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DC Homeowners Pay the Lowest Property Taxes In the Region

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Homeowners in the District have the lowest property taxes in comparison to its four adjacent counties: Fairfax, Arlington, Montgomery, and Prince George's Counties. While middle- and high-income DC residents typically own homes that are worth more than homeowners in most of the suburban jurisdictions, tax bills in the District are far lower, often by more than $1,000 a year. That is because the District has the lowest residential property tax rate in region and because the city's property tax has other provisions that limit property bills.

This analysis identified the average value of homes owned by residents at a middle-income level and a higher-income level in DC and in four suburban jurisdictions, and then compared property taxes for homes at those values. It finds that DC residents own homes that are worth more than in the suburbs, yet have lower property taxes.

- Middle-income DC residents – with incomes between $68,500 and $129,000 – own homes worth about $500,000. This is about the same as the average home value for middle-income residents in Arlington, but somewhat higher than average home value for middle-income homeowners in Fairfax and Montgomery counties and far higher than in Prince George's County.
- The average property tax for DC homes at this value – $2,800 – is $1,500 lower than the property tax bills for middle-income homeowners in Fairfax and Arlington counties and $700 lower than for middle-income homeowners in Montgomery and Prince George's Counties.
- Higher-income DC residents – with incomes between $129,000 and $214,000 – own homes worth about $640,000. This is slightly lower than the average home value for higher-income residents in Arlington, but higher than average home value for higher-income homeowners in Fairfax and Montgomery Counties and more than double the home value for higher-income Prince George's County homeowners.
- The average property tax for higher-income DC homeowners at this value - $3,900 – is $1,500 lower than the property tax bills for higher-income homeowners in Fairfax and Arlington counties and $1,000 lower than for higher-income homeowners in Montgomery. Tax bills are about the same for high-income households in DC and Prince George's County, even though DC's higher-income homeowners own homes worth much more.

Low aggregate property tax rates and property tax bills suggest that DC's property taxes do not affect its competitiveness in the regional housing market.

Property Selection Methodology

This study used the following procedure to identify the value of homes for middle- and higher-income households in DC and four suburban jurisdictions – Montgomery and Prince George's Counties in Maryland and Arlington and Fairfax Counties in Virginia. It then analyzed actual tax bills in all five jurisdictions to calculate average property tax bills for middle-income and higher-income households.

- This analysis defines middle-income households as those with incomes between 80 percent and 120 percent of the Area Median Income for a family of four – or those making $68,500 to $129,000 annually. It defines high-income households as those with incomes between 120 percent and 200 percent of Area Median Income for a family of four, or those making $129,000 to $214,000 annually.
- The study used data from the American Community Survey to determine the average home value for homes owned by households in these income categories in the District and in each of the other four counties observed.
- This analysis then identified a sample of 50 homes in each jurisdiction with home values near these averages, using each jurisdiction's publicly available property assessment and tax database. Because the processes used by jurisdictions to assess home values may differ, this analysis identified homes of comparable value by using home sales prices, based on homes that sold between September 2014 and February 2015. One hundred properties were selected for each jurisdiction – 50 for each income category.

This method allowed for a comparison of the most recent tax bills among commensurate residences.

Table 1

Home Sales Prices in DC Metro Area

	Middle Income Earners**			High Income Earners		
	Mean Home Value*	Lower Bound of Sales Prices	Upper Bound of Sales Prices	Mean Home Value*	Lower Bound of Sales Prices	Upper Bound of Sales Prices
Arlington	$499,444	$449,444	$549,444	$658,684	$608,684	$708,684
Fairfax	$434,951	$383,951	$484,951	$547,888	$497,888	$597,888
District of Columbia	$495,236	$445,236	$545,236	$634,690	$584,690	$684,690
Montgomery	$427,432	$377,432	$477,432	$557,988	$507,988	$607,988
Prince George's	$247,469	$197,469	$297,469	$298,331	$248,331	$348,331

*Source: DCFPI Analysis of US Census Bureau American Community Survey (2013)

**Middle Income Earner range is $68,500 to $129,000 and the High Income Earner range is $129,000 to $214,000

DC Homeowners Have Higher-Value Homes, But Lower Taxes than in the Suburbs

Middle- and high-income households in DC tend to own homes worth more than the homes owned by households in the Virginia and Maryland suburbs. Despite this, tax bills for DC homeowners generally are far lower than in the suburbs (see **Table 1**).

- Middle-income homeowners in DC owned homes worth $493,000 in 2015. That is about the same as the average home value for Arlington's middle-income homeowners – $500,000 – but somewhat higher than the value of homes owned by middle-income residents of Montgomery County and Fairfax County – $418,000 and $428,000 respectively. Middle-income residents in Prince George's County owned homes of the lowest value – an average of $250,000.
- Higher-income DC households owned homes worth an average of $640,000. Again, this is about the same as in Arlington County, somewhat higher than in Montgomery and Fairfax Counties, and far higher than in Prince George's County.

DC Homes Are Often Assessed for Tax Purposes Well Below their Actual Value

Home Assessment Values as a Percent of Home Sale Values in Study Sample

Jurisdiction	Middle Income Home Owners	High Income Home Owners
Arlington County	98.5%	98.2%
Fairfax County	93.1%	92.5%
Washington, DC	86.5%	86.1%
Montgomery County	88.9%	89.2%
Prince George's County	85.8%	84.4%

The assessed value of homes in DC and the suburbs, used to determine property taxes, often are below what homes are actually worth. This occurs in part because assessments for any given year are based on area home sales in the prior year. In a strong real estate market, assessments generally will lag actual value. This disconnect means that most homeowners pay property taxes on amounts that are lower than their home's full market value. In this study's samples, the gap between home assessments and sales prices in DC is somewhat wider than in the suburbs, another factor contributing to the District's lower property taxes for both middle- and high-income earners (as shown above).

These findings suggest that as a result of DC's strong housing market, families at a given income level in the District have homes worth more than families at similar income levels in the suburbs. Despite this, middle- and higher-income DC homeowners generally pay far lower property tax bills.

- On average, middle- and higher-income residents in the four surrounding counties pay $1,300 more in property taxes than both middle- and high-income residents of the District.
- Property taxes in Arlington County are approximately $2,100 more than in the District for middle-income earners (See **Figure 1**). For high-income earners, property taxes in Arlington County are approximately $2,500 more than in the District (See **Figure 2**).

- Middle-income residents in Montgomery County pay $700 more in property taxes than middle-income DC residents, and higher-income Montgomery County residents pay $1,000 more.
- Tax bills in Fairfax County are $1,500 higher than the District for both income categories.
- Although DC households own homes worth about double that of Prince George's County homeowners at similar income levels, property taxes in Prince George's County are higher than in the District for middle-income households and virtually identical to the District for higher-income households.

Figure 1

Average Tax Bills For Middle Income Households in DC are Much Lower than in Surrounding Jurisdictions

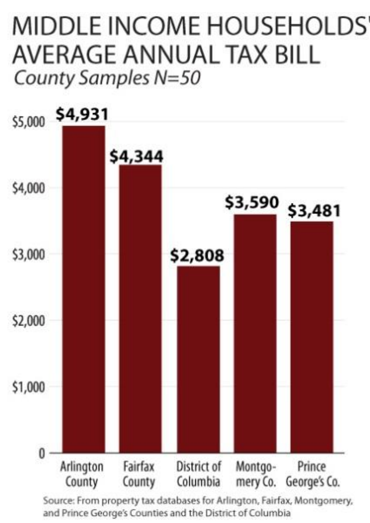
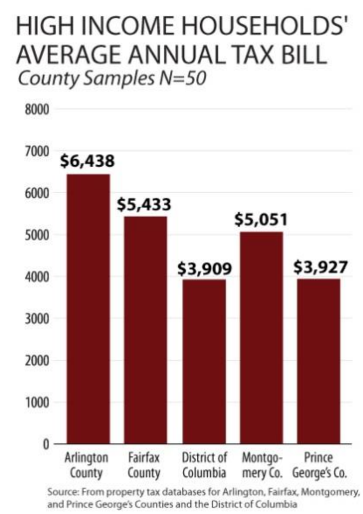


Figure 2

Average Tax Bills For High Income Households in DC are Much Lower than in Most Surrounding Jurisdictions



Why DC's Residential Property Tax Bills Are Lowest in the Region

The District levies the lowest residential property tax rate among the five counties studied (see **Table 2**). Arlington, Fairfax, and the District of Columbia apply a single property tax rate. Homeowners in Maryland, pay a state and county property tax. Some owners also pay a municipal property tax rate as well as property tax to fund additional special services. Montgomery County offers a countywide property tax credit for all owner-occupied, or principal, residences. Prince George's County applies a municipal tax rate differential credit to properties whose municipality provides services instead of the county. This tax credit prevents residents from paying for the same service twice.

When all property taxes are considered – that is, the combined value of tax rates applied to a home's taxable assessed value – DC's property tax rate is by far the lowest.

- DC homeowners pay 85 cents for every $100 of taxable assessed value.
- The rates are $1.09 in Fairfax County and 99.6 cents in Arlington County.
- Montgomery County homeowners face a tax rate of $1.05 or higher, depending on where they live, and Prince George's homeowners face a rate of at least $1.446.

Table 2

Aggregate Tax Rates per $100 of Assessed Value

Arlington Co.	.996
Fairfax Co.	1.09
District of Columbia	.85
Montgomery Co. [1]	1.05 or higher
Prince George's Co. [2]	1.446 or higher

1. Rates in this county vary by municipality. This figure reflects the lowest rate paid by homeowners.
2. This reflects the State, County, Park and Planning, Stormwater, and WSTC tax rates combined. It does not include the supplemental education tax rate, town levy, or municipal tax rate differential.

Several other policies contribute to the District's lower property tax rates. This includes a homestead deduction that lowers the amount of a home's assessment that is subject to property tax. Currently, the DC homestead deduction is $71,400, and it is adjusted annually for inflation. In addition, the District has an assessment cap which limits the annual increase in taxable assessment to 10 percent. This means that no matter how much a home's value grows in a given year, the taxable portion can grow no more than 10 percent. As a result of these two measures, the taxable assessments for most DC homeowners are far lower than their full assessed values. Virginia counties have no homestead deduction or assessment cap, so that their tax rate applies to a home's full value. Maryland homeowners receive a homestead credit which caps annual assessment increases which can vary from municipality to municipality.