'Mansion Taxes' Can Advance Opportunity for DC's Residents

By Ed Lazere

The DC and national economies have been marked for decades by an increasing concentration of wealth in a few hands, a sign that our economy is not creating equal opportunities for everyone. The barriers to opportunity for residents of color are evident in our wealth gap, with the average wealth of white households now 81 times the average wealth of Black households. The District can tackle this inequality and advance opportunity for residents by better taxing extreme wealth – particularly by levying taxes on DC's highest-value housing, according to a recent report from the Center on Budget and Policy Priorities.

These types of "mansion taxes" can improve the fairness of DC's tax system and help fund our biggest priorities, such as affordable housing, schools, health care, roads, and other services and infrastructure that drive economic growth. States and localities can enact mansion taxes in two major ways:

- **Mansion taxes via real estate transfer taxes**: Some states and localities tax wealth by adding a higher marginal rate or surcharge for expensive properties when properties are bought or sold (also known as real estate transfer taxes.) DC has a reduced tax rate for homes bought for less than $400,000, to protect lower-income households, but there is no distinction in DC's transfer rate above that, with homes sold for $500,000 and $5 million facing the same rate. DC could add a surcharge on the highest-value houses or a progressive bracket structure to real estate transfer taxes.
- **Mansion taxes via state or local property taxes**: States and localities also can tax wealth by adding a surcharge or higher marginal rate onto property taxes for DC's most valuable homes. In DC, all homes pay the same property tax rate. Indeed, DC's tax system includes provisions to cap property tax increases, which tend to provide the most benefit to the most expensive homes. The District could eliminate the tax cap for the most valuable homes, and set a higher tax rate on them, while being careful not to affect homeowners with low or moderate incomes whose home values have jumped in recent years.

The failure to more fully tax extreme wealth comes at a time when 27,000 extremely low-income households face severe housing hardship, yet the District has only funded about 3,000 new rentals for these residents since 2015.

A mansion tax could raise meaningful revenue to help meet DC's most pressing needs in fiscal year (FY) 2020 and beyond. A property tax surcharge of 1 percent on homes worth at least $2 million and 2 percent on homes worth at least $5 million would raise $74 million yet only affect 1.4 percent of homes (*Table 1*). This in turn could be used to provide rental assistance to 3,700 DC households with extremely low incomes, more than doubling the number of homes created for these families in recent years.

Making DC's tax code fairer is one of our key tools for raising the funds needed to address our city's most pressing challenges. By asking DC's wealthiest households to pay their fair share, we can improve our schools, create more affordable housing for those who need it most, and more.

TABLE 1

Potential Revenue in Selected States from Property Tax Surcharge 1 percent surcharge for homes worth $2 million or more; 2 percent surcharge for homes worth $5 million or more, 2016

State	Total residential properties	Total homes ≥ $2 million	Total home values ≥ $2 million (millions)	Total homes ≥ $5 million (millions)	Total home values ≥ $5 million (millions)	Property tax surcharge revenue (millions)	Percent of homes subject to surcharge	Property tax surcharge revenue per capita
California	8,284,512	90,601	$324,292	11,597	$100,904	$4,252	1.1%	$108
Colorado	1,683,139	17,142	$70,837	3,820	$31,487	$1,023	1.0%	$185
District of Columbia	147,448	2,004	$6,232	163	$1,201	$74	1.4%	$109
Maine	495,320	873	$2,599	57	$341	$29	0.2%	$22
Massachusetts	1,846,552	15,320	$50,244	1,456	$11,614	$619	0.8%	$91
Michigan	3,939,491	2,235	$6,417	94	$550	$70	0.1%	$7
Nevada	973,380	1,756	$6,372	222	$2,076	$84	0.2%	$29
New York	4,543,196	34,223	$126,148	3,644	$36,208	$1,624	0.8%	$82

Notes: Calculations restricted to single-family residential properties, including condos but excluding co-ops and luxury rentals. California and Colorado would need to pass legislation to change existing revenue limits to implement a property tax surcharge.

Source: Urban Institute, "Exploring the Viability of Mansion Tax Approaches," 2018.