



# Impact of Local Property Tax Expenditures on Homeownership and Housing Affordability in DC

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*The information provided in this presentation does not represent the views of the Office of the Chief Financial Officer nor the District of Columbia.  
They are personal views on the topic presented.*

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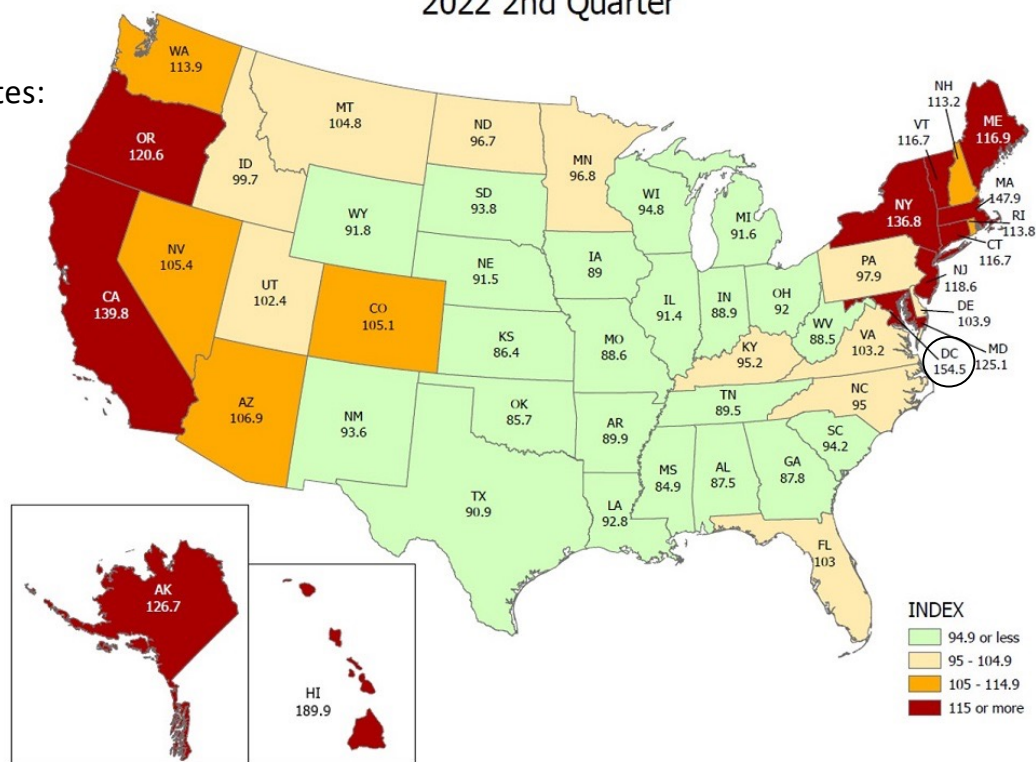
# DC, a High-Cost City and State



**Composite Cost of Living Index**  
2022 2nd Quarter

Top 5 Cost-of-Living States:

- 1) Hawaii
- 2) District of Columbia (155%)
- 3) Massachusetts
- 4) California
- 5) New York



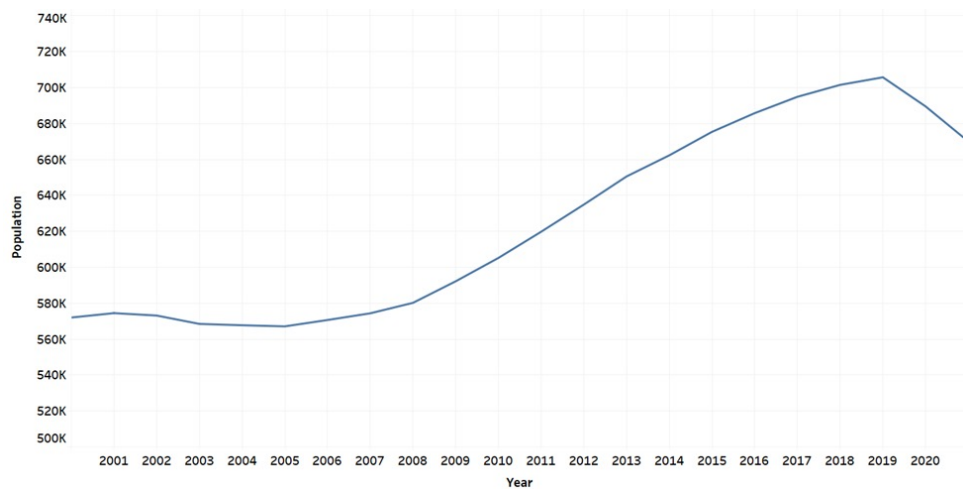
Source: Missouri Economic Research & Information Center (MERIC)

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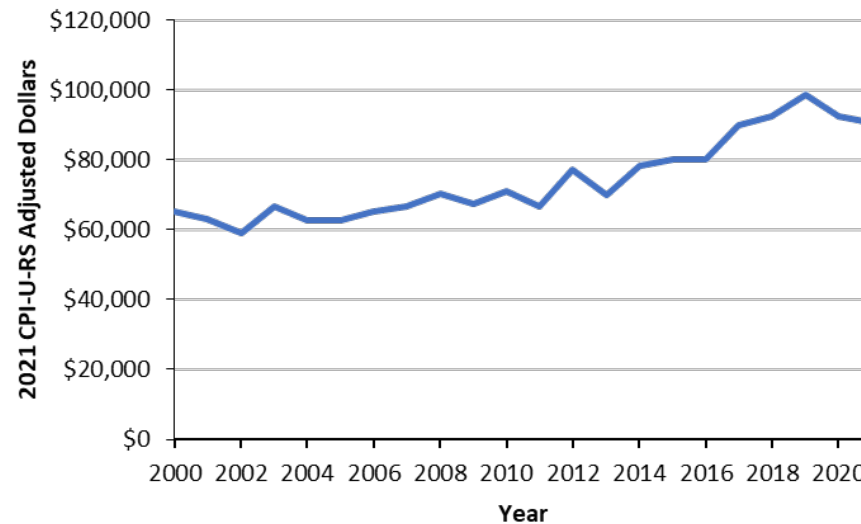
# These High Costs Are Due To Several Reasons



DC Population, 2000 - 2021



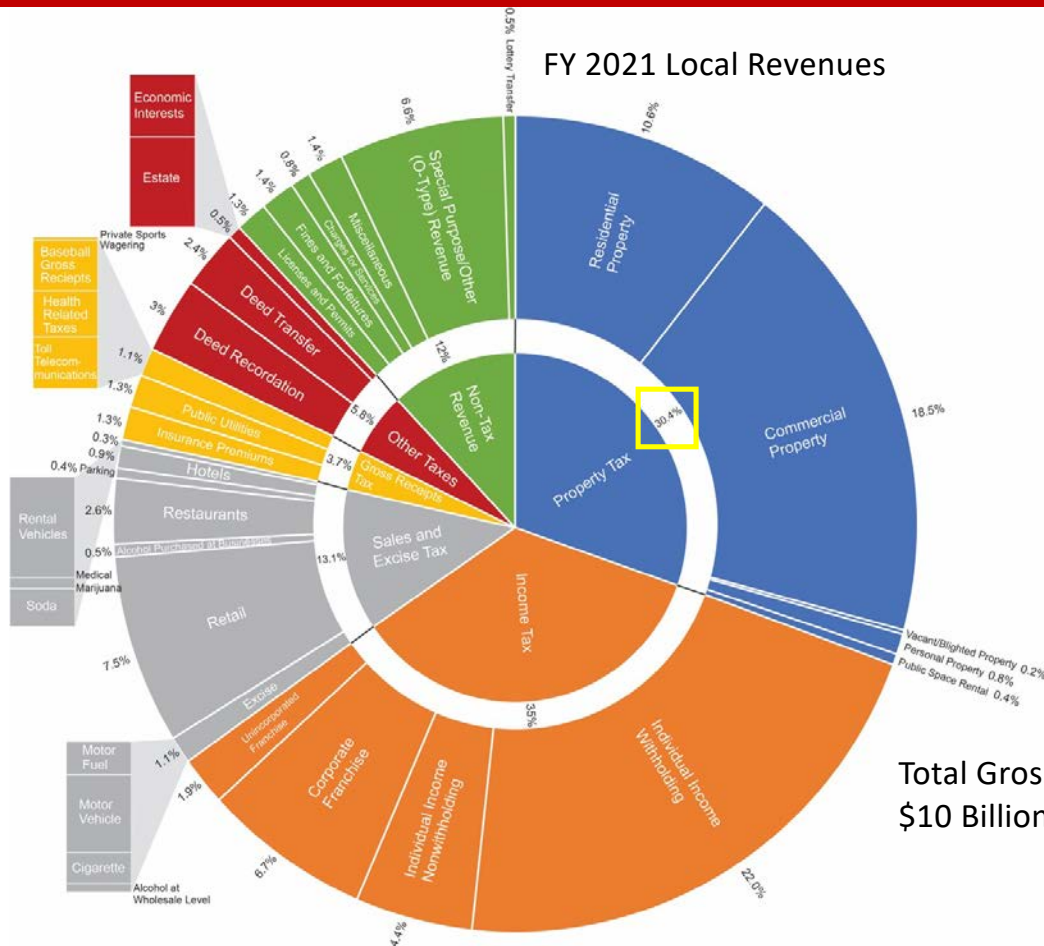
Real Median Household Income in DC



Source: US Census Bureau & FRED

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# So, DC Spends A Lot On Its Services, How Does It Pay For Those Services?



For example, in Fiscal Year (FY) 2021, the District Government had a total local expenditure budget of **\$9.6 Billion**.

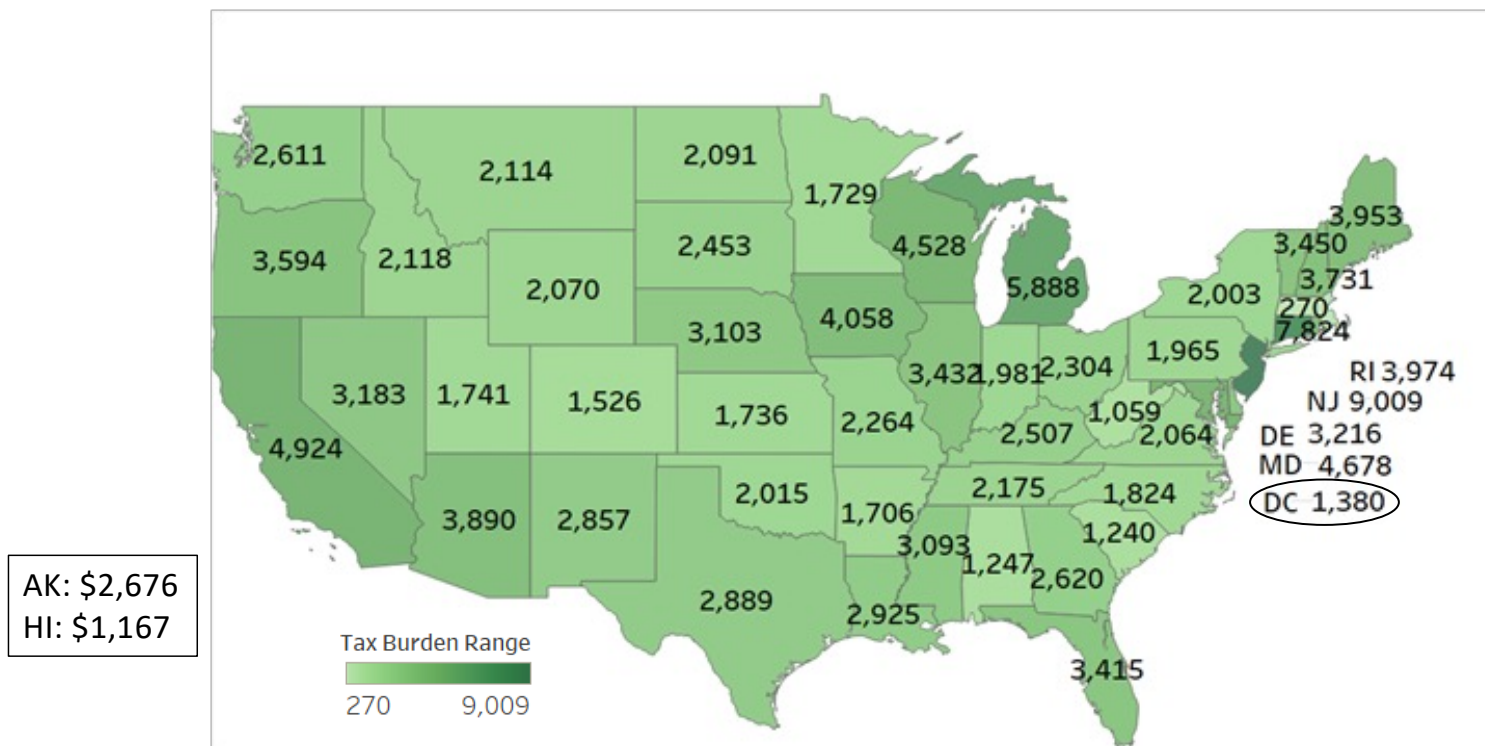
DC's local expenditure budget has increased on average by 4.8% from FY2012-2021.

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# Yet DC's Property Tax Burden is Relatively Low for Homeowners



2020 Property Tax Burdens (\$) (Family earning \$75,000/year)



50 of the largest cities in each state plus state taxes

Source: ORA Analysis. The lighter green shading represents a lower tax burden.

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# DC's Residential Property Tax Formula: Rate + Tax Expenditures



The property tax rate for residential (\$0.85 per \$100 of 100% assessed value) is low and flat.



## Local Tax Expenditures (TEs), for example:

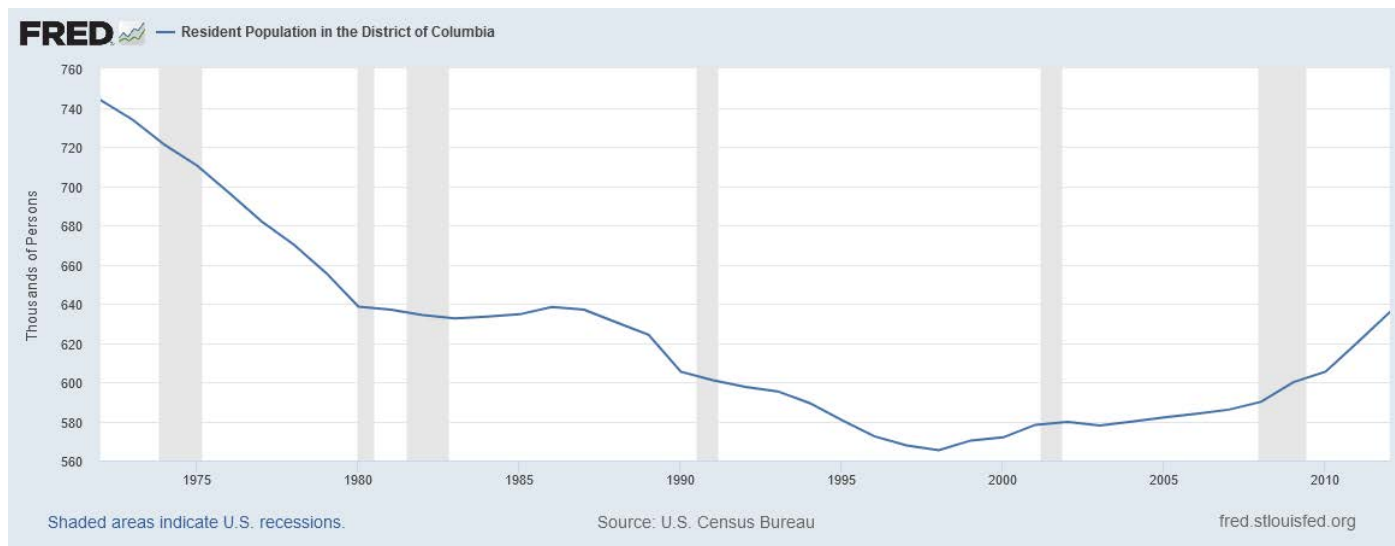
- Real Property Tax (RPT) Homestead Deduction
- RPT Senior Citizens or Persons with Disabilities Homestead Deduction
- RPT Assessment Increase Cap Credit
- Several other housing related TEs not examined here

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# Why Did DC Choose This Path? And Prefer Owner-Occupied Primary Residents



- Dates to the 1970s with policy makers wanting to keep people in their homes and promote homeownership
- At the time of the first enacted homestead deduction (1978), five years after the start of DC home rule, population as well as tax base was shrinking, and policymakers did not want to squeeze those that were staying
- DC cannot tax commuters or non-residents



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# Let's Examine the Big Three Housing-Related Tax Expenditures

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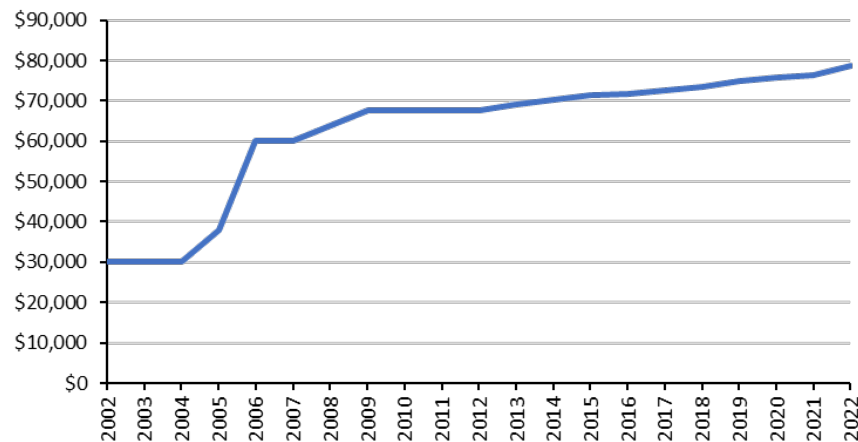
# The Homestead Deduction



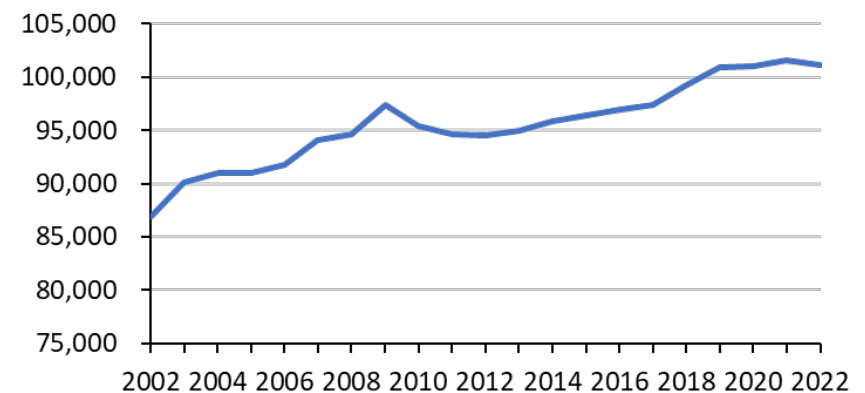
## Parameters:

- Subtracts a fixed amount to the assessed value (-\$78,700 in Tax Year 2022) of a property
- Property owners apply once to the Office of Tax and Revenue and establish said property as their principal place of residence
- No more than five dwelling units in the applicable property
- No income limit

Homestead Deduction Amount From 2002-2022



Number of Homestead Properties from TY 2002 to 2022



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# Tax Relief is Felt More at Lower Incomes



Median Level Statistics of Homesteads by Federally Adjusted Gross Income (FAGI) Quartile Groups, TY 2019

FAGI Quartiles	Number of Homesteads **	FAGI in Absolute Values	Home tenure in years	Assessment Value	Annual real property statutory tax due	Ratio of the homestead deduction to statutory tax	Real Property Statutory tax to FAGI	RPT due after homestead deduction to FAGI
25th percentile	10,743	\$40,442	15	\$414,450	\$3,523	18.1%	9.4%	7.7%
50th percentile	10,744	\$94,001	7	\$446,860	\$3,798	16.8%	4.0%	3.4%
75th percentile	10,744	\$155,029	5	\$584,610	\$4,969	12.8%	3.2%	2.7%
100th percentile	10,744	\$334,958	5	\$878,385	\$7,466	8.5%	2.0%	1.8%
Total	42,975	\$120,597	7	\$555,000	\$4,718	13.5%	3.6%	3.0%

Note: TY 2019 was the latest available data for our individual income tax.

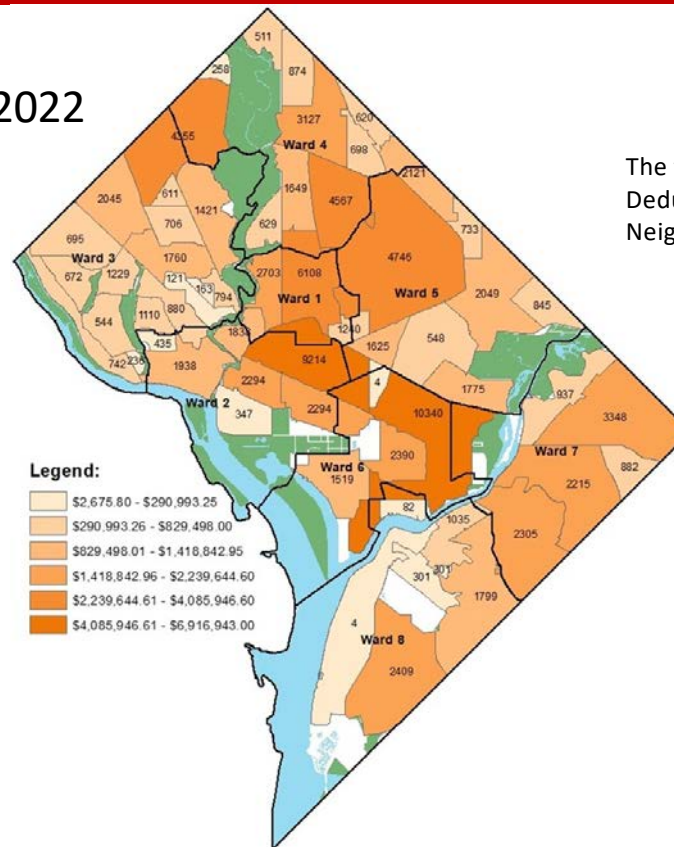
\*\*42,975 homesteads' real property tax records were able to be fuzzy matched with their individual income tax returns by last name, address, and SSN.

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# Total Tax Dollar Relief is More Concentrated in Central DC



TY 2022

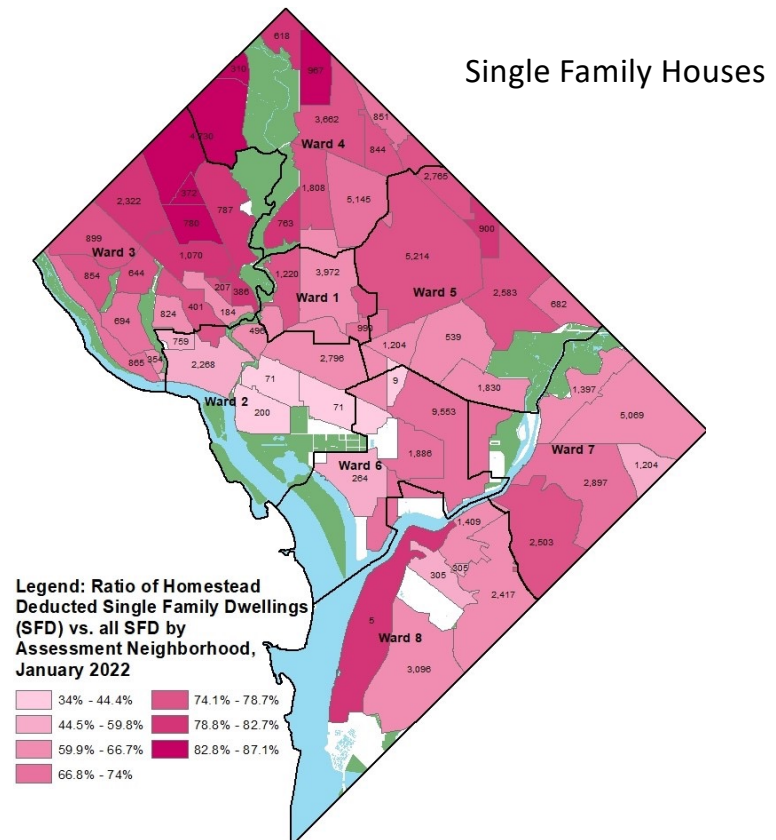
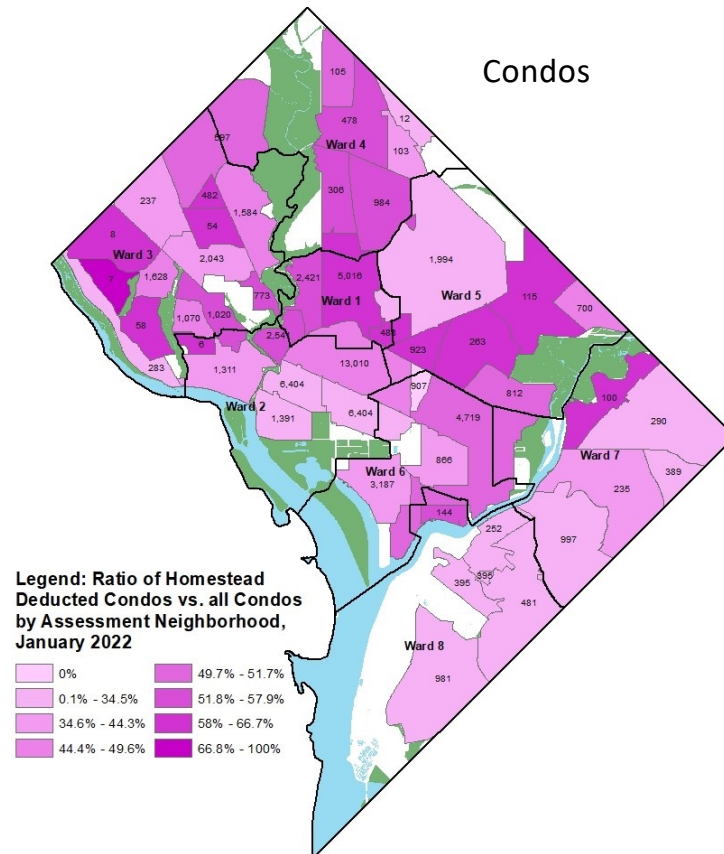


Note: The number inside each assessment neighborhood are the number of homesteads in this analysis.

The total dollar amount of Homestead Deduction tax relief by Assessment Neighborhood, TY 2022

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# Looking at Single-Family Homes and Condos Who Have Or Do Not Have the Homestead Deduction by Assessment Neighborhood

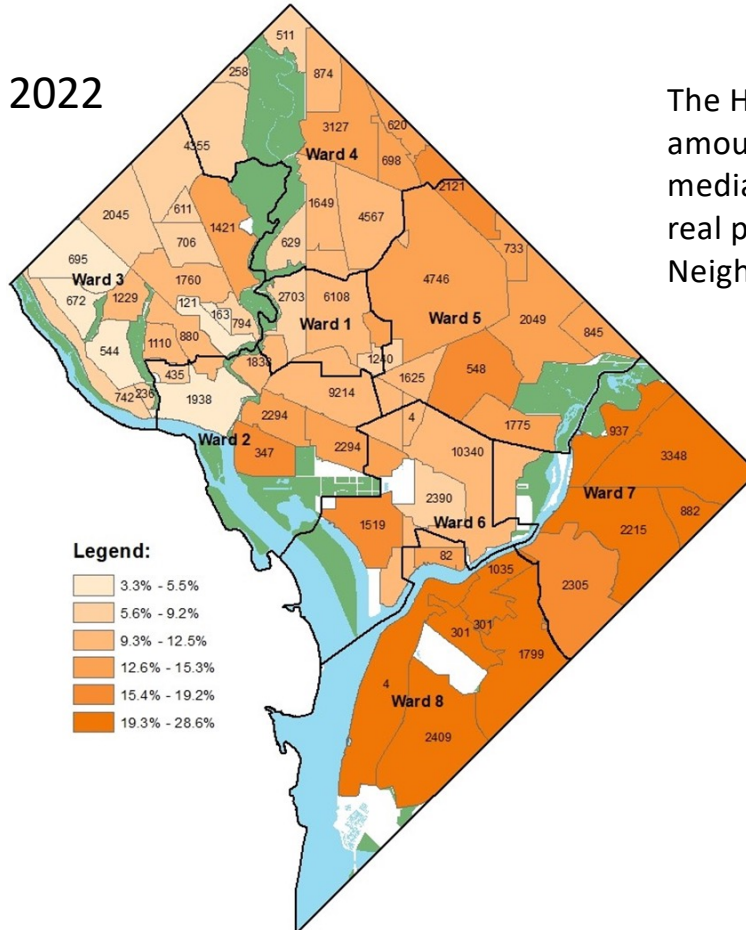


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# Yet, the SE Quadrant Or Wards 7 & 8 is Where Tax Relief is Felt Most



TY 2022



The Homestead Deduction tax dollar amount (\$668.95) as a percent of the median homestead's annual statutory real property tax by Assessment Neighborhood, TY 2022

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# The Senior and Disabled Homestead Deduction



## Parameters:

- Qualify for the homestead deduction
- Household federal adjusted gross income of \$139,900 or less in TY 2022
- 50% of ownership be 65 or older

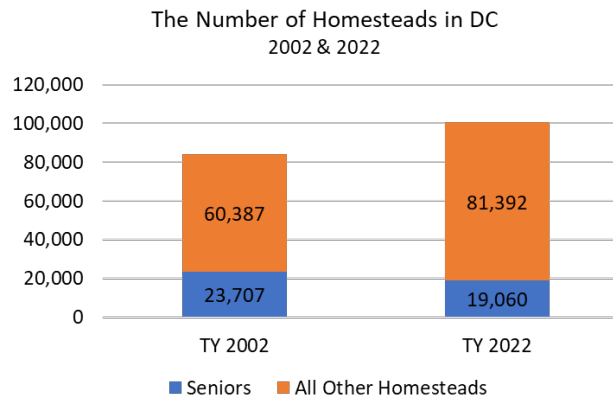
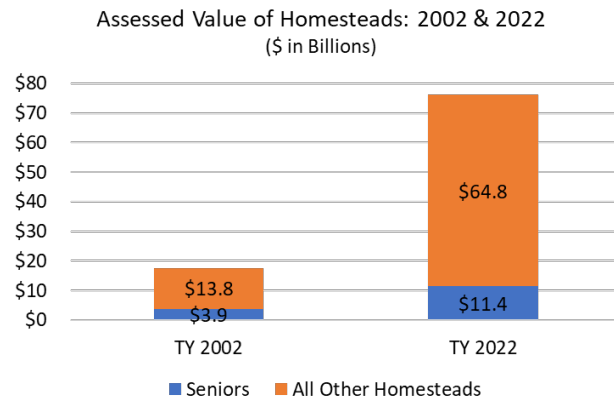
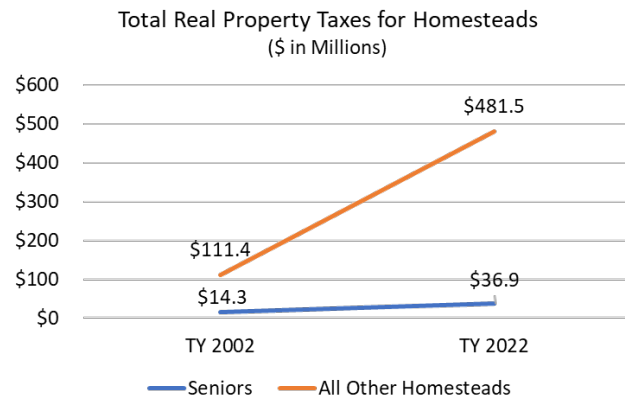
Or

- Have a permanent and total disability confirmed by the Social Security Administration, is receiving Supplemental Security Income, or is receiving government disability payments

Benefit: 50% off their tax liability

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# How Has This Impacted Homeownership and Affordability for Seniors vs. Non-Seniors?



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# The Assessment Increase Cap Credit

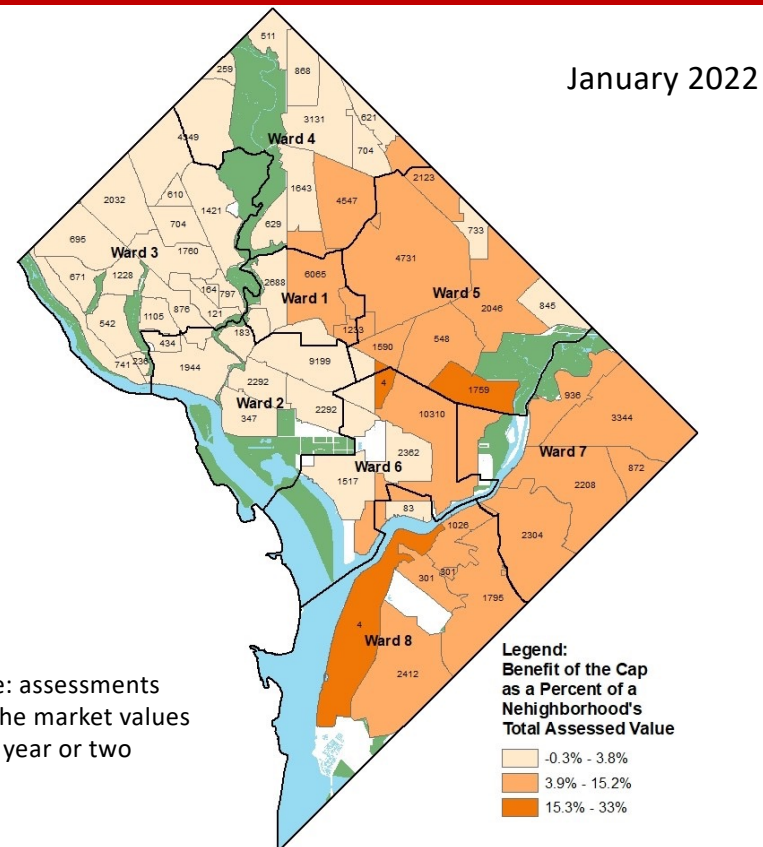
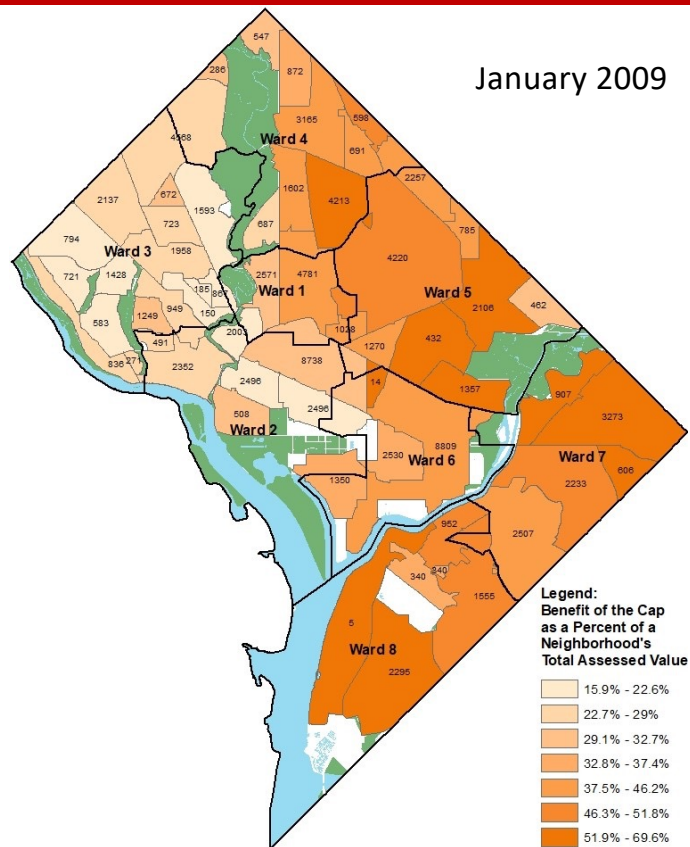


## Parameters:

- Automatically qualify for the cap when one qualifies for the homestead deduction
  - It begins and ends when an owner buys and then sells their homestead property
- It limits the annual year to year growth of a homestead property's taxable assessed value
- Ten percent growth limit annually for regular homesteads and five percent for senior and disabled homesteads
  - The senior and disabled assessment increase cap took effect in TY 2019 and has an income limit of \$139,900 in TY 2022



# Comparing Cumulative Effect From The Start of 2010s to Present Day



Note: assessments  
lag the market values  
by a year or two

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# Effective Tax Rates For Homesteads vs. Eligible Non-Homesteads



Qualified Homesteads + Assessment Increase Cap vs. Rate Benefit Only Residential of the Same Type, TY 2022					
	Total Number	Home Tenure in Years	Statutory Tax Rate (STR)	Median Effective Tax Rate (ETR)	Percent Difference Between STR and ETR
Non-Homestead Res	70,066	7	0.0085	0.0084	1.3%
Standard Homesteads	81,391	6	0.0085	0.0073	13.9%
Disabled Homesteads	690	11	0.0085	0.0032	62.1%
Senior Homesteads	19,060	13	0.0085	0.0029	65.6%
Total	171,207	7	0.0085	0.0078	8.4%

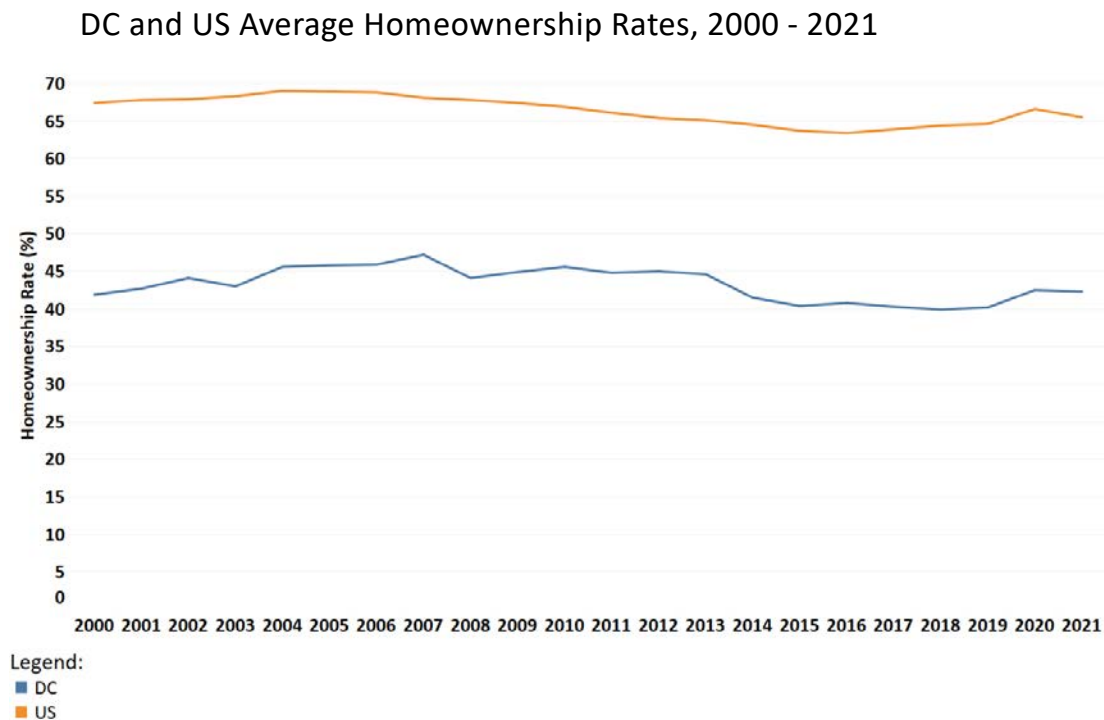
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# Takeaways



- Since 2002, the number of owner-occupied homestead properties and their market values have increased
- Some owner-occupied residents aren't aware of TE programs, especially seniors
- DC still is a high-cost city/state with short supply but at least these three housing-related TEs make housing for low-income homeowners more affordable

## But Homeownership Rate Have Still Lagged Compared To Rest Of The Country



Source: US Census Bureau

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# What's Possibly in Store for DC Now?



- DC's decennial Tax Revision Commission who make recommendations on our tax structure to our legislature is now underway
- Have had recent conversations with local advocacy organizations who are studying progressive residential property tax rates and potentially more income limits on TEs

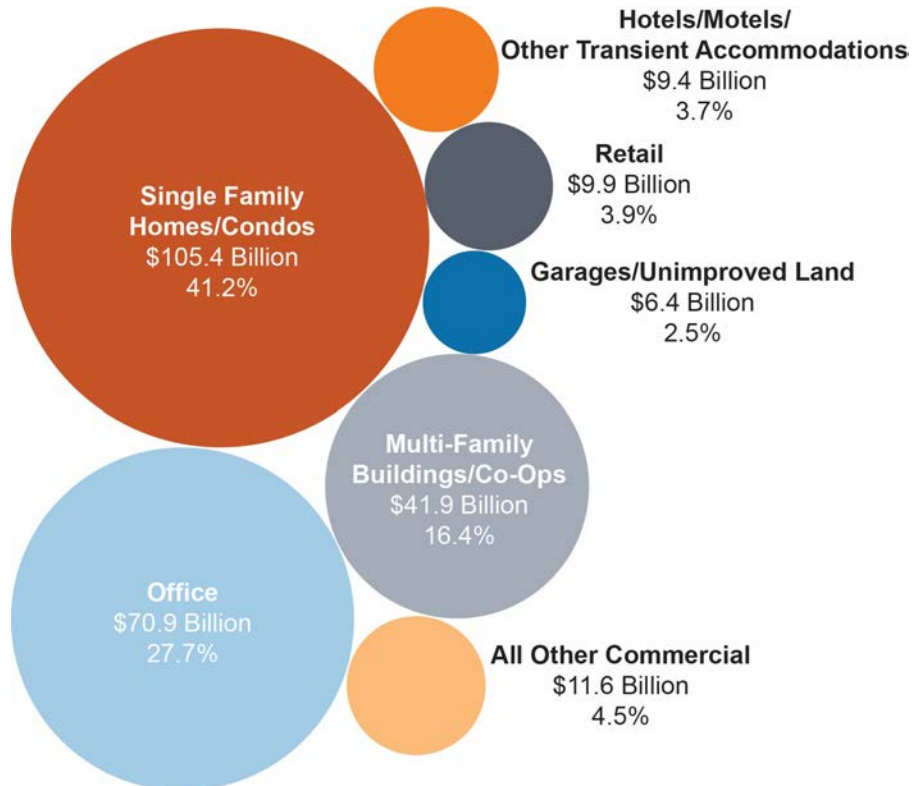
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Thank you! Questions?

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## And In Terms of Assessment, Residential Properties Are Numerous and Highly Valued



FY 2021 Assessments

FY 2021			
	Number of taxable properties	Revenue (\$000)	Percent of Total Local Revenue
Residential Property	190,838	1,056,683	10.6%
Commercial Property	15,766	1,840,648	18.4%
Vacant or Blighted	629	16,770	0.2%