Lower the Tax Rate for Class 4 to the Current Rate for Class 3	38
Option 7: Eliminate Class 4.....	39
Option 8: Phase in the \$10/\$100 Tax Rate on Class 4 over Time	40
Appendix A: Definitions of Property Tax Classification	42
Appendix B: Tax Incidence, Tax Exporting and the Commercial Property Tax.....	45
Appendix C: Local Government Responses to the Problem of Vacant and Blighted Properties	49
Appendix Tables and Figures	533
References.....	56

Tables and Figures

Table 1: District of Columbia Effective Tax Rates by Property Tax Class Based on Liability and Collections, FY 2012	6
Table 2: District of Columbia Nominal Property Tax Percentage Rates by Category of Property and Current Defined Class, Tax Years 1976-2012	9
Figure 1: Number of D.C. Real Property Tax Classes by Year, 1976-2012	10
Table 3: Real Property Tax Percentage Rates for Residential Property, D.C. and Neighboring Jurisdictions, 1991-2012	12
Figure 2: Real Property Tax Percentage Rates for Residential Property, D.C. and Neighboring Jurisdictions, 1991-2012	13
Table 4: Real Property Tax Percentage Rates for Commercial Property, D.C. and Neighboring Jurisdictions, 1991-2012	14
Figure 3: Real Property Tax Percentage Rates for Commercial Property, D.C. and Neighboring Jurisdictions, 1991-2012	15
Table 5: Commercial Office Property Tax Rates, D.C. and Neighboring Jurisdictions, FY 2009-2014.....	16
Figure 4: Real Property Tax Classification in the United States, 2012	17
Table 6: Ratio of Commercial to Homestead Effective Property Tax Rates, by Most Populous City in Each State, with Rankings (<i>R</i>), 2005, 2008, and 2011	19
Table 7: Ratio of Commercial to Residential Effective Tax Rate (ETR), Selected Cities, 2011 ..	20
Figure 5: Ratio of Commercial to Residential Real Property Tax Rates in D.C. by Year, 1976-2012	26
Table 8: Effective Property Tax Rates, Selected Cities, 2011	27
Table 9: District of Columbia Effective Tax Rates by Property Tax Class Based on Liability and Collections, FY 2012	30

Appendix

Appendix Table 1: District of Columbia Real Property Assessed Value and Tax Liability by Class, FY 2011	52
Appendix Table 2: District of Columbia Real Property Assessed Value and Tax Liability by Class, FY 2010	52
Appendix Table 3: Top Ten Property Tax Expenditures for Households or Commercial Properties, District of Columbia, Fiscal Years 2010-2013	53
Appendix Figure 1: Incidence of a Hypothetical D.C. Tax on Capital.....	54

Introduction

Washington, DC has a classified property tax system.¹ “A classified property tax system is one in which different kinds or classes of property are assessed at different assessment ratios or taxed at different tax rates” (Woolery 1979, 85). The District of Columbia has chosen the latter approach:

- residential property (Class 1) is taxed at \$0.85 per \$100 of assessed value,² after subtracting the homestead exemption (valued at \$69,350 in 2013) from each home’s assessed value;
- non-residential property (Class 2, mostly commercial) is taxed at \$1.65 per \$100 of assessed value for the first \$3 million in assessed value and \$1.85 for amounts over \$3 million;³
- vacant buildings (Class 3) are taxed at \$5 per \$100 of assessed value;⁴ and
- blighted buildings (Class 4) are taxed at \$10 per \$100 of assessed value.⁵

It is important to note that Classes 3 and 4 do not include vacant land.⁶ Land with no building is either included in Class 1 or Class 2.⁷ A 10 percent cap on annual increases in taxable assessments for homeowners creates a difference between assessed value and taxable assessed value. If a homeowner’s assessed value increased by 12 percent, for example, the increase in taxable assessment would be limited to 10 percent.⁸

¹ Many thanks to Bethany Paquin for her research assistance and editing. Thanks to James Adams, Richard Auxier, Michael Bell, Steve Capello, Jason Juffras, Daniel Muhammad, Rick Rybek, Gerry Widdicombe, and Joan Youngman for helpful comments, data, and key information relevant to the report.

² D.C. Official Code §47-813(c-8)(2).

³ D.C. Official Code §47-813(c-8)(3). Class 2 property is defined as all real property that is not Class 1, 3 or 4 property.

⁴ D.C. Official Code §47-813(c-8)(4), §42-3131.16, §42-3131.05(5).

⁵ D.C. Official Code §47-813(c-8)(5), §42-3131.17, §42-3131.05(1).

⁶ The term “vacant” has several meanings. When applied to a building it means untenanted or unoccupied. When applied to land it means unutilized. See *The American College Dictionary*, Random House.

⁷ D.C. Official Code §47-813(c-8)(2)

⁸ For a clear presentation of various numerical examples see DC Fiscal Policy Institute 2013. If a period when assessed values increase by more than 10 percent is followed by a period when assessed values

Class 3 and Class 4 properties are special classes designed to “create financial disincentives for property owners to leave their buildings vacant rather than putting them into productive use” and to penalize owners “who allow their buildings to fall into such serious disrepair as to become a visual and physical blight on the neighborhood” (Department of Consumer and Regulatory Affairs 2010, 1). The Department of Consumer and Regulatory Affairs has the authority to determine whether a property should be classified in either Class 3 or Class 4. It notifies the Office of Tax and Revenue (OTR) which applies the property tax rate and bills the property owner accordingly.

A residential or commercial building can be designated as Class 3 property by DCRA if the entire building is vacant. The DCRA considers the following characteristics to determine whether a building is vacant: low or no utilities usage, an accumulation of mail, a neighbor complaint, lack of window coverings, no furniture observable, open accessibility, deferred maintenance, or boarding up.⁹

Class 4 property is a blighted vacant building that the DCRA has determined is “unsafe, insanitary, or which is otherwise determined to threaten the health, safety, or general welfare of the community.”¹⁰ The DCRA may consider several criteria in determining whether a vacant building is blighted: whether the building is subject to a condemnation proceeding, is boarded up, or fails to comply with vacant building maintenance standards such as having the exterior walls “free of holes, breaks, graffiti, and loose or rotting materials...”¹¹

increase by less than 10 percent, taxable assessed value can increase by more than assessed value, allowing taxable assessed value to begin to catch up to assessed value.

⁹ D.C. Official Code §42-3131.05(5).

¹⁰ D.C. Official Code §42-3131.05(1)(A).

¹¹ D.C. Official Code §42-3131.05(1)(B).

Of the 182,357 properties in the District in FY2012, 94 percent were residential, accounting for 55 percent of total assessed value (see **Table 1.**) Class 2 properties (mostly commercial, henceforth referred to as commercial) accounted for only 5 percent of the total properties, but 44 percent of total assessed value. Class 3 and Class 4 properties combined accounted for less than 1 percent of either the number of properties or of total assessed value.

Table 1
District of Columbia Effective Tax Rates by Property Tax Class Based on Liability and Collections, FY 2012

Class	Number of Properties	Percent of Properties	Assessed Value (End of Year)	Percent of Assessed Value	Tax Liability (Actual)	Percent of Tax Liability	Effective Tax Rate
Class 1 (Residential)	171,408	94.0%	\$ 83,641,835,527	55.3%	\$ 592,682,451	32.8%	\$ 0.71
Homestead ¹	66,724	36.6%	\$ 36,014,873,307	23.8%	\$ 229,023,618	12.7%	\$ 0.64
Non-Senior	50,278	27.6%	\$ 30,080,320,417	19.9%	\$ 210,548,922	11.7%	\$ 0.70
Senior	15,946	8.7%	\$ 5,934,552,890	3.9%	\$ 18,474,696	1.0%	\$ 0.31
Non-Homestead	24,526	13.4%	\$ 11,632,508,037	7.7%	\$ 97,667,114	5.4%	\$ 0.84
Class 2 (Commercial)	9,736	5.3%	\$ 67,191,142,921	44.4%	\$ 1,190,524,935	66.0%	\$ 1.77
Class 3 (Vacant Buildings)	871	0.5%	\$ 281,694,270	0.2%	\$ 11,567,594	0.6%	\$ 4.11
Residential	804	0.4%	\$ 243,721,210	0.2%	\$ 9,939,422	0.6%	\$ 4.08
Commercial	67	0.0%	\$ 37,973,060	0.0%	\$ 1,628,172	0.1%	\$ 4.29
Class 4 (Blighted Buildings)	342	0.2%	\$ 125,308,970	0.1%	\$ 10,340,640	0.6%	\$ 8.25
Residential	304	0.2%	\$ 99,444,330	0.1%	\$ 8,627,004	0.5%	\$ 8.68
Commercial	38	0.0%	\$ 25,864,640	0.0%	\$ 1,713,636	0.1%	\$ 6.63
Total	182,357	100%	\$ 151,239,981,688	100%	\$ 1,805,115,620	100%	\$ 1.19

¹ The homestead statistics presented do not include condominiums.
Source: Office of the Chief Financial Officer/ Government of the District of Columbia

Effective Tax Rates vs. Nominal Tax Rates

A nominal tax rate is the same as a statutory tax rate. For example, the nominal tax rate for the District’s residential property is \$0.85 per \$100 of assessed value.

Effective tax rates are computed by dividing total tax liability by total property value. If jurisdictions assess properties at 100 percent of market value, and provide no other general exemptions or credits, effective and statutory tax rates are equal. If

jurisdictions do not assess properties at 100 percent of market value, effective and statutory tax rates will not be equal. For example, a jurisdiction can levy an effective property tax rate of 1 percent either by assessing property at 100 percent of market value and employing a statutory tax rate of 1 percent, or by assessing property at 50 percent of market value and employing a 2 percent tax rate. In order to provide an “apples to apples” comparison between the tax rates of different jurisdictions, it is best to use effective tax rates rather than statutory tax rates. It is not always possible to obtain effective tax rates, however, and this report refers to nominal tax rates unless specified.

Property tax classification causes effective tax rates on different classes of property to differ, and sometimes property tax classification is defined as a system that imposes different effective tax rates on different classes of property (Youngman 2005, 57). Appendix A describes alternative definitions of property tax classification.

Part 1 of this report will describe the classification system in the District and how it has changed over time, describe classification and taxation in the local governments that adjoin the District, and provide a brief overview of classification nationally. The administrative complexities of the District’s classified property tax system will also be described. Part 2 will examine the consequences of the District’s system of property tax classification, including the allocation of property tax burdens across property types, who bears the burden of the commercial property tax, tax exporting, and the effect on economic competitiveness, administrative and compliance costs, and equity. The purpose of Part 3 is to lay out a series of alternative recommendations for the Commission to consider based on the information and analysis presented in Parts 1 and 2.

Part 1: History of Classification in the District

Table 2 presents the history of property tax classification in the District since 1976. Over that 36 year period the District has changed either rates or structure 18 times; this report will focus on structural changes. Until 1979 the District taxed all property at \$1.83 per \$100 of assessed value. In other words, until 1979 the District did not have a classified property tax system.

In 1979 the District divided properties into residential (taxed at \$1.54 per \$100) and nonresidential (taxed at \$1.83 per \$100) classes. During the period from 1979 to 2002 the District gradually increased the number of classes. In 1980, the residential class was divided into owner-occupied residential and non-owner-occupied residential. In 1986, a class of hotels and motels was split out of the general non-residential class, which increased the total number of classes to four. Then in 1991 a fifth class was added—vacant land and vacant buildings.

However, the existence of five official classes of property understates the complexity of the District's property tax classification system in that era. According to DC Law 8-150, within the five classes of property there were separate rules for occupied buildings, unoccupied buildings, and vacant land. In effect it was nearly impossible for even a well-educated person to read this statute and understand the property tax classification system, either generally or as applied to a particular property.

Table 2

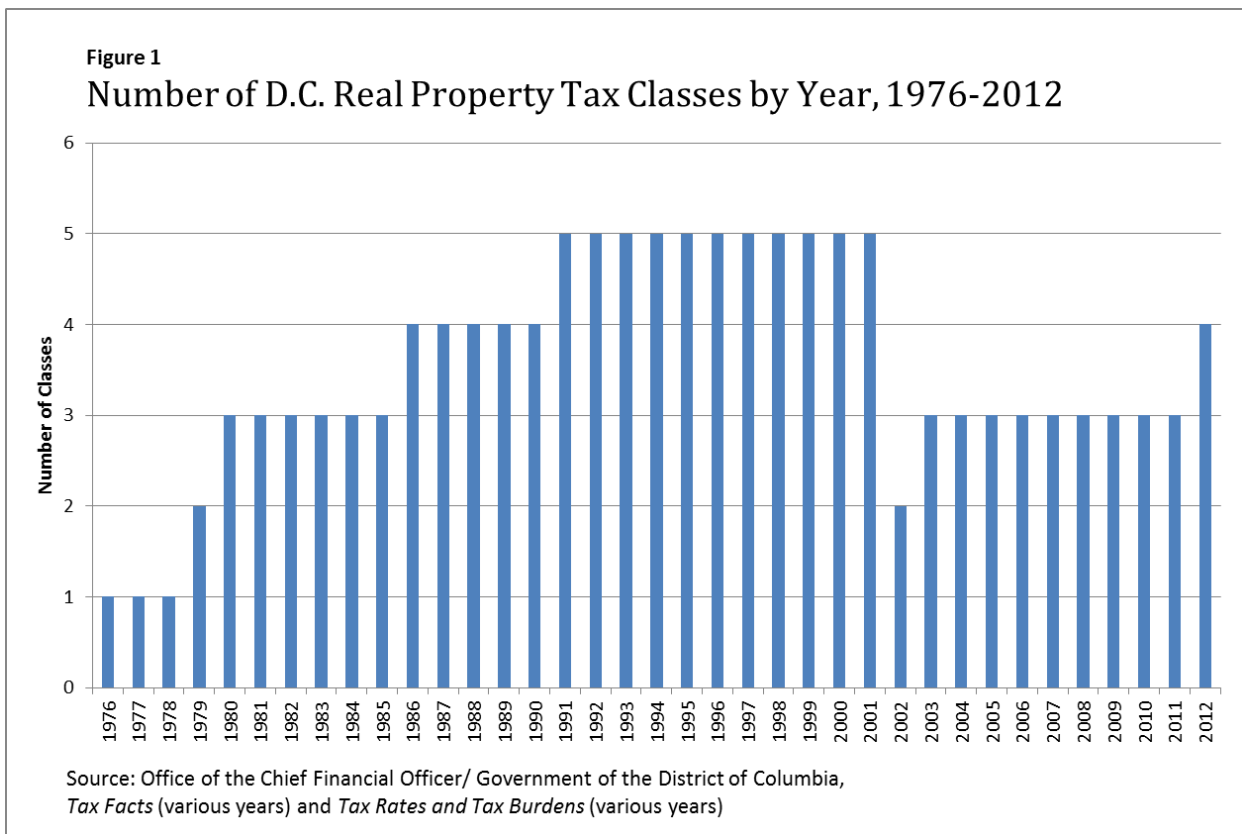
District of Columbia Nominal Property Tax Percentage Rates by Category of Property and Current Defined Class, Tax Years 1976-2012

Year	All	Residential <i>Current Class 1</i>	Residential (Owner-Occupied)	Residential (Not Owner-Occupied)	Hotels/Motels	Commercial <i>Current Class 2</i>	Vacant Land	Vacant Buildings and Vacant Land	Vacant Buildings <i>Current Class 3</i>	Blighted Buildings <i>Current Class 4</i>
1976-1978	1.83									
1979		1.54				1.83				
1980			1.22	1.54		1.83				
1981-1984			1.22	1.54		2.13				
1985			1.22	1.54		2.03				
1986-1990			1.22	1.54	1.82	2.03				
1991			0.96	1.54	1.85	2.03		3.29		
1992-1994			0.96	1.54	1.85	2.15	3.29			
1995-1999			0.96	1.54	1.85	2.15	5.00			
2000			0.96	1.34	1.85	2.05	2.05			
2001			0.96	1.15	1.85	1.95	1.95			
2002		0.96				1.85				
2003-2005		0.96				1.85		5.00		
2006		0.92				1.85		5.00		
2007		0.88				1.85		5.00		
2008		0.85				1.85		5.00		
2009		0.85				1.65/1.85 ¹		10.00		
2010		0.85				1.65/1.85 ¹				10.00
2011-2012		0.85				1.65/1.85 ¹			5.00	10.00

¹ Beginning in FY 2009, D.C. applies a split tax rate to Class 2 properties such that the first \$3 million of value is taxed at a lower rate of \$1.65 per \$100 of assessed value and value over \$3 million is taxed at the regular Class 2 rate of \$1.85 per \$100 of assessed value.

Sources: Bowman (1998); Office of the Chief Financial Officer/ Government of the District of Columbia, *Tax Facts* (various years) and *Tax Rates and Tax Burdens* (various years)

In 2002, shortly after the District’s last tax revision commission, the District collapsed the number of property tax classes to two: residential, taxed at \$0.96 per \$100 and non-residential, taxed at \$1.85 per \$100. In 2003 another era of increasing number of property tax classes began, with the introduction of a class for vacant buildings and vacant land. In 2009 a subclass was created within the non-residential class, with properties with value less than \$3 million taxed at \$1.65 per \$100 assessed value and properties with value more than \$3 million taxed at \$1.85 per \$100 assessed value for the value over \$3 million. In 2010 the number of classes did not change, but the class of vacant buildings and vacant land was eliminated and a new class of blighted buildings was created. Finally in 2011, the District added a new class for vacant buildings that were not blighted. **Figure 1** shows the rise and fall, then rise again of the number of real



property classes in the District. At the current time the district has a system with 4 classes of property and one sub-class within the nonresidential property category.

Taxation by Adjoining Governments

The five jurisdictions that share a boundary with the District are the City of Alexandria, Virginia; Arlington County, Virginia; Fairfax County, Virginia; Montgomery County, Maryland; and Prince George's County, Maryland. According to recent expert tabulations, neither Maryland nor Virginia local governments currently employ classified property tax systems (Sexton 2012; Lee and Wheaton 2010) although the state legislatures have the discretion to adopt such a system (Coe 2009).

Table 3 lists the tax rates for residential property for the District and its adjoining jurisdictions from 1991 to 2012. These figures are adjusted for the period in which Maryland assessed property at less than 100 percent and include Maryland's statewide property tax.¹²

¹² To the extent possible in this report, effective tax rates will be reported. When effective tax rates are unavailable, adjustments will be made to nominal tax rates to approximate effective tax rates. In the case above, two adjustments are made to move calculated tax rates closer to effective tax rates, but since homestead exemptions are not included, the calculated rates cannot be considered effective tax rates.

Table 3
**Real Property Tax Percentage Rates for Residential Property,
 D.C. and Neighboring Jurisdictions, 1991-2012**

Year	D.C. Residential Rate	Alexandria	Arlington County	Fairfax County	Montgomery County ¹²	Prince George's County ¹²	Average Tax Percentage Rate of D.C. Neighbors
1991	0.960	1.045	0.765	1.110	0.888	1.076	0.977
1995	0.960	1.045	0.860	1.160	0.850	1.080	0.999
1997	0.960	1.070	0.960	1.230	0.869	1.054	1.037
2000	0.960	1.110	1.023	1.230	0.829	0.964	1.031
2001	0.960	1.110	1.023	1.230	0.829	0.960	1.030
2002	0.960	1.110	1.023	1.230	0.825	0.962	1.030
2003	0.960	1.080	0.993	1.210	0.838	0.962	1.017
2004	0.960	1.035	0.990	1.210	0.883	1.092	1.042
2005	0.960	0.995	0.990	1.130	0.883	1.451	1.090
2006	0.920	0.915	0.990	1.000	1.387	1.451	1.149
2007	0.880	0.815	0.818	0.890	1.088	1.072	0.937
2008	0.850	0.830	0.818	0.890	0.740	1.072	0.870
2009	0.850	0.845	0.848	0.920	1.015	1.072	0.940
2010	0.850	0.903	0.848	1.040	1.015	1.072	0.976
2011	0.850	0.903	0.848	1.090	0.811	1.072	0.945
2012	0.850	0.998	0.958	1.075	0.825	1.072	0.986

¹ This table adjusts for the fact that property was assessed at 40 percent of market value in Montgomery and Prince George's counties for years 1991-2000, to report rates that are close to the effective tax rate.

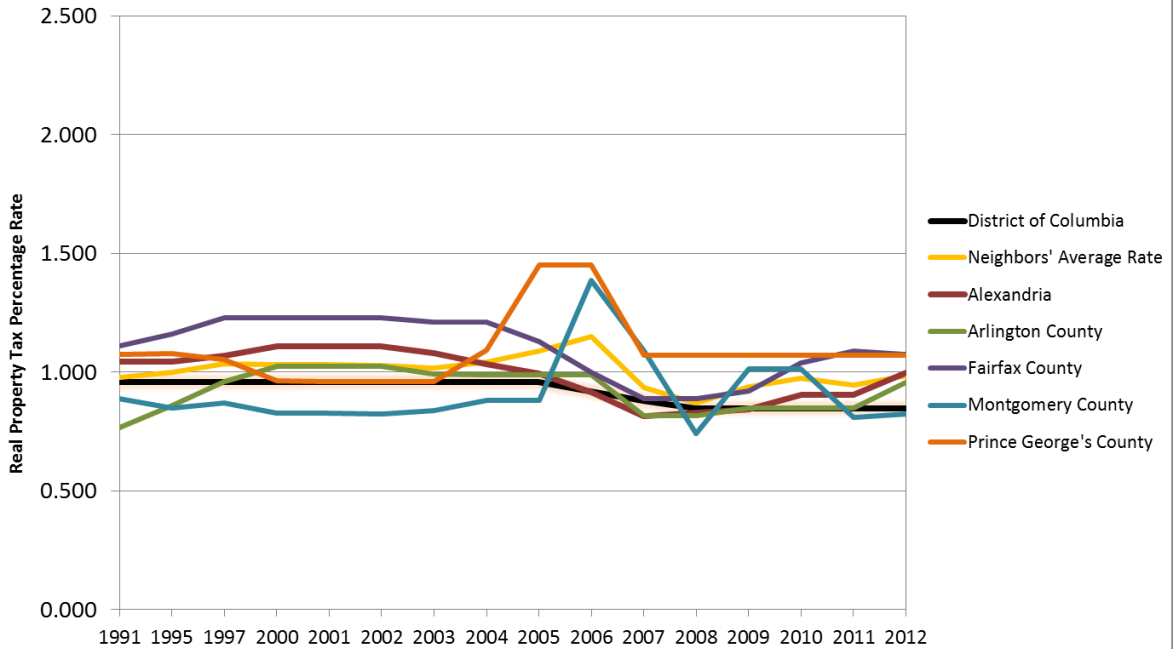
² The rates reported for Montgomery and Prince George's counties (MD) for 2003 through 2012 include a state real property tax.

Sources: Office of the Chief Financial Officer/ Government of the District of Columbia, *Tax Facts* (various years) and *Tax Rates and Tax Burdens* (various years)

As **Figure 2** illustrates, the tax rate on residential property in the District began only slightly below the average of its adjoining jurisdictions in 1991 but for most years since has been significantly below that average. Currently, only Montgomery County taxes residential property at a lower rate than the District.

Figure 2

Real Property Tax Percentage Rates for Residential Property, D.C. and Neighboring Jurisdictions, 1991-2012



Source: Office of the Chief Financial Officer/ Government of the District of Columbia, *Tax Facts* (various years) and *Tax Rates and Tax Burdens* (various years)

Table 4 lists the tax rates for commercial property for the District and its adjoining jurisdictions from 1991 to 2012. These figures are adjusted for the period in which Maryland assessed property at less than 100 percent, include Maryland’s statewide property tax, and include the special property tax on commercial property to fund transportation improvements levied by Fairfax County for 2011 and 2012.

Table 4

Real Property Tax Percentage Rates for Commercial Property, D.C. and Neighboring Jurisdictions, 1991-2012

Year	D.C. Commercial Rate ¹	Alexandria	Arlington County	Fairfax County ²	Montgomery County ^{3,4}	Prince George's County ^{3,4}	Average Tax Percentage Rate of D.C. Neighbors
1991	2.030	1.045	0.765	1.110	0.888	1.076	0.977
1995	2.150	1.045	0.860	1.160	0.850	1.080	0.999
1997	2.150	1.070	0.960	1.230	0.869	1.054	1.037
2000	2.050	1.110	1.023	1.230	0.829	0.964	1.031
2001	1.950	1.110	1.023	1.230	0.829	0.960	1.030
2002	1.850	1.110	1.023	1.230	0.825	0.962	1.030
2003	1.850	1.080	0.993	1.210	0.838	0.962	1.017
2004	1.850	1.035	0.990	1.210	0.883	1.092	1.042
2005	1.850	0.995	0.990	1.130	0.883	1.451	1.090
2006	1.850	0.915	0.990	1.000	1.387	1.451	1.149
2007	1.850	0.815	0.818	0.890	1.088	1.072	0.937
2008	1.850	0.830	0.818	0.890	0.740	1.072	0.870
2009	1.850	0.845	0.848	0.920	1.015	1.072	0.940
2010	1.850	0.903	0.848	1.040	1.015	1.072	0.976
2011	1.850	0.903	0.848	1.090	0.811	1.072	0.945
2012	1.850	0.998	0.958	1.075	0.825	1.072	0.986

¹ In FY 2009, D.C. began applying a split tax rate to Class 2 properties such that the first \$3 million of value is taxed at a lower rate of \$1.65 per \$100 of assessed value and value over \$3 million is taxed at the regular Class 2 rate of \$1.85 per \$100 of assessed value.

² Fairfax County rates for 2011 and 2012 include a special commercial transportation tax levied on certain commercial and industrial properties in Fairfax County.

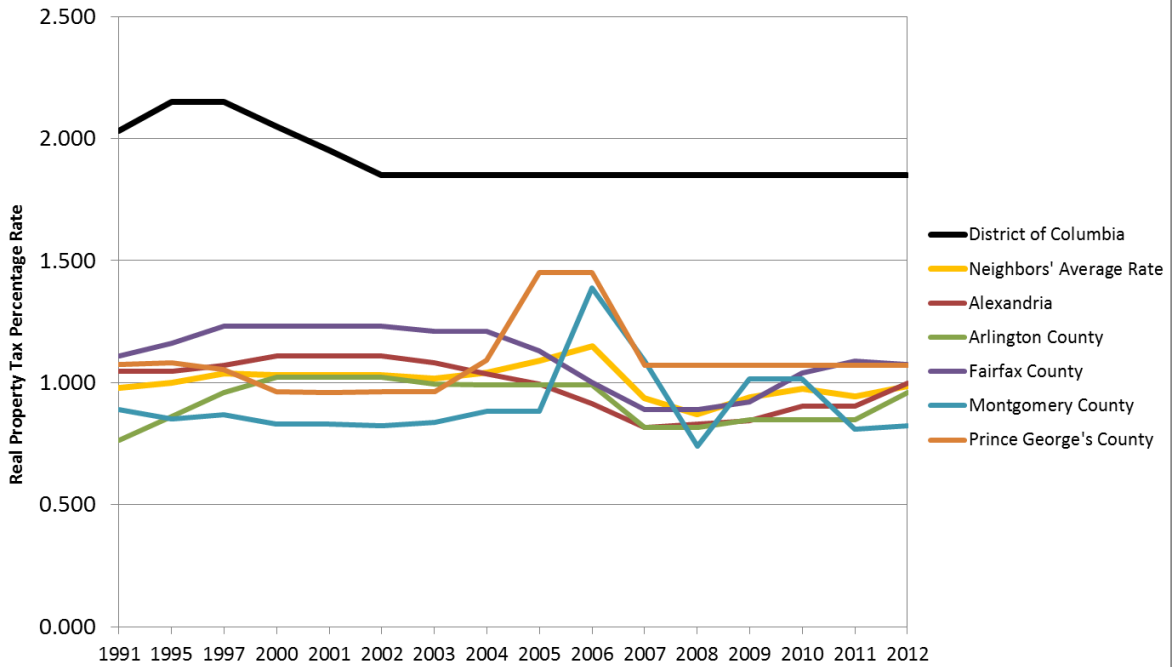
³ This table adjusts for the fact that property was assessed at 40 percent of market value in Montgomery and Prince George's counties for years 1991-2000, to report rates that are close to the effective tax rate.

⁴ The rates reported for Montgomery and Prince George's counties (MD) for 2003 through 2012 include a state real property tax.

Sources: Office of the Chief Financial Officer/ Government of the District of Columbia, *Tax Facts* (various years) and *Tax Rates and Tax Burdens* (various years)

As **Figure 3** illustrates, the tax rate on commercial property in the District has been considerably above that levied by its adjoining jurisdictions during the entire time period, despite the reduction in the District's commercial property tax rate that was phased in from 1997 to 2003.

Figure 3
Real Property Tax Percentage Rates for Commercial Property, D.C. and
Neighboring Jurisdictions, 1991-2012



Source: Office of the Chief Financial Officer/ Government of the District of Columbia, *Tax Facts* (various years) and *Tax Rates and Tax Burdens* (various years)

Table 5 presents a somewhat different list of the tax rates for commercial property for the District and its adjoining jurisdictions. This table features cities within the neighboring counties and includes special business improvement taxes, storm water taxes, transportation taxes, and other special taxes. These figures also show that the tax rate on commercial property in the District has been considerably above that levied by its adjoining jurisdictions during the entire time period.

Table 5

Commercial Office Property Tax Rates, D.C. and Neighboring Jurisdictions, FY 2009-2014

Year ¹	D.C./ Downtown D.C. BID ^{2,3}	Virginia					Maryland			Average Tax Percentage Rate of D.C. Neighbors
		Alexandria	Arlington County		Fairfax County		Bethesda	Silver Spring	Prince George's County	
			Crystal City	Rosslyn	Tysons	Reston				
FY 2009	1.850%	0.845%	0.973%			1.030%	1.184%	1.099%	1.072%	1.03%
FY 2010	1.850%	0.845%	1.033%	1.033%	1.395%	1.395%	1.229%	1.171%	1.072%	1.15%
FY 2011	1.850%	1.023%	1.120%	1.120%	1.425%	1.405%	1.229%	1.171%	1.072%	1.20%
April 2011	1.870%	0.903%	1.050%	1.080%		1.385%	1.067%	1.067%		1.09%
FY 2013	1.875%	0.998%	1.146%	1.183%	1.435%	1.412%	1.230%	1.455%		1.27%
FY 2014	1.879%	1.053%	1.191%	1.224%	1.550%	1.487%	1.269%	1.474%		1.32%

¹ Property tax rates include different items for different years. For example the rates for FY2009 rates do not include transportation or business improvement taxes and rates for FY 2014 include commercial real property taxes, business improvement taxes, storm water taxes, transportation taxes, silver line special assessments, and Tyson Service District taxes.

² Data for Fiscal Years 2013 and 2014 and for April 2011 include the Business Improvement Tax. For earlier years, the rates only include DC's

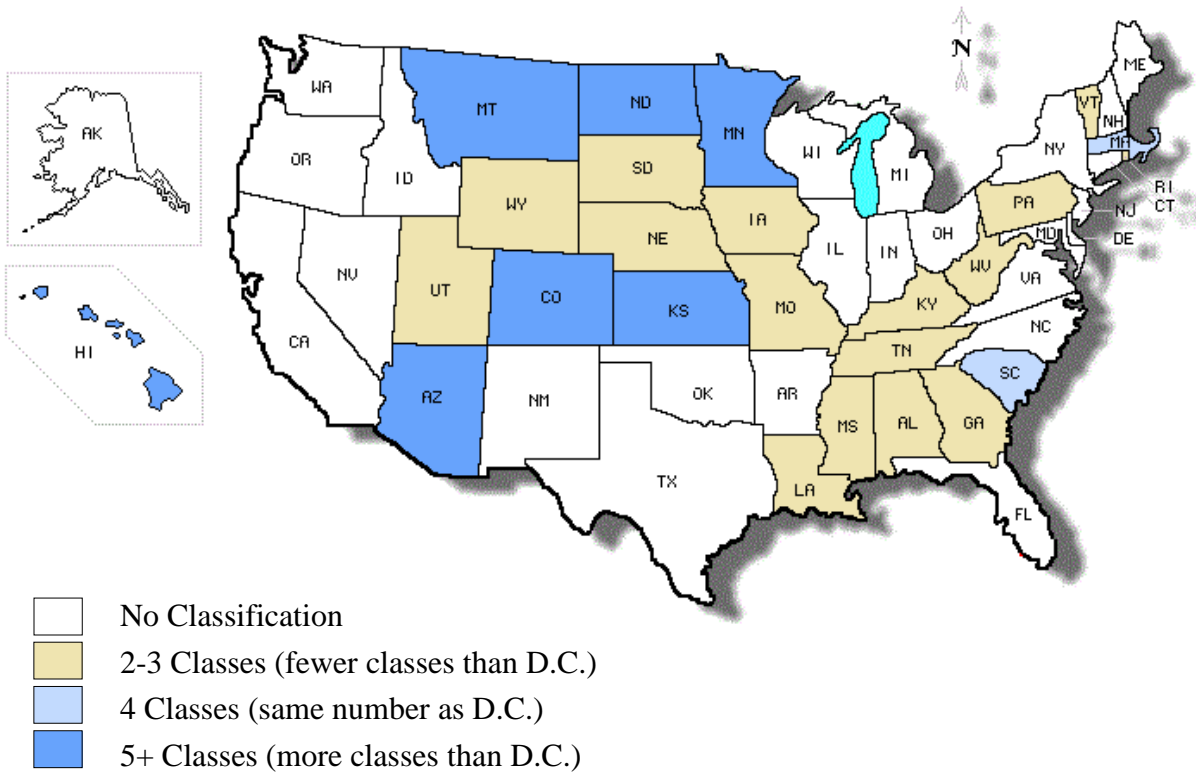
² The rates reported for D.C. apply to commercial property value over \$3 million. D.C. applies a split tax rate to Class 2 properties such that the first \$3 million of value is taxed at a lower base rate of \$1.65 per \$100 of assessed value.

Source: Downtown DC BID, *State of Downtown* (various years)

Classification Nationwide

In 2012, 27 states in addition to the District of Columbia had classified property tax systems (see **Figure 4**) (Sexton 2012). These systems varied widely. The number of classes ranged from 2 to 11 (in Minnesota) with the most frequent number of classes being three. Nineteen states achieved classification by employing different assessment ratios, nine use different tax rates, and Minnesota and New York City used both different assessment ratios and different tax rates.

Figure 4
Real Property Tax Classification in the United States, 2012



Source: Sexton, 2012

Notes:

New York City has a classified property tax system with two assessment ratio classes and four tax rate classes.

Cook County, Illinois, which is dominated by the City of Chicago, taxes three classes of property using different assessment ratios.

Some classification systems are simple. Utah has two classes, with residential properties assessed at 55 percent of market value and all other property assessed at 100 percent of market value. Other systems are complex. In Hawaii, each island has the option of choosing its own classification system and tax rates so that Maui has ten property classes: residential, apartment, commercial, industrial, agricultural, conservation, hotel and resort, timeshare, homeowner, and commercialized residential, each subject to a different tax rate.

In general, states use classification to reduce the property tax burden of residential and sometimes agricultural properties, relative to commercial and industrial properties. **Table 6** shows the ratio of commercial to homestead effective property tax rates for the largest city in each state for several years. In 2011, commercial tax rates exceeded residential for 40 cities plus the District, were equal for five cities, and commercial rates were below residential rates for five cities, including Virginia Beach, Virginia. In Honolulu, Denver, Boston, and Columbia, South Carolina, commercial tax rates were over three times higher than residential rates. In Washington, DC, commercial rates are over twice residential rates, placing the District at tenth or twelfth rank among the 51 cities in recent years.

Table 6
Ratio of Commercial to Homestead Effective Property Tax Rates, by Most Populous City in Each State, with Rankings (R), 2005, 2008, and 2011

	2005 R	2008 R	2011 R
NY: New York City	7.262	8.831	6.040
SC: Columbia	2.143 10	3.377 4	3.675 1
MA: Boston	4.251 1	3.794 1	3.509 2
CO: Denver	3.497 2	3.548 3	3.465 3
HI: Honolulu	2.899 4	3.658 2	3.329 4
MN: Minneapolis	2.548 6	2.692 7	2.622 5
LA: New Orleans	2.601 5	2.426 9	2.539 6
IN: Indianapolis (Fort Wayne in 2008)	1.697 19	2.810 6	2.416 7
RI: Providence	2.496 7	1.904 16	2.305 8
KS: Wichita	2.227 9	2.227 11	2.283 9
DC: Washington	2.071 12	2.332 10	2.280 10
IA: Des Moines	2.381 8	2.463 8	2.228 11
MO: Kansas City	1.976 14	2.037 14	2.160 12
AL: Birmingham	2.103 11	2.099 13	2.111 13
WV: Charleston	2.000 13	2.182 12	2.109 14
ID: Boise	1.453 22	2.014 15	2.036 15
AZ: Phoenix	3.127 3	3.009 5	2.019 16
IL: Chicago	2.611	1.889	1.889
UT: Salt Lake City	1.870 16	1.850 17	1.849 17
GA: Atlanta	1.315 24	1.152 30	1.799 18
MS: Jackson	1.938 15	1.794 19	1.777 19
U.S. Average	1.757	1.786	1.707
NY: Buffalo ¹	1.723 17	1.824 18	1.650 20
TN: Memphis	1.600 20	1.600 20	1.600 21
PA: Philadelphia	1.559 21	1.571 21	1.509 22
FL: Jacksonville (Miami in 2008)	1.176 30	1.276 26	1.398 23
SD: Sioux Falls	1.381 23	1.326 23	1.306 24
MT: Billings	1.264 26	1.189 29	1.301 25
AR: Little Rock	1.167 31	1.201 28	1.274 26
MI: Detroit	1.164 32	1.292 25	1.268 27
TX: Houston	1.184 29	1.042 37	1.220 28
NM: Albuquerque	1.164 32	1.209 27	1.175 29
VT: Burlington	1.267 25	1.368 22	1.170 30
MD: Baltimore	1.032 37	0.848 51	1.111 31
IL: Aurora ¹	1.703 18	1.058 36	1.102 32
OH: Columbus	1.226 27	1.315 24	1.102 32
ND: Fargo	1.111 34	1.104 32	1.101 34
AK: Anchorage	1.111 34	1.111 31	1.071 35
OK: Oklahoma City	1.085 36	1.071 34	1.064 36
ME: Portland	1.021 38	1.060 35	1.048 37
NE: Omaha	1.009 43	0.990 49	1.036 38
WI: Milwaukee	1.017 39	1.019 38	1.033 39
CA: Los Angeles	1.015 40	1.017 39	1.025 40
WY: Cheyenne	1.014 41	1.010 40	1.005 41
NC: Charlotte	1.000 43	1.000 42	1.000 42
NH: Manchester	1.000 43	1.000 42	1.000 42
NJ: Newark	1.000 43	1.000 42	1.000 42
OR: Portland	1.000 43	1.000 42	1.000 42
WA: Seattle	1.000 43	1.000 42	1.000 42
NV: Las Vegas	1.012 42	1.003 41	0.986 47
DE: Wilmington	1.000 43	1.000 42	0.944 48
KY: Louisville	0.911 51	0.967 50	0.891 49
CT: Bridgeport	1.222 28	1.000 42	0.822 50
VA: Virginia Beach	0.953 50	1.091 33	0.801 51

¹ Ratios are reported for the largest city in each state except for the states of New York and Illinois where a ratio is reported both for the largest city and the second largest city. Two rates are reported for these states because the property tax structures in New York City and in Chicago are much different that the property tax structure in the rest of New York and Illinois. We do not include ranks for Chicago or New York City.

Sources: Minnesota Taxpayers Association (various years)

Table 7 shows the ratio of commercial to residential effective tax rates for the District of Columbia compared to a more select group of cities which can be considered more like the District. The rank order of the ratio of commercial to residential effective tax rates depends upon whether both personal and real property taxes on commercial property are considered. No matter which approach is used, New York City, Boston and Denver clearly tax commercial property at a higher rate relative to residential property than does the District. Conversely, no matter which approach is used, Chicago, Atlanta, Philadelphia, Houston, Los Angeles and Seattle clearly tax commercial property at a lower rate relative to residential property than does the District.

	Classified Property Tax System	Commercial ETR (\$1 million value property)	Residential ETR (median value homestead)	Ratio of Commercial to Residential ETR - Real Property Only	Ratio of Commercial to Residential ETR
New York	Yes	3.202	0.636	6.040	5.035
Boston	Yes	2.535	0.690	3.509	3.674
Denver	Yes	1.857	0.532	3.465	3.491
Minneapolis	Yes	3.217	1.472	2.622	2.185
District of Columbia	Yes	1.260	0.663	2.280	1.900
Chicago	Yes	2.035	1.293	1.889	1.574
Atlanta	Yes	1.725	0.953	1.799	1.810
Philadelphia	Yes	2.046	1.627	1.509	1.258
Houston	No	2.342	1.907	1.220	1.228
Los Angeles	No	1.246	1.216	1.025	1.025
Seattle	No	0.882	0.868	1.000	1.016
Dallas	No	N/A	N/A	N/A	N/A
San Francisco	No	N/A	N/A	N/A	N/A

Sources: Minnesota Taxpayers Association (2012); Sexton (2012)

Although classification is a major way that some jurisdictions reduce the tax burden of residential properties relative to non-residential properties, other property tax relief mechanisms such as exemptions, credits, abatements and deferrals, can also change effective tax rates. Some of the most important of these for the District are shown in **Appendix Table 3**. Of these, the assessment increase cap is the most important, but the homestead exemption is also quantitatively very important. In 2013 homeowners are allowed to exempt \$69,350 from assessed value before applying the residential property tax rate. Note that **Appendix Table 3** also includes economic development exemptions, abatements, and credits (which are small relative to either the assessment increase cap or the homestead exemption) that would reduce the effective tax rate for commercial development.

Complexity of the District’s Classification System

By having four classes of property and one subclass (the lower rate on nonresidential property), the District employs a more complex classification system than the average state using property tax classification. Because neither Maryland nor Virginia employs property tax classification, the District’s property tax system appears more complex relative to neighboring jurisdictions.

The major complexity in the District’s system, however, is the use of two novel classes—vacant buildings (Class 3) and blighted buildings (Class 4).¹³ Properties can be classified as Class 3 or 4, changed to Class 1 or 2, and back again. The regulations governing Class 3 and Class 4 are quite complex as the summary below illustrates.

¹³ Many states place vacant land in a special category for the purposes of property tax assessment, but as noted above vacant buildings are not the same as vacant land. (See Significant Features of the Property Tax.) However, two states allow some local governments to tax blighted property differently from other property as described in Appendix C.

Owners of vacant or blighted buildings must register their buildings and pay a registration fee.¹⁴ If the DCRA designates a building as either vacant or blighted, the owner can appeal to the DCRA, or after a specified time to the Board of Real Property Assessments and Appeals.¹⁵ Failure to comply with the registration requirements subjects the owner to civil fines and possible criminal prosecutions.¹⁶

A number of complex provisions provide for exemptions from Class 3 status.¹⁷ Government buildings have a permanent exemption but private buildings may be eligible for exemption under certain conditions if there is active construction, active work to rent or sell, substantial undue economic hardship, if the building is subject to litigation with respect to its title or in probate, or if the building is the subject of a pending application for development approval by various boards. Each of these exemption categories is subject to detailed qualifications. These exemptions are subject to a cumulative time limit for all exemptions per owner, and a second cumulative limit for all exemptions per building. Given that a building's tax liability can change from \$0.85 per \$100 to \$10 per \$100 assessed value depending upon whether an exemption is approved, this determination can be critical for a building owner.

¹⁴ D.C. Official Code §42-3131.06.

¹⁵ D.C. Official Code §42-3131.15(a).

¹⁶ D.C. Official Code §42-3131.10.

¹⁷ D.C. Official Code §42-3131.06.

Part 2: Analysis of the District's Classification System

Returning to **Table 1 (page 6)** provides a rough look at how property tax classification changes the allocation of property tax burdens across property tax types for FY2012. If all property were taxed at the same rate, tax liability would be proportional to assessed value, excluding the effects of the homestead exemption, tax caps, and tax incentives. But the fact that the commercial property tax rate is over twice that for residential properties means tax liabilities shift significantly. For example, residential properties account for 55 percent of total assessed value, but only 33 percent of total tax liability. Conversely, commercial property accounts for 44 percent of total assessed value but 66 percent of total tax liability.

Very approximately, property tax classification reduces residential tax burdens by \$406 million, increases commercial tax burdens by \$389 million, increases Class 3 tax burden by \$8 million, and Class 4 tax burden by \$9 million. **Appendix Tables 1 and 2** show the reallocation of tax liability for FY2011 and FY2010.

Who Pays? Or Who Bears the Burden of the Commercial Property Tax?

The burden of some taxes falls on the individual with the legal liability for the tax. This is the case with the property tax on owner-occupied housing. For other taxes, a difference arises between the tax's statutory or legal incidence, and its economic incidence or final burden. In the case of the commercial property tax, the owner of the property has the legal requirement to pay the tax, but the burden of the commercial property tax can end up resting on land owners, capital owners, consumers, or labor. The

potential for tax shifting depends on a jurisdiction's tax rates relative to its neighbors or competitors and the market structure of the industry being taxed. Or, as Fisher (2007, 356) concludes in his review of property tax incidence, capital in general bears the burden of the nationwide average property tax rate but immobile factors in high tax jurisdictions bear the burden of that jurisdiction's differentially high tax (the excise effect).

Appendix B reviews the small literature on the incidence of the commercial property tax. According to that literature, 55 to 100 percent of commercial property tax differentials of a jurisdiction over its neighbors are absorbed by owners of land and buildings and from 0 to 45 percent of the tax differentials are absorbed by those renting commercial properties. This implies that owners of land and buildings in the District are likely to bear most of the burden of the higher commercial property tax rates that arise from the District's system of tax classification.

Tax Exporting or Where Do They Live?

"Tax exportation takes place when a tax imposed by one jurisdiction is borne by a resident of another jurisdiction" (Murray 2006, 1). The question of interest for this study is whether the District of Columbia can export its commercial property tax burden to residents outside of the District, and if so, to what degree. Appendix B reviews the relevant literature. This section will summarize the findings of that literature.

The ability to export taxes depends on a number of factors. It depends on District tax rates relative to neighbors or competitors and how responsive demand and supply are to price changes. Two-thirds of the District's commercial assessed value consists of large office space. For the market for office space, the question is how responsive those renting

office space are to price changes. Will they move offices to Virginia or Maryland, reduce the amount of office space per worker, or expand telecommuting? Alternatively, how responsive will land owners and investors be to commercial property tax rates? Will they convert office space to residential or other uses?

In recent years there have been major changes in the use of office space due to technological changes, which in turn are changing work styles (Newberg 2011). The standard amount of office space per employee has been shrinking and with cloud based file storage and more digital records, the need for file space is less. One expert says the length of office leases has been falling (Heschmeyer 2013).

The tax exporting studies reviewed in Appendix B either apply to the state of Minnesota or present estimates for all 50 states plus the District of Columbia, and thus do not take the special characteristics of the District into account. One could assume that the location of the federal government in the District of Columbia makes location in the District uniquely attractive for certain businesses, particularly those with an interest in lobbying. This would decrease the elasticity of demand for office space, increasing the likelihood that differentially high commercial property tax rates could be passed on to office space tenants. Alternatively, if the District's differentially high commercial property tax rates created a tax burden on owners of land and buildings and a high proportion of those owners are not District residents, commercial property taxes could also be exported outside of the District.

Economic Competitiveness

Another important consideration in evaluating the District's system of property tax classification is the impact of that system on the District's economic competitiveness. In short, does the imposition of relatively high commercial property tax rates drive office and hotel development out of the District into neighboring jurisdictions in Maryland and Virginia? As **Figure 5** shows, beginning in 1976, the District engaged in a policy of raising commercial property tax rates relative to residential rates. This reached a peak in the early 1990s, the ratio was reduced in the early 2000s, but today commercial property tax rates are still more than double residential tax rates.

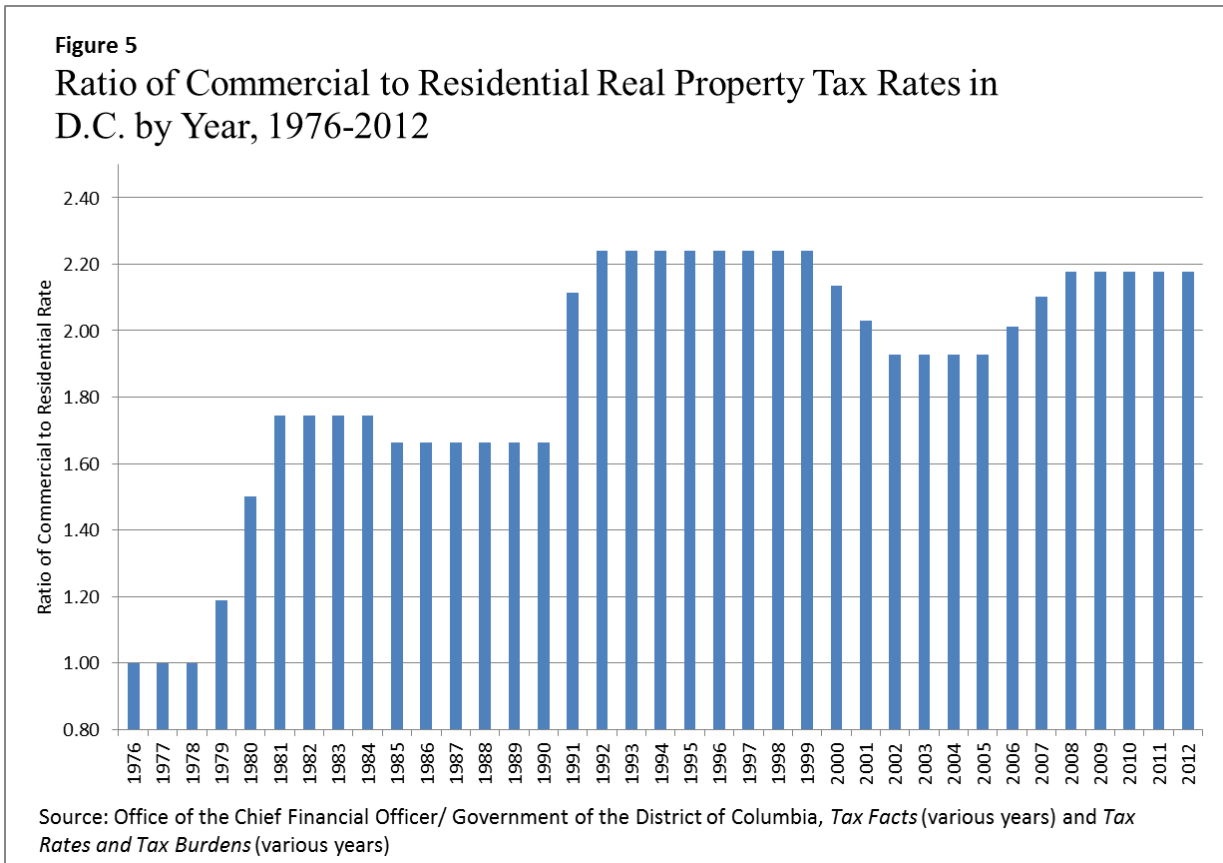


Table 8 shows the effective property tax rates in the District relative to the U.S. average, Baltimore, Maryland; Virginia Beach, Virginia; and certain other cities with relatively high property tax rates on business property. From this perspective the District does not appear to be out of line with large cities across the U.S.

	\$1 Million-Valued Commercial Property ¹	\$25 Million-Valued Commercial Property ¹	Median-Value Homestead	\$600,000 Valued Apartment Property ¹
MI: Detroit	4.083%	4.083%	3.291%	4.174%
MN: Minneapolis	3.217%	3.331%	1.472%	1.959%
NY: New York City	3.202%	3.202%	0.636%	3.919%
IN: Indianapolis	3.040%	3.040%	1.249%	3.023%
KS: Wichita	2.965%	2.965%	1.295%	1.406%
MD: Baltimore	2.810%	2.810%	2.014%	2.402%
IL: Chicago	2.035%	2.035%	1.293%	1.172%
DC: Washington	1.260%	1.933%	0.663%	0.742%
VA: Virginia Beach	0.842%	0.842%	0.892%	0.750%
Average for 50 Largest U.S. Cities	1.941%	1.967%	1.442%	1.719%

Note: The effective tax rate is calculated based on the actual taxes paid and a property's true market value. Effective tax rates reported by the *Minnesota Taxpayers Association* account for state and local variations in tax policies and assessing practices.

¹ The tax rates reported assume personal property valued at \$200,000 for the \$1 million-valued commercial property, at \$5 million for the \$25 million-valued commercial property, and at \$30,000 for the \$600,000 valued apartment property.

Source: Minnesota Taxpayers Association (2012, 24-25)

However, given that the focus is on office and hotel development, for which the market is a metropolitan one, the relative tax rates presented in the table above are of limited interest. As was shown in Part 1 of this study, the commercial property tax rate in the District is nearly double the rates of the surrounding local governments. The current consensus of the economics literature is that taxes do make a difference in business

location within a metropolitan area. Specifically, the literature supports the finding that on average a 10 percent increase in one jurisdiction's taxes relative to its neighbors is likely to reduce economic activity in that jurisdiction by about 15 percent (Wasylenko 1997, 47). Economic activity is measured by employment, firm births or relocations, investment, income and gross product.

Administrative and Compliance Costs

A model tax system minimizes administrative and compliance costs. The use of Class 3 and Class 4 as part of the District's property tax classification system increases both administrative and compliance costs. Unlike most property tax assessment systems, the Office of Tax and Revenue (OTR) determines whether properties are classified as Class 1 or 2, or a mix, but the Department of Consumer and Regulatory Affairs (DCRA) decides if properties are classified as Class 3 or 4. This system can present a greater burden to the taxpayer than in most cities as issues about property tax bills may involve both OTR and DCRA. As described in Part 1, the regulatory requirements for Class 3 and Class 4 property are complex and although there are a number of exemptions a taxpayer may be eligible for, the regulations governing these exemptions are complex.

The rationale for creating the categories of vacant buildings or blighted buildings subject to much higher tax rates is to create financial disincentives for a property owner to leave buildings vacant or allow them to fall into serious disrepair. The District's objective is to motivate the property owner to either repair or rent out the property in which case the property would be reclassified as either Class 1 or Class 2 property. If the property owner became eligible for an exemption, this would also cause the property to be reclassified. This fluidity creates uncertainty for the taxpayer and expense for the

District's tax administrative staff. It also affects the quality of the property tax statistics as the total number of residential and nonresidential properties is subject to change from year to year, and even within a given year.

The problem of vacant or blighted buildings is one that other local governments face as well, particularly in the aftermath of the Great Recession with the accompanying increase in foreclosures. It is quite unusual for a city's property tax assessment function to play a role in the efforts to have a property owner address problems of abandonment or blight. See Appendix C for a discussion of how local governments across the U.S. have been dealing with the problems of vacant and blighted properties, including the rare instances in which the property tax has been employed.

Equity

There is no single framework for considering the equity of the District's property tax classification system. **Table 9** can be used to illustrate two approaches. One concept frequently applied to tax equity is the concept of horizontal equity—are taxpayers equally situated treated equally by the tax code? This table divides Class 3 and Class 4 into its residential and commercial components. The last two columns of the table present effective tax rates for each type of property based on tax liability and also on collections. When considering tax liability, residential property in Class 1 faces an average effective tax rate of \$0.71 per \$100 of assessed value, but if it is placed in Class 3 it faces a rate of \$4.08 per \$100 and in Class 4 it faces a rate of \$8.68 per \$100. One could argue that this is a situation of horizontal inequity because residential parcels face very different tax rates. A similar argument could be made with respect to commercial properties.

Table 9

District of Columbia Effective Tax Rates by Property Tax Class Based on Liability and Collections, FY 2012

Class	Number of Properties	Percent of Properties	Assessed Value (End of Year)	Percent of Assessed Value	Tax Liability (Actual)	Percent of Tax Liability	Collections Rate	Effective Tax Rate Based on Liability	Effective Tax Rate Based on Collections
Class 1 (Residential)	171,408	94.0%	\$ 83,641,835,527	55.3%	\$ 592,682,451	32.8%	97.7%	\$ 0.71	\$ 0.69
Homestead ¹	66,724	36.6%	\$ 36,014,873,307	23.8%	\$ 229,023,618	12.7%	98.2%	\$ 0.64	\$ 0.62
Non-Senior	50,278	27.6%	\$ 30,080,320,417	19.9%	\$ 210,548,922	11.7%	98.3%	\$ 0.70	\$ 0.69
Senior	15,946	8.7%	\$ 5,934,552,890	3.9%	\$ 18,474,696	1.0%	96.9%	\$ 0.31	\$ 0.30
Non-Homestead	24,526	13.4%	\$ 11,632,508,037	7.7%	\$ 97,667,114	5.4%	96.2%	\$ 0.84	\$ 0.81
Class 2 (Commercial)	9,736	5.3%	\$ 67,191,142,921	44.4%	\$ 1,190,524,935	66.0%	98.6%	\$ 1.77	\$ 1.75
Class 3 (Vacant Buildings)	871	0.5%	\$ 281,694,270	0.2%	\$ 11,567,594	0.6%	59.7%	\$ 4.11	\$ 2.45
Residential	804	0.4%	\$ 243,721,210	0.2%	\$ 9,939,422	0.6%	61.6%	\$ 4.08	\$ 2.51
Commercial	67	0.0%	\$ 37,973,060	0.0%	\$ 1,628,172	0.1%	47.6%	\$ 4.29	\$ 2.04
Class 4 (Blighted Buildings)	342	0.2%	\$ 125,308,970	0.1%	\$ 10,340,640	0.6%	29.0%	\$ 8.25	\$ 2.39
Residential	304	0.2%	\$ 99,444,330	0.1%	\$ 8,627,004	0.5%	34.0%	\$ 8.68	\$ 2.95
Commercial	38	0.0%	\$ 25,864,640	0.0%	\$ 1,713,636	0.1%	3.6%	\$ 6.63	\$ 0.24
Total	182,357	100%	\$ 151,239,981,688	100%	\$ 1,805,115,620	100%	99.2%	\$ 1.19	\$ 1.18

¹The homestead statistics presented do not include condominiums.

Source: Office of the Chief Financial Officer/ Government of the District of Columbia

The relatively low collections rate for properties in Classes 3 and 4 raise another argument. For properties in Classes 1 and 2 the collections rate exceeds 95 percent. However the average collections rate for Class 3 properties is 60 percent and for Class 4 properties is 29 percent, with the collections rate for commercial Class 4 properties falling to 4 percent. One could argue that it is unfair for some commercial properties in Class 2 to face an effective tax rate of \$1.77 per \$100 assessed value, some in Class 4 who remit taxes owed to pay a rate of \$10 per \$100, and others to pay zero tax.

Of course one reason for taxing Class 3 and Class 4 properties at a higher rate is that abandoned and blighted properties create negative spillovers or externalities for other properties. That is, if one property becomes abandoned or blighted, it may attract crime, decrease property values, and reduce the value of all properties in the neighborhood. If it were possible to determine the monetary damages imposed on a neighborhood by a single abandoned or blighted property, and translate those damages into an incremental charge

per \$100 of assessed value, one might be able to justify the higher tax rates in Class 3 and 4 on the basis of this negative spillover.

Another frequently cited canon of equity in taxation is the benefits principle. Taxes that rely on this principle are justified by the argument that those who benefit from a particular public expenditure should contribute to its financing. There is a small literature on the taxation of business according to the benefits principle (see Oakland and Testa 1996). That literature typically finds that state and local governments collect greater tax revenue from businesses than they spend on services for business. If that were true for the District of Columbia, there would be no justification for imposing a differentially higher property tax rate on commercial properties than residential.

The discussion so far has focused on the initial or statutory incidence of the commercial property tax. One can argue it is more important to examine the final burden of the tax. Some of the burden will be shifted to taxpayers outside of the District as discussed in the section on tax exporting above. For the portion that imposes its burden within the District, the key question is how the burden is apportioned among consumers, workers, capital owners, and land owners in the District. The Minnesota study examines this same question for the incidence of the commercial property tax. For the portion of the commercial property tax borne by residents of Minnesota, it estimates 62 percent of the burden is borne by consumers, 4 percent by labor, and 34 percent by capital. This results in a tax burden pattern that is considered regressive, with commercial property taxes as a percent of income ranging from 0.68 percent to 0.92 percent in deciles 2, 3 and

4, but falling to 0.38 and 0.39 percent for the top two deciles.¹⁸ For those who favor progressive taxation, this incidence pattern will be viewed as vertically inequitable.

Conclusion

As this section analyzing the District's property tax classification indicates, the two major policy issues the District faces are whether it should reexamine the degree to which Class 2 (commercial) property is taxed at a higher rate than Class 1 (residential) property and whether it should continue to place differentially higher property tax rates on vacant and blighted buildings. For that reason all of the policy options that follow, with the exception of Option 1 which supports the status quo, relate directly to one of these two issues.

¹⁸ The lowest decile is usually ignored for purposes of assessing the incidence pattern for reasons explained in the report.

Part 3: Policy Options

Option 1: Status Quo

Maintain the current property tax classification structure and rates.

Pros:

- Taxpayers desire stability in their tax system. The District's property tax classification system has changed many times since it was instituted in 1979, creating unwanted uncertainty for taxpayers.
- It is difficult for tax administrators and other government officials who maintain the District's property tax classification system to fine tune the system with frequent changes.

Cons:

- The District has one of the most complex property tax classification systems in the country.
- The District taxes commercial property at a significantly higher rate than neighboring jurisdictions, which will eventually put the District at a competitive disadvantage for attracting office and hotel development, if such disadvantage does not currently exist.
- Class 3 and Class 4 tax rates impose an unfair pattern of tax rates on individual residential and commercial properties. Some properties receive exemptions or are able to avoid paying the taxes levied; others pay taxes at a rate that is significantly higher than other U.S. jurisdictions impose on residential or commercial properties (Minnesota Taxpayers Association 2012).

Option 2: Reduce Class 2 Tax Rate Relative to Class 1 Tax Rate

At present the top commercial tax rate is over twice that for residential properties. Over time that differential could be decreased by lowering the tax rate for Class 2 property.

Pros:

- The District has one of the most complex property tax classification systems in the country.
- The District taxes commercial property at a significantly higher rate than neighboring jurisdictions, which will eventually put the District at a competitive disadvantage for attracting office and hotel development, if such disadvantage does not currently exist.

Cons:

- This will reduce the revenue derived from the District's property tax system.
- This will reduce the degree to which the District is able to export its tax burden or effectively derive some of its tax revenue from taxpayers outside the District.
- Taxpayers desire stability in their tax system. The District's property tax classification system has changed many times since it was instituted in 1979, creating unwanted uncertainty for taxpayers.
- It is difficult for tax administrators and other government officials who maintain the District's property tax classification system to fine tune the system with frequent changes.

Option 3: Reduce Class 2 Tax Rate and Increase Class 1 Tax Rate

At present the top commercial tax rate is over twice that for residential properties. Compared to neighboring jurisdictions, the District's residential property tax rate is low and its commercial property tax rate is high.

Pros:

- This could improve the economic competitiveness of the District and bring in more jobs, ultimately benefiting District residents.
- This option for reducing the property tax rate on commercial property could be self-financing.

Cons:

- Taxpayers desire stability in their tax system. The District's property tax classification system has changed many times since it was instituted in 1979, creating unwanted uncertainty for taxpayers.
- It is difficult for tax administrators and other government officials who maintain the District's property tax classification system to fine tune the system with frequent changes.
- Policymakers have shown a clear preference for residential property tax relief and it would be politically difficult to raise residential property tax rates.

Option 4: Reduce Class 2 Tax Rate Relative to Class 1 Tax Rate, Financed by Reducing Property Tax Incentives

At present the top commercial tax rate is over twice that for residential properties. Rather than differentially providing property tax abatements to particular developers, this would provide an across the board tax reduction for all commercial development.

Pros:

- It is difficult for local governments keep politics out in their efforts to promote economic development; an across the board tax reduction would eliminate the need to distinguish between good and bad economic development proposals.
- Providing tax abatements to some businesses and not others can be viewed as unfair by the businesses that don't receive the incentives; it may be better to lower all tax rates.
- Providing tax incentives to some businesses creates an incentive for other businesses to ask for incentives as well; an across the board tax cut does not create this incentive.
- This option for reducing the property tax rate on commercial property is self-financing.

Cons:

- Taxpayers desire stability in their tax system. The District's property tax classification system has changed many times since it was instituted in 1979, creating unwanted uncertainty for taxpayers.
- It is difficult for tax administrators and other government officials who maintain the District's property tax classification system to fine tune the system with frequent changes.

- Policymakers may not want to create incentives for expanding all types of commercial development, such as local retail. Instead they may want to focus on large office developments or commercial development in particular areas that need revitalization.

Option 5: Eliminate Classes 3 and 4

In other words, residential properties now in Classes 3 or 4 would now revert to Class 1 and commercial properties now in Classes 3 or 4 would revert to Class 2. The 1,213 properties now in these classes, which represent less than 1 percent of total assessed value in the District, could be given an incentive to repair and rent their properties through an alternative system.

Pros:

- The District has one of the most complex property tax classification systems in the country.
- Class 3 and Class 4 tax rates impose an unfair pattern of tax rates on individual residential and commercial properties. Some properties receive exemptions or are able to avoid paying the taxes levied; others pay taxes at a rate that is significantly higher than any other U.S. jurisdiction imposes on residential or commercial properties.

Cons:

- Taxpayers desire stability in their tax system. The District's property tax classification system has changed many times since it was instituted in 1979, creating unwanted uncertainty for taxpayers.
- It is difficult for tax administrators and other government officials who maintain the District's property tax classification system to fine tune the system with frequent changes.
- The District would need to create a new system for enforcement or rely more heavily on other existing enforcement mechanisms.

Option 6: Eliminate Class 3 and Lower the Tax Rate for Class 4 to the Current Rate for Class 3

The District could, through an alternative system, provide an incentive for owners of the 817 properties now in this class to rent their properties.

Pros:

- The District has one of the most complex property tax classification systems in the country; this would reduce the number of classes from four to three.
- Class 3 and Class 4 tax rates impose an unfair pattern of tax rates on individual residential and commercial properties. Some properties receive exemptions or are able to avoid paying the taxes levied; others pay taxes at a rate that is significantly higher than any other U.S. jurisdiction imposes on residential or commercial properties. This change would eliminate the 10 percent rate, which would make the

top property tax rate in the District less of an outlier compared to its neighbors and other jurisdictions across the U.S.

- Class 4 properties, those both vacant and blighted, represent the more egregious cases and this change would allow the system to focus on those cases.

Cons:

- Taxpayers desire stability in their tax system. The District's property tax classification system has changed many times since it was instituted in 1979, creating unwanted uncertainty for taxpayers.
- It is difficult for tax administrators and other government officials who maintain the District's property tax classification system to fine tune the system with frequent changes.

Option 7: Eliminate Class 4

The district could, through an alternative system, provide an incentive for the rehabilitation of 342 blighted properties now included in Class 4.

Pros:

- The District has one of the most complex property tax classification systems in the country; this would reduce the number of classes from four to three.
- Class 3 and Class 4 tax rates impose an unfair pattern of tax rates on individual residential and commercial properties. Some properties receive exemptions or are able to avoid paying the taxes levied; others pay taxes at a rate that is significantly higher than any other U.S. jurisdiction imposes on residential or commercial

properties. This change would eliminate the 10 percent rate, which would make the top property tax rate in the District less of an outlier compared to its neighbors and other jurisdictions across the U.S.

Cons:

- Taxpayers desire stability in their tax system. The District's property tax classification system has changed many times since it was instituted in 1979, creating unwanted uncertainty for taxpayers.
- It is difficult for tax administrators and other government officials who maintain the District's property tax classification system to fine tune the system with frequent changes.
- The District would need to create a new system for enforcement.

Option 8: Phase in the \$10/\$100 Tax Rate on Class 4 over Time

The tax rate on Class 4 property is so high than many consider it confiscatory. Taxpayers are highly motivated to avoid this tax by obtaining an exemption. If the tax were phased in so that a Class 4 property faced a tax rate that increased by one or two percentage points per year, the same incentive for property redevelopment might be exerted, and taxpayers may view it as more fair.

Pros:

- Class 4 tax rates impose an unfair pattern of tax rates on individual residential and commercial properties. Some properties receive exemptions or are able to avoid

paying the taxes levied; others pay taxes at a rate that is significantly higher than any other U.S. jurisdiction imposes on residential or commercial properties.

- This change would reduce the use of the 10 percent rate, which would make the top property tax rate in the District less of an outlier compared to its neighbors and other jurisdictions across the U.S.

Cons:

- Taxpayers desire stability in their tax system. The District's property tax classification system has changed many times since it was instituted in 1979, creating unwanted uncertainty for taxpayers.
- It is difficult for tax administrators and other government officials who maintain the District's property tax classification system to fine tune the system with frequent changes.
- A phased in tax rate creates complexities of its own.

Appendix A: Definitions of Property Tax Classification

The definition of property tax classification used in this report is: “A classified property tax system is one in which different kinds or classes of property are assessed at different assessment ratios or taxed at different tax rates” (Woolery 1979, 85). However, there are several other definitions of property tax classification.

When Jon Sonsteli examined property tax classification for the 1978 District of Columbia tax revision commission he stated that the “distinguishing characteristic of the classified property tax is that the effective tax rate...is different for different classes of property” (Sonsteli 1978, 233).

However, Steve Gold argued that Sonsteli’s definition was oversimplified and that “differences in tax rates due to credits, exemptions, or extra-legal assessment practices do not constitute classification” (Gold 1984, 96).

John Bowman’s (1987, 288) definition of property tax classification straddles the fence between Sonsteli’s and Gold’s. Although Bowman says he agrees with Sonsteli in spirit, Bowman acknowledges that the distinction between legally intended classification and unintended classification is important, and he emphasizes the former in his comprehensive review of property tax classification during the mid 1980s. But he cautions the reader:

...the boundary between classification and other forms of property tax relief is at least largely artificial. To the extent there are differences, the more important ones seem to be (1) the greater generality, or comprehensiveness, of classification and (2) the greater uniformity of relief among all who are within a broad category (often not the same as a “class”) of taxpayers. Even these generalities do not always hold up, for Minnesota blends its classification and state-funded credits in some instances and both Minnesota and Montana have “personalized” their classification systems to a degree by varying provisions for some classes

according to income (both states) and disability (Minnesota) (Bowman 1987, 288-9).

A recent textbook published by the International Association of Assessing Officers defines classification as follows:

Differential (or “classified”) property tax systems establish different levels of taxation for various property categories, value categories, or types of property owners. They are common. They can be effectuated by applying differential levels of assessment, differential tax rates, differential valuation methods, or a combination (Almy, Dornfest, and Kenyon 2008, 65).

The IAAO definition appears to be a broad one as it encompasses value categories and types of property owners in addition to property categories. It also notes that methods of valuing property can create different levels of taxation for different properties. The reader may reflect that residential and commercial properties are typically valued using different approaches.

Terri Sexton’s paper on property tax classification distinguishes between the general notion of property tax classification and formal property tax classification. She says that:

Any system that taxes different classes of property at different effective rates is referred to as a classified property tax. According to this broad definition, every state’s property tax could be described as classified (Sexton 2012, 2).

But she decides to focus on formal property tax classification which she defines as, “property tax policies that apply different (non-zero) assessment ratios or tax rates to real property with the primary objective of taxing different classes of property at different effective tax rates” (Sexton 2012, 2). This paper uses her tabulation of states that employ property tax classification.

Bell and Brunori do not adopt the same terminology as Sexton, but appear to reach the same conclusion. They note that many property tax relief measures result in differential effective tax rates “across land uses or even across individual properties within a single land use” (Bell and Brunori 2011, 5). But they argue that any differential effective tax rates that result from these property tax relief mechanisms are “an incidental byproduct of the relief measure” (Bell and Brunori 2011, 5). So they state that the “hallmark, or distinguishing feature of a classified property tax system” is “an explicit policy objective of creating different effective property tax rates across different land use types” (Bell and Brunori 2011, 4).

This review of different definitions of property tax classification should convince the reader that there is no consensus as to what property tax classification is. It should be no surprise, then, that different researchers have different counts of the number of states employing property tax classification. Furthermore, there are types of property tax relief that some researchers may define as property tax classification and others may not. However the use of differing tax rates for differing property types in the District would be considered property tax classification under any of the definitions above.

This paper uses an authoritative, but relatively narrow, definition of property tax classification. Since other researchers for this tax revision commission examine other types of property tax relief, it serves no purpose for this paper to expand the definition of property tax classification to include those forms of property tax relief.

Appendix B: Tax Incidence, Tax Exporting and the Commercial Property Tax

Despite the importance of the commercial property tax (from one-sixth to one-fifth of the total property tax base) few studies have examined commercial property tax incidence or exporting.¹⁹ This appendix will review that small literature, beginning with the theoretical papers then focusing on the empirical research.

Theoretical Literature. Mieszkowski's (1972) seminal article on property tax incidence speculated that because capital and labor are perfectly mobile in the long run, and land is too small a share of costs to absorb much of the tax burden, about 75 percent of interjurisdictional differences in local property taxes would likely be passed forward to consumers. His paper did not examine the case of property tax classification.

Sonstelie (1979) explicitly examined the incidence of the property tax when a jurisdiction taxes commercial property at a higher rate than residential property. His main conclusion was that:

A higher tax rate on commercial property will tend to shift the burden of the property tax from residents of a jurisdiction to the customers of commercial establishments in the jurisdiction and to the jurisdiction's landowners. The former will bear much of the burden if the demand for commercial real estate is inelastic; the latter will bear much of the burden if it is not (Sonstelie 1979, 84).

A key limitation of Sonstelie's model, though, is that it does not include labor as a factor of production. In other words, his model does not allow for the differentially high tax rate on commercial property to affect wages or jobs.

A more recent paper by Parai and Beck (1989) does describe a more complex model, in which there are three factors of production—land, labor, and capital, and three

¹⁹ Kenyon, Langley and Paquin 2012, 14.

classes of property—industrial, commercial and residential. They assume capital is perfectly mobile, but that labor may be mobile or immobile. By including labor in their model, they allow for the possibility that a differentially higher tax rate on commercial property can be shifted to labor through lower wages. Indeed, their analytical work implies that “for plausible parameter values” increasing the tax rate on commercial property while reducing the tax rate on residential property “reduces wages so much that immobile workers are actually worse off despite the accompanying reductions in the prices of housing and other locally purchased consumer goods” (Parai and Beck 1989, 90). They do note that their case of immobile labor is more applicable to tax competition among states than within a metropolitan area. Note that workers do have considerable ability to move to employment opportunities throughout the Washington, DC metropolitan area.

Empirical Literature. Wheaton (1984) uses data from the Boston area to examine the impact of differential commercial property tax rates on commercial rents. He found that commercial property taxes were not shifted forward to rent, and concluded that property tax burdens fell on capital and land owners. This implies a high elasticity of demand for commercial properties and relatively inelastic supply. The following equation may be helpful:

$$(1) \quad dR/dt = 1 / (1 - E_d / E_s)$$

where R = rent, t = tax, E_d = elasticity of demand for commercial properties and E_s = elasticity of supply of commercial properties. As the equation shows if an increase in taxation does not get shifted forward to rent, this implies that elasticity of demand is high.

A second study by McDonald (1993) examined the impact of differential commercial property tax rates on rents in the Chicago area. He found that 45 percent of increases in commercial property taxes were shifted forward to office building rents and 55 percent were absorbed by the owners of land and buildings. This finding implies that the demand for commercial real estate in the Chicago area is not completely elastic.

The third study by Man (1995) examines commercial real estate prices rather than rents in the Phoenix area, under the assumption that tax differentials would be capitalized into property values. She finds that over 70 percent of the differentials in commercial property tax rates in the Phoenix area fall on property owners.

Thus these three studies, for different time periods and different metropolitan areas, conclude that 55 to 100 percent of commercial property tax differentials are absorbed by owners of land and buildings. On the flip side, these studies imply that zero to 45 percent of the tax differentials are absorbed by those renting commercial properties.

These empirical studies, however, fall short of our goal of determining whether residents or non-residents absorb the burden of the tax. Two further studies attempt to examine that question. The Minnesota Department of Revenue (2011) has long conducted a study of who pays Minnesota taxes. The Minnesota study focuses on the average incidence of each major tax levied by the state or local governments. It notes that tax incidence depends on Minnesota tax rates relative to other states and the nature of the market for goods and services faced by the business being taxed. The study uses a complex, three question framework to estimate the proportion of the tax burden imposed on capital (land is included with capital), consumers, and labor. Furthermore, the study

estimates the proportion of the tax burden that falls on Minnesota taxpayers relative to the proportion that is shifted out of state.

The first question is what proportion of the tax in question represents the national average tax rate on all capital. Capital cannot shift to avoid this part of the tax so the burden falls on capital owners, divided between Minnesota and out-of-state owners of capital. (See **Appendix Figure 1** which modifies the Minnesota analysis to apply to the District.)

The second question is what proportion of the tax represents a higher national average tax on the sector. This differential is divided between Minnesota residents and residents of other states.

The third question is what proportion of the tax represents a higher Minnesota tax rate on this particular sector. Further it is important to know whether this sector's producers sell only in Minnesota (local) markets or in national markets. The local market proportion falls on consumers, some of which may be residents of other states. The national market proportion falls on land and labor. Some part of the burden on land may fall on residents of other states.

Using this methodology, the Minnesota study concludes that for state and local governments in Minnesota, 9 percent of property taxes on rental housing, 50 percent of property taxes on commercial properties, and 87 percent of property taxes on industrial property are shifted to out-of-state taxpayers. The study assumes that 100 percent of homestead property taxes are borne by Minnesota residents. This study is helpful for our purposes, but raises the question whether the District of Columbia is sufficiently similar to Minnesota for us to employ this state's conclusions.

A study by Cline et al (Cline, Phillips, Kim, and Neubig 2010) modifies the Minnesota methodology to estimate the incidence of additional state business taxes by state. This study is of interest as it presents specific estimates for the District. Unfortunately, the estimates are for business taxes in total. In order to make use of their analysis, it would be necessary to obtain disaggregated analytical results for the property tax only.

Appendix C: Local Government Responses to the Problem of Vacant and Blighted Properties

Vacant buildings and blighted properties have been a longstanding problem for many municipalities across the U.S.²⁰ This problem has been exacerbated in recent years by the mortgage foreclosure crisis.

The International City/County Management Association's (ICMA) study of vacant properties found:

Virtually every city and town has a derelict apartment building, boarded storefront, or vacant single-family home. These structures can quickly become havens for transients and drug dealers and attractive nuisances that lure children into their dens of trash and debris. Those who live near the squalor of vacant properties suffer adverse impacts on their sense of community, overall quality of life, and property values (2002, 4).

A 2011 report by the U.S. General Accountability Office (U.S. GAO) found the number of vacant properties increased by 51 percent nationally from 2000 to 2010. That report surveys quantitative estimates of the damage that vacant and blighted properties can do to neighboring properties. Although estimates vary across the studies, a recent report from the Federal Reserve Bank of Boston (Lee, 2008; cited in U.S. GAO 2011, 45) found that a foreclosed home can depress the value of nearby properties from 0.9 percent to 8.7 percent. Another study of properties in Columbus, Ohio concluded that vacant properties within 250 feet of a nearby home could decrease that home's sale price by about 3.5 percent (Mikelbank 2008; cited in U.S. GAO 2011, 45).

Local governments make use of a wide range of strategies to tackle the problem of vacant and blighted properties. Some of these strategies are gathering data on vacant

²⁰Reviewing this literature has uncovered additional definitions of the term "vacant." ICMA (2002, 10) describes how the Census definition and the ICMA definition differ. According to the ICMA definition a property is not consider vacant unless it is a public nuisance.

properties, property acquisition, code enforcement and liens, vacant property registration requirements, establishment of special housing courts, and use of federal grant programs such as the Neighborhood Stabilization Program. One of the policy mechanisms receiving attention in the press is the use of land banks. These are independent authorities that acquire houses and speed up their reuse by eliminating title entanglements and putting the properties up for sale (Peters 2013). Cities do use financial disincentives to tackle the problem of blighted property. For example the city of Hartford, Connecticut levies fines for violation of the Hartford Municipal Code, charging property owners \$99 for each instance of allowing garbage to accumulate on the premises or allowing tall grass and weeds to grow on the property (USCM 2008, 9).

ICMA (2002) and U.S. Conference of Mayors (USCM 2008) studies of effective strategies for tackling the problem of vacant and blighted property found a wide range of responses, with no single strategy acknowledged for its effectiveness. But most accounts found that focusing special attention to the problem, such as through the establishment of a special task force was often critical to making progress. Another common theme was collaboration among key municipal departments (housing, police, attorneys, building, and code enforcement), and certain private sector groups such as real estate and development groups, housing advocates, and neighborhood groups.

A Google search found only two states—Georgia and Kentucky--in addition to the District of Columbia that made use of the property tax in order to combat the problem of blighted property. In both Georgia and Kentucky certain local governments are given authority to tax blighted property at a special high rate. In 1990, Kentucky enacted a law that allowed certain cities to classify certain property as “abandoned urban property” and

tax it at a higher rate. The property must be either a vacant building or vacant land which exhibits at least one other characteristic, such as being “dilapidated, unsanitary, unsafe, vermin infested, or otherwise dangerous to the safety of persons.”²¹ Under this statute Louisville, Kentucky levies a \$1.50 per \$100 assessed value special tax on abandoned urban property (City of Louisville 2013). In 2002 Georgia amended its constitution to allow municipalities or counties to apply differentially higher property taxes to blighted properties.²² Under this provision, Griffin, Georgia levies a special blight tax (Lightner 2011).

²¹ Kentucky Revised Statutes 91.285. Taxation of Abandoned Urban Property by City of the First Class. Effective July 13, 1990.

²² Georgia Constitution Article IX, Section II, Paragraph V11(d).

Appendix Tables and Figures

Appendix Table 1

District of Columbia Real Property Assessed Value and Tax Liability by Class, FY 2011

Class	Number of Properties	Percent of Properties	Assessed Value (End of Year)	Percent of Assessed Value	Tax Liability (Actual)	Percent of Tax Liability	Effective Tax Rate
Class 1 (Residential)	169,927	93.7%	\$ 83,312,637,764	57.8%	\$ 575,761,989	34.7%	\$ 0.69
Homestead ¹	66,373	36.6%	\$ 36,356,560,834	25.2%	\$ 220,136,508	13.3%	\$ 0.61
Non-Senior	50,407	27.8%	\$ 30,271,052,804	21.0%	\$ 202,750,152	12.2%	\$ 0.67
Senior	15,966	8.8%	\$ 6,085,508,030	4.2%	\$ 17,386,356	1.0%	\$ 0.29
Non-Homestead	24,592	13.6%	\$ 11,811,358,519	8.2%	\$ 98,610,859	5.9%	\$ 0.83
Class 2 (Commercial)	10,086	5.6%	\$ 60,435,051,640	41.9%	\$ 1,062,598,745	64.0%	\$ 1.76
Class 3 (Vacant Buildings)	559	0.3%	\$ 204,039,270	0.1%	\$ 7,272,438	0.4%	\$ 3.56
Residential	540	0.3%	\$ 197,752,470	0.1%	\$ 298,000	0.0%	\$ 0.15
Commercial	19	0.0%	\$ 6,286,800	0.0%	\$ 6,974,438	0.4%	\$ 110.94
Class 4 (Blighted Buildings)	246	0.1%	\$ 88,890,440	0.1%	\$ 7,283,478	0.4%	\$ 8.19
Residential	226	0.1%	\$ 80,418,240	0.1%	\$ 6,487,117	0.4%	\$ 8.07
Commercial	20	0.0%	\$ 8,472,200	0.0%	\$ 796,361	0.0%	\$ 9.40
Total	181,377	100.0%	\$ 144,244,658,384	100.0%	\$ 1,660,189,088	100.0%	\$ 1.15

¹ The homestead statistics presented do not include condominiums.

Source: Office of the Chief Financial Officer/ Government of the District of Columbia

Appendix Table 2

District of Columbia Real Property Assessed Value and Tax Liability by Class, FY 2010

Class	Number of Properties	Percent of Properties	Assessed Value (End of Year)	Percent of Assessed Value	Tax Liability (Actual)	Percent of Tax Liability	Effective Tax Rate
Class 1 (Residential)	169,876	94.5%	\$ 85,636,561,684	55.6%	\$ 564,879,439	31.6%	\$ 0.66
Homestead ¹	67,169	37.4%	\$ 38,199,792,188	24.8%	\$ 211,286,868	11.8%	\$ 0.55
Non-Senior	50,307	28.0%	\$ 31,039,944,341	20.1%	\$ 193,019,155	10.8%	\$ 0.62
Senior	16,862	9.4%	\$ 7,159,847,847	4.6%	\$ 18,267,713	1.0%	\$ 0.26
Non-Homestead	24,528	13.6%	\$ 11,218,337,351	7.3%	\$ 99,796,867	5.6%	\$ 0.89
Class 2 (Commercial)	9,827	5.5%	\$ 68,494,808,920	44.4%	\$ 1,218,548,310	68.2%	\$ 1.78
Class 3 (Blighted Buildings)	73	0.0%	\$ 22,989,880	0.0%	\$ 2,280,887	0.1%	\$ 9.92
Total	179,776	100.0%	\$ 154,154,360,484	100.0%	\$ 1,785,708,636	100.0%	\$ 1.16

¹ The homestead statistics presented do not include condominiums.

Source: Office of the Chief Financial Officer/ Government of the District of Columbia

Appendix Table 3

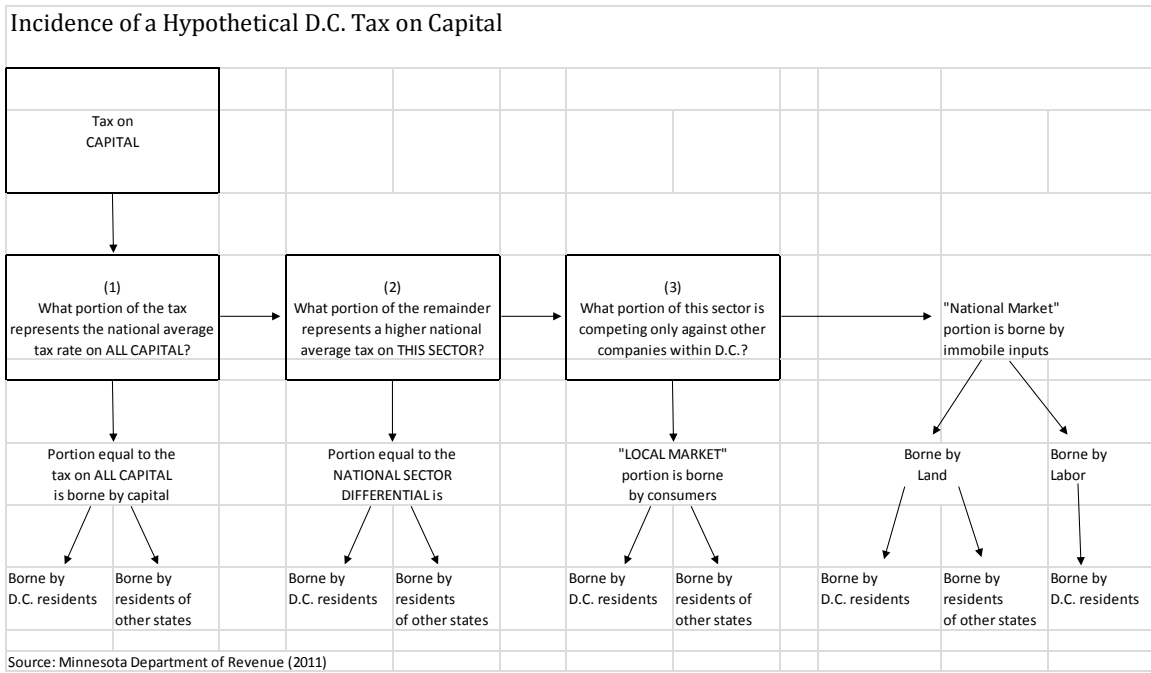
Top Ten Property Tax Expenditures for Households or Commercial Properties, District of Columbia, Fiscal Years 2010-2013					
<i>(\$ in Thousands)</i>					
Name	Type	2010	2011	2012	2013
Assessment increase cap	Credit	\$151,059	\$151,135	\$152,646	\$154,173
Miscellaneous exemptions	Exemption	\$80,656	\$80,656	\$81,462	\$82,277
Homestead exemption	Exemption	\$40,833	\$41,241	\$41,654	\$42,070
Economic Development Tax Exemptions	Exemption	\$18,198	\$18,198	\$15,229	\$16,107
Multi-family and single-family rental and cooperative housing for low- and moderate-	Exemption	\$15,539	\$15,694	\$15,851	\$16,010
Economic Development Tax Abatements	Abatement	\$3,429	\$10,700	\$10,708	\$14,116
Economic Development Tax Credits for Qualified High Technology Companies	Credit	\$5,593	\$4,616	\$6,470	\$8,883
New residential developments ¹	Abatement	\$8,000	\$8,000	\$8,000	\$8,000
Credit for senior citizens and persons with disabilities	Credit	\$5,781	\$5,784	\$5,842	\$5,900
Tax deferral for low-income homeowners	Deferral	\$3,342	\$3,342	\$3,346	\$3,349

Note: In addition to these property tax expenditures, the District makes direct expenditures for economic development incentives including TIF debt service and business PILOT financing. For 2013, the cost of TIF debt service is estimated at \$50.5 million and PILOT financing is estimated to cost \$16 million.

¹The tax expenditure estimate for new residential developments for FY 2012 is \$8 million maximum. These abatements are granted by the mayor subject to an \$8 million annual cap.

Sources: Office of the Chief Financial Officer and Office of Revenue Analysis/ Government of the District of Columbia, *Unified Economic Development Report (2012)* and *Tax Expenditure Report (2010)*

Appendix Figure 1



References

- Almy, Richard, Alan Dornfest, and Daphne Kenyon. 2008. *Fundamentals of Tax Policy*. Kansas City, Missouri: International Association of Assessing Officers.
- Bell, Michael E. and David Brunori. 2011. "The Classified Real Property Tax: A Framework for Developing a Table for Significant Features of the Property Tax." Lincoln Institute of Land Policy. Discussion Draft.
- Bell, Michael E., and Charlotte Kirschner. 2009. "A Reconnaissance of Alternative Measures of Effective Property Tax Rates." *Public Budgeting & Finance* 29: 111-136.
- Boadi, Kwame. 2011. "Making Sense of the District's Tax Abatement Dollars: Nine Questions to Consider." DC Fiscal Policy Institute. December 14.
- Bowman, John H. 1987. "Real Property Classification: The States March to Different Drummers." *Proceedings of the 79th Annual Conference on Taxation*, 288-296. Columbus, OH: National Tax Association-Tax Institute of America.
- Bowman, John H. 1998. "Real Property Taxation." In *Taxing Simply, Taxing Fairly*. Washington, DC: District of Columbia Tax Revision Commission.
- Bowman, John H. 2009. "Residential Property Tax Relief Measures." In *Erosion of the Property Tax Base*. Edited by Nancy Y. Augustine, Michael E. Bell, David Brunori, and Joan M. Youngman. Cambridge, MA: Lincoln Institute of Land Policy.
- Brunori, David. 1997. "Principles of Tax Policy and Targeted Tax Incentives." *State and Local Government Review*, 29:50-61.
- City of Louisville, Kentucky. 2013. "City Makes Steady Progress on Vacant Properties." Office of Mayor Greg Fischer. January 10.
<http://www.louisvilleky.gov/Mayor/News/2013/1-10-13+progress+on+VAP.htm>
- Cline, Robert, Andrew Phillips, Joo Mi Kim, and Tom Neubig. 2010. "The Economic Incidence of Additional State Business Taxes." *State Tax Notes*. January.
- Coe, Richard D. 2009. "The Legal Framework in the United States." In *Land Value Taxation: Theory, Evidence, and Practice*. Edited by Richard F. Dye and Richard W. England. Cambridge, MA: Lincoln Institute of Land Policy.
- DC Fiscal Policy Institute. "Revenue: Where DC Gets Its Money 2013." February 7.
- Department of Consumer and Regulatory Affairs (DCRA), District of Columbia. 2013. Vacant Building Enforcement.

<http://dcra.dc.gov/DC/DCRA/Inspections/Housing+Code+Inspections/Vacant+Building+Enforcement/Vacant+Building+Enforcement>

Department of Consumer and Regulatory Affairs (DCRA), District of Columbia. 2010. "Vacant Property Compliance Guide 2011." Effective October 1, 2010. <http://dcra.dc.gov/DC/DCRA/Inspections/Housing+Code+Inspections/Vacant+Building+Enforcement/Complete+Guide+to+Vacant+Property+Compliance+FY+2011?detailBean=contentBean>.

Downtown DC BID. Various Years. State of Downtown Reports. <http://www.downtowndc.org/reports/state-of-downtown-report>

Fisher, Ronald C. 2007. *State and Local Public Finance*. Mason, OH: Thompson/South-Western.

Gold, Steven D. 1984. "The Changing Face of Property Tax Relief Since the Late 1960s." in *Legal Problems in Property Assessment and Taxation*. Chicago: International Association of Assessing Officers, 87-117.

Heschmeyer, Mark. 2013. "Changing Office Trends Hold Major Implications for Future Office Demand." March 13. CoStar Group. www.costar.com.

International City/County Management Association (ICMA). 2002. "The Revitalization of Vacant Properties: Where Broken Windows Meet Smart Growth." Washington, DC. http://www.usmayors.org/brownfields/library/Revitalization_of_Vacant_Properties.pdf

Kenyon, Daphne A., Adam H. Langley, and Bethany P. Paquin. 2012. *Rethinking Property Tax Incentives for Business*. Cambridge, MA: Lincoln Institute of Land Policy.

Laidler, John. 2012. "In Fight Against Urban Blight, Lowell Adds Tool to Arsenal." *Boston Globe*. May 27.

Lee, Kai-Yan. 2008. "Foreclosure's Price-Depressing Spillover Effects on Local Properties: A Literature Review." Community Affairs Discussion Paper. Federal Reserve Bank of Boston: Boston.

Lee, Nai Jia and William C. Wheaton. 2010. "Property Taxes Under "Classification:" Why Do Firms Pay More?" Massachusetts Institute of Technology, Department of Economics, Working Paper 10-10, June 29.

Lightner, Ray. 2011. "Griffin Raises Blight Tax." *The Griffin Daily News*. July 13. http://www.griffindailynews.com/news/article_3e086c74-0d95-52dc-93bc-4e621d8f34ad.html

McDonald, John F. 1993. "Incidence of the Property Tax on Commercial Real Estate: The Case of Downtown Chicago." *National Tax Journal* 46 (June), 109-20.

Man, Joyce Y. 1995. "The Incidence of Differential Commercial Property Taxes: Empirical Evidence." *National Tax Journal* 48 (December): 479-96.

Mieszkowski, Peter. 1972. "The Property Tax: An Excise Tax or a Profit Tax?" *Journal of Public Economics* 1 (April): 73-96.

Mikelbank, Brian A. 2008. "Spatial Analysis of the Impact of Vacant, Abandoned and Foreclosed Properties," Office of Community Affairs, Federal Reserve Bank of Cleveland: Cleveland.

Minnesota Department of Revenue, Tax Research Division. 2011. "2011 Minnesota Tax Incidence Study: An Analysis of Minnesota's Household and Business Taxes," March.

Minnesota Taxpayers Association. 2012. "50-State Property Tax Comparison Study." Lincoln Institute of Land Policy. April.

Minnesota Taxpayers Association. 2009. "50-State Property Tax Comparison Study." National Taxpayers Conference. April.

Minnesota Taxpayers Association. 2006. "50-State Property Tax Comparison Study." National Taxpayers Conference. April.

Murray, Matthew. 2006. "Exporting State and Local Taxes: An Application to the State of Maine." Brookings Institution. October.

Newberg, Sam. 2011. "The Incredible Shrinking Office Space—Fact or Fantasy?" *Urban Land*. August 24. www.urbanland.uli.org.

Oakland, William H., and William A. Testa. 1996. "State-local Taxation and the Benefits Principle." *Economic Perspectives*. January/February: 2-19.

Office of the Attorney General of Massachusetts. Abandoned Housing Initiative. www.mass.gov.

Office of the Chief Financial Officer/Government of the District of Columbia.

Office of the Chief Financial Officer. 2000-2012. *D.C. Tax Facts*. District of Columbia.

Office of the Chief Financial Officer. 2001-2012. *Tax Rates and Tax Burdens: Washington Metropolitan Area*. District of Columbia.

Office of Revenue Analysis. 2010. *District of Columbia Tax Expenditure Report*. District of Columbia. April.

Parai, Amar K. and John H. Beck. 1989. "The Incidence of Classified Property Taxes in a Three-Sector Model with an Imperfectly Mobile Population." *Journal of Urban Economics* 25: 77-92.

Peters, Mark. 2013. "Cities Set Up 'Land Banks' to Tackle Vacant-Home Problem." *The Wall Street Journal*. September 5.
<http://online.wsj.com/news/articles/SB10001424127887324324404579041491344047738>

Sexton, Terri A. 2012. "Property Tax Expenditures: Classified Property Tax Systems." Prepared for Lincoln Institute of Land Policy. May 15.

Sexton, Terri A. 2003. "Property Tax Systems in the United States: the Tax Base, Exemptions, Incentives, and Relief." Center for State and Local Taxation, Institute for Governmental Affairs, University of California, Davis.
www.ejs.ucdavis.edu/CSLT/publications/PropTaxUS.pdf.

Significant Features of the Property Tax. 2012. Lincoln Institute of Land Policy and George Washington Institute of Public Policy.
www.lincolninst.edu/subcenters/significant-features-property-tax/.

Sonstelie, Jon. 1979. "The Incidence of a Classified Property Tax." *Journal of Public Economics* 12:75-85.

Sonstelie, Jon. 1978. "The Classified Property Tax," in *Technical Aspects of the District's Tax System: Studies and Papers Prepared for the District of Columbia's Tax Revision Commission*, Submitted to the Committee on the District of Columbia, U.S. House of Representatives. Washington: Government Printing Office, 233-60.

Spivak, Miranda S. 2013. "Pr. George's Takes Steps to Run Blight Out of Town." *The Washington Post*. May 20.

Statistics of Income Division, Internal Revenue Service. 2012. *SOI Bulletin: Statistics of Income 2012*. Washington, DC: Internal Revenue Service.

U.S. Conference of Mayors (USCM). 2008. "Vacant and Abandoned Properties: Survey and Best Practices." City Policy Associates: Washington, DC.
<http://www.usmayors.org/bestpractices/vacantproperties08.pdf>

U.S. Government Accountability Office. 2011. "Vacant Properties: Growing Number Increases Communities' Costs and Challenges." Report to the Ranking Member, Subcommittee on Regulatory Affairs, Stimulus Oversight, and Government Spending, Committee on Oversight and Government Reform, House of Representatives. November.
<http://www.gao.gov/assets/590/586089.pdf>

Wasylenko, Michael. 1997. "Taxation and Economic Development: The State of the Economic Literature." *New England Economic Review* (March/April): 37-52.

Wheaton, William C. 1984. "The Incidence of Inter-Jurisdictional Differences in Commercial Property Taxes." *National Tax Journal* 37 (December): 515-27.

Wiener, Aaron. 2013. "Lost and Foundering." Washington City Paper Blog. June 12. <http://www.washingtoncitypaper.com/blogs/housingcomplex/2013/06/12/lost-and-foundering/>

Woolery, Arlo. 1979. *Property Tax Principles and Practice*. Cambridge, MA: The Land Reform Training Institute in association with the Lincoln Institute of Land Policy.

Youngman, Joan M. 2005. "Classification." In *The Encyclopedia of Taxation & Tax Policy*. Edited by Joseph J. Cordes, Robert D. Ebel, and Jane G. Gravelle. Washington, DC: The Urban Institute Press.