GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF REVENUE ANALYSIS

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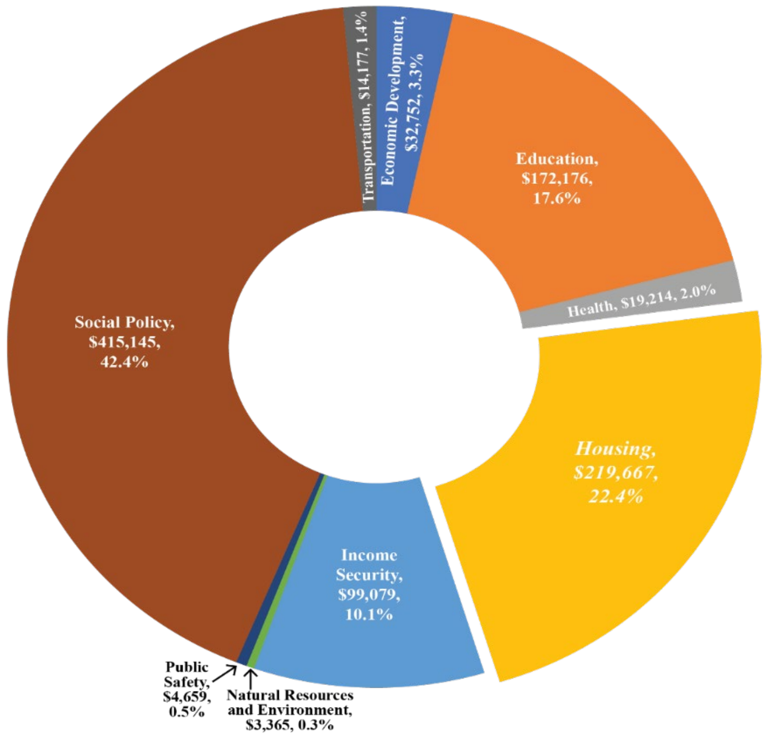
# Fact Sheet: *District Housing Tax Expenditure Review*

**Chart: FY 2022 District Tax Expenditure Estimates ($ in thousands), Aggregated by Policy Area**



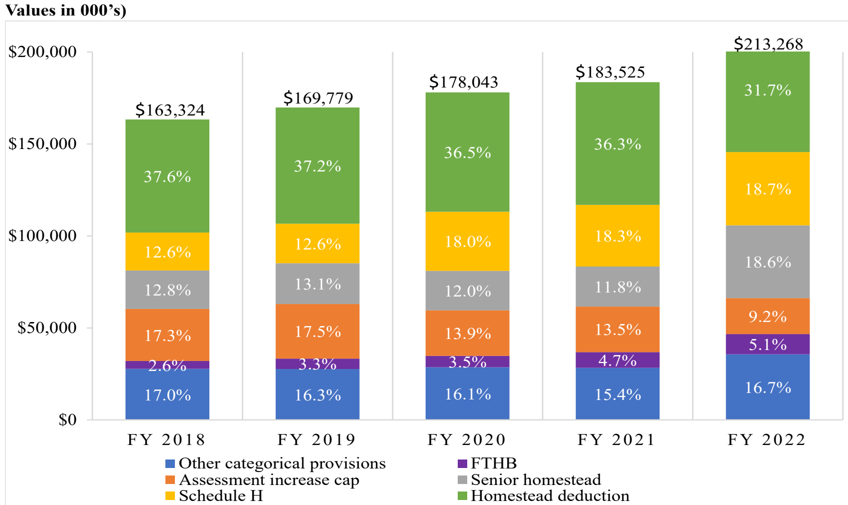

- D.C. Law 20-155 requires the review of all D.C. tax expenditures (such as abatements, credits, and exemptions) on a five-year cycle.
- Tax expenditures decrease the tax base and reduce government resources available for other priorities.
- The District housing tax expenditures are aimed at fostering housing production and ensuring housing affordability.
- Housing tax expenditures are grouped as either 'categorical' or 'specific'.
- Specific housing tax expenditures result from legislation passed for the construction, renovation, or rehabilitation of a specific project.

- Categorical housing tax expenditures are those which any person or entity who is eligible may take. They make up about 97 percent of the total housing provisions, which in FY 2022 totaled $219.7 million.
- There are 28 categorical housing tax expenditures totaling about $213.3 million. Most of the categorical housing assistance being delivered through the tax code for housing is delivered through four tax provisions:

## 1) Homestead Deduction

- The homestead deduction was created to provide property tax relief to all homeowners who were receiving significant increases on their property assessments at that time.

**Chart 2: Estimated Aggregate Revenue Foregone, All Categorical Housing Tax Provisions (Aggregate TE Values in 000's)**




Source: 2018, 2020 & 2022 District of Columbia Tax Expenditure Reports available at https://ora-cfo.dc.gov/page/tax-expenditure-studies, and OTR real property data

**Table: Homestead Real Property Statistics by Homestead Type, TY 2022**

| Homestead Type | Number of Beneficiaries | Percent of Beneficiaries | Median Tenure |
|---|---|---|---|
| Non-senior | 81,392 | 80.5% | 6 |
| Disabled | 690 | 0.7% | 11 |
| Seniors | 19,060 | 18.8% | 13 |
| **Total** | **101,142** | **100.0%** | **7** |

Source: ORA analysis of OTR real property tax data

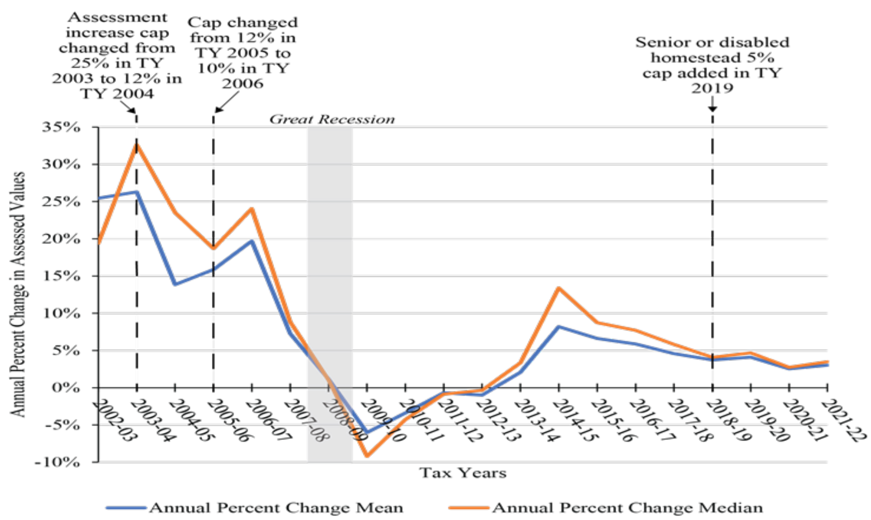
- In FY 2022, 101,142 owner-occupied residential properties received a homestead deduction totaling $67.7 million. It gives qualified homestead owners reprieve from increasing assessments and thus their tax liability.

## 2) Assessment Cap Credit

- Homeowners who qualify for a homestead deduction automatically receive an annual assessment increase cap credit that limits the taxable assessed value of their home to not more than a 10 percent (2 percent for seniors) increase from the prior tax year. An estimated 30,563 active homesteads paid lower taxes due to the cap.

- The program is successful in its goal of blunting sharp increases in annual property assessments. Recently most of the relief goes to long-term, low-valued, and low-income homesteads. However, higher assessment growth is affecting neighborhoods unevenly.

**Chart: Average and Median Annual Percent Change of All Homesteads' Assessed Values, TY 2002-2022**




Source: ORA analysis of DC's annual real property tax data from OTR

## 3) Senior Citizen or Disabled Property Owner Tax Relief

- In FY 2022, senior citizen or disabled homeowner tax relief totaled about $19.8 million.

- The senior property tax relief reduces the property tax liability of qualified seniors or disabled residents by 50 percent.

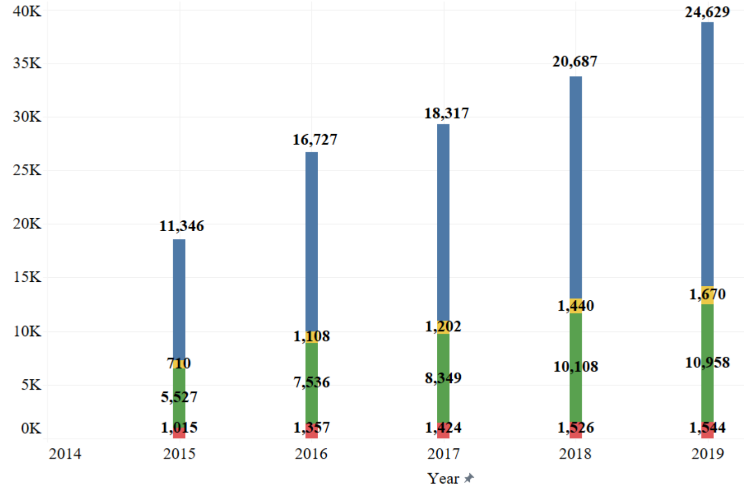
- The program is successful in achieving its intent of keeping eligible homeowners' property tax liabilities low but may be having unintended effects on the housing market by disincentivizing homeowners from downsizing and making potential buyers compete for less housing stock thus raising purchasing costs. That said, the total number of eligible homeowners decreased in 2022 compared eligible homeowners in 2002.

## 4) Schedule H Income Tax Credit/ Property Tax Circuit Breaker

- The total forgone revenue for the Schedule H income tax credit was $39.9 million in TY 2022.

- The goal of this provision is to reduce the property tax burden of taxpayers earning below a certain income level, to provide some amount of property tax relief when their property taxes exceed a certain percentage of their income.

Chart 4: Number of Schedule H Credit Claimants by Property Type




Source: ORA. Data on property types only available through 2019

## Highlighted Recommendations

- Policymakers should consider revising the legislative penalty on new homeowners who bought a homestead property with unknown delinquent taxes and fees when the home was sold.

- DC Council and Mayor should clarify legislation on compliance requirements, and which agency is responsible for monitoring compliance with tax expenditure terms and assign a third-party body to oversee the monitoring of District housing tax incentives.

- Policymakers can make the Schedule H credit more equitable by eliminating or reducing the credit's current differential treatment of renters compared to owners by increasing the credit dollar amount homeowners receive through the circuit breaker. Currently, the Schedule H circuit breaker fully abates the property tax owed by renters while it partially abates the property tax liability for homeowners.