

February 28, 2008

Good Deal for DC Homeowners: Property Taxes Are Lowest in the Region

By Katie Kerstetter

The District of Columbia has adopted numerous provisions to decrease homeowners' property taxes in recent years, in response to rising assessments. The Homestead Deduction has been increased from \$30,000 to \$64,000¹; a 10 percent cap on annual increases in taxable assessments was set; and the property tax rate has been cut, from 96 cents per \$100 of assessed value to 88 cents. Finally, the DC Council adopted a "calculated rate" provision that would decrease the rate if certain revenue targets are met. This trigger reduced the residential property tax rate in both 2007 and 2008 and is likely to reduce it in 2009 as well.

As a result of these measures, DC homeowners now enjoy the lowest property taxes in the region, and most homeowners have seen their tax bills fall — or grow only modestly — over the past three years.

- **In 2007, DC homeowners paid lower property taxes than homeowners in Montgomery, Prince George's, Arlington, and Fairfax counties.** Among homes with an average sales price of \$500,000, for example, DC homeowners paid an average tax of \$2,170, compared to \$3,109 in Montgomery County, \$3,690 in PG County, and over \$4,200 in Arlington County and Fairfax County. (2007 is the most recent year for which comparable data are available.)
- **Half of all DC homeowners are paying less in property taxes in 2008 than they did in 2005.** Another 36 percent of DC homeowners have seen their tax bills grow less than five percent per year since 2005.
- **DC's homeowner property tax rate is now lower than in Montgomery, Prince George's and Fairfax counties.** Only Arlington County, with a property tax rate of \$0.818 per \$100 of assessed value, is lower than the District's rate of \$0.85 per \$100 of assessed value. DC's property taxes are lower than in Arlington, however, because Arlington does not have a Homestead Deduction or annual tax cap.
- **Taxable assessments are well below full assessments for many homeowners, and the gap is growing.** In 2008, the typical homeowner's taxable assessment — the assessment to which the tax is levied — is just 51 percent of the full assessed value of the home.

¹ The Homestead Deduction lowers the amount of the home's assessment that is used to calculate a home's real property tax.

Although DC's homeowner property taxes are low, the calculated rate could lead to further cuts in the homeowner property tax rate in future years. This provision — which led to tax cuts in both 2007 and 2008 — is not expected to trigger a tax cut in 2009 but could lead to cuts after that. Yet the results of this analysis indicate that further tax cuts for all homeowners should not be a top priority. This is especially true considering the recent economic slowdown, which is likely to reduce DC's tax collections over the next few years. For these reasons, the District should consider eliminating the calculated rate provision — or at least suspending it temporarily.

If further tax relief is pursued, the District should target these efforts on low-income renters — who face substantial rent burdens but have not benefited from property tax cuts — and low-income homeowners, since they are most likely to be burdened by property taxes. This could be done by expanding the District's Homeowner and Renter Property Tax Credit, also known as Schedule H, which provides assistance to households whose property tax bills are high relative to their income. The income eligibility level and maximum benefit under this credit have not been changed in nearly 30 years, and complex eligibility rules result in a participation rate of just 19 percent.

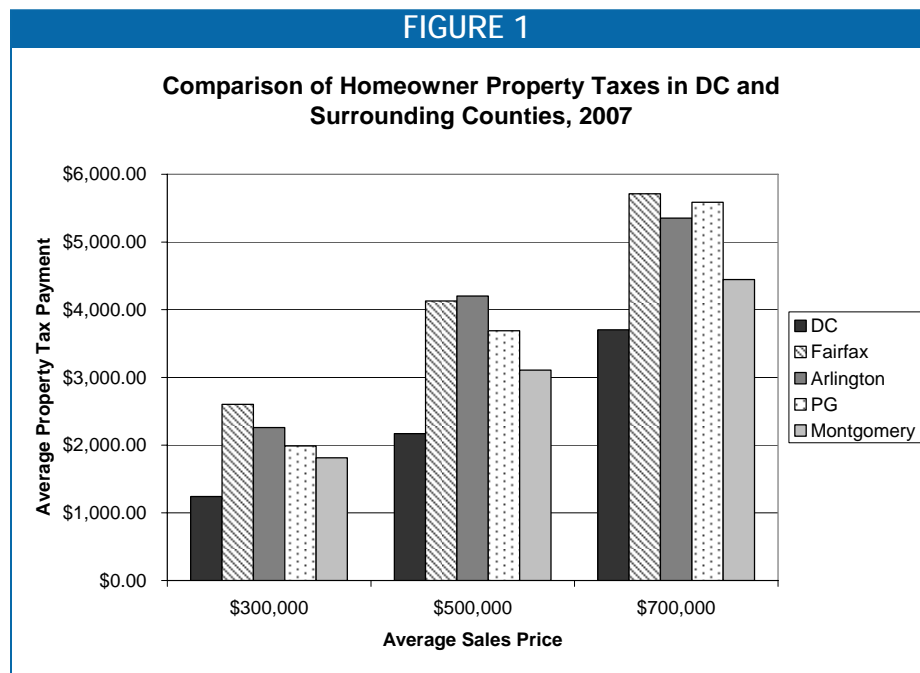
This report explores trends in property taxes for DC homeowners, including detailed data on property tax trends at the neighborhood level.

The District Has the Lowest Homeowner Property Taxes in the Region

In 2007, DC continued to have the lowest homeowner property taxes in the region. Figure 1 shows a comparison of property taxes in DC and surrounding counties in 2007 for homes of similar values. Property sales records from each county and DC were used to select samples of 50 homes with average sales prices of \$300,000, \$500,000, and \$700,000.² The property taxes paid by the homeowners in each sample were averaged to estimate the typical property tax payment for each jurisdiction.

At each sales price, DC homeowners paid lower taxes on average than homeowners in Montgomery, Prince George's, Arlington, and Fairfax counties.

- DC homeowners whose homes had an average sales price of \$300,000 paid an average property tax



² The sample includes homes that were sold between January 1, 2007 and June 30, 2007.

of \$1,240 in 2007. In the suburbs, taxes on homes at this sale price ranged from \$1,810 in Montgomery County to \$2,600 in Fairfax County.

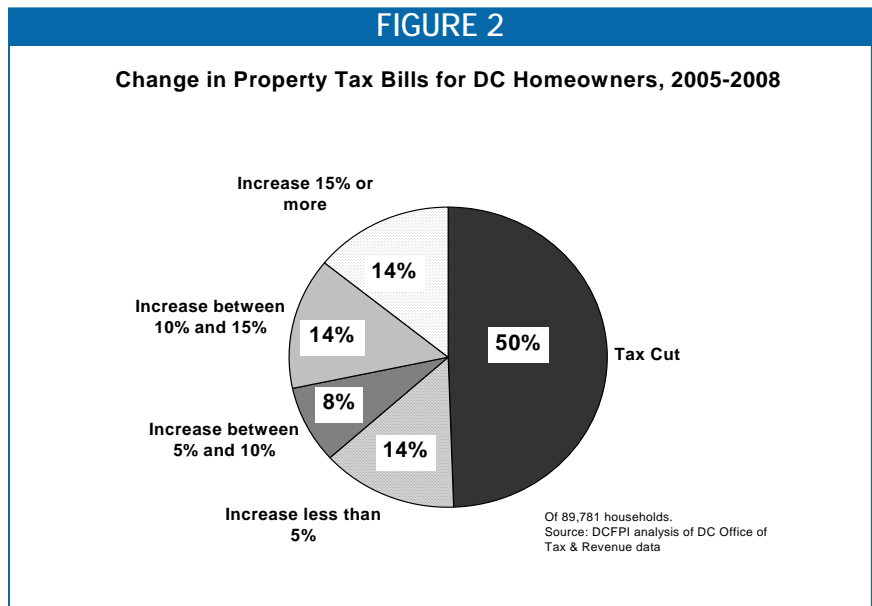
- For homes with an average sales price of \$500,000, DC homeowners paid an average tax of \$2,170, compared to \$3,110 for homeowners in Montgomery County, \$3,690 in Prince George's County, and over \$4,200 in Arlington County and Fairfax County.
- Homeowners with average sales prices of \$700,000 paid an average property tax of \$3,710 in DC, \$4,450 in Montgomery County, and more than \$5,350 in Prince George's, Fairfax, and Arlington counties.

Property tax bills vary greatly from neighborhood to neighborhood in DC, with the median tax falling below \$2,000 in half of all neighborhoods. The typical homeowner tax bill is \$530 in Anacostia; \$950 in Brookland; \$1,490 in Columbia Heights; \$3,270 in Cleveland Park; and \$5,770 in Georgetown. (See Table 2.)

Half of DC Homeowners Are Paying Less in Property Taxes in 2008 than They Paid in 2005

The median property assessment for DC homeowners increased to \$435,350 in 2008. This is 61 percent higher than the 2005 median assessment of \$270,000. Despite rising assessments, however, taxes have fallen or grown only modestly for the vast majority of DC homeowners as a result of the tax cut provisions implemented since 2005.

- For 45,000 DC homeowners — 50 percent — their 2008 property tax bills are lower than their 2005 tax bill. (See Figure 2).
- Another 36 percent of DC homeowners have 2008 property tax bills that are less than 15 percent higher than in 2005, representing an annual increase of less than five percent.



- Less than one-seventh of DC homeowners faced more than a 15 percent increase in their property taxes between 2005 and 2008. Many of these owners bought their homes in recent years, since newly purchased homes do not qualify for the 10 percent cap in the first year of ownership.
- In 45 of 56 DC neighborhoods, the median 2008 tax bill is lower than the 2005 tax bill or has increased less than five percent per year since 2005. (See Table 2.)

DC's Homeowner Property Tax Rate Is One of Lowest in Region

In 2008, DC's homeowner property tax rate is lower than the rates of Montgomery, Prince George's and Fairfax counties. (See Table 1.) Only Arlington County, with a property tax rate of \$0.818 per \$100 of assessed value, is lower than the District's rate of \$0.85 per \$100 of assessed value. Yet Arlington homeowners do not receive a Homestead Deduction or benefit from a cap on increases in taxable assessments as do DC homeowners. As a result, property taxes paid by Arlington homeowners are higher than in the District, despite the lower rate.

TABLE 1 Comparison of Regional Homeowner Property Tax Rates		
	2007 Rate ¹	2008 Rate
Arlington County	\$0.818 \$0.818	
DC	\$0.88 \$0.85	
Fairfax County	\$0.89 \$0.89	
Montgomery County²	\$0.961-\$1.655 \$0.961-\$2.104	
Prince George's County	\$1.582-\$2.178 \$1.565-2.283	
¹ Rates per \$100 of assessed value.		
² Range takes into account variation in Municipal District Tax and Special Service Area taxes.		

Taxable Assessments Are Well Below Full Assessments for Many Homeowners

The District's property tax has two provisions that result in taxable assessments — the assessment to which the tax rate is applied — being lower than a home's full assessed value. These are the Homestead Deduction, which has been increased from \$30,000 to \$64,000 in recent years, and a 10 percent cap on annual increases in taxable assessments. Together, these provisions create taxable assessments that are well below full assessments for many homeowners, and the gap between taxable assessments and full assessments is growing.

- In 2008, the median taxable assessment for DC homeowners is \$220,361.³ This equals 51 percent of the full assessed value of the typical home (\$435,350). It represents a decrease from 2005, when the median taxable assessment equaled 60 percent of the median full assessment.
- The decline suggests that increasing numbers of DC homes are assessed for tax purposes well below their full value. In 2008, for example, one-fifth of all homes had taxable assessments below 31 percent of their full value, and two-fifths of all homes had taxable assessments below 42 percent of their full value.
- Homeowners in neighborhoods throughout DC continue to benefit from the Homestead Deduction and 10 percent cap. In 2008, some 27 of 56 neighborhoods defined by DC's property tax office had median taxable assessments that were less than 50 percent of the full assessment. (See Table 4.) An additional 15 neighborhoods had typical taxable assessments that were between 50 and 65 percent of the full assessment.

³ The taxable assessment reflects the effects of the Homestead Deduction and the 10 percent cap and is used to calculate homeowners' property tax bills.

DC's "Calculated Rate" No Longer Justified

Property tax reforms adopted in recent years have provided substantial tax relief to DC homeowners. The District's property tax bills are now the lowest in the region, and DC's property tax rate is the second smallest in the region. In addition, half of all DC homeowners will pay less in property taxes in 2008 than they did in 2005. The benefits of homeowner property tax relief have been widespread — over three-fourths of DC neighborhoods have had their median property tax bills increase less than five percent per year from 2005 to 2008.

Yet the residential property tax rate is likely to be reduced further in future years due to the homeowner property tax calculated rate adopted in 2005. The calculated rate automatically lowers the homeowner property tax rate when property tax collections from all residential properties — including rental — grows more than seven percent per year. In FY 2008, the calculated rate resulted in \$17 million in tax reductions. While the calculated rate is not expected to trigger a tax cut in FY 2009, it could lead to rate cuts in future years.

Providing further tax reductions for homeowners seems especially unwarranted, given the expected slowdown in the national and regional economies, which likely will reduce overall DC tax collections over the next few years. Given this analysis, further property tax relief for all homeowners should not be a priority for the District at this time.

If additional residential property tax relief is pursued, it should be targeted to assist low-income renters and homeowners. Low-income renters are the DC households most likely to face high housing cost burdens, yet they have not received any relief from the property tax reductions targeted on homeowners. Among homeowners, low-income households are most likely to face problems paying property tax bills. The District currently provides a Homeowner and Renter Property Tax Credit, also known as Schedule H, to households whose property tax bills are high relative to their income. However, the credit has not been updated since the 1970s and is hampered by unnecessarily complex and restrictive eligibility requirements and poorly worded filing instructions. Currently, only 19 percent of eligible DC residents are estimated to be claiming the credit. Recommendations for improving Schedule H will be covered in a forthcoming report from the DC Fiscal Policy Institute.

Property Tax Relief Benefits Homeowners across DC Neighborhoods

The District of Columbia property tax office divides the city into 56 neighborhoods for assessment purposes. (Those neighborhoods are shown in a map in Figure 3.) Analysis of the impact of recent property tax relief measures shows that the benefits are shared broadly.

Property Tax Bills

In 2008, the typical, or median, tax bill among DC homeowners is \$1,639 (see Table 2). At the neighborhood level, the median homeowner property tax bill ranges from \$331 in Marshall Heights to \$15,107 in Massachusetts Avenue Heights.

- In 18 of 56 neighborhoods, the typical 2008 property tax bill is less than \$1,000.

- In 10 neighborhoods, the median is between \$1,000 and \$2,000. This means that in more than half of DC neighborhoods, the typical property tax bill is less than \$2,000.
- In eight neighborhoods, the typical tax bill is between \$2,000 and \$3,000, and it is between \$3,000 and \$4,000 in seven neighborhoods.
- In 13 of 56 neighborhoods, the median homeowner property tax bill is higher than \$4,000.

Changes in Property Tax Bills Since 2005

In most DC neighborhoods, the typical 2008 tax bill for homeowners will not increase more than 15 percent over 2005 levels.

- In 11 of 56 neighborhoods, the median tax bill in 2008 will be lower than in 2005.
- 34 neighborhoods will see increases of 15 percent or less, or less than 5 percent per year.
- In 11 neighborhoods, the 2008 median tax bill will be more than 15 percent higher than the typical tax bill in 2005.

Taxable Assessments

Table 3 shows the median taxable assessment by neighborhood as well as the distribution of assessments by neighborhood. Median taxable assessments in the District range widely, from a low of \$49,300 in Marshall Heights to a high of \$1.8 million in Massachusetts Avenue Heights.

- For 2008, the median taxable assessment is less than \$200,000 in 24 of 56 neighborhoods defined by DC's property tax office.
- The median taxable assessment is between \$200,000 and \$400,000 in 10 neighborhoods and between \$400,000 and \$500,000 in an additional nine neighborhoods.
- The median taxable assessment is above \$500,000 in 13 of 56 neighborhoods.

TABLE 2
Median Homeowner Property Tax by Neighborhood, 2005-2008

	Median Property Tax				Change 2005 to 2008	Change 2007 to 2008
	2005	2006	2007	2008		
Total	\$1,394	\$1,329	\$1,449	\$1,639	18%	13%
16th Street Heights	\$1,418	\$1,348	\$1,434	\$1,591	12%	11%
American University Park	\$3,620	\$3,751	\$3,957	\$4,270	18%	8%
Anacostia	\$613	\$452	\$482	\$527	-14%	9%
Barry Farms	\$532	\$350	\$374	\$451	-15%	21%
Berkley	\$7,374	\$6,963	\$7,334	\$7,813	6%	7%
Brentwood	\$611	\$501	\$540	\$512	-16%	5%
Brightwood	\$1,115	\$1,022	\$1,083	\$1,214	9%	12%
Brookland	\$890	\$802	\$849	\$950	7%	12%
Burleith	\$4,338	\$4,347	\$4,608	\$5,046	16%	10%
Capitol Hill	\$3,064	\$2,785	\$2,966	\$3,226	5%	9%
Central	\$1,792	\$1,919	\$2,410	\$2,485	39%	3%
Chevy Chase	\$3,865	\$3,922	\$4,144	\$4,507	17%	9%
Chillum	\$1,113	\$1,014	\$1,074	\$1,210	9%	13%
Cleveland Park	\$2,945	\$2,894	\$3,197	\$3,270	11%	2%
Colonial Village	\$3,191	\$3,282	\$3,467	\$3,828	20%	10%
Columbia Heights	\$1,324	\$1,151	\$1,239	\$1,486	12%	20%
Congress Heights	\$586	\$434	\$468	\$498	-15%	6%
Crestwood	\$4,109	\$3,775	\$3,980	\$4,314	5%	8%
Deanwood	\$465	\$341	\$365	\$426	-8%	17%
Eckington	\$1,344	\$1,169	\$1,249	\$1,457	8%	17%
Foggy Bottom	\$1,319	\$1,249	\$1,369	\$1,620	23%	18%
Forest Hills	\$2,574	\$2,804	\$3,068	\$3,062	19%	0%
Fort Dupont Park	\$611	\$520	\$556	\$563	-8%	1%
Fort Lincoln	\$785	\$714	\$751	\$902	15%	20%
Foxhall	\$3,673	\$3,395	\$3,612	\$4,071	11%	13%
Garfield	\$3,305	\$3,163	\$3,347	\$3,565	8%	7%
Georgetown	\$5,218	\$5,009	\$5,347	\$5,772	11%	8%
Glover Park	\$1,984	\$1,923	\$2,087	\$2,354	19%	13%
Hawthorne	\$3,361	\$3,408	\$3,598	\$3,823	14%	6%
Hillcrest	\$931	\$874	\$991	\$986	6%	1%
Kalorama	\$3,039	\$2,963	\$3,210	\$3,396	12%	6%
Kent	\$5,891	\$5,671	\$5,978	\$6,368	8%	7%
Ledriot Park	\$1,525	\$1,381	\$1,473	\$1,607	5%	9%
Lily Ponds	\$572	\$439	\$462	\$516	-10%	12%
Marshall Heights	\$464	\$325	\$349	\$331	-29%	5%
Mass. Ave. Heights	\$13,627	\$13,181	\$13,868	\$15,107	11%	9%
Michigan Park	\$987	\$912	\$965	\$1,118	13%	16%
Mount Pleasant	\$2,760	\$2,532	\$2,707	\$2,964	7%	10%
North Cleveland Park	\$3,879	\$3,907	\$4,111	\$4,405	14%	7%
Observatory Circle	\$2,581	\$2,412	\$2,594	\$2,909	13%	12%
Old City I	\$1,417	\$1,293	\$1,404	\$1,610	14%	15%
Old City II	\$1,785	\$1,958	\$2,133	\$2,468	38%	16%

TABLE 2 (continued)
Median Homeowner Property Tax by Neighborhood, 2005-2008

	Median Property Tax				Change 2005 to 2008	Change 2007 to 2008
	2005	2006	2007	2008		
Palisades	\$3,742	\$3,508	\$3,706	\$4,041		
Petworth	\$915	\$784	\$830	\$927	1%	12%
R. L. A. NE	\$392	\$211	\$222	\$956	144%	331%
R. L. A. SW	\$1,027	\$1,199	\$1,300	\$1,340	31%	3%
Randle Heights	\$640	\$536	\$604	\$634	-1%	5%
Riggs Park	\$892	\$767	\$819	\$871	-2%	6%
Shepherd Park	\$2,521	\$2,476	\$2,612	\$2,794	11%	7%
Spring Valley	\$8,179	\$7,930	\$8,364	\$8,980	10%	7%
Takoma Park	\$897	\$779	\$822	\$905	1%	10%
Trinidad	\$581	\$473	\$506	\$489	-16%	-3%
Wakefield	\$2,152	\$2,154	\$2,288	\$2,540	18%	11%
Wesley Heights	\$2,693	\$2,484	\$2,641	\$2,911	8%	10%
Woodley	\$7,955	\$7,295	\$7,693	\$8,231	3%	7%
Woodridge	\$854	\$727	\$771	\$866	1%	12%

Source: DCFPI analysis of DC Office of Tax and Revenue data

TABLE 3
Taxable Home Assessments in 2008 by Neighborhood

	Number of Homes	Median Taxable Assessment	Distribution of Homes by Taxable Assessment			
			Under \$250,000	\$250,000 to \$500,000	\$500,000 to \$750,000	\$750,000 or more
Total	95,347	\$220,361	54%	25%	2%	9%
16th Street Heights	1,590	\$214,025	58%	32%	8%	2%
American University Park	2,150	\$526,313	1%	40%	47%	12%
Anacostia	934	\$73,192	98%	2%	0%	0%
Barry Farms	293	\$58,298	100%	0%	0%	0%
Berkley	584	\$956,825	3%	10%	20%	67%
Brentwood	431	\$81,220	96%	4%	0%	0%
Brightwood	3,139	\$183,509	78%	20%	1%	0%
Brookland	4,222	\$136,006	89%	11%	1%	0%
Burleith	498	\$627,522	1%	32%	31%	36%
Capitol Hill	2,525	\$403,846	15%	49%	24%	11%
Central	2,336	\$323,814	32%	44%	14%	10%
Chevy Chase	4,571	\$558,491	5%	31%	44%	20%
Chillum	680	\$181,310	85%	15%	1%	0%
Cleveland Park	1,904	\$461,116	23%	31%	17%	30%
Colonial Village	551	\$495,270	1%	50%	35%	13%
Columbia Heights	4,547	\$190,378	65%	30%	5%	1%
Congress Heights	2,226	\$67,780	98%	2%	0%	0%
Crestwood	687	\$571,772	0%	34%	45%	21%
Deanwood	3,176	\$71,657	98%	2%	0%	0%
Eckington	1,246	\$187,090	71%	26%	3%	0%
Foggy Bottom	503	\$238,070	53%	25%	15%	7%
Forest Hills	1,592	\$423,070	30%	25%	12%	33%
Fort Dupont Park	2,220	\$82,941	99%	1%	0%	0%
Fort Lincoln	359	\$115,631	91%	9%	0%	0%
Foxhall	275	\$497,911	0%	51%	35%	14%
Garfield	854	\$505,082	28%	21%	27%	24%
Georgetown	2,372	\$743,056	10%	18%	22%	49%
Glover Park	1,230	\$314,957	37%	44%	16%	4%
Hawthorne	287	\$493,151	0%	53%	36%	11%
Hillcrest	2,491	\$182,290	85%	14%	0%	0%
Kalorama	1,962	\$424,910	26%	32%	15%	27%
Kent	736	\$789,823	1%	15%	30%	54%
Ledriot Park	978	\$211,619	64%	30%	5%	1%
Lily Ponds	891	\$72,350	98%	2%	0%	0%
Marshall Heights	596	\$49,294	99%	1%	0%	0%
Mass. Ave. Heights	151	\$1,777,293	1%	0%	5%	94%
Michigan Park	786	\$196,893	87%	14%	0%	0%
Mount Pleasant	2,457	\$372,037	21%	52%	21%	6%
North Cleveland Park	724	\$542,467	3%	33%	48%	16%
Observatory Circle	932	\$408,670	27%	29%	20%	25%
Old City I	8,661	\$208,993	60%	31%	8%	1%

TABLE 3 (continued)
Taxable Home Assessments in 2008 by Neighborhood

	Number of Homes	Median Taxable Assessment	Distribution of Homes by Taxable Assessment			
			Under \$250,000	\$250,000 to \$500,000	\$500,000 to \$750,000	\$750,000 or more
Old City II	8,079	\$316,679	39%	39%	15%	7%
Palisades	827	\$514,287	14%	34%	50%	23%
Petworth	4,118	\$127,920	90%	10%	0%	0%
R. L. A. NE	50	\$112,523	80%	20%	0%	0%
R. L. A. SW	1,224	\$178,102	61%	32%	7%	0%
Randle Heights	1,473	\$85,660	95%	5%	0%	0%
Riggs Park	2,261	\$129,867	98%	2%	0%	0%
Shepherd Park	870	\$359,162	7%	79%	13%	2%
Spring Valley	795	\$1,077,869	1%	3%	13%	84%
Takoma Park	597	\$140,441	88%	12%	0%	0%
Trinidad	1,335	\$72,712	95%	5%	0%	0%
Wakefield	667	\$361,698	38%	28%	23%	11%
Wesley Heights	1,430	\$414,590	32%	25%	18%	25%
Woodley	184	\$994,125	0%	0%	0%	90%
Woodridge	2,085	\$128,761	91%	9%	1%	0%

Source: DCFPI analysis of DC Office of Tax and Revenue data

TABLE 4
Taxable Assessment as Percentage of Full Assessment by Neighborhood, 2008

	Taxable Assessment as Percentage of Full Assessment (Neighborhood Median)
Total	49%
16th Street Heights	39%
American University Park	62%
Anacostia	32%
Barry Farms	36%
Berkley	73%
Brentwood	31%
Brightwood	41%
Brookland	36%
Burleith	65%
Capitol Hill	53%
Central	80%
Chevy Chase	67%
Chillum	45%
Cleveland Park	64%
Colonial Village	59%
Columbia Heights	40%
Congress Heights	30%
Crestwood	65%
Deanwood	30%
Eckington	44%
Foggy Bottom	55%
Forest Hills	73%
Fort Dupont Park	34%
Fort Lincoln	45%
Foxhall	61%
Garfield	70%
Georgetown	67%
Glover Park	53%
Hawthorne	60%
Hillcrest	46%
Kalorama	70%
Kent	74%
Ledroit Park	43%
Lily Ponds	33%
Marshall Heights	25%
Mass. Ave. Heights	75%
Michigan Park	47%
Mount Pleasant	58%
North Cleveland Park	69%
Observatory Circle	63%
Old City I	41%
Old City II	66%

TABLE 4 (continued)
Taxable Assessment as Percentage of Full Assessment by Neighborhood, 2008

	Taxable Assessment as Percentage of Full Assessment (Neighborhood Median)
Palisades	62%
Petworth	33%
R. L. A. NE	28%
R. L. A. SW	47%
Randle Heights	34%
Riggs Park	43%
Shepherd Park	55%
Spring Valley	72%
Takoma Park	40%
Trinidad	26%
Wakefield	58%
Wesley Heights	71%
Woodley	83%
Woodridge	34%

Source: DCFPI analysis of DC Office of Tax and Revenue data

FIGURE 2

District of Columbia Assessment Neighborhoods and Wards

