Government of the
District of Columbia

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Chief Financial Officer

District of Columbia
Housing Tax Expenditure Review

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Further, we would like to thank the DC Department of Housing and Community Development (DHCD), DC Fiscal Policy Institute (DCFPI) and the Coalition for Nonprofit Housing and Economic Development (CNHED).

We welcome feedback on the report. Please contact Charlotte Otabor or Kevin Hundelt with questions or comments at (202)727-7775.

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Glossary

Terms	Definitions
AGI	Adjusted gross income
BHSF	Black Homeownership Strike Force
BID	Business Improvement District
BSA	Budget Support Act
CFO	Chief Financial Officer
DHCD	Department of Housing and Community Development
DMPED	Deputy Mayor for Planning and Economic Development
ETR	Effective tax rate
FTHB	First-time homebuyer
FY	Fiscal year
HANTA	Tax abatements for affordable housing in high needs areas
HFA	Housing Finance Agency
HOH	Head of household
HPTF	Housing production trust fund
LIHTC	Low-income housing tax credit
OCFO	Office of the Chief Financial Officer
ORA	Office of Revenue Analysis
OTR	Office of Tax and Revenue
PILOT	Payment-in-lieu-of-taxes
Progressive tax	In this tax system, a higher tax is collected from the taxpayers who earn more and lower taxes from taxpayers earning less.
Regressive tax	Under the current tax system, a regressive tax rate diminishes as the taxable amount increases. That is, the rate of taxation decreases as the income of taxpayers increases.
TY	Tax year

Executive Summary

Introduction

The following report reviews the District of Columbia ("the District") housing related tax expenditures, pursuant of the Tax Transparency and Effectiveness Act of DC Law 20-155, the "Fiscal Year 2015 Budget Support Act of 2014." To comply with this requirement, the Office of the Chief Financial Officer (OCFO) must summarize the purpose of each provision, estimate the revenue forgone, and examine the impacts on the District's economy and social welfare. Based on these findings, the OCFO should offer recommendations about whether to maintain, revise, or repeal the tax preference evaluated. The overarching purpose of this series of reports is to provide a periodic review of DC tax incentives.

Tax expenditures, also called tax preferences or tax incentives throughout this report, which are spending through the tax code, are often described as "spending by another name." Policymakers use various types of tax expenditures, such as abatements or credits, to promote a wide range of policy goals in the District. Amid the ongoing housing shortage, the District expends a large amount of resources to preserve and to increase affordable housing, as well as to keep homeowners in their homes. The purpose of this study is to review and evaluate the portion of this spending that is done through the tax code to determine whether the funds are effectively and efficiently used. The current depth and impact of the housing crisis in the District makes such an evaluation even more vital.

Summary of Tax Expenditure Provisions

Taken as a whole, the District's spending on housing through the tax code can be grouped broadly into two groups, categorical and specific or individual housing tax expenditures.[1] Most of the assistance is being delivered through four major categorical housing tax provisions. Two programs assist homeowners to stay in their homes and protect owner-occupied homes from increasing property taxes (the homestead deduction and assessment increase cap), and the other two programs aid low-income homeowners and renters as well as seniors and persons with disabilities (Schedule H and the credit for seniors and persons with disabilities).

Additionally, there are other housing tax expenditures whose funding go toward preserving and increasing the supply of affordable housing in the District. These funds are delivered directly to residents through property tax abatements and exemptions for certain buildings, and indirectly through property tax abatements and other incentives for developers or providers of affordable housing. These tax incentives for developers and providers often accompany other federal and local funds that subsidize the production and preservation of affordable units. Without these government subsidies, market forces, especially in a city like the District where demand outpaces supply, make the provision of affordable housing financially unfeasible.[2]

This housing report focuses on six tax provisions. These are:

1. Homestead deduction,
2. Assessment increase cap credit,
3. Senior and disabled property owner tax relief,
4. Schedule H income tax credit/ property tax circuit breaker,
5. First-time homebuyer reduced deed recordation tax relief, and
6. Real property tax exemption for non-profit affordable housing developers.

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[1] Categorical tax expenditures are those which any person or entity who is eligible may take. Specific tax expenditures are those provisions for which an individual entity or organization was awarded a tax preference based on specific circumstances.
[2] Housing Equity Report: Creating Goals for Areas of Our City. DHCD, Office of Planning. October 2019. https://planning.dc.gov/sites/default/files/dc/sites/housingdc/publication/attachments/Housing%20Equity%20Report.pdf (p. 2)

We also provide a summary of new housing tax expenditures since the last report. Our primary criteria for selecting the provisions for a deeper review is the size of revenue forgone and the availability of data on the program. Other provisions not being reviewed in-depth are presented in tabular form, along with a variety of information relevant to our review. To this end, our methodology for what is covered in the report is being streamlined. However, once we choose to include a tax expenditure, our research methodology remains the same, in that we systematically review a series of reports and documents pertaining to each provision included, and when applicable, present a logic model,[3] which is frequently used to evaluate programs and policy. Below we summarize the tax expenditures reviewed in this report.

HOMESTEAD DEDUCTION

Taxpayers who live in and own their home in the District can qualify to take a homestead deduction that reduces the taxable assessed value of their home. To qualify for the homestead deduction, a taxpayer must file an application with the Office of Tax and Revenue (OTR). In tax year 2022, 101,142 owner-occupied residential properties received the homestead deduction, which was $78,700 and amounted to about $669 each in tax relief, representing a revenue forgone of over $67.7 million. The homestead deduction meets its stated goal to provide property tax relief to all homeowners. It gives qualified homestead owners reprieve from increasing assessments and thus their tax liability, which was on average 5.3 percent annually between 2015 to 2022, based on total median yearly assessment change, showing the benefit of the homestead deduction.

ASSESSMENT INCREASE CAP

Homeowners who qualify for a homestead deduction automatically receive the annual assessment increase cap credit that limits the taxable assessed value of their home to a 10 percent (2 percent for seniors[4]) increase from the prior tax year. The purpose of the cap is to protect resident homeowners from sharp growth in property values and assessments. In TY 2022, 30,563 (or 30 percent of) active homesteads paid lower taxes due to the cap. Since TY 2017, the estimated revenue loss from the cap and the number of beneficiaries has dropped as the growth in assessed values moderated. However, homeowners with longer tenure benefit more from the cap credit (more than 3 years tenure) than short-term homeowners who have been in their homes for at most three years.

SENIOR CITIZEN OR DISABLED PROPERTY OWNER TAX RELIEF

Senior citizens (age 65 or older) and persons with disabilities qualify for a 50 percent reduction in real property tax liability on a home that they own and occupy in the District, provided that their household adjusted gross income (AGI) is less than $139,900 in TY 2022. The purpose of the credit is to protect senior citizens and people with disabilities, who often live on fixed incomes, from real property tax liabilities that may be difficult or impossible for them to pay. Since 2002, the District has lost 20 percent of its senior homeowners and despite the decrease, the credit has been greatly beneficial to its recipients. On average, the senior deduction lowered the property tax burden on their gross incomes by three percent, between TY 2015 and 2019, with the most relief going to households with incomes below $25,000 (their property tax burden was lowered by nine percent). Higher assessed homes, which is positively correlated to income, benefit more from the credit than lower assessed homes because they receive a larger drop in their effective tax rates.

[3] A logic model is an illustration of the relationship between a program's resources, activities, and its intended effect. Basically, it is visual tool used to quickly summarize the need for a policy, the inputs (what the District is contributing toward the need with the policy) the outputs (what citizens receive due to this policy), and what various short-, medium-, and long-term outcomes are (what effect or impact did the policy have).
[4] The assessment cap for seniors was previously five percent.

SCHEDULE H INCOME TAX CREDIT/PROPERTY TAX CIRCUIT BREAKER

The program allows low-income homeowners and renters to claim a property tax credit that is applied to the taxpayer's income tax liability. The credit is refundable; if the amount of the credit exceeds tax liability, the taxpayer receives the excess amount in the form of a refund. The purpose of the credit is to enhance income security for residents whose property taxes are high relative to their income, such as elderly residents on fixed incomes. The credit is designed to provide relief according to the amount by which an individual or family's property tax bill exceeds a specified percentage of income. Low-to moderate-income individuals and families who own or rent a home in DC that serves as their primary place of residence are the main beneficiaries of this credit. Most claimants of the Schedule H credit are renters (82 percent), while homeowners make up 18 percent of the beneficiaries. There are some differences among Schedule H renter and homeowner claimants. Renter claimants are usually young while homeowner claimants are seniors with income under $25,000. In general, the Schedule H tax relief policy is structured in a way that favors households with low incomes and high actual property taxes (for owners) or "equivalent property taxes paid" (for renters), as they are more likely to receive the full credit allowed for the year. The Schedule H credit tends to fully abate the real property taxes paid by renters while only abating about 49 percent of property taxes owed by homeowners. This is because the structural assumption to calculate the credit for renters is that 20 percent of their annual rent goes toward property taxes when they pay about an estimated average of 7.13 percent. The benefit of the Schedule H credit to homeowner claimants is more evident when stacked with the homestead deduction, assessment cap credit, and senior citizen or disabled property tax relief. The Schedule H credit reduces the property tax burden of homeowner claimants by about 29 percent for non-senior claimants not taking the homestead deduction compared 39 percent for non-senior homesteaders. Furthermore, the benefit of the circuit breaker is more pronounced for senior claimants with the largest tax relief going to homesteaders. Senior homesteaders receiving the circuit breaker credit, on average, see about a 75 percent reduction in their property tax burden so that they pay about 2 percent of their income in property taxes. However, like non-senior claimants, senior claimants not receiving the homestead deduction still have a higher property tax burden than an average homestead homeowner in the District.

FIRST TIME HOMEBUYER DEED RECORDATION TAX EXEMPTION

First-time homebuyers in the District can receive a partial recordation tax exemption (the law became effective in FY 2018) if they are an established resident of the District with income no higher than 180 percent of the Area Median Income (AMI), provide proof that the real property to be purchased is eligible property, and provide a copy of the homestead deduction application for the eligible property, signed by the applicant. The purpose of the exemption is to encourage homeownership to combat homelessness and housing unaffordability in the District. On average, deed recordation and transfer taxes are reduced by about $2,680, which is an estimated 11.2 percent reduction in taxes alone in closing cost for first-time homebuyers (FTHBs) through the reduced tax rate benefit. Our research finds that most FTHBs are young (20-39 years old), with mid-to-high income ($50,000 to $200,000) and single. Specifically, between October 2017 and 2019 almost 80 percent of FTHB beneficiaries were single with a mean income of $96,990. Married FTHBs make up about 17 percent of the beneficiaries with the highest mean income ($133,373) in the same period. Head of household (an unmarried individual with qualified dependents) FTHBs make up about 4 percent of total number of applications for the reduced tax rate and are least in the amount of deed tax beneficiaries.

NONPROFIT AFFORDABLE HOUSING DEVELOPERS

Non-profit affordable housing developers can maintain their real property tax exemption during the time that a project is under the restrictions of the federal low-income housing tax credit (LIHTC) program. This exemption is necessary because property developed through the LIHTC program becomes taxable when it is transferred to a private, for-profit subsidiary of the developer. Without this exemption, the non-profit organization would have to pay tax on property it is developing as affordable housing. This approach reduces the debt that the developer would otherwise incur, thereby making it possible for an affordable housing project to offer lower rents. The goal of the provision is to increase the number of affordable housing units available to low-income residents in the District. The Department of Housing and Community Development (DHCD) has granted tax relief certifications to 42 projects and 28 developers. There are also 4 projects that are eligible for the program but not certified as of the writing of this report.

Generally, we find that the District's housing-related tax expenditures support the District's broad housing goals. Policymakers may wish to study the amount of resources targeted toward specific types of housing or residents to ensure that funds are spent in the most effective way to address the District's housing needs.

SUMMARY OF RECOMMENDATIONS

The District's housing policy goals have been to ensure housing affordability, foster affordable housing production, conserve existing housing stock, promote homeownership, and provide housing for residents with special needs. Our analysis of the largest categorical housing tax expenditures show that these provisions are meeting the District's policy goals. However, we propose the following recommendations for bringing more transparency and accountability to DC's housing tax expenditures.

Homestead Deduction

- Change the legislative penalty on new homeowners who bought a homestead property with unknown delinquent taxes and fees when the house was sold.

Schedule H

- The administration of Schedule H credit may become simpler if there is one income eligibility threshold as a percentage of household gross income for all eligible residents instead of the current two-tier system by age. Another option may be lower the age eligibility threshold for senior Schedule H credit to 65 years old to be like other senior property tax programs where the senior age threshold starts at 65 instead of 70 years old.
- The Schedule H credit would be more equitable if the bias against homeowners compared to renters is reduced or possibly removed by increasing the credit dollar amount homeowners may be able to receive through the circuit breaker.

Monitoring and Compliance

- Provide OTR with the resources they need to continue to support their marketing and auditing capabilities of the homestead and senior or disabled homestead programs.
- Clarify 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. DC Council and Mayor should also clarify legislation on compliance requirements.
- Best practice for organizations that need to comply with reporting requirements would be to find ways to improve reporting on affordable housing compliance without increasing their paperwork.
- Require recipients of tax expenditures to remain in compliance with the original terms to keep receiving the tax preference; include claw backs if they do not.
- Require annual reporting for all recipients of tax preferences.

For additional information, please see details of recommendations on page 78.

Part I below introduces the report, with an overview of tax expenditures and their evaluation, in general, as well as a discussion of the evaluation of housing tax expenditures. Next, we provide an analysis of the District housing trends and housing policy goals. Part II of the report is a detailed review of the categorical housing provisions. Part III reviews specific (or individual) housing tax expenditures, which are conveyed through legislation. Part IV summarizes the overall report. Finally, Part V provides some recommendations based on the analysis in the report.

Part I: Introduction

Legal Requirement

The following report is published pursuant to a subtitle of DC Law 20-155, the "Fiscal Year 2015 Budget Support Act of 2014." Also called "Tax Transparency and Effectiveness," the legislation requires the Chief Financial Officer (CFO) to review all the District's tax preferences (abatements, credits, and exemptions, among others) on a five-year cycle.[5] To comply with this requirement, the CFO must summarize the purpose of each provision, estimate the revenue forgone, examine the impacts on the District's economy and social welfare, and offer recommendations about whether to maintain, revise, or repeal the tax preference. This is the first report in the second cycle of reports, with the previous cycle being completed in early 2022.

The Office of Revenue Analysis (ORA) released a report[6] in 2022 summarizing the first full cycle of tax expenditure reviews, including recommendations, findings from the reports, external and internal impacts of the evaluation process, and ways we may change the reports moving forward. In striving to provide policymakers and the public with high-quality and relevant analysis that is delivered in a timely fashion, we will streamline parts of the report where the information provided can largely be found in ORA's biennial Tax Expenditure Reports and expand other types of analysis where a deeper dive into the data may provide useful results.

For all its reporting on tax expenditures, ORA organizes the District's tax expenditures by policy area, using a classification that mirrors the categories used by the Joint Committee on Taxation (JCT). Beginning with the first Housing Tax Expenditure Review in 2015, housing tax expenditures were grouped as either 'categorical' or 'individual,' and in recent releases the nomenclature for the second type of tax expenditures was changed from 'individual' to 'specific.' Categorical tax expenditures are those which any person or entity who is eligible may take. Specific tax expenditures are those provisions for which an individual entity or organization was awarded a tax preference based on specific circumstances.

Evaluating Tax Expenditures

Previous Report Methodology

In the previous reports, which include the first full round of Tax Expenditure Reviews released from 2015 to 2022, ORA aimed to be comprehensive and provide a catalogue of all the District's tax expenditures within each policy area. For each Review, we systematically reviewed a series of reports and documents pertaining to each provision, such as Council reports on legislation enacting the provision, DC Code and Regulations, Fiscal Impact Statements, Unified Economic Development Reports, Tax Expenditures Reports, and Tax Abatement Financial Analyses. Further, we held meetings with various agencies and stakeholders, and requested data from various parties to conduct our review.

For each tax expenditure, we presented a logic model, which is frequently used to evaluate programs and policy. This served as a visual tool to quickly summarize the need for the policy, the inputs (what the District is contributing toward the need with this provision), the outputs (what citizens receive due to this policy), and what various short-, medium-, and long-term outcomes are (what effect or impact did the policy have). Using the logic model to structure the analysis, we examined the above-mentioned reports along with a variety of other data sources to conduct our Reviews, including

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[5] The full text of the legislative requirement is presented in Appendix 1.

[6] Office of Revenue Analysis (March 2022). Summary Report on the District's First Cycle of Tax Expenditure Reviews. Retrieved from https://ora-cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/Summary%20TE%20Eval%20Review_Final_rev.pdf

DC tax data, OTR Reports on Property Exempt from Taxation, OTR Exempt Property Use Reports filed by tax exemption recipients, and internal sources of tax expenditure data obtained from the OTR. Each report covered all tax expenditures within a policy area. Though several reports provided deep dives of tax expenditures for which we had more data, such as the qualified high technology company tax credits, the supermarkets tax credits, the certified capital company tax credits, and the earned income tax credits.

Methodology Moving Forward

For future reports, beginning with the current Housing Tax Expenditure Review, the goal to streamline the reports means there will be a focus on data not presented elsewhere in ORA reports. For example, the biennial Tax Expenditure Reports present narrative text and multiyear estimates of revenue forgone for every District tax expenditure, both those resulting from federal conformity and all local District tax expenditures. The goal is to use the Tax Expenditure Reviews to provide data not available in those reports and to refer readers to the Tax Expenditure Reports for more information.

To determine the topics to be covered in our reports, we rely on the legislative mandate for the reports[7], which gives ORA the leeway to determine that not all [on-cycle tax] preferences merit a full review. Determining which preferences to include for such a 'summary' review should consider the amount of revenue loss, number of claimants, recent changes in revenue loss, recent proposals for repeal, and lastly whether the tax expenditure is included in the Home Rule Act. In addition to these guidelines, we will consider recently adopted tax provisions for which we have at least a few years of data on which to base a preliminary review (such as the First Time Homebuyer Deed and Recordation Tax Exemption, presented in this report).

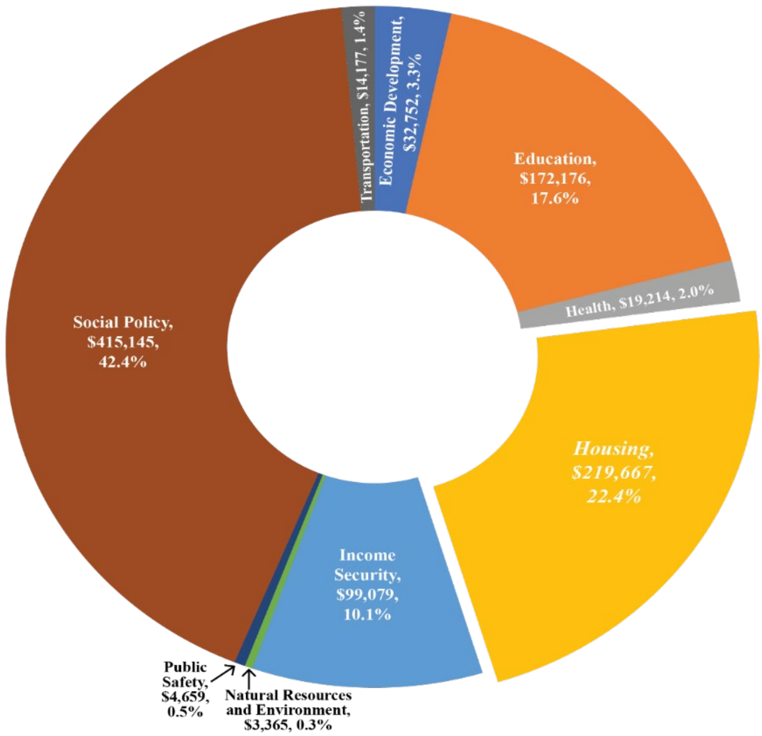
We will present a full list of all related tax expenditures in a table, and then select various policies on which to do a deeper dive. The goal is to be flexible with the methodology used to evaluate tax expenditures depending on data availability to provide a comprehensive review of the District's tax provisions. We may also continue to use the logic model to structure our analysis and review. This serves as a visual tool to quickly summarize the need for the policy, the inputs (what the District is contributing toward the need with this provision) the outputs (what citizens receive due to this policy), and what various short-, medium-, and long-term outcomes are (what effect or impact did the policy have). For this report, a lack of data means that the logic model would contain descriptions of expected benefits or outcomes, rather than actual outcomes.

For the current Housing Tax Expenditure Review, we present a tabular list of all categorical and specific tax expenditures, sorted by the amount of revenue forgone, and include other descriptive information (pg. 16 and 71). We have chosen several categorical provisions (six in total) for a longer review, primarily based on the size of the revenue forgone. The categorical provisions reviewed in this report include 1) the Homestead Deduction, 2) Assessment Cap Credit, 3) Senior and Disabled Tax Relief, 4) Schedule H Income Tax Credit/Property Tax Circuit Breaker, 5) First-time Homebuyer Deed Recordation Reduced Tax Rate, and 6) Real property Tax Exemption for Nonprofit Affordable Housing Developers. We also provide a summary of new categorical housing provisions enacted since the first housing report in 2015.

For the specific provisions, in addition to presenting descriptive information in a table, we include evaluative information such as whether each of the properties has submitted the required annual OTR Exempt Property Use Reports, and whether the report was reviewed to confirm the property is maintaining eligibility for its tax exemption. Then, a column is presented to indicate whether we were able to obtain data from DHCD or elsewhere confirming that the property in question has remained eligible for its tax exemptions or abatements based on maintaining compliance with appliable affordable housing standards.

[7] DC Law 20-155 "Fiscal Year 2015 Budget Support Act of 2014." See full text of requirement in Appendix 1.

Chart 1: FY 2022 District Tax Expenditure Estimates ($ in thousands), Aggregated by Policy Area[8]



Source: FY 2022 District Tax Expenditure Report

Chart 1 reports the District tax expenditures totals for fiscal year 2022 by policy area, as presented in the 2022 District Tax Expenditure Report (with updates made to housing based on research done for this report). Per Chart 1, tax preferences targeted to social policy make up the largest category of District spending through the tax code. This total consists of real property tax exemptions for non-profit organizations including charitable organizations, theatres, churches, art galleries and cemeteries, and sales tax exemptions for groceries, diapers, and female hygiene products, which together make up over 90 percent of the total for social policy. Tax preferences for housing, including income and property tax exemptions for some renters and homeowners, and property tax exemptions for non-profit developers, comprise the second largest aggregate amount of spending through the tax code by policy area, and are the focus of this report.

Evaluating the success of the District's housing-related tax expenditures primarily entails examining how they meet the goals set out for them when they were created. This individual level analysis is the basis of this report and is detailed in Part II. However, another important question to ask when examining the tax preferences in a single policy area is whether these tools are also helping the District meet its overall goals and needs in that area. Thus, we provide a summary of housing trends in the District, followed by a brief overview of the District's housing policy goals to provide a broader context within which to view the findings of this report.

District Housing Trends

[8] The total housing forgone revenue in this report differs from the 2022 Tax Expenditure Report. The new housing forgone revenue reflects updated estimates for some tax expenditures like the first-time homebuyer deed recordation reduced tax benefit, credit for senior citizens and persons with disabilities and the homestead deduction.

Housing availability and affordability have become a critical policy issue for the District. A shortage of housing, particularly affordable housing, has implications not only for residents, but businesses, government, and all concerned with the health and wellbeing of the District's residents and economy. According to the US Census, the District's total population was 689,545 in 2020, a 14.6 percent change (an increase of 87,822) from 2010.[9] Chart 2 demonstrates the upward trend in population since 2005; however, the District's population decreased to 668,791 as of July 2021, a negative three percent change from April 2020 primarily due to the Covid-19 pandemic.[10] Moreover, the July 2021 Census data reported that 45.9 percent of the District's population was white, while 45.8 percent was Black or African American, a switch from prior years when the District had a majority minority population.[11] In the meantime, the number of housing units in the District grew by 18.1 percent since 2010 to 350,364 in 2020,[12] and as of July 2021, there were 357,489 housing units in the District.[13] Over the period, real median household income (that is, income adjusted for inflation) grew (Chart 3), but, as with the nation, that income growth was uneven, concentrated largely in higher income households. Not surprisingly, the market supply of housing units was primarily aimed at higher income households.

The 2019 Housing Equity Report notes that despite the City's investments in affordable housing, production of new affordable housing has not kept up with residents' needs. Growth also puts pressure on the overall housing supply, which can lead to rising costs. For example, average rent in the District grew by about 29 percent while median home price grew by about 33.5 percent between 2015 and 2022 (Chart 4). A decrease in housing affordability may be one of the reasons why the District experienced the strongest degree of gentrification and displacement of longtime low- to moderate-income residents of any city in the country between 2000 and 2016.[14,15] However, as The Center on Budget and Policy Priorities (CBPP) notes, federal rental assistance "reduces crowding, housing instability and homelessness, poverty; and improves outcomes for children."[16] In the District, there is some evidence that local housing policy actions are having a positive impact: a 2020 report by ORA researchers found that if large deliveries of new apartments in recent years had not occurred, rents may have been 5.84 percent higher in 2018 than they were in practice.[17] While the report used pre-pandemic housing data to model the change in rents resulting from an increased number of units, it showed that even with rising demand for rental units, increases in housing supply helped mitigate rent increases.

In addition to ensuring an adequate supply of affordable housing, District housing policy aims for increased home ownership. This is because, for many, "compared to rental housing, home ownership is thought to provide an increased

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[9] United States Census Bureau (August 25, 2021). The District of Columbia Gained More Than 87,000 People in 10 years. Available at https://www.census.gov/library/stories/state-by-state/district-of-columbia-population-change-between-census-decade.html

[10] United States Census Bureau. QuickFacts: District of Columbia; United States. Available at https://www.census.gov/quickfacts/fact/table/DC,US/PST045221

[11] United States Census Bureau. QuickFacts: District of Columbia; United States. Available at https://www.census.gov/quickfacts/fact/table/DC,US/PST045221

[12] United States Census Bureau (August 25, 2021). The District of Columbia Gained More Than 87,000 People in 10 years. Available at https://www.census.gov/library/stories/state-by-state/district-of-columbia-population-change-between-census-decade.html

[13] United States Census Bureau. QuickFacts: District of Columbia; United States. Available at census.gov/quickfacts/fact/table/DC,US/PST045221

[14] American Neighborhood Change in the 21st Century, Institute on Metropolitan Opportunity, April 2019. https://www.law.umn.edu/sites/law.umn.edu/files/metro-files/american_neighborhood_change_in_the_21st_century__executive_summary_-_4-2-2019.pdf

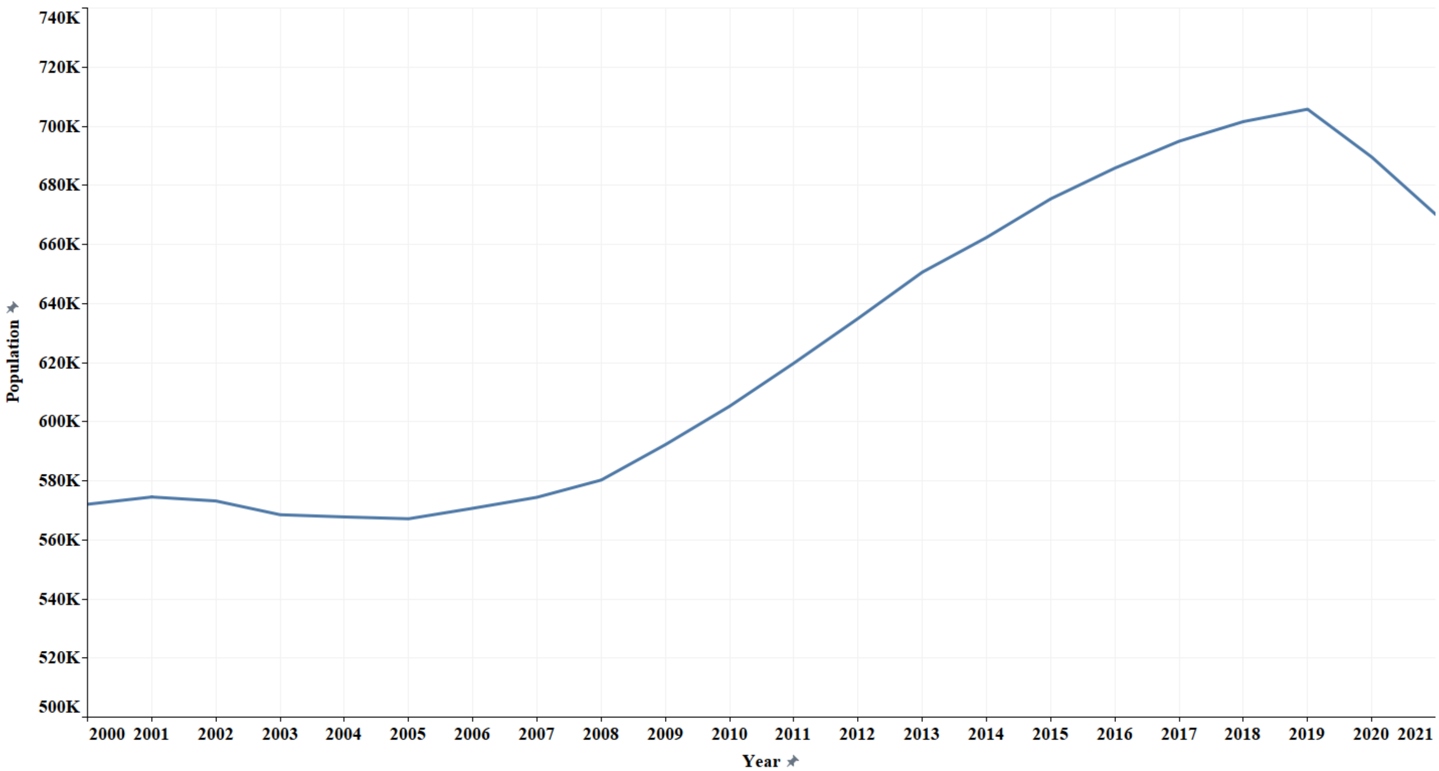
[15] Yumeng Wang (2019). Apartment Rents and the City Tenure of Renters in the District of Columbia: The Impact of the Subsidized Rents (via the Housing Production Trust Fund) on the Tenure of Low-income Renters. Retrieved from https://ora-cfo.dc.gov/node/1545481

[16] Fischer, W., Rice, D., & Mazzara, A. (December 5, 2019). Research Shows Rental Assistance Reduces Hardship and Provides Platform to Expand Opportunity for Low-Income Families. Retrieved from https://www.cbpp.org/research/housing/research-shows-rental-assistance-reduces-hardship-and-provides-platform-to-expand

[17] Cole-Smith, B., & Muhammad, D. (January 2020). The Impact of an Increasing Housing Supply on Housing Prices. The Case of the District of Columbia, 2000-2018. Retrieved from https://ora-cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/Housing%20Supply%20Bethel%20Cole%20Smith%20April%202020.pdf

sense of stability and financial security. Home ownership is an investment that boosts household wealth through equity and appreciation over time, especially if the homeowners eventually sell the property, realizing the gain."[18] Still, as Chart 5 indicates, the District's average home ownership rate is continuously below 50 percent and drastically lower than the national average. Additionally, since 2013, the District has been experiencing a downward trend in average home ownership rate. This downward trend is concerning because as reported in Chart 6, most homeowners (48.4 percent) spent less than 20 percent of their income on housing cost compared to the 48 percent of renters who spent at least 30 percent of their household income on rent in 2021, a slight decline from 2010. Furthermore, on average, residents are paying a greater share of their income for rental housing than before, an effect that disproportionately burdens low-income residents."[19]

Chart 2: DC Population, 2000 - 2021

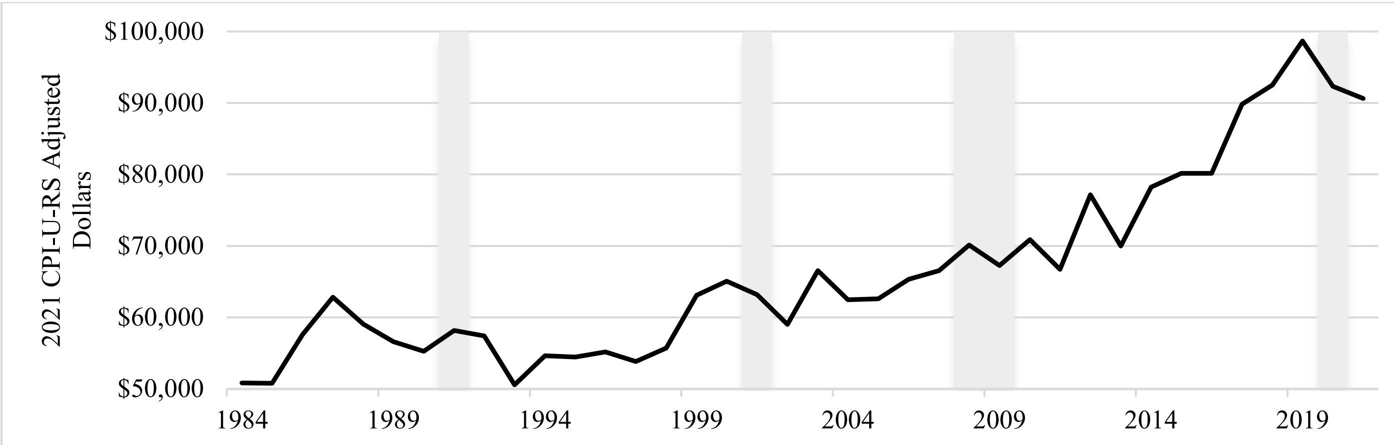


Source: U.S. Census Bureau; https://www.census.gov/housing/hvs/data/ann21ind.html

[18] Seaton, A., & Muhammad, D. (2021). Homeownership Among Senior Citizens in the District of Columbia: 2002 to 2019. Retrieved from https://ora-cfo.dc.gov/node/1545481

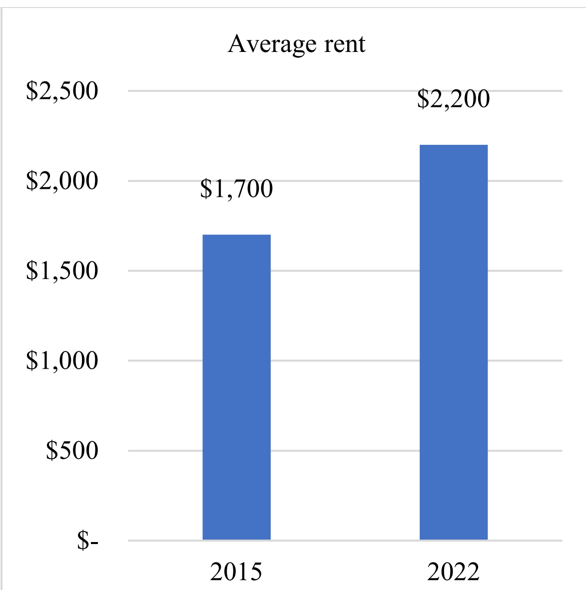
[19] Department of Housing and Community Development (2019). Housing Equity Report: Creating Goals for Areas of Our City, October 2019, p. 2. Retrieved from https://housing.dc.gov/sites/default/files/dc/sites/housingdc/page_content/attachments/Housing%20Equity%20Report%2010-15-19.pdf

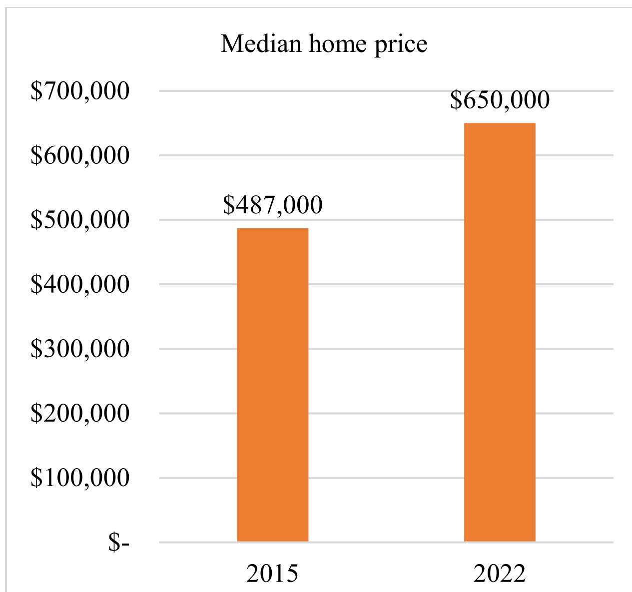
Chart 3: Real Median Household Income in DC



Source: Fred Economic Data. Real Median Household Income in the District of Columbia
https://fred.stlouisfed.org/series/MEHOINUSDCA672N#

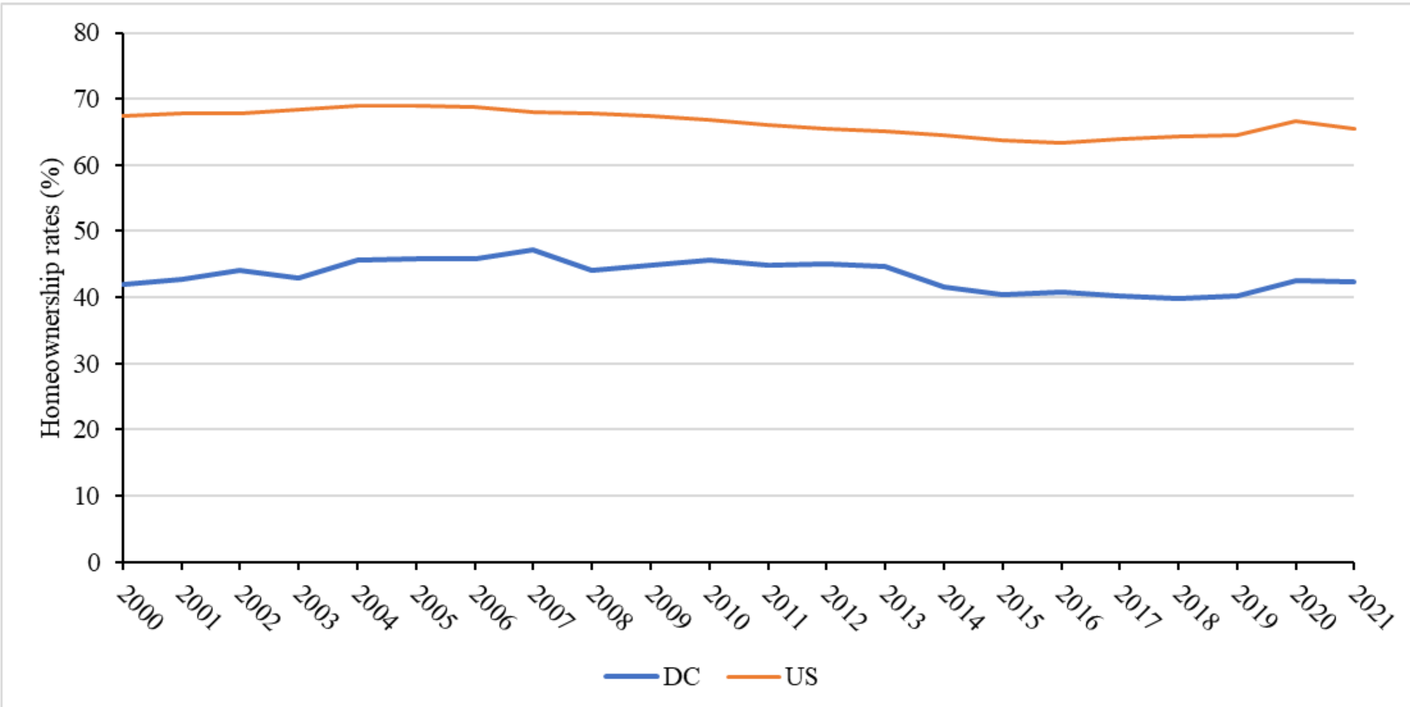
Chart 4: Average Rent and Median Home Price in DC





Source: D.C. development has soared under Mayor Bowser. So have housing costs, by Marissa J. Lang.
https://www.washingtonpost.com/dc-md-va/2022/06/16/dc-housing-muriel-bowser-affordability/

Chart 5: DC and US Average Homeownership rates, 2000 - 2021



Source: U.S. Census Bureau; Table 15. Homeownership rates by State https://www.census.gov/housing/hvs/data/ann21ind.html

Chart 6: Rent Distribution as a share of income (DC and US), 2021

Source: U.S. Census, American Community Survey (Selected Housing Characteristics)

The District's Housing Policy Goals

In our Housing Review 2015 report, we summarized the District's housing policy goals at that time by broadly noting the five critical housing issues outlined in the 2006 Comprehensive Plan, which was the most recent at the time of that report. Those issues included:

- Ensuring housing affordability
- Fostering housing production
- Conserving existing housing stock
- Promoting home ownership
- Providing housing for residents with special needs[20]

That 2006 Plan highlighted trends that have only become more urgent since the Plan was completed, including the rising costs of housing which triggered a crisis of affordability. At that time, the Plan noted that "the District must increase its rate of housing production if it is to meet current and projected needs through 2015 and remain an economically vibrant city."[21]

Since 2015, the District's overall housing goals remain the same,[22] but in 2019 Mayor Bowser set specific housing targets to produce 36,000 new units by 2025,[23] 12,000 of which should be affordable, and created various new programs, primarily to increase the supply of affordable housing. Additionally, in recent years the Mayor has committed $100 million annually to the Housing Production Trust Fund, a dedicated revenue fund used to preserve and produce affordable housing by providing gap financing for projects that are affordable to low- and moderate-income households.[24] A Housing Preservation Strike Force was also formed in 2015 to create a plan to preserve existing affordable housing units in the District, and that Strike Force released a report in 2016 with six recommendations for doing so.[25] Further, zoning laws have been changed or expanded to create additional housing (see Inclusionary Zoning Plus, IZ-XL[26], recently approved by the District's zoning commission), and changes to non-residential conversions are in the works.[27]

A recent policy action (effective in 2022) expands the geographic area where affordable housing can be located, with the introduction of Tax Abatements for Affordable Housing in High Needs Areas (HANTA), which targets areas in the northwest part of the District that have many single-family homes and few multi-family units. Additionally, new efforts are underway to address systemic racial inequities in the District with regards to housing access. In June 2022, Mayor Bowser created the Black Homeownership Strike Force (BHSF), which is tasked with addressing "decades of racially discriminatory policies and practices that have hampered black homeownership, one of the most significant ways to build

[20] 2006 DC Comprehensive Plan, volume 1: Acknowledgements, Introduction and Citywide Elements. "Chapter 5: Housing," p 5-7. Retrieved from https://planning.dc.gov/node/638832

[21] Ibid.

[22] The goal is to "to provide a safe, decent, healthy, and affordable housing supply for current and future residents in all of Washington, DC's neighborhoods by maintaining and developing housing for all incomes and household types."

[23] The overall goal for the District of Columbia is that a minimum of one third of all housing produced should be affordable to lower-income households. The short-term goal is to produce 36,000 residential units, 12,000 of which are affordable, between 2019 and 2025." (p 5-15)

[24] Department of Housing and Community Development (Website). Available at https://dhcd.dc.gov/page/housing-production-trust-fund#:~:text=The%20Housing%20Production%20Trust%20Fund,low%20and%20moderate%20income%20households.

[25] District of Columbia Housing Strike Force Final Report (November 9, 2016). Retrieved from https://dhcd.dc.gov/sites/default/files/dc/sites/dhcd/publication/attachments/Strike%20Force%20Report%20Final%2011-9.pdf

[26] Williams, Z. (April 04, 2022). Washington, DC Expands Its Affordable Housing Programs**.** Available at https://www.venable.com/insights/publications/2022/04/washington-dc-expands-its-affordable-housing

[27] Montgomery, M. (November 14, 2022). DC Area Leads the Way in Office-to-Apartment Conversions. Washingtonian, November 14, 2022, available at https://www.washingtonian.com/2022/11/14/dc-area-leads-the-way-in-office-to-apartment-conversions/

wealth for Black residents."[28] The BHSF will make recommendations and set a 2030 goal for Black homeownership within the District.

Our examination of the District tax expenditures targeted toward housing concludes that, generally, the tax expenditures support the District's broad housing goals. While the District's housing-related tax expenditures support broad housing goals, policymakers may wish to study the amount of resources targeted toward specific types of housing or residents, to ensure funds are spent in the most effective way to address the District's housing needs.

[28] Office of the Deputy Mayor for Planning and Economic Development (June 9, 2022). Mayor Bowser Launches Black Homeownership Strike Force to Combat Racial Wealth Gap. Available at https://dmped.dc.gov/release/mayor-bowser-launches-black-homeownership-strike-force-combat-racial-wealth-gap

Part II: Review of the District's Housing Tax Provisions

Categorical Housing Provisions

Categorical housing provisions, taken by anyone who is eligible, constitute the majority of the District's tax expenditure forgone revenue in this report. The total estimated revenue forgone[29] for all housing-related categorical tax expenditures in FY 2022 was about $213.3 million. Most of the assistance being delivered through the tax code for housing is delivered through four tax provisions. Two of these tax provisions, which account for 45 percent of the total forgone categorical housing revenue, aims to assist homeowners of all incomes to stay in their homes and protect all owner-occupied homes from increasing property taxes (the homestead deduction and assessment increase cap). Forty percent of the categorical housing forgone revenue, split over two other programs, focuses on low-income homeowners and renters as well as seniors and persons with disabilities (Schedule H and the homestead deduction for seniors and persons with disabilities). Although this report does not discuss the inclusionary zoning program (transfer tax only), Howard University in collaboration with the OCFO and the Mayor's office is currently conducting a study of the impact of the inclusionary zoning program on housing affordability.

There are 28 categorical housing tax expenditures that generally support the following goals (the number of housing tax provisions in each category is shown in parenthesis):

- assist homeownership, particularly low-income homeownership (9);
- protect residents, especially those who are low-income, seniors, or disabled from sharp tax increases (7);
- increase the supply of affordable housing (8);
- and encourage revitalization and new development (4).

Since the 2015 Housing Review report, policymakers have continued to advance their goal to increase homeownership and the supply of affordable housing in the District. To this end, the District has established four new housing tax provisions. These include: 1) continuing care retirement community (2017), 2) first-time homebuyer reduced recordation tax benefit-local portion only (2018), 3) real property tax exemption for nonprofit workforce housing properties (2019), and 4) real property tax abatements for affordable housing in high-need areas (2021). Additionally, substantial changes were made to existing tax provisions, like expanding the deed recordation and real property tax exemptions and creating payment-in-lieu-of-taxes (PILOTs) for properties that are leased to a nonprofit entity or an entity controlled by a nonprofit, as long as the property owner certifies that the benefit of the exemption is passed through to the lessee for properties eligible for the federal low-income housing tax credit. Other categorical housing tax expenditures like the first-time home purchase for District government employees (income and real property tax credits) were repealed since the last report.

Table 1 below presents all categorical housing-related tax provisions, the relevant tax, the date enacted, the relevant provision in the DC Code, the estimated revenue forgone, and the number of recipients benefitting from the tax expenditure for FY 2022. This table is sorted in descending order by revenue forgone. The individual analysis below focuses primarily on the 4 largest housing tax provisions as well as the newly enacted expenditures since 2015. Chart 7 also presents estimated aggregate revenue forgone due to all categorical housing tax expenditures from FY 2018 to FY 2022.

[29] Summing tax expenditures does not consider possible interactions among individual tax expenditures and therefore does not produce an exact estimate of the revenue that would be brought in were any specific provision removed.

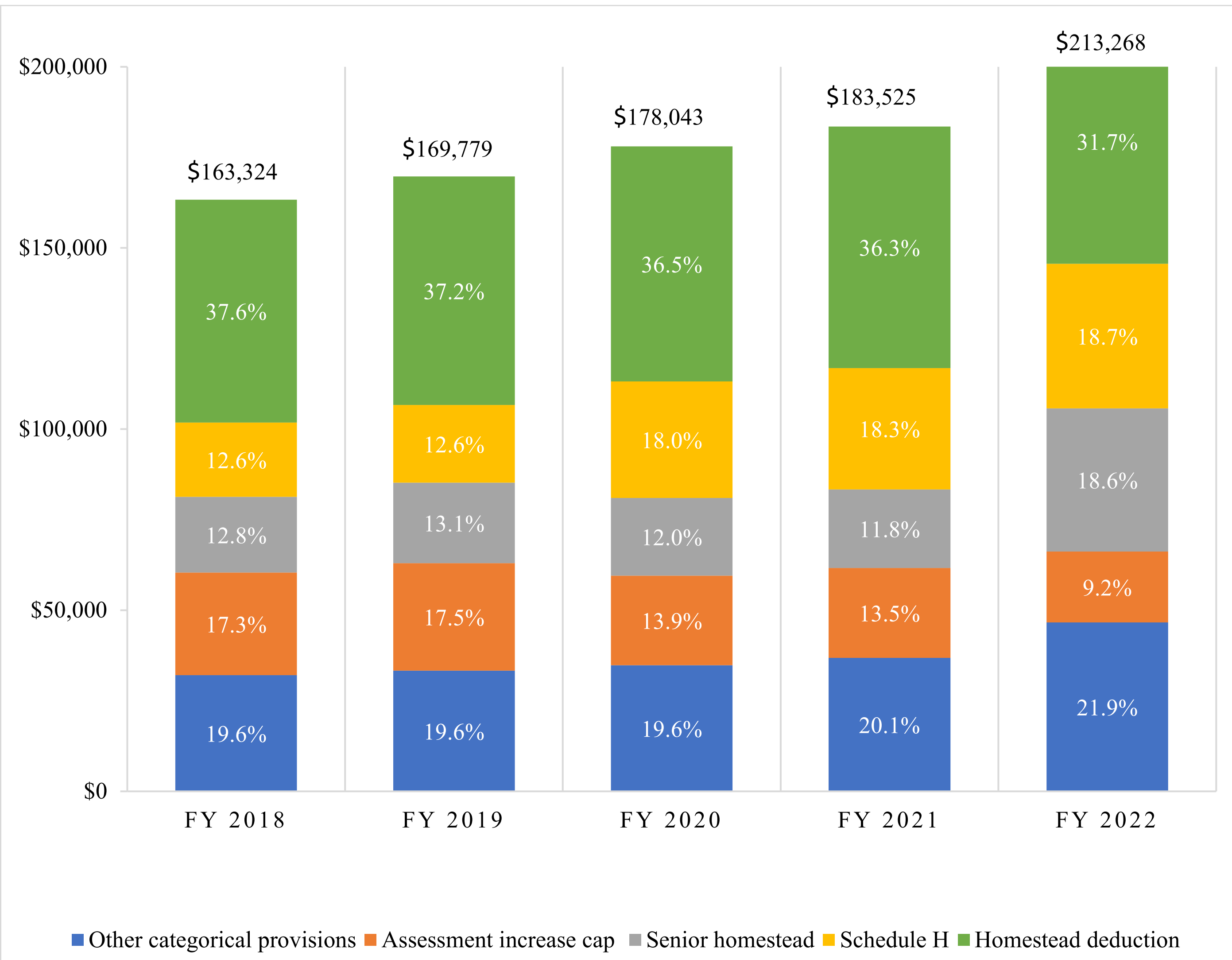
Table 1: All FY 2022 Housing-Related Categorical Tax Expenditures, by Revenue Forgone

Name	Tax Type	Year Enacted	D.C. Code	FY2022 Estimate of Revenue Forgone (000s)	Number of Recipients/ properties?
Homestead exemption	Property tax exemption	1978	§ 47-850	$67,661	101,142
Credit for senior citizens and persons with disabilities	Property tax credit	1986	§ 47-863	$39,586*	19,750
Assessment increase cap	Property tax credit	2001	§ 47-864	$19,531*	30,563
Property tax circuit-breaker (Schedule H)	Income tax credit	1977	§ 47-1806.06	$39,852	39,331
Nonprofit housing associations	Property tax exemption	1983	§ 47-3505	$12,820	Unknown
Nonprofit housing associations	Deed & recordation tax exemption	1983	§ 42-1102(13), § 47-3503(c), § 47-902(10), and §47-3505(b)	$635	Unknown
Lower-income homeownership households and cooperative housing associations	Property tax exemption	1983	§ 47-3503	$11,538	Unknown
First Time Homebuyer Recordation Tax Benefit-local portion only	Deed & recordation tax exemption	2018	§ 42-1101 and § 42-1103	$ 10,926	3,529
NoMA residential developments	Property tax abatements	2009	§ 47-859.01 - § 47-859.05	$5,000	4 properties
Multi-family and single-family rental and cooperative housing for low- and moderate-income persons	Property tax exemption	1978	§ 47-1002(20)	$1,282	Unknown
Continuing Care Retirement Community	Property tax exemption	2017	§ 47-1002(32)	$1,246	3 properties
Nonprofit workforce housing properties	Property, multiple	2019	§ 47-1005.03	$963	1 property
Nonprofit affordable housing developers	Property tax exemption	2012	§ 47-1005.02	$750	23 properties
Nonprofit affordable housing developers	Deed & recordation tax exemption	2012	§ 42-1102(32) and § 47-902(25)	$635	23 properties
New residential developments	Property tax abatements	2002	§ 47-857.01 - § 47-857.10	$291	Unknown
Lower-income homeownership households	Deed & recordation tax exemption	1983	§ 42-1102(12), § 47-3503(a)(1), § 47-3503(a)(3), § 47-902(9), and §47-3503(b)(1)	$187	Unknown
Inclusionary zoning program (transfer tax only)	Deed & recordation tax exemption	2007	§ 47-902(23)	$112	Unknown
Low-income homeowners	Property, multiple	2005	§ 47-845.02	$106	Unknown
Cooperative housing associations	Deed & recordation tax exemption	1983	§ 42-1102(14), § 47-3503(a)(2), § 47-3503(a)(3), § 47-902(11), and §47-3503(b)(2)	$74	Unknown
Low-income, senior-citizen homeowners	Property, multiple	2005	§ 47-845.03	$69	Unknown
Lower-income, long-term homeownership	Income tax credit	2002	§ 47-1806.09 - § 47-1806.09f	$4	Unknown
Resident management corporations	Deed & recordation tax exemption	1992	§ 42-1102(20), § 47-3506.01(b)(1), § 47-902(15), and §47-3506.01(b)(2)	0	0
Improvements to low-income housing	Property tax abatements	2002	§ 47-866	0	0
Preservation of section 8 housing in qualified areas	Property tax abatements	2002	§ 47-865	0	0
Single-room-occupancy housing	Property tax abatements	1994	§ 42-3508.06	0	0
Vacant rental housing	Property tax abatements	1985	§ 42-3508.02	0	0
Resident management corporations	Property tax exemption	1992	§ 47-1002(24)	0	0
Homeowners in enterprise zones	Property tax deferrals, rebates, and multiple categories	2002	§ 47-858.01 - § 47-858.05	0	0

Name	Tax Type	Year Enacted	D.C. Code	FY2022 Estimate of Revenue Forgone (000s)	Number of Recipients/ properties?
Affordable Housing in High-Need Affordable Housing	Property tax abatements	2021	§ 47-860	$0	0
Deeds to property transferred to a named beneficiary of a revocable transfer on death	Deed & recordation tax exemption	2015	§ 42-1102(34) and §47-340.01	no estimate	Unknown
Exemption on security interest instrument	Deed & recordation tax exemption	2015	§ 42-1102(33) and § 19-604.01	no estimate	Unknown
Housing relocation assistance	Income tax subtraction	2002	§ 42-2851.05	Minimal	Unknown
Employer-assisted home purchases	Income tax credit	2002	§ 47-1807.07	Minimal	Unknown

Source: ORA compilation.
*Presented with the Homestead Deduction because a property must be a homestead to benefit from the Senior Credit or Assessment Cap. These three combined in FY 2022 represented $126.8 million in forgone revenue.

Chart 7: Estimated Aggregate Revenue Forgone, 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

Residential property tax relief -- Homestead deduction for houses and condominium units
Real Property Tax Exemption

District of Columbia Code: DC Official Code § 47–850
Sunset Date: None
Year Enacted: 1978

(Dollars in thousands)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Revenue Forgone	$58,480	$59,095	$59,995	$61,870	$64,169	$64,973	$65,915	$67,661
Number of Users	96,359	96,965	97,358	99,232	100,856	100,975	101,565	101,142

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

Description: Taxpayers who live in and own their home in the District qualify to take a homestead deduction that reduces the taxable value of their home. The homestead deduction was $76,350 in FY 2021 and $78,700 for FY 2022. The amount deducted from the taxable value of the qualified home under the homestead deduction has increased significantly over the past two decades. It was $30,000 in 1990, $38,000 in 2004, and almost doubled to $60,000 in FY 2006. Annual cost-of-living adjustments were suspended from FY 2008 to FY 2012 due to the budget crisis that resulted from the economic recession, but the adjustments resumed in FY 2013.

To qualify for the homestead deduction, a taxpayer must file an application with OTR.[30] Houses or condominiums with five or fewer dwelling units, including the unit occupied by the owner, are eligible.[31] For taxpayers with multiple homes, only one home is eligible for the deduction and taxpayers claiming the deduction for more than one home risk losing their designation on all properties. Besides houses and condos, cooperative housing units are also eligible for the deduction.

In keeping with the legislative requirement that this report is based on, tax revenue lost due to this preference has increased since this preference was last reviewed in 2015. Since the last review, a new group of taxpayers was added to the homestead deduction, beginning in FY 2023, qualified US military veterans who have a total and permanent disability can deduct $445,000 of assessed value from their homestead's property tax per year. This group is exempt from the current requirement that all residential property's taxable assessments cannot be less than 40 percent of the current tax year's assessed value, however, they are no longer eligible for the standard[32] or the senior or disabled homestead deduction programs.

Purpose: According to the 1977 DC Council committee report that created the homestead deduction for single family residential properties, the intent of the homestead deduction was to provide property tax relief to all homeowners who were receiving "monstrous" increases on their property assessments at that time.[33] The other purpose of the law, when it was established, was to simplify the administration of tax relief needed when compared to the then competing property tax reduction proposals that included the implementation of a subdivided rate system by property class and rate reduction. At that time, opponents of the competing policy proposals contended that the new rate system could not be implemented fast enough to solve the current assessment hike issue nor were they as simple to administer as the homestead exemption (now

[30] The Homestead Benefit Application (ASD-100) is available here: https://otr.cfo.dc.gov/publication/otr-fp-100-homestead-deduction-senior-citizen-and-disabled-property-tax-relief-application-1
[31] DC Code § 47–849 (1)(A)(ii) states that a homestead "is Class 1 Property, as defined in § 47-813, that contains not more than 5 dwelling units therein."
[32] The standard homestead deduction is the homestead deduction that is discussed here in this section and is available to all qualified owner-occupied homeowners.
[33] Pg. 4 of the Committee Report on Bill 2-127, the "Residential Property Tax Relief Act of 1977"

known as a deduction) policy and saw the rate reduction as more of a boon for commercial and multi-family property owners.[34]

Evaluating the Homestead Deduction and its Impact:

In FY 2022, 101,142 owner-occupied residential properties received the homestead exemption (Table 2). We estimate a revenue forgone of about $67.7 million for this tax expenditure in fiscal year 2022 for an average of $669 in tax relief per beneficiary.

Table 2: 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

Prior to the passage of the legislation in 1978 that created the homestead deduction, opponents questioned its fairness because the program would place relatively more of the property tax burden onto renters who have the property tax included in their rent and would not benefit from the deduction, and commercial properties which do not receive a deduction and are taxed at higher rates. However, the District policymakers chose to enact the homestead deduction legislation with popular consent.

In terms of equity, tax expenditures can be evaluated to determine if they are horizontally or vertically equitable among users. For example, anyone who owns their primary residence is eligible to apply for the homestead deduction and receive the same amount of relief; therefore, this program is horizontally equitable because homeowners with similarly valued properties that take advantage of the deduction pay a similar tax. We measure vertical equity by considering if this program makes the average effective tax rates increase (progressive), decrease (regressive), or stay the same (proportional) as income increases. We find that the program's tax relief's impact is progressive when comparing lower to higher assessed homes (since assessed values are positively correlated with income) because the deduction is a fixed dollar amount (Map 2), and the tax rate is a flat rate across all residential properties. In FY 2022, the top quartile group of assessed values for homesteads had a median tax relief ratio[35] of 6.5 percent as compared to a 24 percent relief ratio for homesteads with assessments in the bottom quartile. Moreover, we find that the homestead deduction amount as a percentage of a median homesteader's adjusted gross income (AGI) is progressive.[36,37] Table 3 (last two columns) shows the progressivity of the homestead deduction because on average, homesteaders in the lower middle, and bottom quartile of the income distribution benefited more from the deduction as determined by the larger reduction in their property tax burden after the deduction 9.6% to 7.8% and 4.1% to 3.4%, respectively. This is the intent of the policy.

[34] Ibid pg. 24-29

[35] Relief ratio is the homestead deduction tax dollar amount divided by the user's property tax due amount before credits and deductions.

[36] ORA merged the 2019 real property tax data with the 2019 individual income tax data (the latest income tax data available) to create a sample group of homesteaders with income demographics.

[37] A progressive tax means that a person's average tax burden increases with income. High-income families, therefore, pay a higher share of the tax burden, while low- and middle-income taxpayers pay a relatively small tax burden.

The tax expenditure achieved its stated goal of providing tax relief to homeowners[38] with high assessment increases, but the distribution of benefits was uneven across income groups. The annual percent change in the home value from FY 2021 to FY 2022 show that homesteaders in the bottom assessment value quartile saw the largest median increase at 4.3 percent, which represents $14,035 in assessed value than any other group, but the smallest tax dollar increase ($119). Homesteads in the top assessment value quartile saw the smallest median percentage increase at 2.7 percent, representing $32,960 in assessed value and the highest tax dollar increase ($280). The FY 2022 average homestead deduction of $669 exceeded the average increase in assessed values, providing relief for homeowners from rising cost of homeownership. Property tax assessments grew on average 5.3 percent annually for the past eight years (FY 2015-2022). This averages to be about $233 in tax increases, which is lower than the average homestead deduction amount of $632 over the same period. This speaks to the benefit of the homestead deduction. Geographically, assessment neighborhoods located in the central area of the District benefited the most in dollar amount from the homestead deduction (Map 3) because it is an area of high zoning density and high concentration of homesteads.

Table 3: Median Homestead Descriptive Statistics by federal adjusted gross income (FAGI) quartile groups, TY 2019[39]

Quartiles of federal adjusted gross income (FAGI) by absolute values	Property tax burden before credits and deductions as a percent of FAGI	Property tax burden with homestead deduction only as a percent of FAGI
Bottom	9.6%	7.8%
Lower middle	4.1%	3.4%
Upper middle	3.2%	2.7%
Top	2.0%	1.8%
Total	3.6%	3.0%

Source: ORA analysis of merged OTR individual income tax, real property tax, and OTR's compiled homestead application data.
Note: The total number of homesteads shown here reflects the number of real property tax records we were able to match with their individual income tax returns by last name, address, and SSN.

However, on closer examination of the FY 2022 real property tax data, only about 59 percent of the estimated 171,000 taxable residential properties eligible[40] for the deduction take the deduction, meaning that around 70,000 more properties could claim the exemption. Areas with the most potential for more participation in this program are in Wards 2 and 8, which have the lowest percentages of homesteads to total taxable residential properties in the District (Map 1), at 56 percent and 49 percent, respectively. The highest concentration of homestead deducted properties are in Wards 3 and 4 with the ratio homestead deducted properties to eligible taxable residential properties being about 66 percent and 73 percent, respectively.

Housing cooperatives (or Co-Ops) are another type of property ownership eligible for the homestead deduction, they are typically affordable compared to other forms of housing and can be an accessible way for would be first-time homeowners to own a share of property in the District. However, according to 2022 real property tax data, these types of properties are a small portion of the total number of properties enrolled in the homestead program (0.002 percent) and of the number of Co-Op units that are owner-occupied (53.6 percent of the almost 9,000 number of Co-Op units in DC), only three percent had the homestead designations. District policymakers may need to determine if there are any barriers

[38] Properties include single family houses, condos, cooperatives, mixed use properties, and properties with five units or less that are active homesteads.
[39] The data for this analysis is from merging OTR individual income tax return and real property tax data.
[40] Eligible properties include taxable single-family homes, condos, cooperatives, flats with five or less units, and mixed-use properties with a residential portion. Properties not eligible are commercially classed properties, parking lots or garages, true vacant or blighted lots, flats with more than five units, and residential apartments or multifamily buildings.

preventing Co-Ops from applying for the homestead deduction on behalf of their owner-occupying residents. If, in fact, there are such barriers, elimination of those barriers would extend the base of District residents benefiting from tax relief to a larger number of Co-Op members.

The implementation of the Modern Real Property Tax System (MRPTS) in December 2020 and its requirement of electronic filing of homestead application substantially improved the accuracy of available data and made it much easier for an evaluator to calculate the fiscal impact of the homestead deduction. It also made it easier for the program's administrators like the OTR Homestead Unit to calculate, manage, and audit the program.

Nevertheless, there is room for improvement around the recovery of lost tax revenues from previous homestead property owners who owe delinquent taxes but do not pay them before selling their property due to a loophole in the law governing DC's closing process. Current law[41] allows title companies to forgo acquiring a tax certification from OTR verifying that the property being purchased is up to date on property taxes, fees, and maintaining eligibility of real property tax exemptions if the company files the new deed recordation within the thirty-day period[42] after the official sale date. The premise of the tax certificate is to place OTR on notice of the sale and to conduct a review of the property to determine if the real property tax exemption being enjoyed by the seller is in fact valid and meeting the eligibility requirements. This law, as presently written, creates a legal gap for title companies to not be held responsible for not collecting any delinquent property taxes and fees owed by the seller at closing if they record the new deed in a timely manner, and makes the new homeowner liable for the unpaid tax. This model is archaic because new technology now allows OTR to process tax certifications within ten business days which solves the leading issue of timeliness demanded by title companies for reasonable closing times. The unfairness and inefficiency of the current law is that it allots an extra burden to the wrong party, i.e., the buyer, saddling them with delinquent taxes that they never caused. Therefore, ORA recommends policymakers to revise the statute governing this process to require title companies to request and receive a tax certification before closing and OTR to deliver the certification within ten business days from the time of the request. If the title company fails to acquire the tax certificate prior to closing, then the title company will be liable for any delinquent taxes and fees owed to the District.

FORGONE REVENUE:

An evaluation of a policy should ask what the effects of the policy are, what might have happened without the policy, and whether there are better, more effective, and efficient ways the District could be spending that money to achieve the policy goal. Since this is an exemption, it results in forgone revenues of tax revenue to the District. With an estimated revenue loss of $67.7 million in FY 2022, about a 16 percent increase from FY 2015, this is the largest single housing tax provision in the District. The proceeds could either be directed to other housing priorities in the District, or it could be used to lower tax rates for all residents.

It is impossible to know what homeownership rates would look like in the District if the homestead deduction had not been around since 1978. What we do know is that home prices in the District have increased drastically since 2010. However, Table 4 below indicates that the District's homestead deduction is amongst the most generous exemption when compared to other major US cities.

[41] See DC Official Code § 47–850.02(c)(2)
[42] See DC Official Code § 47–1431

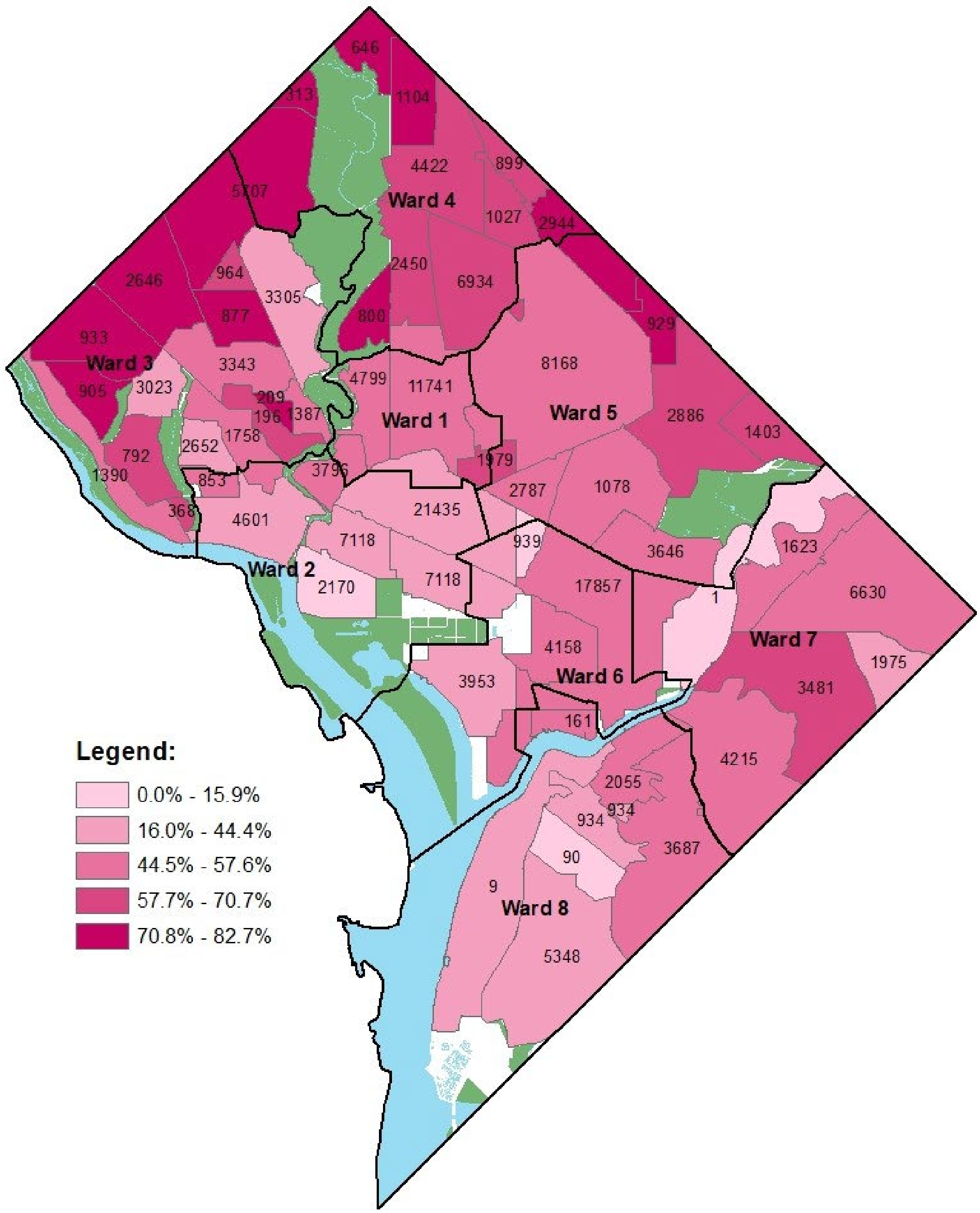
Table 4: Median house value and homestead deduction for DC and select US cities, 2021

Cities	Median House Value	Homestead Deduction or Exemption Amount	Homestead Deduction as a Percent of House Value
Philadelphia, PA	$220,700	$45,000	20%
Washington, DC	$669,900	$76,350	11%
New York, NY	$685,700	$30,000	4%
Chicago, IL	$297,300	$10,000	3%
Los Angeles, CA	$812,800	$7,000	0.9%
San Francisco, CA	$1,306,400	$7,000	0.5%
Baltimore, MD	$193,100	N/A	0%

Source: ORA, 2020 Tax Rates and Tax Burdens and updated information from various city, county, or state assessor's offices' websites; Median house value from Census ACS 2021 1-Year Estimates.

Note: How long a homestead owner owns their home and the appreciation of the home's market value relative to the allowable growth of its assessed value in each states' assessment limits rules (such as California's Proposition 13) makes comparisons not fundamentally the same.

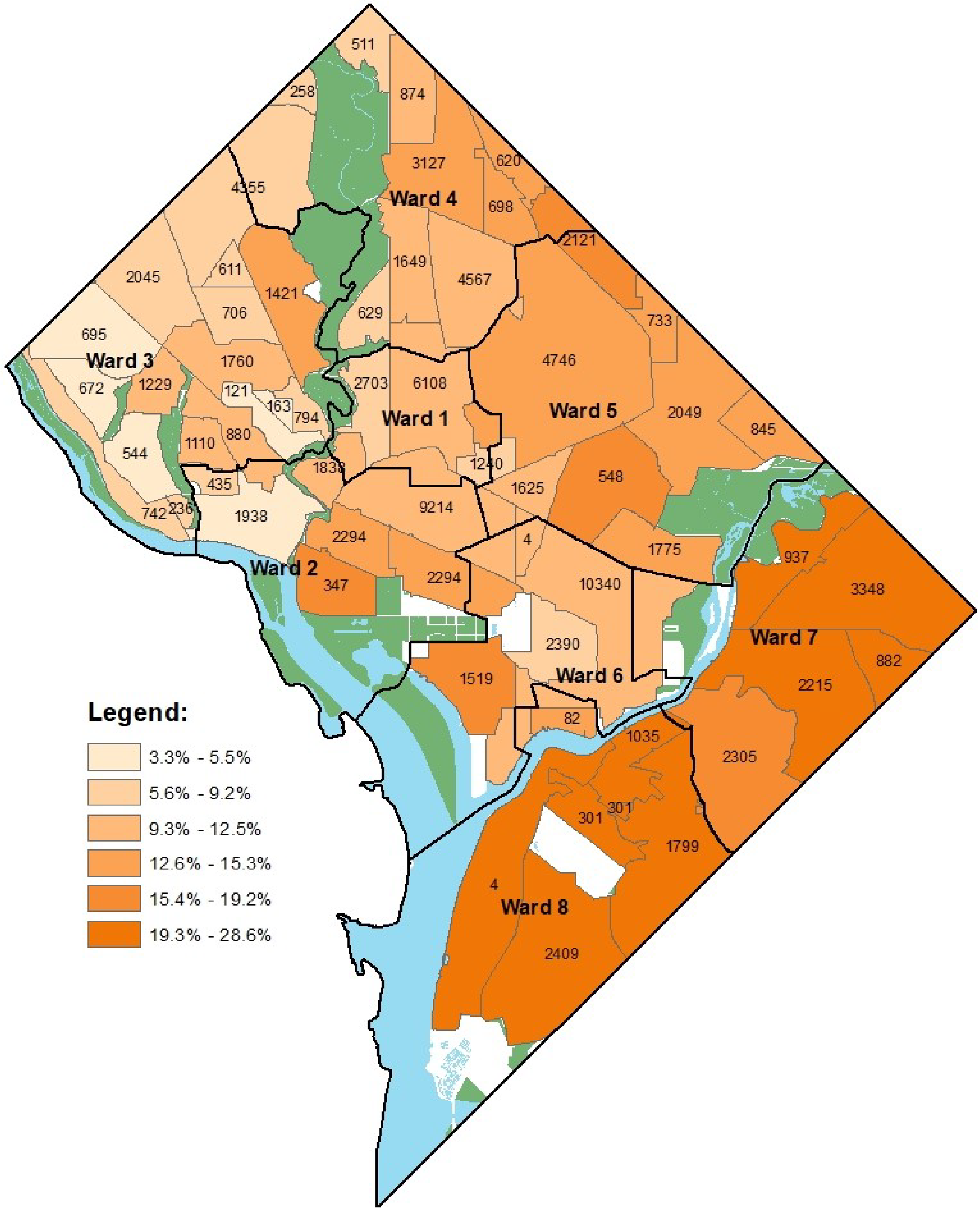
Map 1: The Number of Homesteads as a Percentage of the Total Number of Taxable Residential Properties[43] by Assessment Neighborhood, TY 2022



*Map 1 shows that there is a higher concentration of owner-occupied residential properties in Wards 3 and 4.

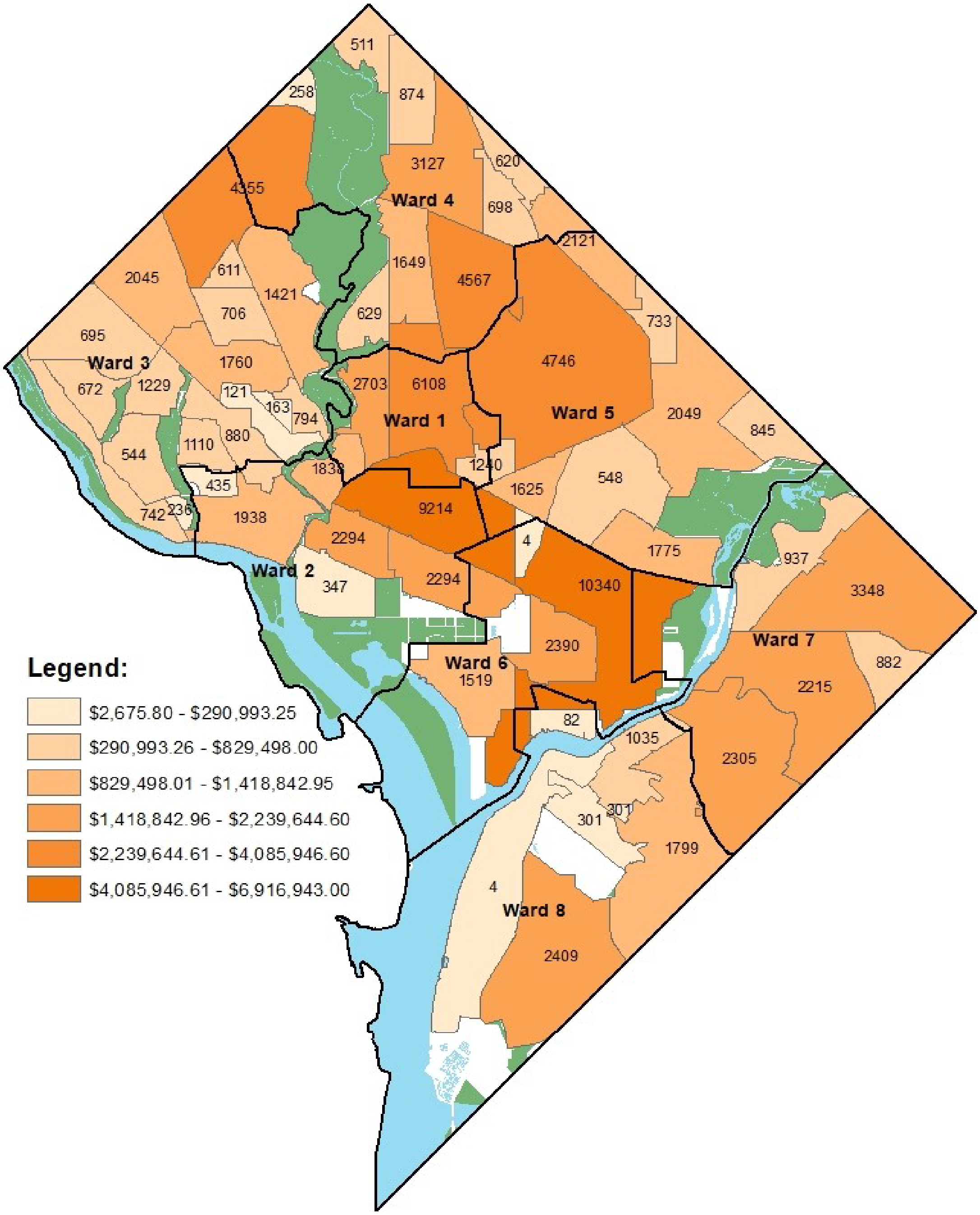
[43] Taxable residential properties include rental properties such as multifamily apartment buildings, single family houses, condominiums, and cooperatives that are used as transient accommodations, second homes, partial residences for less than 180 days out of the year, or owner-occupied homes that do not participate in the homestead program or do not know about it.

Map 2: The Homestead Deduction Tax Dollar Amount ($669) as a Percent of the Median Homestead's Annual Real Property Tax Before Credits and Deductions by Assessment Neighborhood, TY 2022



Note: The number inside each assessment neighborhood is the number of homesteads in this analysis.
Source: ORA analysis of OTR real property tax data, March 2022

Map 3: The Total Dollar Amount of Homestead Deduction Tax Relief by Assessment Neighborhood, TY 2022



Note: The number inside each assessment neighborhood is the number of homesteads in this analysis.
Source: ORA analysis of OTR real property tax data, March 2022

Assessment Increase Cap Credit
Real Property Tax Credit

District of Columbia Code: D.C. Official Code § 47-864
Sunset Date: None
Year Enacted: 2001

(Dollars in thousands)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue Loss	$23,125	$27,026	$29,657	$28,459	$25,911	$24,973	$21,658	$19,530
Number of Beneficiaries	53,068	53,662	50,488	46,169	42,570	39,241	33,299	30,563

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

Description: Homeowners who qualify for a homestead deduction (those who own and occupy a home in the District of Columbia as their principal residence and successfully applied to the program) are automatically eligible for an annual assessment increase cap credit (when applicable). This credit limits the taxable assessed value of the individual's home to a 10 percent increase from the prior tax year. That is, residents who have active homesteads and had a year-to-year assessed value increase of over 10 percent, receive a tax credit on their property taxes in the form of being taxed for only the first 10 percent of that assessment growth.

Since FY 2023 if a homeowner qualifies for the senior or disabled homestead deduction,[44] then this credit limits the annual increase to their taxable assessed value of their home to 2 percent. The Senior and Individuals with Disabilities Real Property Tax Increase Limit Amendment Act of 2022 amended the previous 5 percent assessment increase limit for senior or disabled residents which was effective in FY 2019.

If during the prior tax year, the property is sold, its value is increased due to a change in its zoning classification, or the assessment of the property is clearly erroneous due to an error in calculation or measurement of improvements, then the taxpayer does not qualify for the assessment increase cap. In addition, the statute provides that the taxable assessment of a property eligible for a homestead deduction shall not fall below 40 percent of the current tax year's assessed value.

Purpose: The purpose of this tax expenditure is to blunt the "sticker shock" of homeowner's assessments and subsequent property taxes from year to year and was also designed to smooth the transition from triennial assessments to annual assessments.[45] It was basically designed to protect resident homeowners from sharp growth in annual property assessments. The senior assessment cap credit has been amended twice within the last five years. The most recent legislation amending the tax credit indicates that the purpose for enactment is to create more stable costs in real property taxes for seniors or individuals with disabilities.[46]

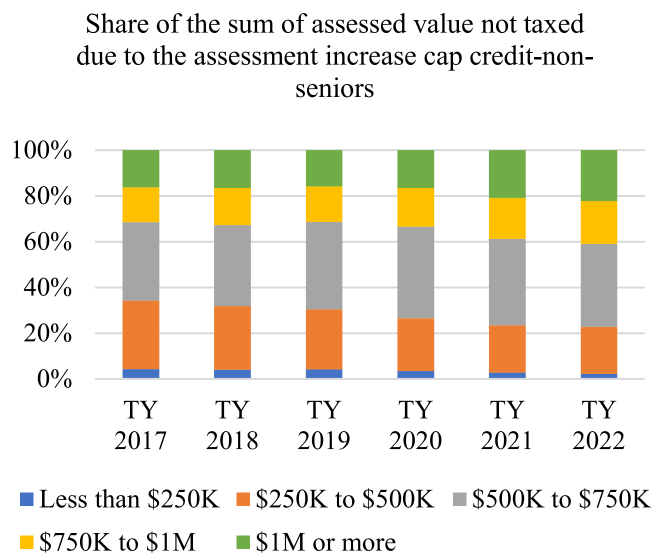
Evaluating the Assessment Cap Credit and its Impact:

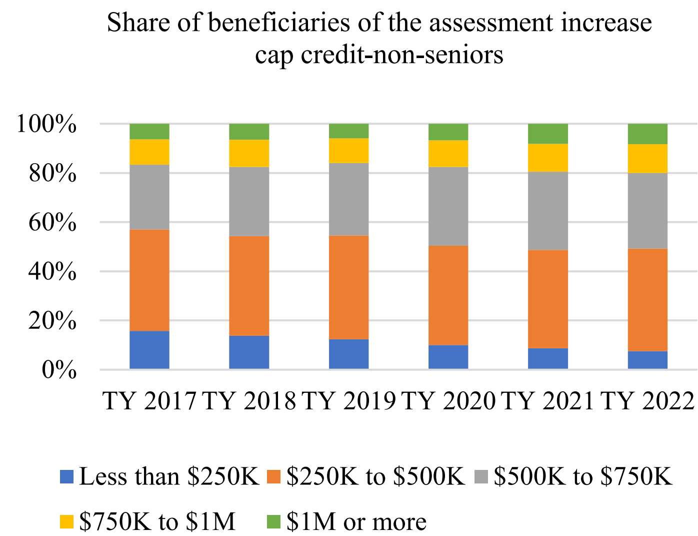
Data shows that the assessment increase cap has benefited homeowners with an active homestead in the District. In TY 2022, 30,563 active homesteads paid lower taxes due to the cap. Chart 8 shows a trend in the beneficiaries of the assessment cap credit. The home value of most of the beneficiaries of the assessment cap credit was between $250,000 and $750,000 for eligible homeowners between 2017 and 2022. This group also received more benefit in the value of assessed homes not taxed due to the credit, although beneficiaries with home value between $500,000 and $750,000 have received the most benefit amongst all assessed value groups.

[44] DC Official Code § 47-863 (a)(1)(A)(ii)
[45] Pg. 1 of the DC Council Committee Report on Bill 15-303, the "Owner-Occupant Residential Tax Credit Act of 2003."
[46] Pg. 21 of the DC Council Committee Report on Bill 24-714, the "Fiscal Year 2023 Budget Support Act of 2022."

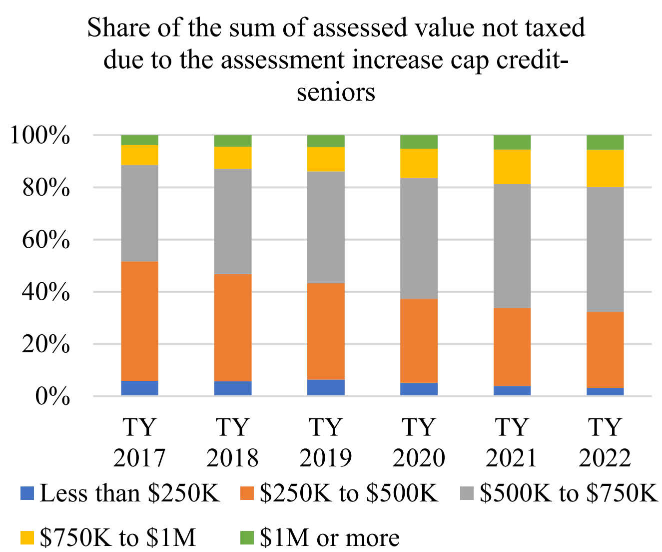
Chart 8: Share of Beneficiaries and the Sum of Assessed Value not Taxed Due to the Assessment Increase Cap Credit for Senior and Non-Senior Homeowners by Home Assessment Values

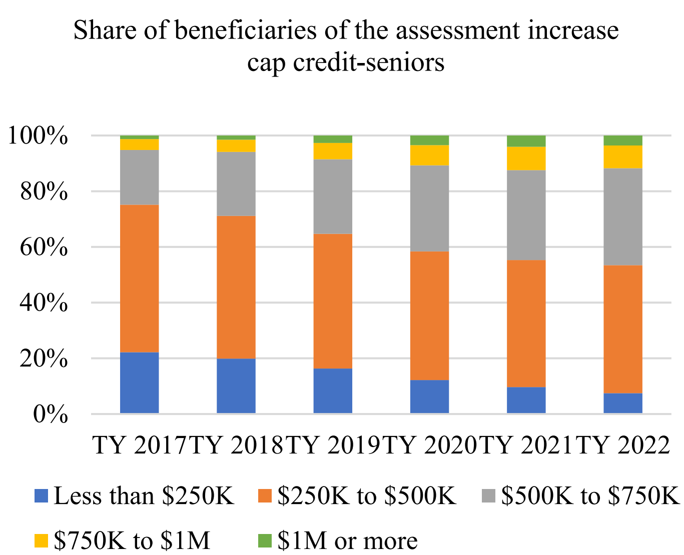
(a)





(b)





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

However, since TY 2017, the estimated revenue loss from the cap and the number of beneficiaries has dropped as the growth in assessed values have slowed. Specifically, the average annual percent change in assessment value for homesteads that automatically received the credit from TY 2015-2017 was 6.2 percent while the average annual percent change from TY 2018-2022 was 3.6 percent.[47] Comparatively, the average annual percent change in assessed values for homesteads in the early years after the enactment of the assessment cap credit was very high (20.2 percent from TY 2002-2007) mostly due to a combination of factors like the change in the housing assessment valuation process from a triennial to an annual basis, which meant that prior to the change a lot of homes were grossly undervalued. Another contributor to

[47] Chart A2 in Appendix 2 shows the annual percent change in assessed values for all homesteads in DC from TY 2015 to TY 2022

past housing price growth was the rapid growth in the District's population after the millennium, which helped to fuel a strong demand for housing. However, the Great Recession, which was in part triggered by a collapse in the housing market, ushered in a period of slower housing price growth. (Chart 9).

Although the overall assessment growth for active homesteads has slowed in recent years, the growth is uneven across assessment neighborhoods in the District (Map 4).[48] For example, between TY 2021 and TY 2022, total assessed value in Marshall Heights (located in Ward 7) grew by 8.6 percent while total assessed value declined 2.2 percent in Wesley Heights (located in Ward 3). Generally, neighborhoods with high growth in assessed values from TY 2021 to 2022 tended to be in Wards 5, 7, and 8, while neighborhoods with low growth or declines in assessed values tended to be in Wards 2 and 3. On average, assessed values tended to grow more slowly in neighborhoods where home sales prices were higher while assessed values grew relatively faster in lower priced neighborhoods (Map 4, Appendix 2-Table A2). Furthermore, our analysis by wards shows that, generally, higher assessment growth has been disproportionally hitting Wards with lower total assessed value and median income (Tables 5 and 6).[49] Specifically, Wards 7, with median federal AGI of about $69,000 and median assessed value of $280,000, Ward 8, with median federal AGI of $67,000 and median assessed value of $260,000 experienced the highest median growth in assessed value (9% and 7%) from TY 2018 to 2019. While Wards 2 and 3, with the lowest median annual percent change in assessed values (3%) had the highest median incomes in the District (Table 6). This is not surprising as research shows that, since 2000, neighborhoods with lower valued homes have been especially attractive to outside investment.[50] Additionally, when examining ownership tenure for homesteads who received assessment growth larger than 10 percent (5 percent for seniors and disabled homesteads) in 2022, homesteaders who have been in their homes for more than three years[51] saw marginally less tax relief on average from the cap credit than new homeowners who bought their home three or less years ago (Table 7). Though the average amount of tax relief is higher for new homestead owners in 2022, most homesteads who received the cap were long-term homeowners as well as the almost half of total tax relief amount. This indicates that the assessment cap currently benefits long-term homeowners more than new homeowners. This is probably due long-term homeowners having the benefit of the assessment cap longer than newer homeowners, which is compounded overtime; or to long-term homeowners having low assessed values at the start of their tenures, while for newer homeowners, current home assessment values are reflective of the new market value of their homes.

Variations in assessed value growth will drive the distribution and equity of the benefits of the assessment cap credit. Previous research finds that there are horizontal and vertical equity components to the analysis of the distribution of the assessment cap credit amongst beneficiaries. The research finds that that the assessment cap causes pervasively inequitable taxation of homestead properties in the District.[52] From a vertical equity perspective, in TY 2019, the assessment cap had become progressive, with the bottom income quartile receiving more tax relief on both their property tax and as a percentage of their gross income, and a lower effective property tax rate than all higher income quartiles (Table 8). Nevertheless, there are opponents who believe that government policies that sets property tax limits like the assessment cap credit shift the tax burden to non-recipients of the credit, especially to low-income residents, by relying more heavily on sources of revenue like sales taxes and fees. Opponents also contend that this is not the best or even an

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[48] Some of this growth can be attributed to new construction and renovations in these areas, and not just appreciation of existing properties.

[49] Table 6 represents an analysis of the homesteads we were able to match using real property and individual income tax data in TY 2019 (the most recent individual income tax data at the time).

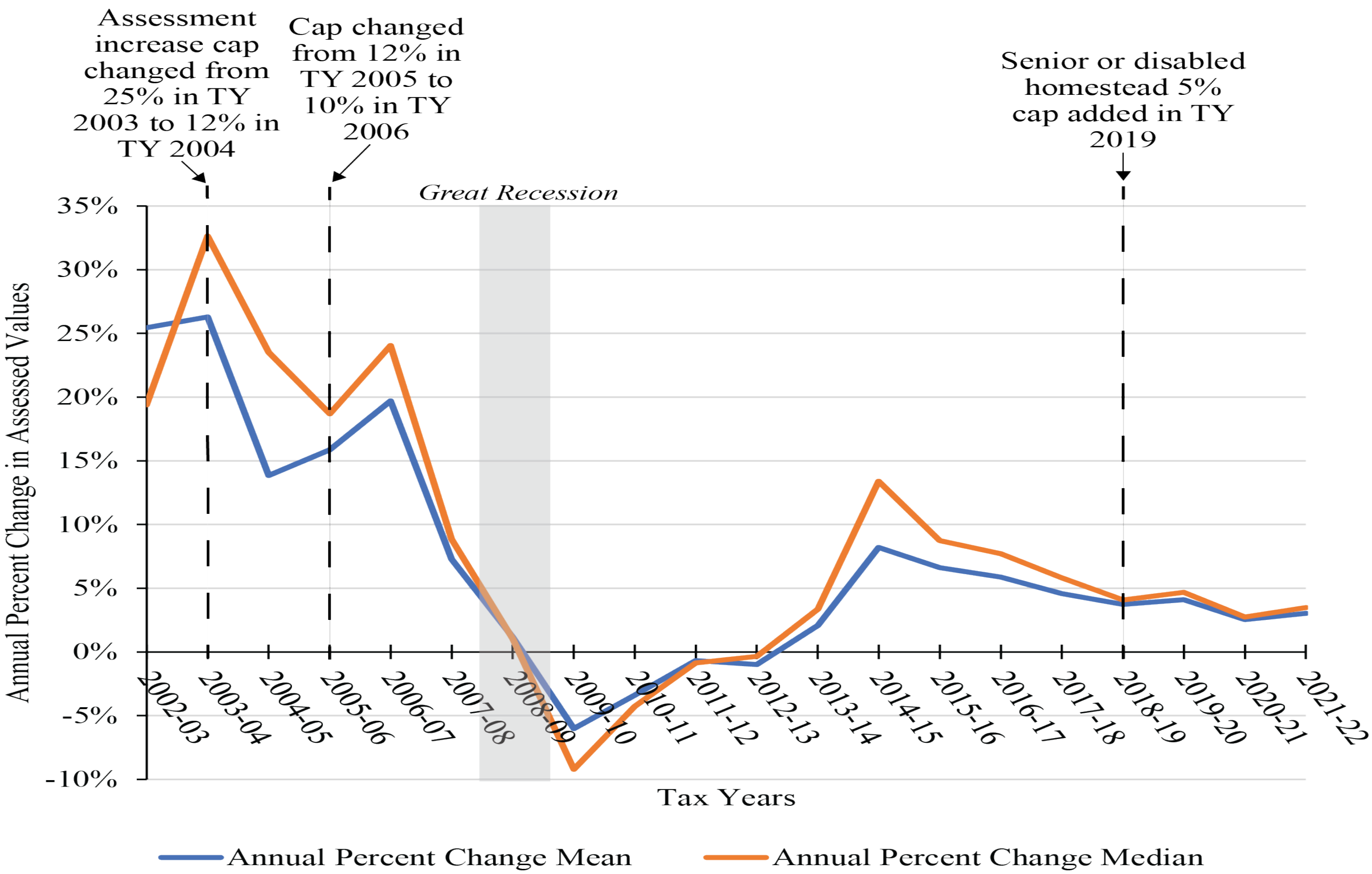
[50] Richardson J., Mitchell B., & Franco J. (March 2019). Shifting Neighborhoods: Gentrification and cultural displacement in American cities. The National Community Reinvestment Coalition. Pg. 19. https://ncrc.org/gentrification/. Sayin, Y. (October 2018). Tax practices that amplify racial inequities: Property tax treatment of owner-occupied housing. D.C. Policy Center. https://www.dcpolicycenter.org/publications/tax-practices-that-amplify-racial-inequities-property-tax-treatment-of-owner-occupied-housing/

[51] Three years from the purchase date listed on public property records as of March 2022.

[52] Pg. 47 of the District of Columbia Housing Tax Expenditure Review, October 2015. https://ora-cfo.dc.gov/page/tax-expenditure-studies

economically efficient use of public dollars as there are higher public policy priorities than subsidizing homeownership.[53] However, proponents of the policy respond that market and government failures such as the inadequate supply of affordable housing, zoning restrictions, and the legacy of discriminatory housing policies, like redlining, may make this program necessary to address these failures.

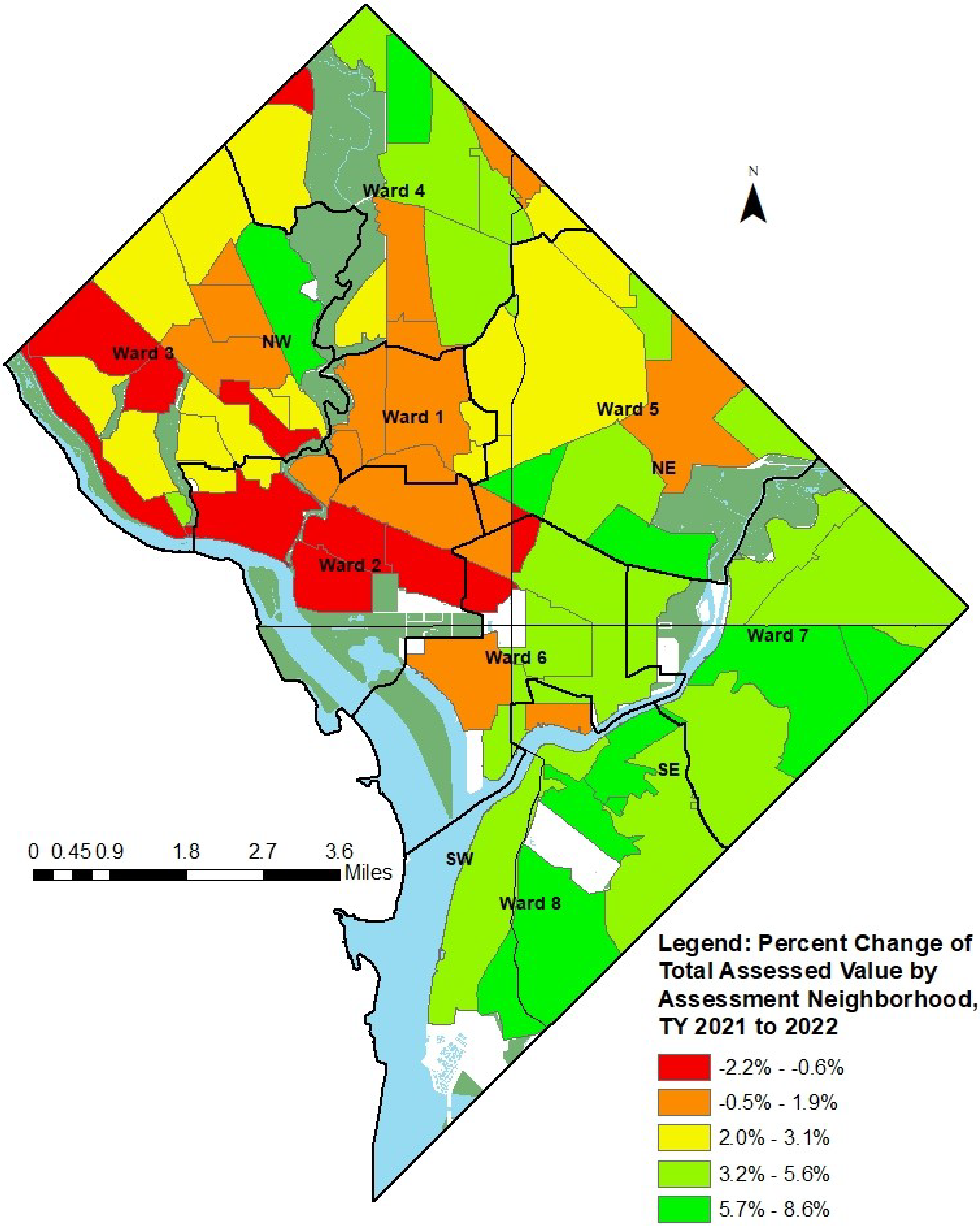
Chart 9: Average and Median Annual Percent Change of All Homesteads' Assessed Values, TY 2002-2022



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

[53] Lav, I. & Leachman, M. (July 2018). State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed. Michigan, Massachusetts, Oregon, and New York Reveal Range of Problems with Limits. The Center on Budget and Policy Priorities. Available at https://www.cbpp.org/sites/default/files/atoms/files/7-18-18sfp.pdf.
Hahnel, C. et al. (June 2022). Unjust Legacy: How Proposition 13 Has Contributed to Intergenerational, Economic, and Racial Inequities in Schools and Communities. The Opportunity Institute and Pivot Learning. Available at https://theopportunityinstitute.org/publications-list/2022/8/3/unjust-legacies

Map 4: Total Assessed Value Changes from TY 2021 to 2022 for all Homesteads



Source: ORA analysis of OTR's annual real property tax data, March 2021 and 2022

Table 5: Tax Relief Statistics of the Assessment Increase Cap Credit by Ward, TY 2022

Ward	Number of homesteads	Cumulative assessed values of all homesteads	Homesteads who received the assessment cap credit	Percent of homesteads who received assessment cap credit to total number homesteads in Ward	Total assessment cap credit tax dollar amount	Average amount of tax relief per homestead who received assessment cap credit
1	11,171	$8,410,667,860	2,140	19.2%	$2,020,592	$944
2	10,754	$10,422,989,460	780	7.3%	$604,565	$775
3	15,986	$18,322,425,042	1,201	7.5%	$723,518	$602
4	16,860	$12,401,100,820	5,515	32.7%	$3,914,504	$710
5	15,037	$8,874,705,160	6,950	46.2%	$5,119,756	$737
6	15,641	$12,713,145,385	3,705	23.7%	$3,451,935	$932
7	10,152	$3,640,937,276	6,570	64.7%	$2,624,717	$400
8	5,541	$1,771,308,380	3,702	66.8%	$1,070,001	$289
Total	101,142	$76,557,279,383	30,563	30.2%	$19,529,588	$639

Source: ORA analysis of OTR's real property tax data, March 2022

Table 6: Average and Median Adjusted Gross Income and Assessment Change Comparison Analysis for All Matched Homesteads by Ward, TY 2019

Ward	Number of observations	Absolute values of federal adjusted gross income		Assessed values		FY 2019 -2018 assessed value change		Annual percent change		Assessment increase cap credit as a percentage of property tax due before credits and deductions		Effective tax rate with assessment increase cap credit only (per $100 of assessed value)	
		Average	Median	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median
1	5,032	$189,492	$135,794	$668,921	$619,915	$17,269	$17,685	2.6%	2.9%	4%	0%	$0.81	$0.85
2	5,062	$324,639	$157,087	$893,360	$650,225	$37,064	$17,125	4.1%	2.6%	1%	0%	$0.84	$0.85
3	6,308	$487,461	$172,555	$985,198	$898,715	$23,885	$25,355	2.4%	2.8%	0%	0%	$0.85	$0.85
4	6,716	$169,919	$112,941	$641,406	$578,790	$31,128	$32,585	4.9%	5.6%	6%	0%	$0.80	$0.85
5	6,241	$128,786	$100,087	$526,464	$492,760	$26,934	$27,015	5.1%	5.5%	10%	6%	$0.77	$0.80
6	7,515	$210,046	$146,366	$710,656	$672,140	$27,127	$21,310	3.8%	3.2%	5%	0%	$0.81	$0.85
7	4,086	$79,672	$68,934	$304,185	$280,015	$23,348	$24,645	7.7%	8.8%	10%	9%	$0.77	$0.77
8	2,306	$74,598	$66,653	$268,309	$259,745	$20,024	$18,175	7.5%	7.0%	7%	5%	$0.79	$0.81
Total	43,266	$224,027	$119,784	$667,923	$554,145	$25,512	$20,755	3.8%	3.7%	5%	0%	$0.81	$0.85

Source: ORA analysis of OTR individual income and real property tax data

Table 7: Comparing Tax Relief Amounts of the Assessment Increase Cap Credit by New and Long-Term Homesteads, TY 2022

Home Tenure Categories	Median tenure in years	Number of homesteads	Count of who received assessment cap credit	Total assessment cap credit tax dollar amount	Average tax relief amount per homestead receiving the credit
Long-term homeowner (>3 years)	10	58,875	16,406	$9,597,419	$585
New homeowners (0-3 years)	2	23,937	3,600	$2,355,575	$654
Total	7	101,142	30,563	$19,529,588	$639

Source: ORA analysis of OTR real property tax data, March 2022
Note: Some homes in our property tax records do not have a sale date recorded and were thus left off the analysis.

Table 8: Average and Median Assessment Increase Cap Credit Statistics in Personal Income Quartiles, TY 2019[54]

Quartiles by absolute values of FAGI	FY 2019 - 2018 assessed value change		Annual percent change		FY 2019 assessed values		Effective tax rate with assessment increase cap credit only (per $100 of assessed value)		Property tax budren before credits and deductions as a percentage of FAGI	Property tax burden after assessment increase cap credit as a percentage of FAGI
	Average	Median	Average	Median	Average	Median	Average	Median	Median	Median
Bottom	$18,769	$15,010	3.9%	3.6%	$475,779	$414,650	$0.77	$0.79	9.6%	8.5%
Lower middle	$18,262	$19,270	3.6%	4.3%	$509,203	$445,930	$0.80	$0.85	4.1%	3.8%
Upper middle	$26,375	$23,575	4.1%	4.0%	$650,802	$583,200	$0.82	$0.85	3.2%	3.0%
Top	$38,860	$31,140	3.8%	3.6%	$1,036,109	$876,900	$0.83	$0.85	2.0%	2.0%
Total	$25,567	$20,770	3.8%	3.7%	$667,978	$554,160	$0.81	$0.85	3.6%	3.4%

Source: ORA analysis of merged OTR individual income tax, real property tax, and OTR's compiled homestead application data.
Note: The number of homesteads, their respective incomes, and assessment values in this table are from the same data as Table 3 on page 21.

[54] Table A3 in Appendix 2 also shows the average and median assessment increase cap credit statistics in personal income quartiles from FY 2018 to FY 2019.

Senior Citizen or Disabled Property Owner Tax Relief
Real Property Tax Deduction

District of Columbia Code: D.C. Official Code § 47-863
Sunset Date: None
Year Enacted: 1986

(Dollars in thousands)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Revenue Loss	$26,190	$28,021	$29,904	$32,422	$34,588	$34,638	$39,097	$39,586
Number of Users	19,336	19,479	19,239	19,542	19,979	19,122	19,533	19,750

Source: ORA analysis of OTR's annual real property tax data.
Note: Revenue loss estimates, except FY 2022, may include other smaller real property tax expenditure totals such as the lower income home ownership tax abatement, trash credit, low-income senior citizen property tax deferral, or lower income, long-term homeowners tax credit programs that ORA was unable to differentiate from the senior or disabled tax relief program's total.

Description: Senior citizens (age 65 or older) and persons who are permanently and totally disabled[55] qualify for a 50 percent reduction in real property tax liability on a home that they own and occupy in the District, provided that their household adjusted gross income (AGI) is less than $139,900 in TY 2022. Since FY 2014, the maximum income threshold is subjected to a cost-of-living adjustment based on the Washington-Baltimore Consumer Price Index (CPI). Taxpayers must file an application with OTR to qualify for the tax relief in addition to the homestead deduction. A senior citizen or person with a disability must own at least 50 percent of the property or cooperative unit and must be the taxpayer's principal place of residence. Before FY 2006, the credit was only available to seniors, but since then, qualified disabled homeowners have been eligible to apply. In addition to this deduction in annual taxes, beneficiaries also receive an assessment increase cap credit of 2 percent beginning TY 2023.[56] This cap credit has been previously discussed in the assessment increase cap credit section.

Purpose: The purpose of the deduction is to protect senior citizens and those who are permanently disabled, who often live on fixed incomes, from high real property tax liabilities that may put them in danger of losing their homes. In 2012, when the Council raised the maximum household income from $100,000 to $125,000 (with an annual cost of living adjustment thereafter), proponents pointed out that senior citizens and persons with disabilities of modest income might otherwise be ineligible because of how household income (including incomes of those who are living with the senior or disabled resident and are not seniors nor disabled) is measured.

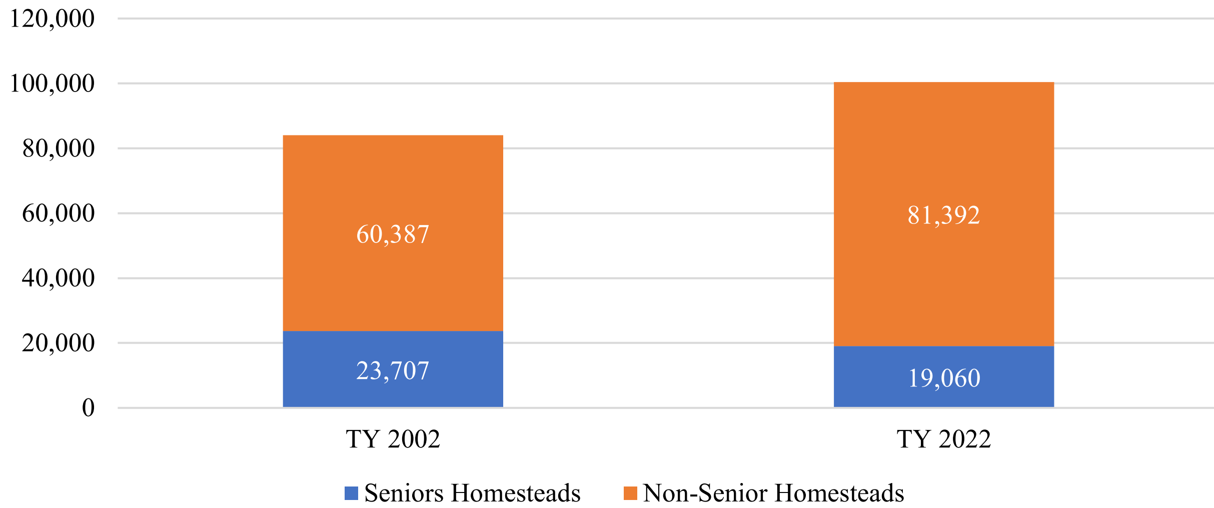
Evaluating the Senior and Disabled Property Owner Tax Deduction and its Impact:

The District has about 20 percent fewer senior homesteaders in 2022 than in 2002 (Chart 10). Several reasons may explain the decrease in senior homeownership. They include moving to retirement communities, moving in with family, or downsizing to rentals, a lack of awareness of the senior or disabled homestead program, and increase in homeownership unaffordability in the District. Furthermore, in terms of total assessed value, the values of senior homesteads have almost tripled since 2002 while non-senior homesteads almost quadrupled. Likewise, the average growth in assessed value for senior homesteads more than tripled over the same time span (Charts 11 & 12). Geographically, senior homesteads in Wards 6 and 1 saw the largest jump in average assessments with about 458 and 363 percent increase in value between 2002 and 2022, respectively, and they were above the assessment increases for non-senior homesteads in the same Wards (Chart 13).[57]

[55] As certified by the Social Security Administration or be receiving District or Federal disability payments.
[56] The assessment cap credit for seniors and the disabled was previously 5 percent from TY 2019-2022.
[57] For this report, we updated the years analyzed in Seaton, A & Mohammad, D.'s paper "Homeownership Among Senior Citizens in the District of Columbia: 2002 to 2019, from 2002-2019 to 2002-2022.

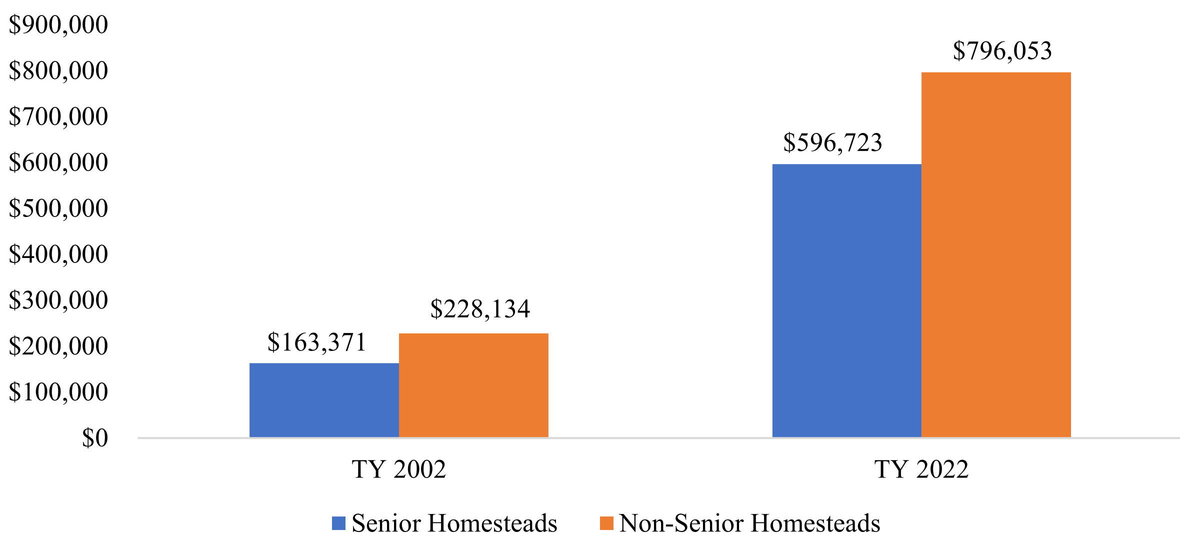
Despite the rapid growth in home values arising from rising housing demand as the District population grew, median annual tax due for all senior homesteads in 2022 was lower than that for non-senior homesteads (Chart 14). Additionally, the growth in median annual tax due from 2002 was not as substantial for Wards 4, 5, and 7, where many senior homeowners benefiting from the program reside (57.6 percent of all senior homesteads in 2022). Moreover, the 2022 median tax due for all senior homesteads ($1,525) was 2.6 percent of the median AGI ($58,575) of senior homesteaders matched to the income tax returns database.[58]

Chart 10: Total Number of Homesteads in DC, TY 2002 & 2022



Source: ORA analysis of OTR real property tax data, October 2002, and March 2022

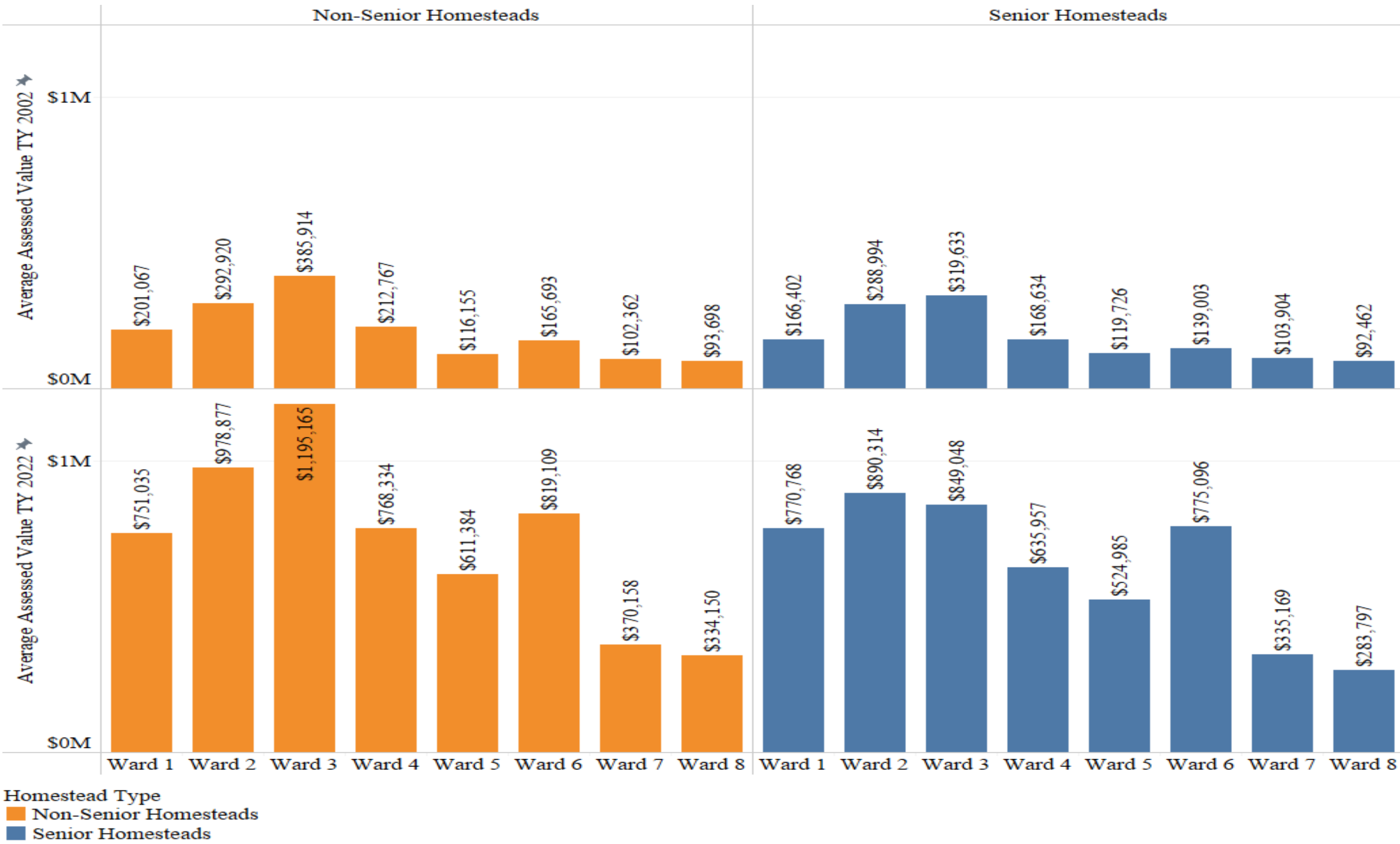
Chart 11: Average Assessed Value of Homesteads, TY 2002 & 2022



Source: ORA analysis of OTR real property tax data, October 2002, and March 2022

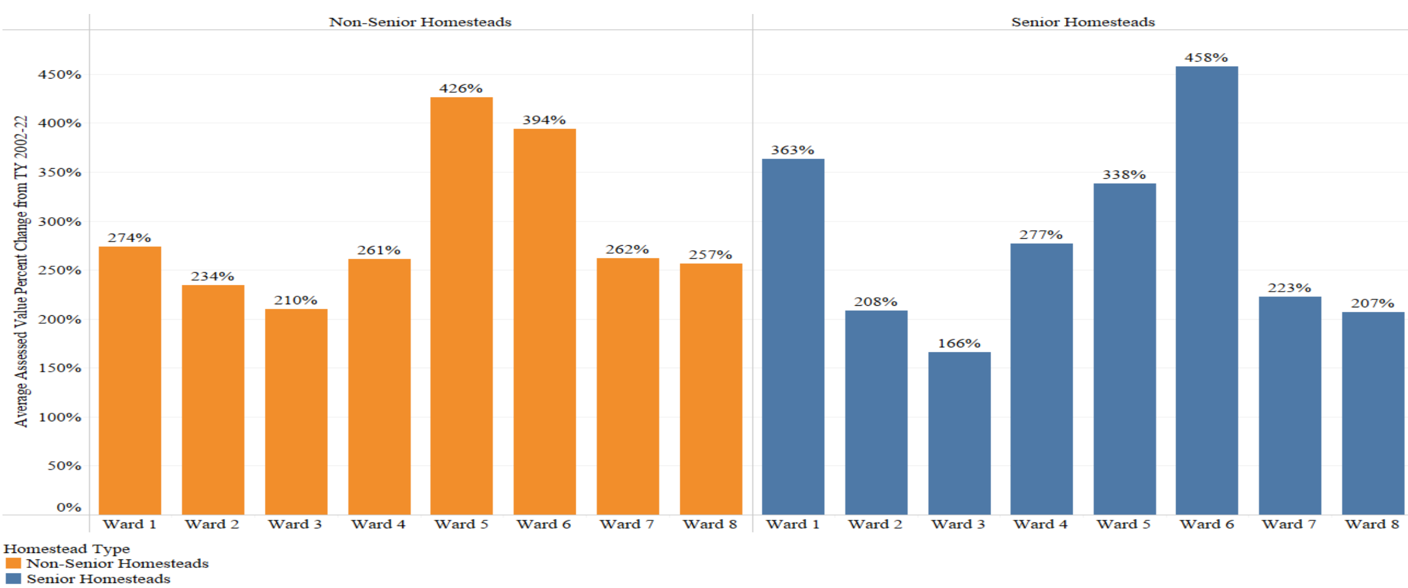
[58] The median income is based on the 2019 income, which was the latest individual income tax return data available at the writing of this report.

Chart 12: Average Assessed Value of Homesteads, TY 2002 & 2022 by Ward



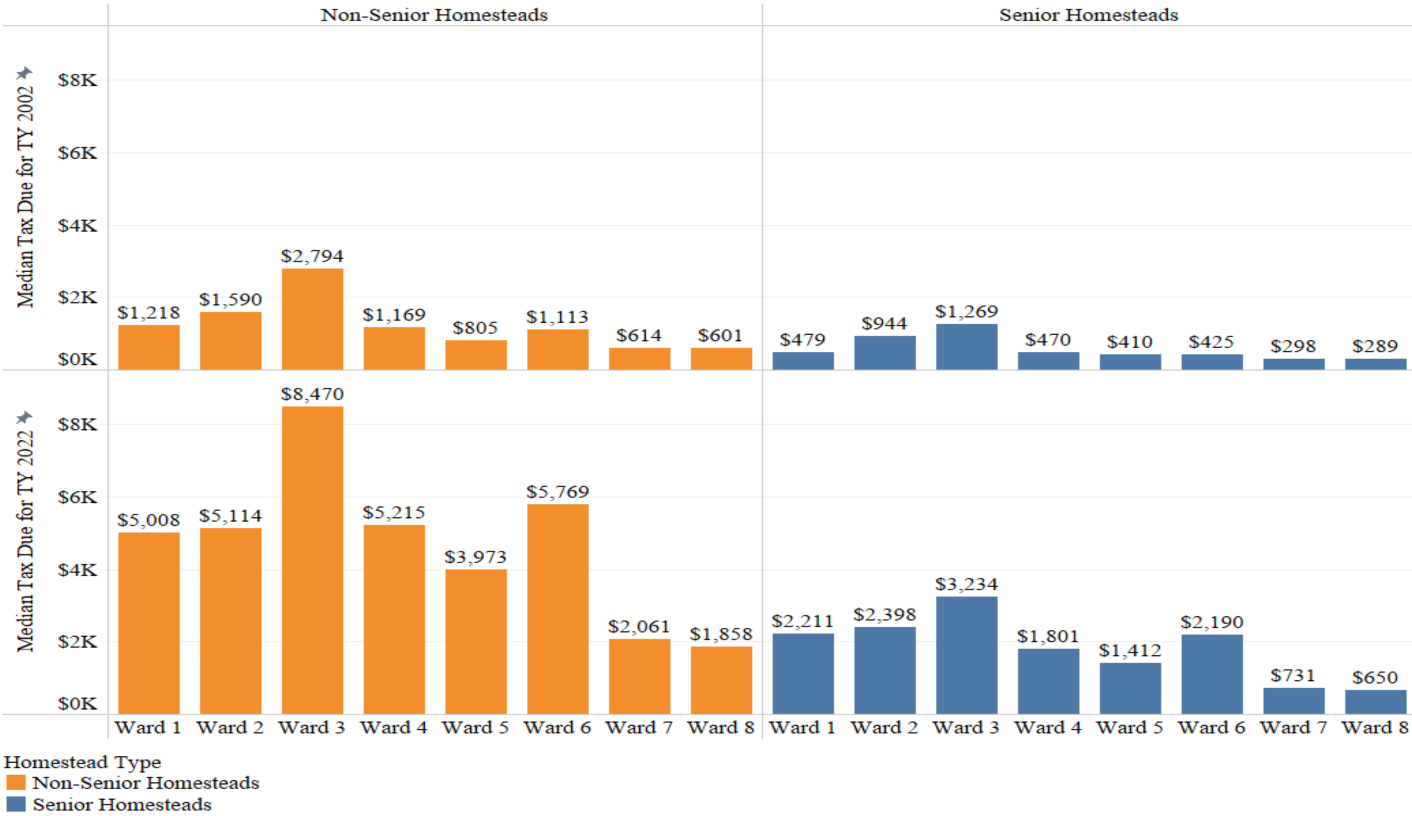
Source: ORA analysis of OTR real property tax data, October 2002, and March 2022

Chart 13: Average Assessed Value Percent Change of Homesteads, TY 2002 & 2022 by Ward



Source: ORA analysis of OTR real property tax data, October 2002, and March 2022

Chart 14: Median Annual Tax Due for Homesteads from TY 2002 & 2022 by Ward



Source: ORA analysis of OTR real property tax data, October 2002, and March 2022
Note: Median annual tax due includes the homestead deduction, assessment increase cap credit, senior or disabled homestead deduction, and any other property tax expenditures available to these property owners that are too small in amount to list.

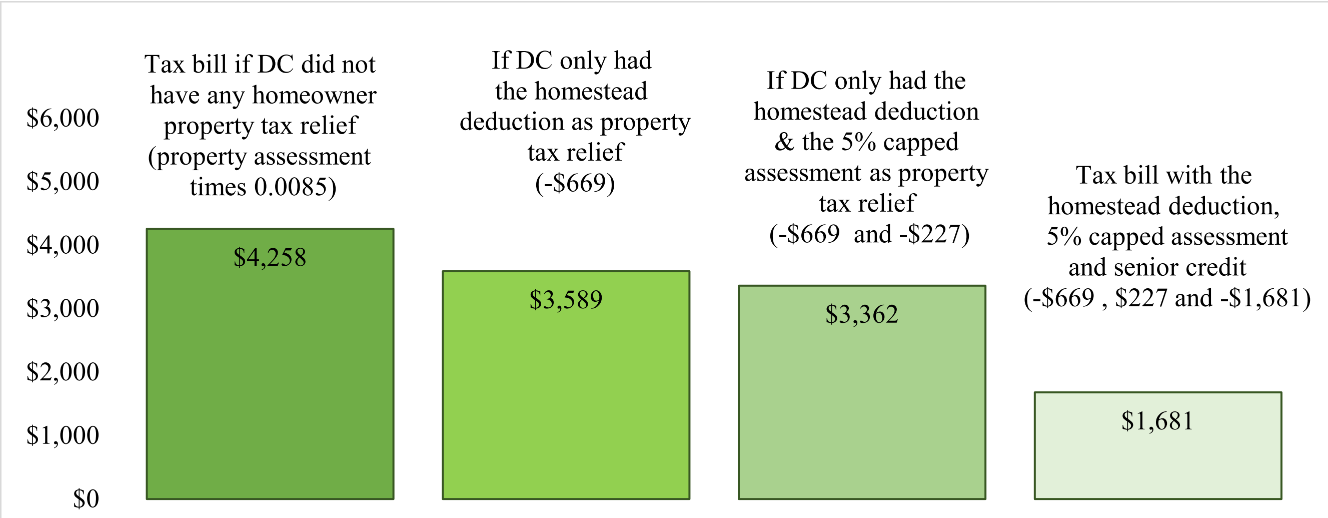
As for disabled beneficiaries, prior to the recent implementation of the new modern real property tax systems (MRPTS) at OTR, we were unable to distinguish them from senior homeowners claiming the tax relief. Nevertheless, TY 2022 data indicate that disabled homesteaders made up only 3.5 percent or 690 of the total beneficiaries of this program with a median tax due ($1,675), and cumulative effective tax rate that were higher than senior homesteads.[59] The higher effective tax rate for the disabled may be because on average, senior beneficiaries tend to own their homes and have benefitted from the assessment cap longer than disabled beneficiaries. So, the taxable assessments of seniors may be lower causing lower effective tax rate and liabilities. More income analysis should be done on disabled beneficiaries in the future as more data for this group becomes available.

Despite the decrease in senior homeownership as measured by senior homesteads, the senior or disabled homeowner property tax relief has been very beneficial to its recipients. Chart 15[60] shows an example of the layering of real property tax owed and the tax relief a hypothetical senior or disabled homeowner would receive in 2022. We assume a senior or disabled citizen purchased a home in the city in 2020 for $414,000 and the property assessment value increased by 21 percent in 2022. The $4,258, which represents the first bar in the chart below is the amount a senior or disabled homeowner would pay in property tax without any tax relief. The second bar shows the tax liability after applying only the homestead deduction, the third bar is the tax liability after applying only the 5 percent assessment increase cap credit and the senior homestead deduction. The fourth bar shows the tax liability from the cumulative impact of the various tax

[59] There were 19,750 senior and disabled homestead real property relief claimants in TY 2022, of which 690 (3.5 percent) were disabled homesteaders. For additional information see Table A1 in Appendix 2
[60] Chart is an updated version of Figure 1 in "Homeownership Among Senior Citizens in the District of Columbia: 2002-2019" by Amana Seaton and Daniel Muhammad. Retrieved from https://ora-cfo.dc.gov/page/occasional-studies-and-reports

relief programs for senior and disabled homesteaders. In sum, this example illustrates how a hypothetical senior or disabled homesteader pays about 39 percent of the original $4,258 tax bill or 60 percent less, a reduction of $2,577.

Chart 15: The Layering of Property Tax Relief for Senior or Disabled Homeowners – A Hypothetical Tax Bill in 2022



Source: ORA analysis

On the income side, our individual income tax return[61] analysis shows that eligible applicants with annual gross incomes below $133,100 in 2019 benefited greatly from this tax expenditure. Table 9(a) shows by income groups two measures of tax burden before and after the tax relief programs: the effective real property tax rates and real property tax liability as a share of income. As the table shows, the tax relief programs lowered both measures of tax burden for all income groups. In total, this deduction lowered the property tax amount as a percentage of their annual gross income by a median of 2.6 percent with most relief going to homesteaders with AGIs under $25,000 (whose property tax burden was lowered by a median of 11.3 percent). However, we find that the higher valued homes, which is positively correlated with income (Table 9(a)), benefited more than lower valued homes because they receive a larger drop in the effective tax rates, making this tax expenditure somewhat regressive.

Seniors Claiming Standard Homestead Deduction Only vs. Seniors Claiming both the Standard and the Senior/ Disabled Property Owner Tax Relief:

Our analysis of the 2019 individual income tax return also shows that there were about 919 senior homeowners who were potentially eligible for the tax relief but only received the standard homestead deduction. Among senior homeowners, Table 9(b) distinguishes between those receiving just the standard homestead and beneficiaries that receive both the standard homestead and the senior or disabled real property tax relief. The difference in the property tax liability for the two groups is a higher assessment cap credit and the senior or disabled property owner tax relief. Seniors only claiming the standard homestead automatically receive the 10 percent assessment cap credit while seniors that get the senior property tax relief automatically receive the 5 percent assessment cap credit. While the difference in the ETR between the two groups is small, it does highlight the horizontal inequity in the property tax due to the hierarchy created within structure of the assessment cap credit (Table 9(b), column 8). Seniors get additional tax relief if they are approved for the senior/ disabled homeowner tax relief (Table 9(b), column 9). The combination of the assessment cap credit and mostly

[61] Active senior homesteads that we were able to match using their individual income and real property tax records in TY 2019. This year was chosen because at the time of analysis this was latest income tax data available.

the senior or disabled homeowner tax relief creates a huge discrepancy in the ETR between the two groups (Table 9(b), last column).

Table 9: Median and Average Senior or Disabled Homestead Deduction Statistics by Personal Income Groups, TY 2019[62]

(a)

Income groups by absolute values of federal adjusted gross income	Number of observations **	Absolute values of federal adjusted gross income (FAGI)		Assessed values		Senior or disabled homestead deduction or other TEs estimated tax dollar relief amount		Senior or disabled homestead deduction as a percent of property tax due before credits and deductions		Effective tax rate with senior or disabled homestead deduction only (per $100 of assessed value)		Property tax due pre deductions or credits as a percent of FAGI	Property tax burden with the senior or disabled homestead deduction as a percent of FAGI
		Average	Median	Average	Median	Average	Median	Average	Median	Average	Median	Median	Median
Under $25K	1,992	$11,525	$12,008	$482,347	$444,955	$1,437	$1,217	32.8%	32.4%	$0.57	$0.58	31.1%	19.7%
$25K to $50K	1,837	$37,398	$37,363	$462,323	$416,700	$1,369	$1,144	32.4%	31.6%	$0.57	$0.58	9.4%	6.1%
$50K to $100K	3,161	$73,279	$72,831	$543,365	$473,590	$1,782	$1,390	36.1%	36.2%	$0.54	$0.54	5.7%	3.6%
$100K to $133.1K	1,078	$114,866	$114,351	$705,325	$636,690	$2,516	$2,092	39.7%	41.9%	$0.51	$0.49	4.7%	2.9%
$133.1K to $200K	513	$154,967	$150,957	$827,817	$789,930	$2,958	$2,865	41.2%	44.4%	$0.50	$0.47	4.3%	2.4%
$200K or more	173	$589,764	$282,913	$993,707	$858,390	$3,612	$3,126	41.3%	44.7%	$0.50	$0.47	2.2%	1.4%
Total	8,754	$71,812	$57,792	$557,987	$481,820	$1,813	$1,387	35.4%	35.4%	$0.55	$0.55	7.1%	4.5%

(b)

65 years of age or older taking which type of homestead	Income groups by absolute values of federal adjusted gross income	Number of observations **	Assessed values		Assessment cap credit's tax dollar amount		Assessment cap credit as a percent of property tax due before credits and deductions		Effective tax rate with homestead deduction only	Effective tax rate with assessment increase cap credit only	Effective tax rate with senior or disabled homestead deduction only	Effective tax rate after all TEs per $100 of assessed value
			Average	Median	Average	Median	Average	Median	Median	Median	Median	Median
Homestead deduction	Under $25K	187	$437,764	$419,540	$646	$424	15%	14%	$0.70	$0.73	$0.85	$0.52
	$25K to $50K	195	$417,872	$395,070	$578	$333	15%	13%	$0.69	$0.74	$0.85	$0.53
	$50K to $100K	367	$450,002	$426,020	$547	$343	13%	12%	$0.70	$0.75	$0.85	$0.56
	$100K to $133.1K	170	$534,909	$481,745	$633	$478	13%	13%	$0.72	$0.74	$0.85	$0.60
	$133.1K to $200K	205	$653,511	$571,420	$753	$504	13%	11%	$0.74	$0.76	$0.85	$0.63
	$200K or more	146	$1,268,535	$948,760	$1,358	$896	13%	11%	$0.78	$0.75	$0.85	$0.68
Homestead deduction plus senior or disabled tax relief	Under $25K	1,541	$448,251	$425,340	$673	$451	17%	16%	$0.70	$0.72	$0.59	$0.26
	$25K to $50K	1,485	$428,573	$398,560	$616	$398	16%	15%	$0.69	$0.72	$0.59	$0.26
	$50K to $100K	2,109	$476,756	$435,330	$577	$360	14%	13%	$0.70	$0.74	$0.57	$0.28
	$100K to $133.1K	555	$596,209	$524,900	$607	$351	13%	11%	$0.73	$0.76	$0.55	$0.31
	$133.1K to $200K	210	$736,707	$665,930	$641	$265	10%	6%	$0.75	$0.80	$0.52	$0.34
	$200K or more	63	$936,496	$756,770	$929	$543	13%	10%	$0.77	$0.77	$0.52	$0.33

Source: ORA analysis of merged OTR individual income tax, real property tax, and OTR's compiled homestead application data, 2019.

**Note: The real property tax data does not include personal information like the age of a homeowner. The number of observations in this table are all the senior or disabled homestead users that were able to be fuzzy matched[63] between their TY 2019 real property tax records and individual tax returns via social security number, address, and last name. Also, the $133.1K numbers in the income groups column represent the 2019 income threshold for the program.

Senior Or Disabled Beneficiaries with Incomes Over the Property Owner Tax Relief Income Threshold:

[62] Table 9(a) includes senior citizens 65 and older, and disabled homeowners benefitting from the senior citizen or disabled property owner tax relief, while 9 (b) is only senior homeowners 65 and older receiving the homestead deduction.

[63] Fuzzy matching is a technique used by researchers to link records from different datasets describing the same entity using common identifiers that are sometimes less than perfect matches due to spelling or incorrect data entry. For example, last name or home address is a common identifier on different tax records, however, names can change and spacing between words of an address on an application or record may differ but are the same entity, and are therefore, still counted.

The Council Committee Report[64] from the law creating this tax expenditure indicated a focus to help low-to-moderate income class seniors (and now disabled residents) on fixed incomes. An excerpt from the Committee Report stated that "it is the committee's intent that such retirement income or social security income shall be the person's sole means of support. Persons receiving income from investments would not be eligible for relief."[65] However, for many seniors or disabled residents, pension, supplemental security, or social security may not be their only source of income. Similarly, many senior and disabled homesteaders we analyzed from 2015 to 2019 that benefitted from this provision had additional sources of income such as wages, business income, capital gains, and rental real estate royalties. Moreover, we find that 2.1 percent[66] of the beneficiaries had AGIs higher than the household income eligibility limit for each year. The average home assessment value for these beneficiaries was $789,433 over the five-year period and the average estimated amount of tax relief from the program was $2,877. We also find that beneficiaries reporting AGIs above the income eligibility limit received more of their income aside from social security and pension income from capital gains (about 54 percent) and wages or salaries (40 percent) over the five years. However, because of the small number of beneficiaries who were over the income eligibility threshold in any given year the total estimated revenue forgone amount over these five years was a little more than $2.4 million. Nevertheless, OTR has been working through its auditing process to capture such lost revenues.

Efficiency – ease of administration:

The dependence of the senior/disabled tax deduction on the classification of the property increases enforcement and administrative costs of operating the tax system. From the perspective of OTR's Homestead Unit (the managing unit), the senior or disabled homestead deduction has recently become easier to manage and maintain due to technological improvements to the real property tax system and database.

Unintended effects:

An evaluation of any policy should consider the effects of the policy, what might have happened without the policy (the but-for question), and whether there are more effective and efficient ways to use the forgone revenue. While it is difficult to answer the but-for question, the policy decision to keep seniors in their homes for longer periods does have ramifications on an already tight housing market whose supply side is already low due to zoning restrictions and limited space for building. Seniors may stay in larger homes that no longer meets their needs instead of downsizing, consequently, keeping these homes off the market for longer time where the next generation of families do not have as many options to choose from and therefore, compete for a smaller part of family-sized housing at higher prices.[67]

The purpose of this tax expenditure is to protect senior and/or disabled homesteaders from losing their homes to rising property taxes. Our analysis shows that this program is meeting its stated goal. However, our data shows an overall decrease in the number of beneficiaries from 2002 to 2022. OTR has stated that they mail over 2,000 courtesy notices annually to seniors who, according to past tax records, are potentially qualified for the program. There may be some structural, demographic, or economic factors driving the decrease in the number of seniors taking advantage of the tax relief. Therefore, we recommend that policy makers provide OTR with the resources they need to continue to support their marketing and auditing activities.

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[64] DC Council Committee Report on Bill 6-476, "Real Property Tax Rates for Tax Year 1987"
[65] Ibid. P. 3.
[66] The income information for each year analyzed is taken from two years prior of said year due to the lag in recording income data when OTR evaluates new applicants' eligibility. The income threshold does not correspond to the year that it is being measured on, making the number of above the threshold artificially lower than it would be if the income year and yearly threshold matched.
[67] Sayin Taylor, Y. (2018, March). Taking Stock of the District's Housing Stock. D.C. Policy Center. Pg. I, 27-29. https://www.dcpolicycenter.org/publications/taking-stock-full-report/

Cumulative Effect of All Three Homestead Tax Expenditure Programs by Type vs. Non-Homestead Residential Properties

It is worth exploring the impact of the combined effects of the three previously discussed categorical provisions when all three tax expenditures are claimed simultaneously. In TY 2022, with the homestead deduction alone the effective tax rate was 10-13 percentage points lower than the statutory real property tax rate ($0.85 per $100 before credits and deductions) for the median user of each tax relief provision. Lower valued homes had the lowest effective rate after applying the homestead deduction because the deduction is a fixed dollar amount (see the 3rd column, median effective tax rate with homestead deduction only, in Table 10). Table 10 (4th column) shows that the assessment increase cap credit alone did little to lower the effective tax rate for homesteaders, except for seniors whose effective tax rate was about 9 percent lower than the statutory rate. The senior or disabled property tax relief alone (5th column) significantly reduced the effective tax rate, which led to a 30 percent and 33 percent decrease in taxes for senior and disabled users, respectively.[68] When combined, the cumulative effect of the three tax provisions is significant, especially for senior or disabled homesteaders. In TY 2022, the median senior or disabled homesteader had an effective tax rate that was about a 62-65 percent lower than the statutory tax rate (columns 6 and 7). Additionally, the median cumulative effective tax rate for a non-senior homestead was about 14 percent lower than the statutory tax rate compared to non-homestead properties, whose cumulative ETR was only 1.3 percent lower than the statutory rate. Chart 16 is a visualization of column 7 of Table 10, which shows the combined impact of claiming the homestead deduction, assessment cap credit, and senior or disabled property owner tax relief. It also compares the combined impact of the three property tax relief programs on seniors or disabled beneficiaries to tax relief impact for other homeowners.

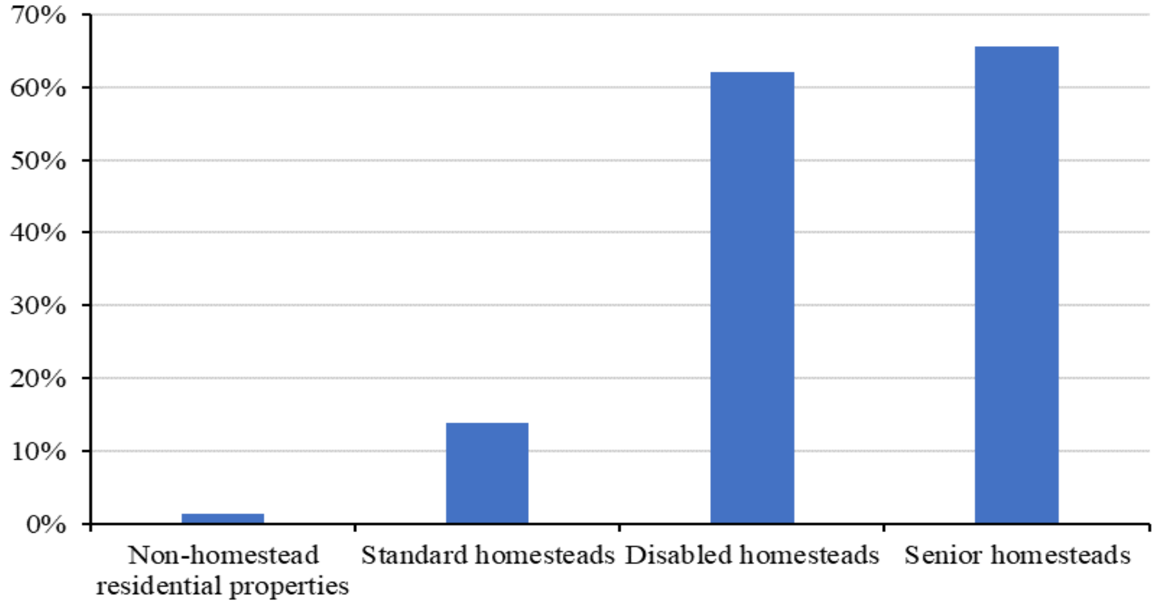
Table 10: Cumulative Effective Tax Rates for Homesteads by Type vs. Non-Homestead Residential Properties, TY 2022

	Statutory tax rate (STR) per $100 of assessed value	Median effective tax rate (ETR) with the homestead deduction only	Median ETR with the assessment increase cap credit only	Median ETR with the senior or disabled homestead deduction only	Median ETR after all deductions and credits	Percent difference between STR and final ETR
Non-homestead residential properties	$0.85	$0.85	$0.85	$0.85	$0.84	1.3%
Standard homesteads	$0.85	$0.75	$0.85	$0.85	$0.73	13.9%
Disabled homesteads	$0.85	$0.72	$0.85	$0.52	$0.32	62.1%
Senior homesteads	$0.85	$0.72	$0.76	$0.55	$0.29	65.6%
Total	$0.85	$0.74	$0.85	$0.85	$0.78	8.4%

Source: ORA analysis of OTR real property tax data, March 2022

[68] There is some potential noise unaccounted for in the results for senior or disabled homestead users' effective tax rates due to possibility of other property tax relief programs being in play for these users. However, these users also have typically lived longer in their homes than the median standard homestead user or all residential property owners eligible for but not in one of these programs.

Chart 16: Percent Difference Between Statutory Tax Rate and the Final Effective Tax Rate for Each Type of Homestead vs. Non-Homestead Residential Properties, TY 2022



Source: ORA analysis of OTR real property tax data, March 2022

Schedule H Income Tax Credit/Property Tax Circuit Breaker
Individual Income Tax Credit

District of Columbia Code: D.C. Official Code § 47-1806.06
Sunset Date: None
Year Enacted: 1977

(Dollars in thousands)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue Loss	$4,230	$14,391	$17,693	$25,019	$28,175	$28,732	$37,057	$36,965	$37,697
Number of Beneficiaries	7,227	18,437	22,190	31,500	34,374	34,451	39,377	39,440	39,331

Source: ORA Analysis of OTR Individual Income Tax data, TY 2013-2021

Description: The District's property tax circuit breaker program (also known as "Schedule H") allows low-income homeowners and renters to claim a property tax credit that is applied to the taxpayer's income tax liability if their property taxes exceed a certain percentage of their income. Seventeen other states, including Maryland, offer property circuit breaker tax relief to their residents. Generally, circuit breaker programs are enacted for property owners who have disabilities or low income, or those who are older. In the District, according to the 1998 DC Tax Revision Commission Report, the Schedule H credit is made up of two circuit breakers. The standard circuit breaker is available for claimants under the age of 70, and the second circuit breaker is for claimants 70 years of age or older, and for the blind or disabled. Prior to 2014 both standard and senior citizen circuit breakers had the same maximum eligible income limit and maximum credit, this changed with the passage of the Senior Citizen Tax Relief Amendment Act of 2014 in the Fiscal year 2015 Budget Support Act of 2014. For renter claimants, 20 percent of rent payments is considered by law to be their equivalent property tax.[69]

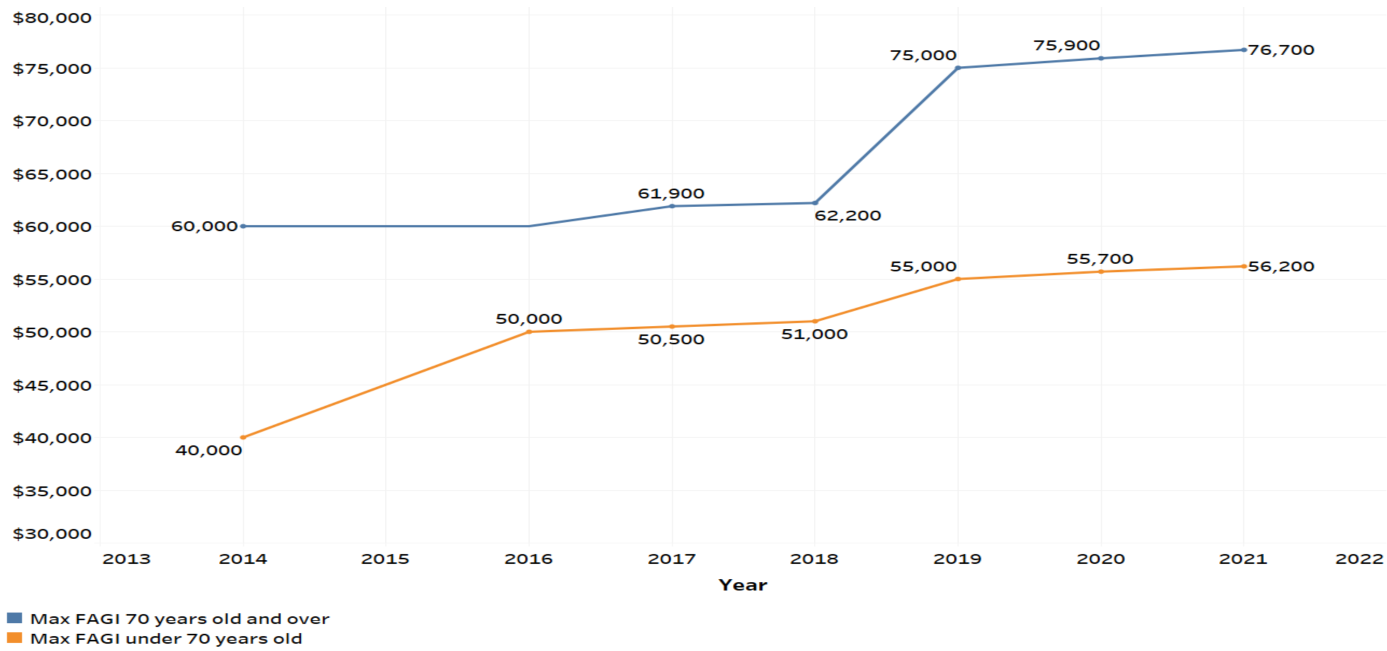
Year	Max. Credit
2013	$750
2014	$1,000
2015	$1,000
2016	$1,000
2017	$1,025
2018	$1,025
2019	$1,200
2020	$1,200
2021	$1,225
2022	$1,250

Eligibility for the District Schedule H credit has been expanded in recent years, both by raising the income threshold for qualifying as well as changing eligibility so that household income is not a determinant (only the taxpayer's income is considered).[70] The most recent changes were enacted in 2019, when the maximum credit amount increased to $1,200, with an annual a cost-of-living increase thereafter (the credit is $1,250 as of tax year 2022).[71] The 2019 law also created an additional threshold for filers with AGIs between $52,000 and $55,000 to receive a credit if property tax paid (or 20 percent of rent paid[72]) is more than five percent of a filer's AGI. Therefore, the annual income eligibility threshold for tax year 2019 was $55,000 per tax filing unit (the limit is $75,000 for persons over the age of 70) and would be adjusted annually for inflation based on the consumer price index (Chart 17). Additionally, as Chart 18 below shows, the expanded eligibility has led to increasing credit claims to assist lower-income renters and homeowners with housing costs. In 2020, the full Schedule H credit represented $38 million in forgone revenue, up from $4.2 million in 2013. The credit is refundable, so if the amount of the credit exceeds tax

[69] The Schedule H Property Tax Relief Act of 2012 increased the property tax equivalent amount for renters from 15 percent to 20 percent.
[70] The decision not to use household income to determine eligibility means taxpayers no longer must count the income of anyone who shares their housing – even someone who is unrelated – when applying for the program. Using the income of the tax filing unit (a single person or a family, in essence) expands eligibility and reduces the administrative complexity of the program.
[71] The Keep Housing Affordable Increased Property Tax Relief Act of 2019
[72] The Schedule H Credit assumes a property tax equivalent of rent of 20 percent of annual rent payments to estimate the portion of rental payments that theoretically go toward the property payment of the property, even though the renter does not directly make the payment.

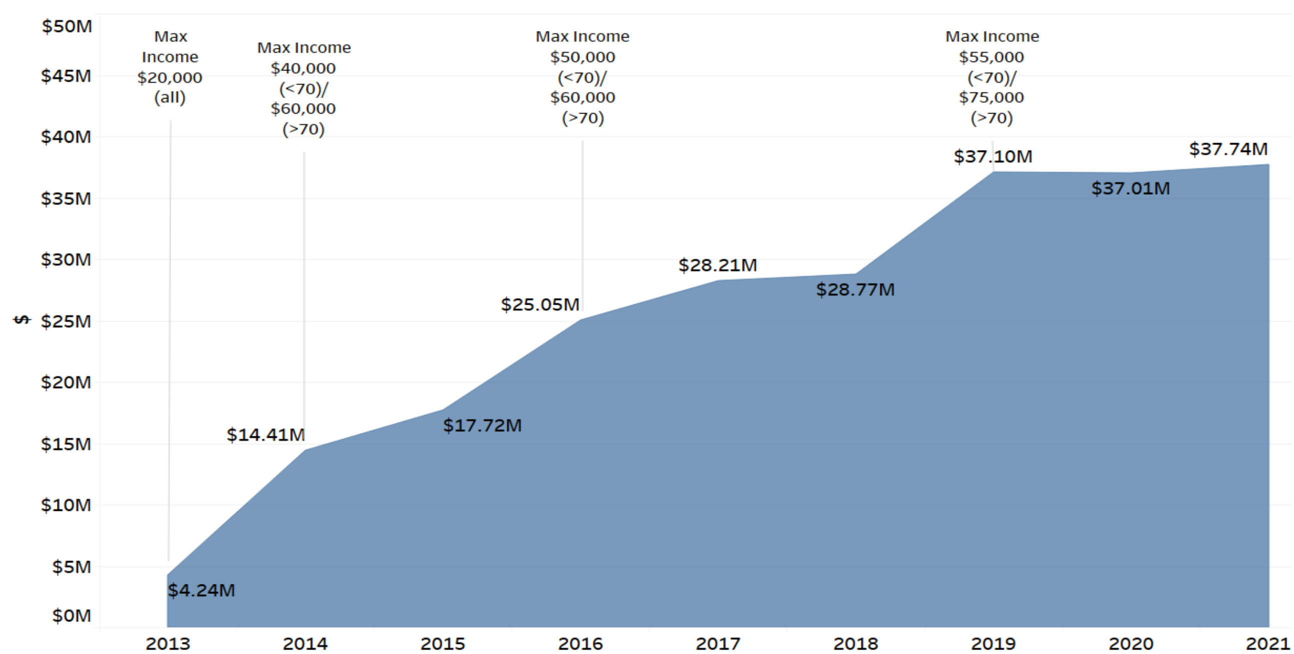
liability, the taxpayer receives the excess amount in the form of a refund. The goal of Schedule H and circuit breakers in general is to provide relief for residents who face high rents or property taxes relative to their income.

Chart 17: Maximum Income for Schedule H Eligibility, 2014 to 2021



Source: ORA Analysis of OTR Individual Income Tax data, TY 2014-2021

Chart 18: Total Schedule H Tax Credit Taken, by Year (Income Limit Increases Marked)



Source: ORA analysis

<u>PURPOSE</u>: The purpose of the credit is to provide relief to certain District residents who rent or own their principal place of residence. One of the stated objectives of the District of Columbia Real Property Tax Revision Act of 1974, which

included the Schedule H real property tax relief, is the assurance that "shifts in the tax burden on individual taxpayers will not be excessive."[73] The credit enhances income security for residents whose property taxes are high relative to their income, such as elderly residents on fixed incomes. Although the tax relief is provided through the income tax system, it is based on the amount by which an individual or family's property tax bill exceeds a specified percentage of income.

Evaluating the Schedule H Income Tax Credit/Property Tax Circuit Breaker Credit and its Impact

Residential property taxes are known to be regressive, because it is a flat rate, requiring low-income taxpayers to spend a larger portion of their income in property tax payments than wealthier taxpayers. According to a 2018 study by the Institute of Taxation and Economic Policy (ITEP), the poorest twenty percent of taxpayers in the US paid 4.2 percent of their income in property taxes, compared to 3 percent and 1.7 percent of income for middle-income and the top 1 percent of taxpayers, respectively.[74] ITEP further states that "the main reason property taxes are regressive is that home values are much higher as a share of income for low-income families than for the wealthy. Because property taxes are based on home values rather than income, property taxes are disconnected from "ability to pay" considerations in a way that income taxes are not: a taxpayer who suddenly becomes unemployed will find that her property tax bill is unchanged, even though her ability to pay it is greatly reduced."[75] Mohammad Al Fayazi, Liam Fischer and Daniel Muhammad (2023) conducted a thorough analysis of the Schedule H tax credit titled "The Effectiveness and Efficiency of DC's Property Tax Circuit Breaker in Reducing the Real Property Tax Burden of Low-income Homeowners." Our analysis below draws heavily from their report, which is available at www.ora-cfo.dc.gov.

The goal of this provision is to reduce property taxes for taxpayers earning below a certain income level, that is, to provide some amount of property tax relief when their property taxes exceed a certain percentage of their income. Low-to moderate-income individuals and families in the District who own or rent a home that serves as their primary place of residence are the main beneficiaries of this credit. Chart 19 below breaks out the portion of Schedule H assistance going toward different property types from 2014 to 2019. The figure shows that the largest portion goes toward apartments (82 percent), followed by houses, then condos, and rooming houses (18 percent). In 2014, almost all the claimants were renters, while in 2013 about 78 percent were renters.

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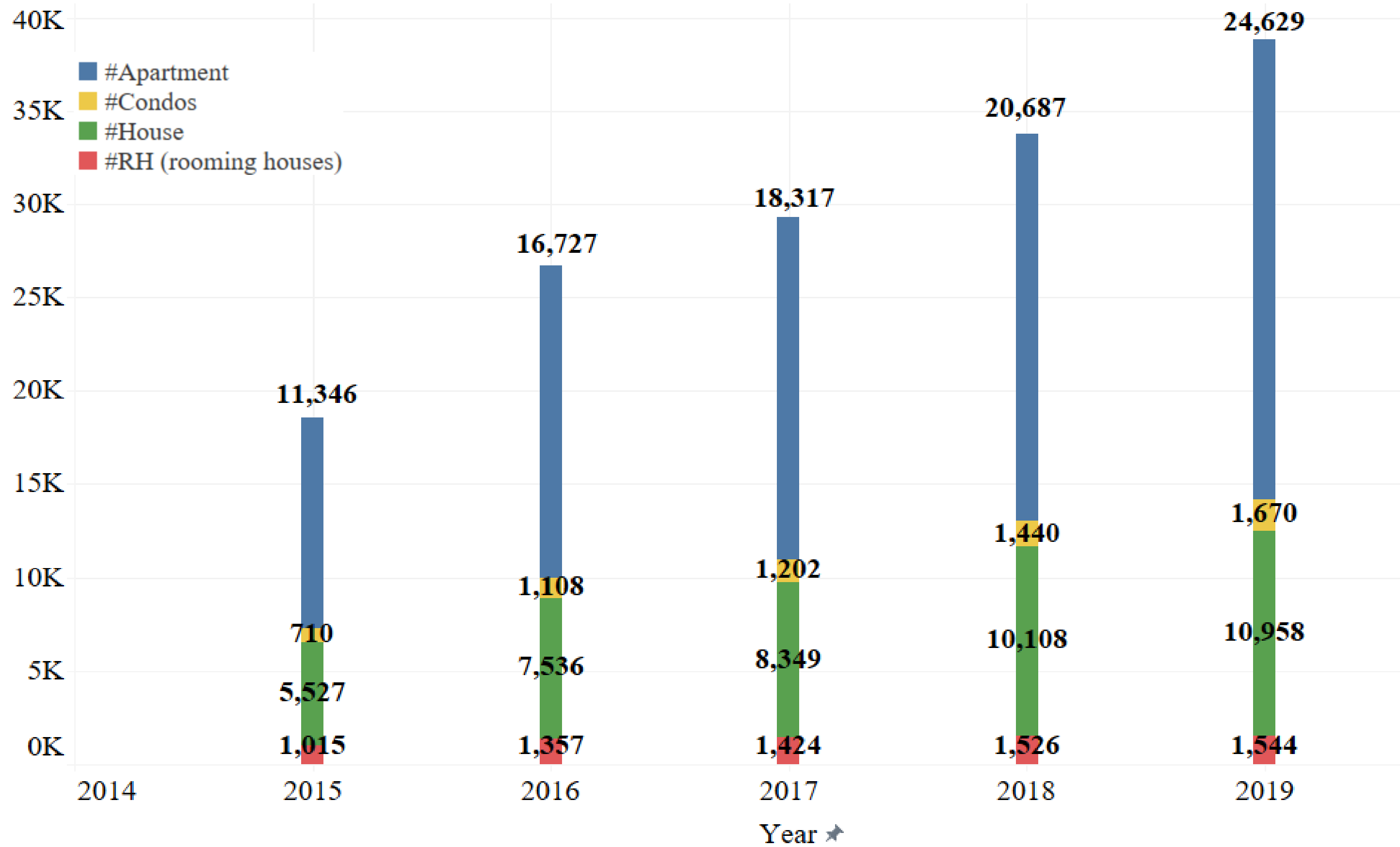
[73] Public Law 93-407. September 3, 1974, p. 1051. Retrieved from https://www.govinfo.gov/content/pkg/STATUTE-88/pdf/STATUTE-88-Pg1036.pdf

[74]Aidan Davis (September 2019). "Property Tax Circuit Breakers in 2019". Policy Brief, Institute of Taxation and Economic Policy, September 2019, page 1. Available at https://itep.org/property-tax-circuit-breakers-2019/

[75] Ibid., pp.1-2

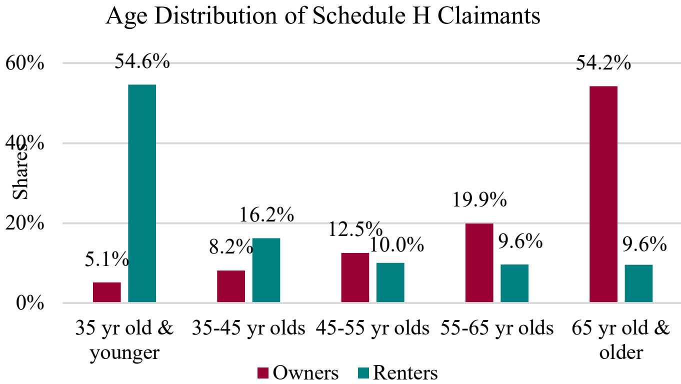
Chart 19: Number of Schedule H Credit Claimants by Property Type

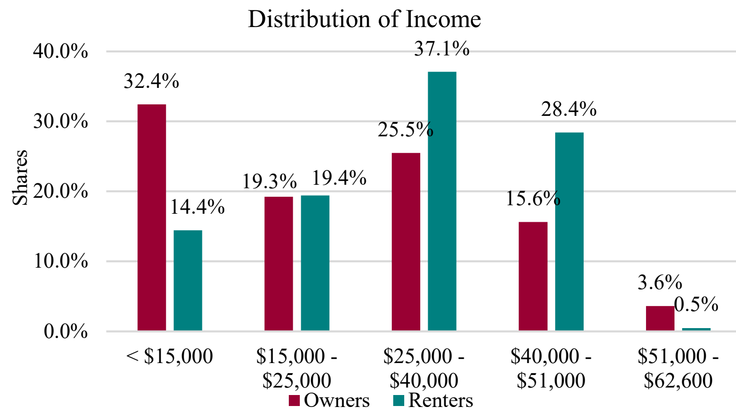


Source: ORA. Data on property types only available through 2019
Note: in 2014 there were 82 apartments, 22 condos, and 4 rooming houses identified in the data by property type.

Additionally, Chart 19 shows that in 2019, 24,629 renters living in apartments received Schedule H assistance for paying their rent through their income tax forms. The same year 10,958 homeowners received Schedule H assistance for making their mortgage payments, with another 1,670 in condos and 1,544 in rooming houses. In each year these subtotals fall short of the total number receiving assistance, as some taxpayers (about 2 percent of recipients) do not identify their property type on the tax form. Most renters benefiting from the credit are young, under the age of 45, while most homeowners are older, most above 55 years old. Specifically, about 55 percent of renters receiving the credit are under 35 age group, and about 54 percent of homeowners are at least 65 years old (Chart 20). Additionally, renters tend to earn between $25,000 and $51,000, while owners tend have income under $25,000. The average income for homeowners is $22,533, and $30,484 for renters. On income tax forms, AGI comprises different sources of income including wages and salaries, business income, pension income, capital gains and rental royalties. Accordingly, renters, being relatively younger, tend to earn most of their annual income via wage earnings, while owners tend not to have wage earnings. Chart 21 shows that the median wage earnings of owners in 2018 is $0, while median wage earnings for renters is $29,851. This is because the income of owner claimants, who are senior citizens, comes from social security benefits, pensions, annuities, IRA distributions taxable interest and other dividends. Moreover, most Schedule H claimants in the District are single. This is true for renters and homeowners (Chart 21).

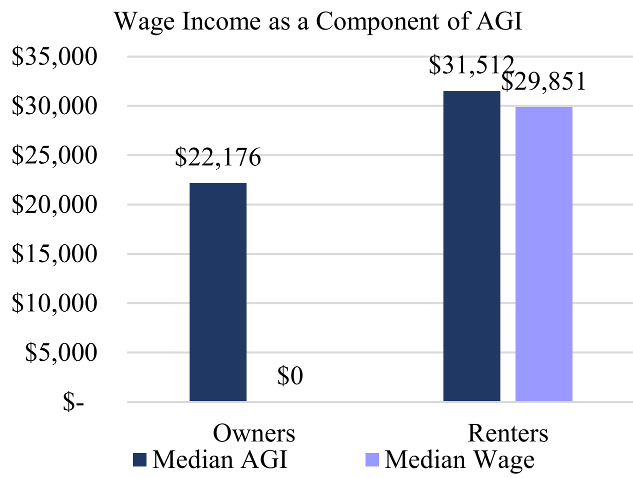
Chart 20: Age and Income Distribution of Schedule H Claimants, 2018

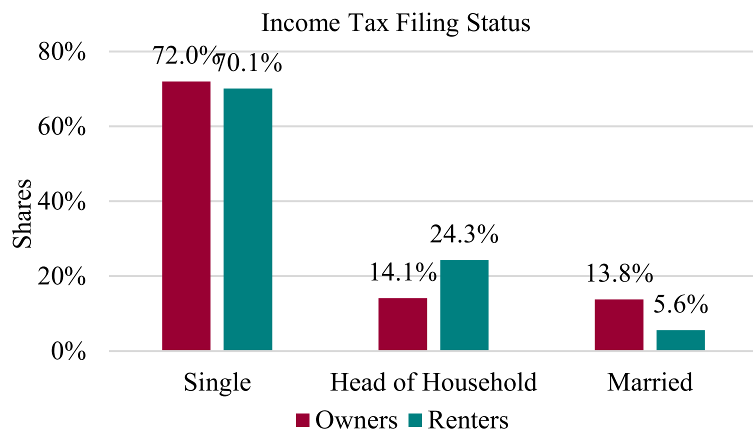




Source: ORA analysis

Chart 21: Schedule H Wage Income and Distribution of claimants by Filing Status, TY 2018



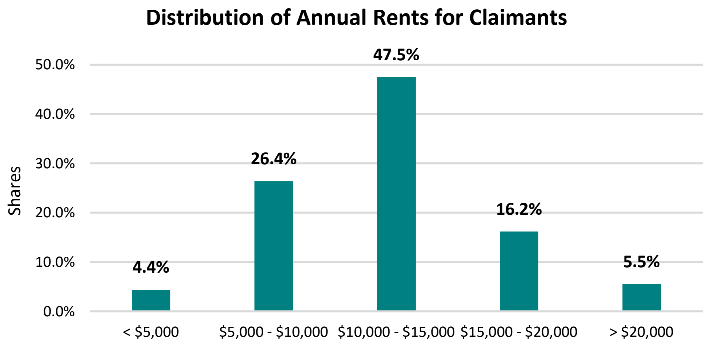


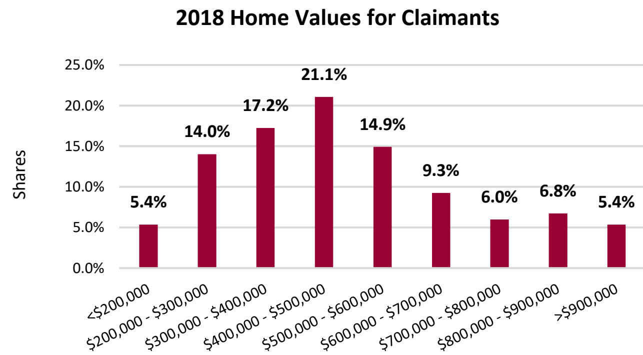
Source: ORA analysis of OTR's Individual Income Tax data.

Renter beneficiaries paid a median annual rent of $12,000, with nearly half of all renter claimants paying between $10,000 and $15,000 in annual rent (1st figure, Chart 22).[76] The home values of owner claimants, on the other hand, is between $300,000 and $600,000 (2nd figure, Chart 22) with a mean (median) home value of $789,864 ($463,040), and a consequent mean (median) property liability before the Schedule H tax credit of about $3,089 ($2,084).

[76] The median rent of $12,000 is comparable to the 2022-2023 maximum rents based on the Washington Metropolitan Statistical Area Median Family Income (MFI) for as stated by DHCD. Available at https://dhcd.dc.gov/publication/2022-2023-inclusionary-zoning-maximum-income-rent-and-purchase-price-schedule

Chart 22: Annual Rent and Home Value Distribution of claimants, TY 2018



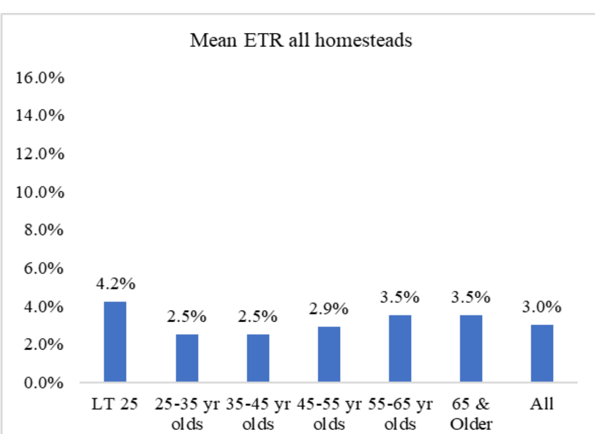


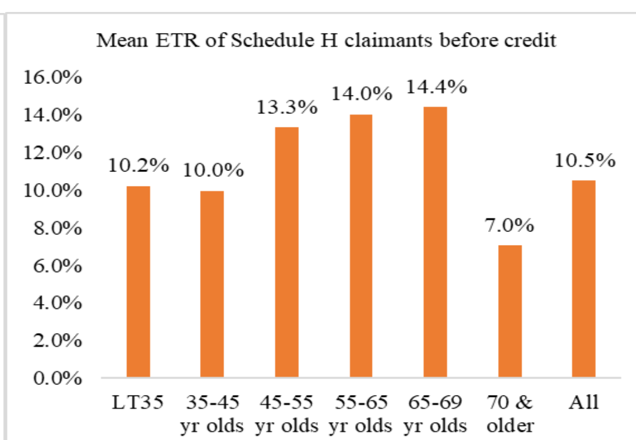
Source: ORA analysis of OTR's Individual Income Tax data.

Regular vs Senior Schedule H Circuit Breaker:

On average, homesteaders in the District paid about 2 percent of their income in property taxes. As Chart 23 (left chart) shows, the average property tax burden in the District is highest among the young (25 years and younger), followed by the elderly, with seniors 55 and older having a property tax burden at 3.5 percent in 2018. As Chart 23 shows, the effective tax rates for taxpayers claiming the circuit breaker tax credit are high compared to all District real property taxpayers. For homeowners claiming the credit, the mean effective real property tax rate is 10.5 percent, with the highest effective tax rate of 14.4 percent among seniors between 65 and 69 years old (Chart 23, right chart). There are two reasons for the lower tax burden for seniors 70 years and older. First, there is a higher income threshold for this group. In 2018, the maximum FAGI for seniors aged 70 and older was $62,600 compared to $51,000 for other beneficiaries (beneficiaries aged 70 and older had one of the highest mean incomes among all age groups in 2018 at about $37,000, shown in Chart 24, left chart). Second, seniors tend to have a longer homeownership tenure. More than half of senior Schedule H homeowners (aged 65 and older) bought their homes prior to 1990 at an average price of about $134,000 and have benefitted from the assessment cap increase credit since its inception (Chart 24, right chart). The relatively higher income for seniors 70 and older plus the benefit of the assessment cap credit is the most likely reason for the lower property tax burden for this age group. Schedule H seniors in the 65 to 69 age group also benefit from the assessment cap credit, but their very low income explains why their property tax burden is the highest among all age groups.

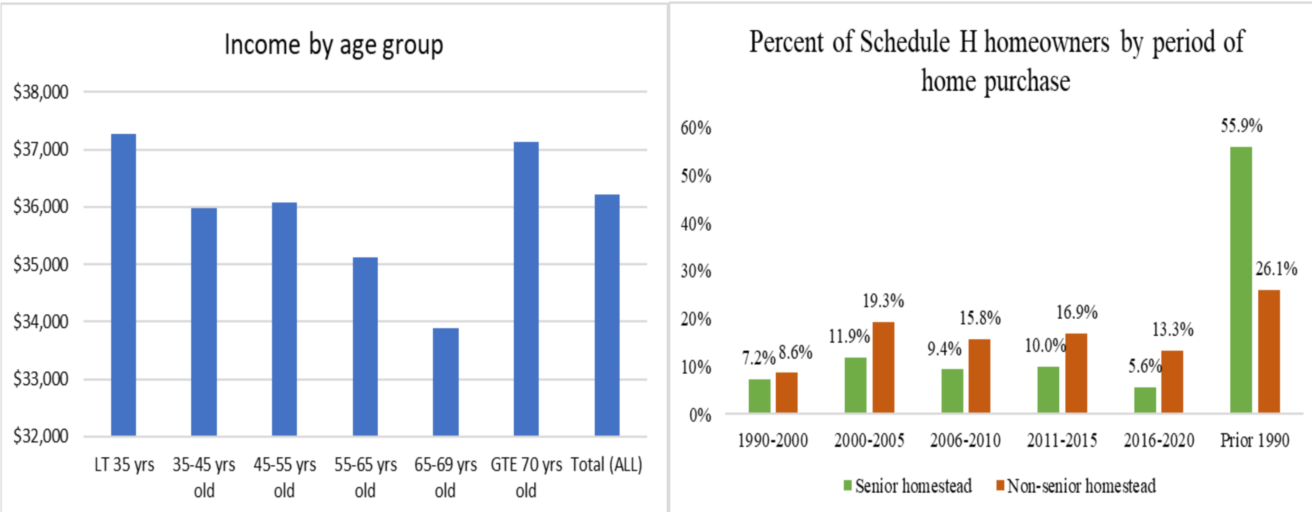
Chart 23: Mean Property Tax Burden for all Homesteads and Schedule H Claimants by Age Group, TY 2018





Source: ORA analysis of OTR's Real Property Tax data.

Chart 24: Mean Income of Schedule H Claimants by Age Group and Home Purchase, TY 2018

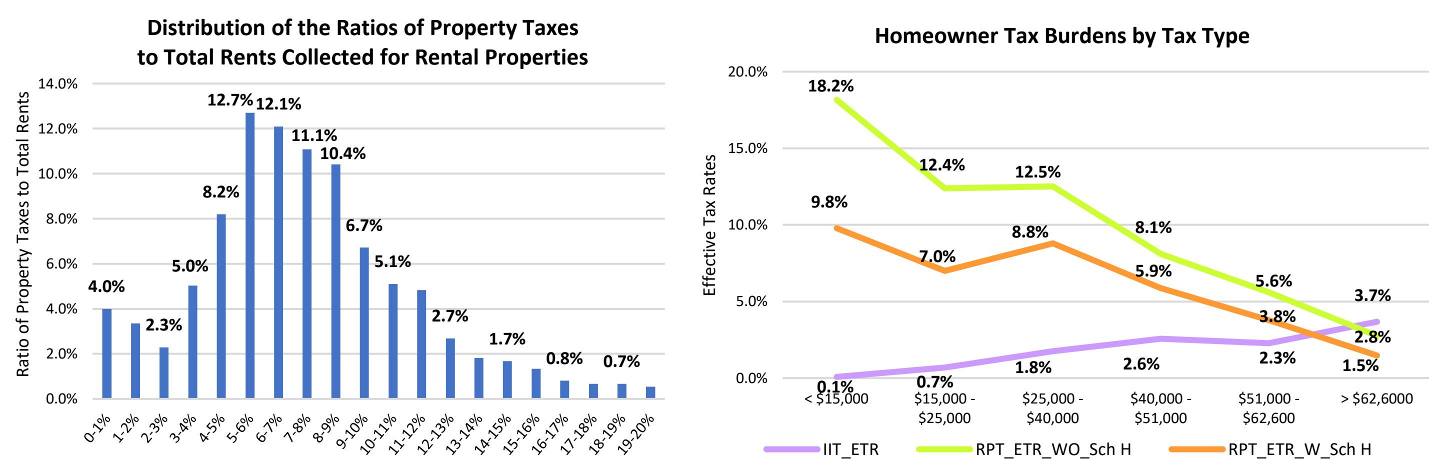


Source: ORA analysis of OTR's Real Property Tax data.

Renters vs. Homeowners Beneficiaries:

For renters, Schedule H credit is based on 20% of annual rent paid, which is assumed to be equivalent to the real property tax each renter pays on the rented property. However, data from the 2018 Income & Expense Reports (I&E Report), which is an annual report owners of all medium and large residential rental properties are required to submit for each of their properties to the Property Assessment Division of Real Property Tax Administration (RPTA), indicates that the median ratio of real property taxes to total rents collected is about 6.85 percent, and 53 percent of the multifamily properties had a ratio between 5 and 10 percent (Chart 25). Then, with a median annual rent of $12,000, the estimated share that is paid in property taxes is about $822 ($12,000*0.0685) or less for the year, for at least half of the city's 27,902 renter claimants. So, if renter claimants received the full $1,025 tax credit, their entire rental tax is fully abated and the remaining $203 ($1,025 - $822) of the credit, effectively, subsidizes some of their annual rental housing costs.

Chart 25: Tax Burdens, TY 2018



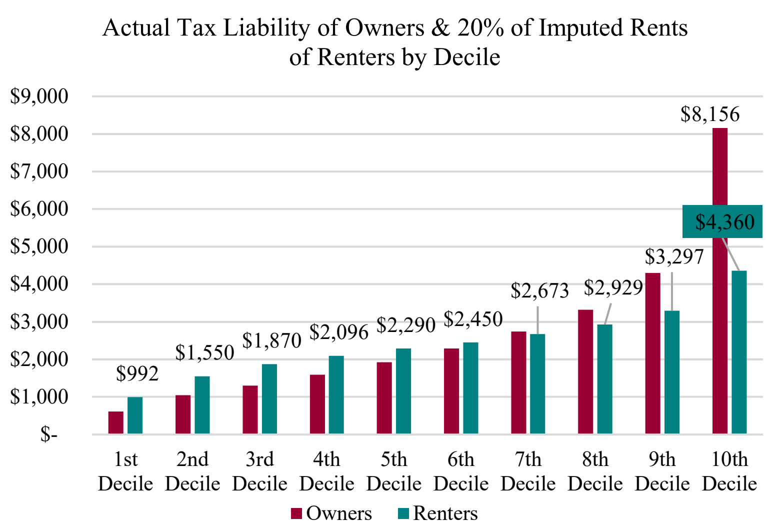
Source: ORA analysis of OTR's Real Property Tax data.

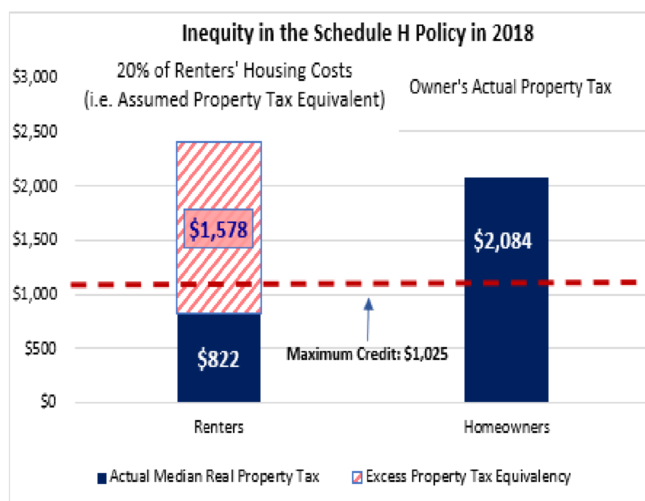
Unlike renters, homeowners do not have their real property fully abated after claiming the Schedule H tax credit. In 2018, the average property effective tax rate for homeowners (before the Schedule H property tax credit) was 13.7 percent with a few expected to pay as much as 18.2 percent of their income in property taxes (the yellow line in 2nd figure, Chart 25).

But when the property tax credit is included, these claimants had an average reduction in their initial property tax bills of 29.7 percent. For claimants earning less than $15,000 in income, their effective property tax rate was reduced from 18.2 percent to 9.8 percent, a 45.5 percent reduction in their net property tax liability (the orange line in 2nd figure Chart 25). And claimants earning between $15,000 and $25,000 in income had their effective property tax rate reduced from 12.4 percent to 7.0 percent, a 43.5 percent reduction in their net property tax liability that included the circuit breaker tax credit.

In general, the Schedule H tax relief policy targets households with high property tax burden. Based on our analysis, the high property tax burden is because some households with relatively low income have very high property taxes (for owners) or "equivalent property taxes paid" (which is "20% of rent paid" for renters). The first figure in Chart 26 presents the distribution of property tax liability by income deciles for renters and homeowners. The figure shows that for the 1st through the sixth deciles the average "20% of rent paid" amounts for renters is higher than the average real property taxes paid by owners. Given that the median income for renters in 2018 is $31,512, the "20% of rent paid" calculation in the Schedule H tax form qualifies the median renter for $1,260 in Schedule H tax relief ($31,512*0.04 which is then limited to a maximum relief amount of $1,025, based on the schedule H tax form instructions). This suggests that renters are more likely to receive the maximum credit. That is because the "20% of rent paid" for renters is likely to overestimate their property tax burden for the apartment unit, making them are more likely to receive the maximum credit, compared to owner claimants."[77] This condition is also visualized on the right in Chart 26. The median tax liability for homeowners claiming Schedule H credit is about $2,084 in 2018. For renters, the median computed property tax liability based on the assumed 20 percent of annual rent paid on the Schedule H form is about $2,400 while the estimated tax based on the I&E Report is $822 ($12,000*0.0685). So, the Schedule H policy may provide up to 125% tax relief to the renter (the sum of the red striped area under and above the maximum credit line in first bar) based on the maximum credit allowed and the inherent structure of how the "equivalent property tax" for renters is calculated, but only 49% to homeowners (the dark blue area above the maximum credit line on the second bar) who earn the same levels of income. Therefore, it may be more equitable for homeowners to have a uniformed benefit with their renter counterpart from the Schedule H credit.

Chart 26: Actual Tax Liability and Inequality of the Schedule H Credit for Renters and Homeowners





Source: ORA analysis

[77] Al Fayazi, M., Fischer, L., & Muhammad, D. (2023) "The Effectiveness and Efficiency of DC's Property Tax Circuit Breaker in Reducing the Real Property Tax Burden of Low-income Homeowners", p. 23. Retrieved from www.ora-cfo.dc.gov

Evaluating the Impact of Stacking Schedule H Income Tax Credit/Property Tax Circuit Breaker Credit, Homestead Deduction, Assessment Cap Credit and Senior Citizen or Disabled Property Owner Tax Relief on Claimants

Tax filers in the District claim multiple tax relief programs if it is applicable to their circumstance. For example, a homeowner can receive the homestead deduction, assessment cap credit, senior or disabled property tax relief, as well as the circuit breaker credit. In 2018, about 80.7 percent of homeowners who benefitted from the Schedule H circuit breaker credit also received the homestead deduction.[78] As stated earlier in this report, a homeowner who qualified for the homestead deduction automatically receives the assessment cap credit. A senior or disabled homesteader would need to apply for the senior citizen or disabled property owner tax relief to reduce their property tax bill by 50 percent.

To analyze the effect of stacking the four property tax programs, we disaggregate the circuit breaker homeowner beneficiaries by age group and by whether they received the homestead deduction. Table 11 below reports the property tax burden for non-senior and senior tax filers (for homesteads and non-homesteads) that claimed the circuit breaker tax credit in 2018. It also provides the amount of tax relief received by the claimants due to the credit.

Table 11: Cumulative Effect of the Homestead Deduction, Assessment Increase Cap Credit, Senior/Disabled Tax Relief, and the Schedule H Income Tax Credit for Homeowners on Property Tax Liability, 2018

	All homesteads in City		Schedule H claimants		
	Non-senior	Senior (65 years and older)	Not a homestead	Non-senior homestead	Senior homestead (65 and older)
Median AGI	$ 154,332	$ 58,771	$ 21,736	$ 23,560	$ 18,297
Median IIT liability	$ 8,071	$ 1,434	$ 119	$ 160	$ -
IIT ETR (IIT liability/AGI)	5.2%	2.4%	0.5%	0.7%	0.0%
Median home assessment value	$ 577,190	$ 457,755	$ 411,570	$ 459,735	$ 473,290
Median RPT liability	$ 3,959	$ 1,348	$ 3,561	$ 2,631	$ 1,362
RPT liability/ home assessment value	0.69%	0.29%	0.87%	0.57%	0.29%
Initial RPT ETR with all property deductions (Initial RPT liability/AGI)	2.6%	2.3%	16.4%	11.2%	7.4%
Median Schedule H credit	-	-	$ 1,025	$ 1,025	$ 1,025
RPT liability adjusted for Schedule H credit	-	-	$ 2,536	$ 1,606	$ 337
% Reduction in RPT due to Schedule H credit	-	-	-28.8%	-39.0%	-75.3%
Median net RPT ETR (Adjusted RPT liability/AGI)	**2.6%**	**2.3%**	**11.7%**	**6.8%**	**1.8%**

Source: ORA analysis of OTR's individual income and real property tax data.

For beneficiaries that claimed the Schedule H credit in 2018, on average, before the inclusion of the credit, non-senior claimants that also did not receive the homestead deduction would have paid about 16.4 percent of their income in

[78] Individual income tax returns data was matched with the DC real property tax data. Fischer and Muhammad (2023) were able to match about 50% of the individual income tax data to the real property tax data.

property taxes compared to 11.2 percent for homesteaders (shown in the row in red). This shows that although the homestead deduction, assessment cap credit, and senior or disabled homeowner property tax relief alone reduced the property tax burden by about 31.7 percent for non-senior qualified homesteads[79] compared to non-homestead Schedule H claimants prior to receiving the credit, it was still about four times higher than the average property tax burden for non-senior homesteads that did not claim the credit in the District. After the Schedule H credit is applied, the property tax burden is reduced by about 29 percent to 11.7 percent for claimants not taking the homestead deduction (the yellow and green rows in Table 11). For non-senior homesteaders the circuit breaker credit reduced the property tax burden by 39 percent to 6.8 percent. The benefit of the circuit breaker was more pronounced for senior claimants because the assessment cap credit and senior or disabled property tax relief gave them a relatively low real property tax liability before the Schedule H credit was applied. These two property tax relief programs lowered the tax liability for seniors to $1,362, a much lower property tax liability than that of non-senior homesteads and non-homestead beneficiaries. As a result, senior homesteads receiving the circuit breaker credit, on average, saw about a 75 percent reduction in their property tax burden so that they paid about 1.8 percent of their income in property taxes, bringing their property tax burden on par with that of the average homesteader in the District. Table 11 highlights the fact that the property tax burden of non-senior and non-homestead low-income homeowners are so high that even after the inclusion of the homestead deduction, assessment cap credit, and the circuit breaker, their property tax burden is still significantly higher than the District average.

While the benefit of these tax provisions is obvious, the analysis raises the question of how well these tax relief programs are designed to reach their target group of low-income homeowners. One way to extend the benefits to more low-income homeowners is to revisit the eligibility criteria of these programs, especially the circuit breaker tax credit. Previous eligibility requirements for the circuit breaker had a lower threshold percentage of household gross income (HGI) (as low as one percent with a maximum of four percent) The threshold is now between three and five percent which excludes a lot of residents and places a higher burden on homeowners.

[79] The 31.7 percent reduction in tax burden is the percentage difference between the median RPT liability of not a homestead (16.4 percent) and non-senior homestead (11.2 percent).

First Time Homebuyer Deed Recordation Tax Benefit
Deed Recordation Tax Reduced Rate

District of Columbia Code: D.C. Official Code § 42-1101 and § 42-1103(e)
Sunset Date: None
Year Enacted: 2017

(Dollars in thousands)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue Loss	$4,269	$5,591	$6,155	$8,606	$10,926	$13,871
Number of Beneficiaries	1,801	2,208	2,243	2,969	3,529	4,194

Source: ORA Analysis of OTR FTHB data, FY 2018-2021, FY 2022-2023 are estimates

Description: The first-time homebuyer (FTHB) tax benefit reduces the deed recordation tax rate for first-time homebuyers of eligible real properties in the District beginning October 1, 2017. The tax rate for deed recordation tax is reduced by 34 percent to 0.725 percent of consideration or fair market value for residential property transfers less than $400,000; and 50 percent of consideration or fair market value for residential property transfers greater than or equal to $400,000. For qualified first-time buyers of an economic interest in a cooperative unit, the rate for an economic interest in a cooperative unit is reduced by 17 percent to 1.825 percent when consideration allocable to the real property is less than $400,000; or reduced by 28 percent to 2.175 percent when consideration allocable to the real property is $400,000 or greater. By law, a DC first-time homebuyer is defined as a purchaser who has never owned an improved residential real property or an economic interest in a cooperative unit that qualified for the homestead deduction as the individual's principal residence. A first-time District homebuyer also includes an individual who has divorced or separated and who, by a written settlement agreement or court order, did not obtain an ownership interest in a principal residence that had been jointly owned. An eligible property is an improved residential real property, including an economic interest in a cooperative unit, purchased at an amount capped at $625,000 (adjusted annually beginning with real property tax year 2019), that qualifies for the homestead deduction; and includes within the capped amount all other real property conveyed on the same deed.

First-time homebuyers in the District entitled to the partial recordation tax exemption must meet the following criteria: 1) the buyer must be a bona fide District of Columbia resident; 2) have a combined federal adjusted gross income that is no higher than 180% of the Area Median Income as reported by the Department of Housing and Urban Development before the beginning of the real property tax year; 3) provide proof that the real property to be purchased is an eligible property and; 4) provide a copy of the homestead deduction application for the eligible property, signed by the applicant.

PURPOSE: The purpose of the reduced tax rate is to encourage homeownership to combat homelessness and housing affordability in the District. The legislation reduces the amount needed by first-time homebuyers for closing on a home in the District, thereby helping to make buying a home achievable especially for households that may not be income eligible for other homeownership programs.

Evaluating the First Time Homebuyer Reduced Tax Benefit and its Impact.

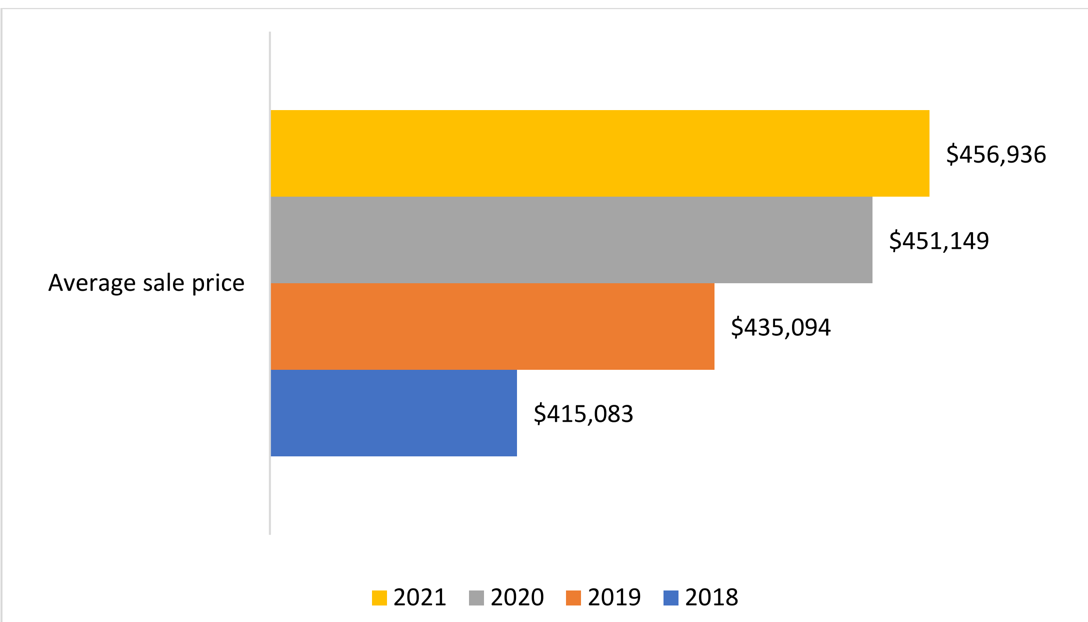
The first-time homebuyer tax benefit program is quite new; however, since its inception, there has been an active participation in the first-time homebuyer tax rate reduction program. Based on available data, there were 10,358 applications for the first-time homebuyer reduced tax rate benefit, making up about 20 percent of all home sales in the District between October 2017 and March 2022 (Table 12). Most first-time homebuyer applications are generated from third party market sales, and about two percent are from refinanced properties. Additionally, about 8 percent of the first-time homebuyer applications are from co-operative properties (Co-ops). On average, deed recordation and transfer taxes are reduced by about $2,680 for first-time home buyers through the reduced tax rate benefit, which decreases the amount of money needed to close on a house. Chart 27 reports the average sale price of homes. Between 2018 and 2021, the average price of homes bought by first-time homebuyers was about $447,620. The increasing trend might reflect the increase in the housing prices in the District as well as the impact of the increase in the maximum purchase value cap beginning in TY 2019.

Table 12: First-Time Homebuyer Applications and Estimated Forgone Revenue, October 2017- March 2022

Calendar Year	Total number of FTHB applicants	Number of FTHB Co-ops applicants	Total amount in forgone revenue FTHB (in 000s)	Average amount in forgone revenue per FTHB
Oct-Dec 2017	387	46	$879	$2,283
2018	1,910	173	$4,583	$2,410
2019	2,244	212	$5,847	$2,610
2020	2,433	153	$6,758	$2,778
2021	2,810	197	$8,053	$2,866
Jan-Mar 2022	574	46	$1,641	$2,859

Source: OTR first-time homebuyer data

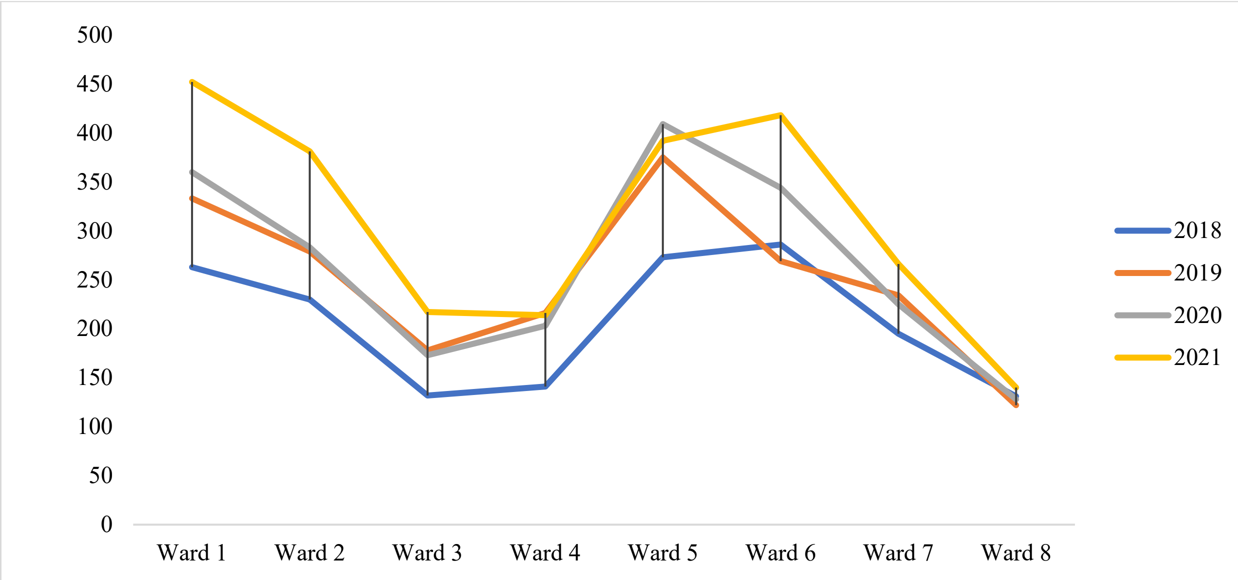
Chart 27: Average Home Value of First-Time Homebuyers, 2018- 2021



Source: OTR first-time homebuyer data, and DC real property data

Next, we conducted a geographical analysis by Ward and neighborhood to determine if first-time homebuyers are highly clustered in specific locations in the District. First, Wards 5, 1, 6 and 2 had the four highest number of FTHB beneficiaries of the reduced tax credit. Ward 8, however, had the lowest number of FTHB applications between 2018 and 2021 (Chart 28). A simple spatial analysis of the homes bought by first-time homebuyers shows some clustering does occur in specific areas, especially within Wards 5, 1, 6, 2, and 7 (Map 5).

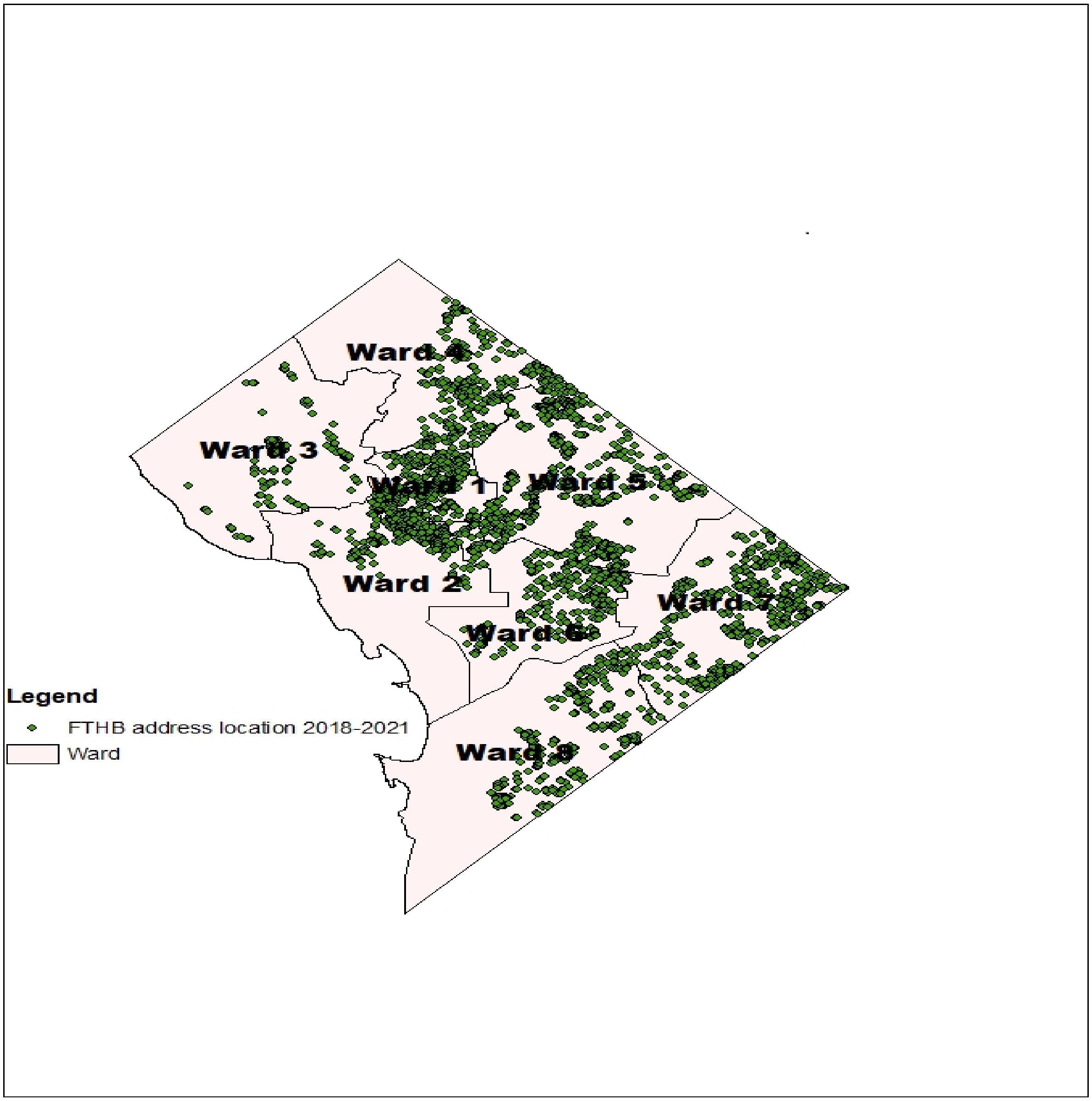
Chart 28: Number of FTHBs by Ward, 2018-2021



Source: OTR first-time homebuyer data, and DC real property data
Note: This chart only shows recipient by full calendar year

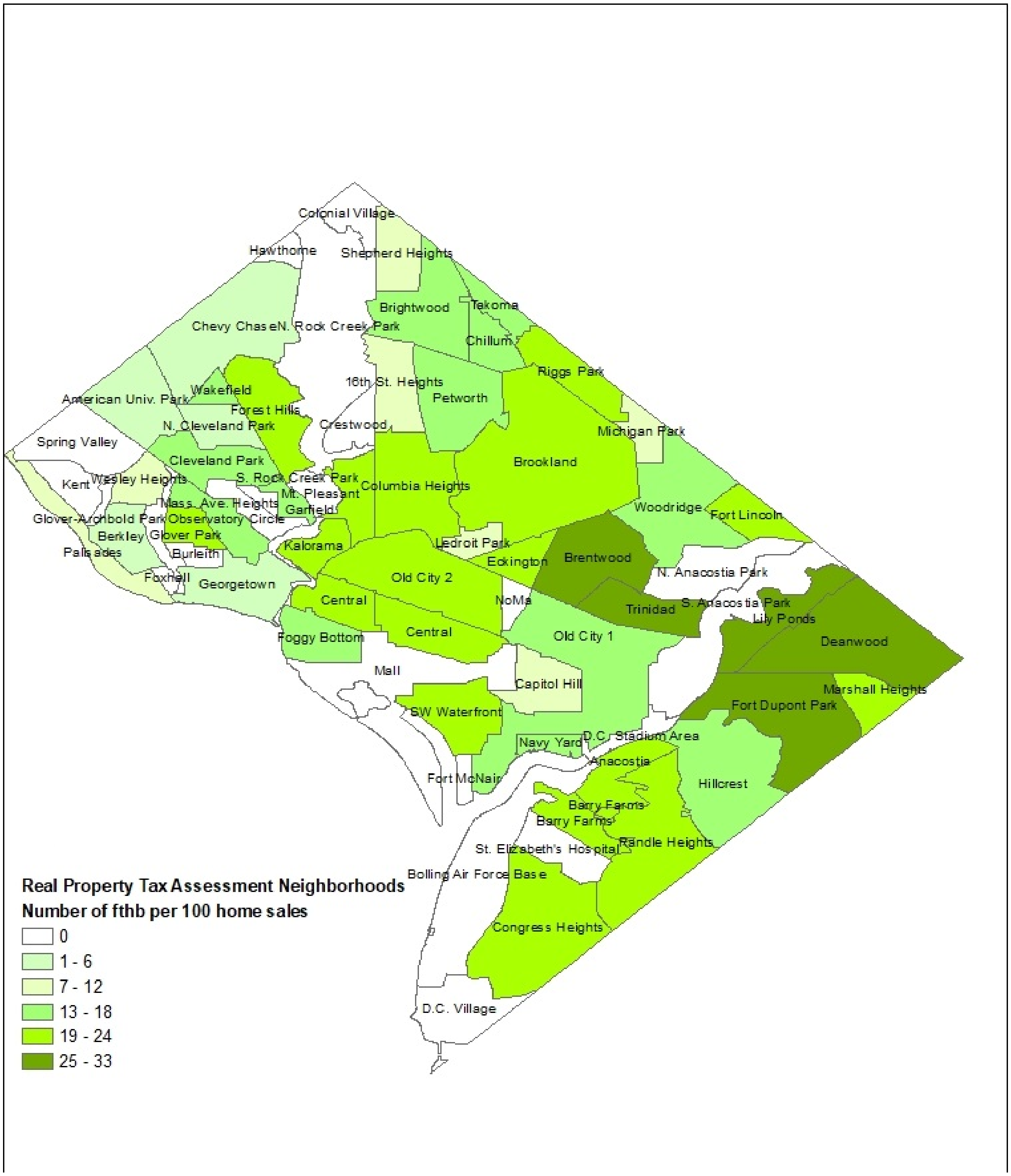
We also analyzed the location clusters of the FTHB beneficiaries by neighborhood. Map 6 shows the number of FTHBs per 100 home sales between 2018 and 2021 to provide a neighborhood-level analysis of the location decisions of FTHBs. We controlled for the total number of home sales by neighborhood because some neighborhoods may have a higher (or lower) proportion of FTHBs in relation to the total number of homes sold in the same neighborhood. For example, in Map 6, five neighborhoods, Brentwood, Trinidad, Lily Ponds, Fort Dupont Park, and Deanwood, have the highest number of FTHBs between 2018 and 2021 once we consider the total number of home sales by neighborhood. That is, proportionally, a home buyer in Brentwood in Ward 5 was slightly more likely to be a FTHB compared to a home buyer in the Columbia Heights neighborhood in Ward 1. Additionally, Brentwood, Lily Ponds, Fort Dupont Park, and Deanwood are among the top ten neighborhoods with the lowest average home sale value (Chart A3, Appendix 2). We can therefore infer that first time homebuyers are getting relatively cheaper homes in the District, which may be because of the home value cap required by the program.

Map 5: Addresses Point Location of FTHBs, 2018-2021



Source: OTR first-time homebuyer data, and DC real property data

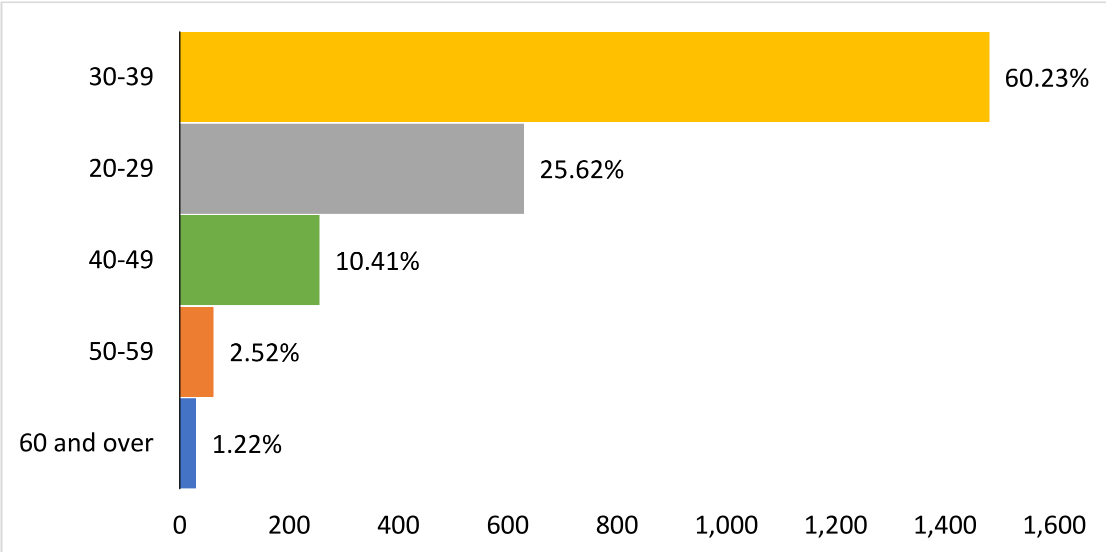
Map 6: Number of FTHBs per 100 Home Sales by Neighborhood



Source: OTR first-time homebuyer data, and DC real property data

We also analyzed the demographics of FTHB beneficiaries using the individual income tax returns administrative data. Our analysis shows that most first-time homebuyers are young, with their ages ranging from 20-39 years. In fact, about 60 percent of FTHBs that received the deed tax benefit between 2017 and 2019 were in their 30s while individuals 50 and older only made up approximately 4 percent of total beneficiaries in the same period (Chart 29).

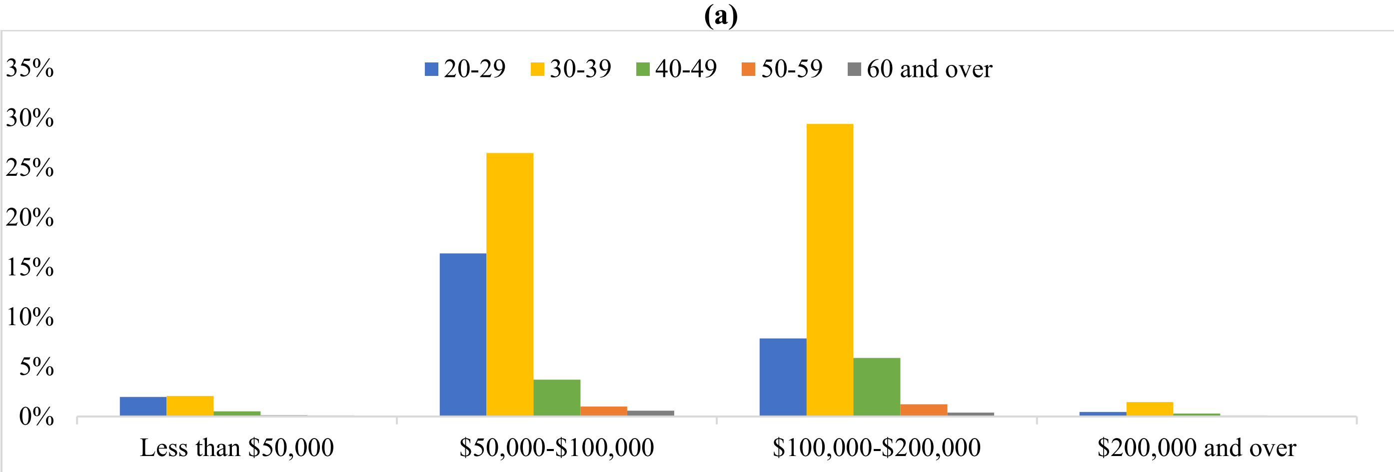
Chart 29: Percent of First-Time Homebuyers by Age Group, 2017-2019



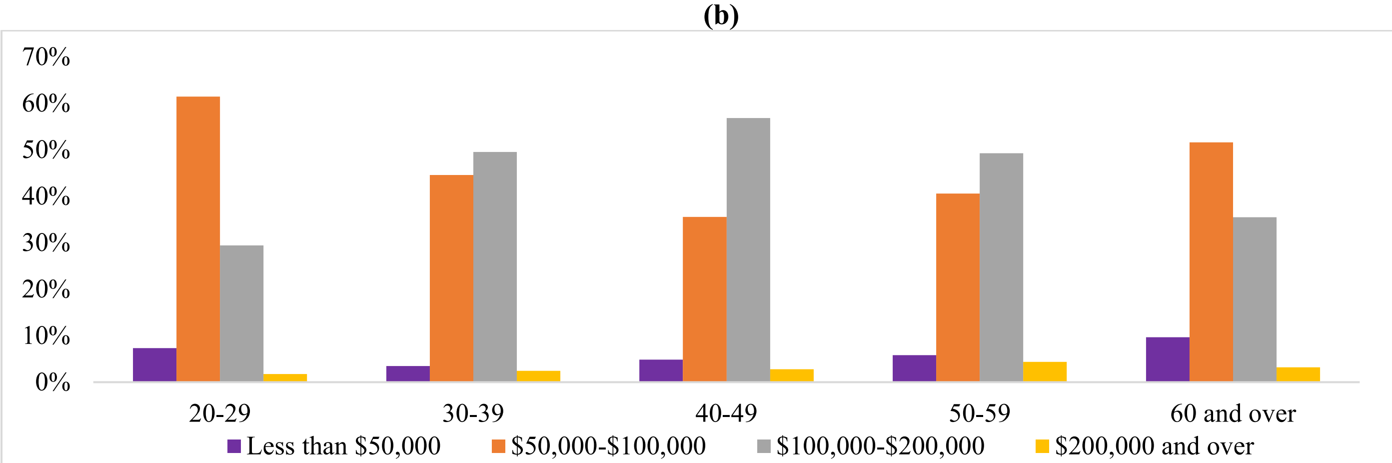
Source: OTR first-time homebuyer data, and individual income tax data
Note: The individual income tax data is from 2017-2019, which represents the latest income data available to ORA.

Chart 30: Percent of First-Time Homebuyers by Income and Age Groups, 2017-2019

(a)



(b)



Source: OTR first-time homebuyer data, and individual income tax data
Note: The individual income tax data is from 2017-2019, which represents the latest data available to ORA

Additionally, when disaggregated by income and age groups (Chart 30), approximately 93 percent of FTHBs are mid-to-high income households with annual incomes between $50,000 to $200,000. Between 2017 and 2019, beneficiaries in the 30 to 39 age group represented an overwhelming majority of households with income above $50,000, followed by the 20-29 age group with an average annual median income of $98,077 and $82,813, respectively. Chart 30(b) further disaggregates the percentage of beneficiaries by income within an age group. For example, between 2017 and 2019, for beneficiaries in the 30-39 age group, about 50 percent were in the $100,000-$200,000 income bracket, the highest percentage within the age group, compared to the 45 percent in the $50,000-$100,000 income group. Also, about 60 percent of beneficiaries in the 20-29 age range had income between $50,000-$100,000, while 52 percent of those 60 and over had income in that range. For the 40-49 and 50-59 age groups 57 percent, and 49 percent were in $100,000-$200,000 income group, respectively.

Table 13: Median Income by Age Group, 2017-2019

Age Group	2017	2018	2019
20-29	$78,031	$83,194	$87,214
30-39	$89,574	$102,010	$102,647
40-49	$110,077	$107,776	$106,672
50-59	$97,513	$106,487	$96,683
60 and over	$53,569	$84,373	$77,395
Median	$88,712	$97,033	$98,262

Source: OTR first-time homebuyer data, and individual income tax data

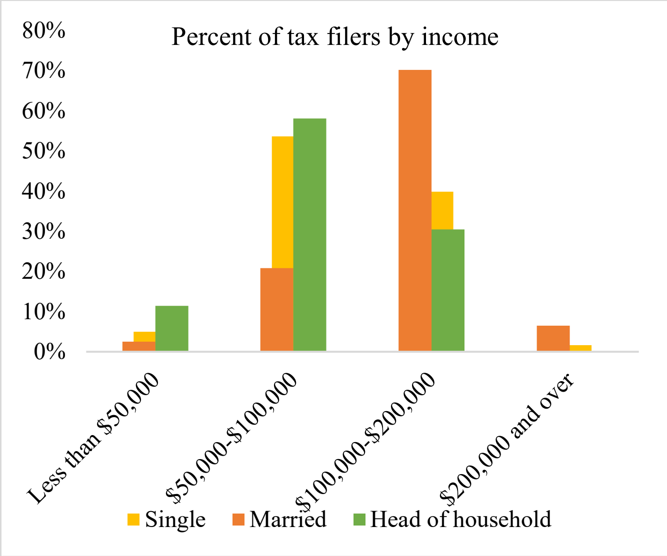
We find that not only are most FTHBs young with high incomes, but they are also single. Specifically, between 2017 and 2019, almost 79 percent of FTHB beneficiaries were single with a mean income of $96,990 (Tables 13 and 14). In the same period, married FTHBs made up about 17 percent of the beneficiaries and had the highest mean income. As Chart 31 reports, more than two-thirds of married FTHB beneficiaries were in the $100,000-$200,00 income group and in their mid-thirties. Head of household (an unmarried individual with qualified dependents) FTHBs made up about 4 percent of total number of applications and were least in the amount of deed tax beneficiaries. Most head of household (HOHs) FTHBs were older, between 30 and 49 years old, and had the lowest average income of $86,768 among all beneficiaries. Chart 31 also indicates that more than half of HOH FTHB beneficiaries made about $50,000-$100,000 (about 58 percent) while another 30 percent were in the $100,000-$200,000 income group.

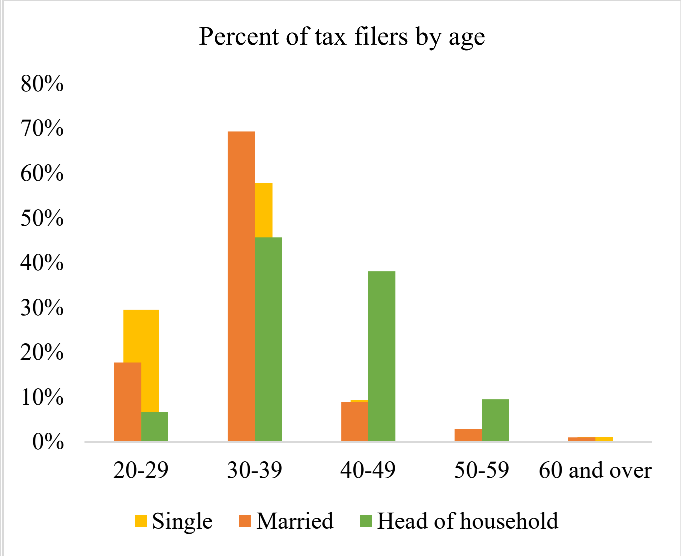
Table 14: Total FTHB by Filing Status, 2017-2019

Filing Status	Frequency	Percent	Mean Income
Single	2,182	78.86	$96,990
Married	480	17.35	$133,373
Head of Household	105	3.79	$86,768
Total	2,767	100	$97,293

Source: OTR first-time homebuyer data, and individual income tax data

Chart 31: Percent of Single, Married, HOH FTHBs by Income Group and Age Group

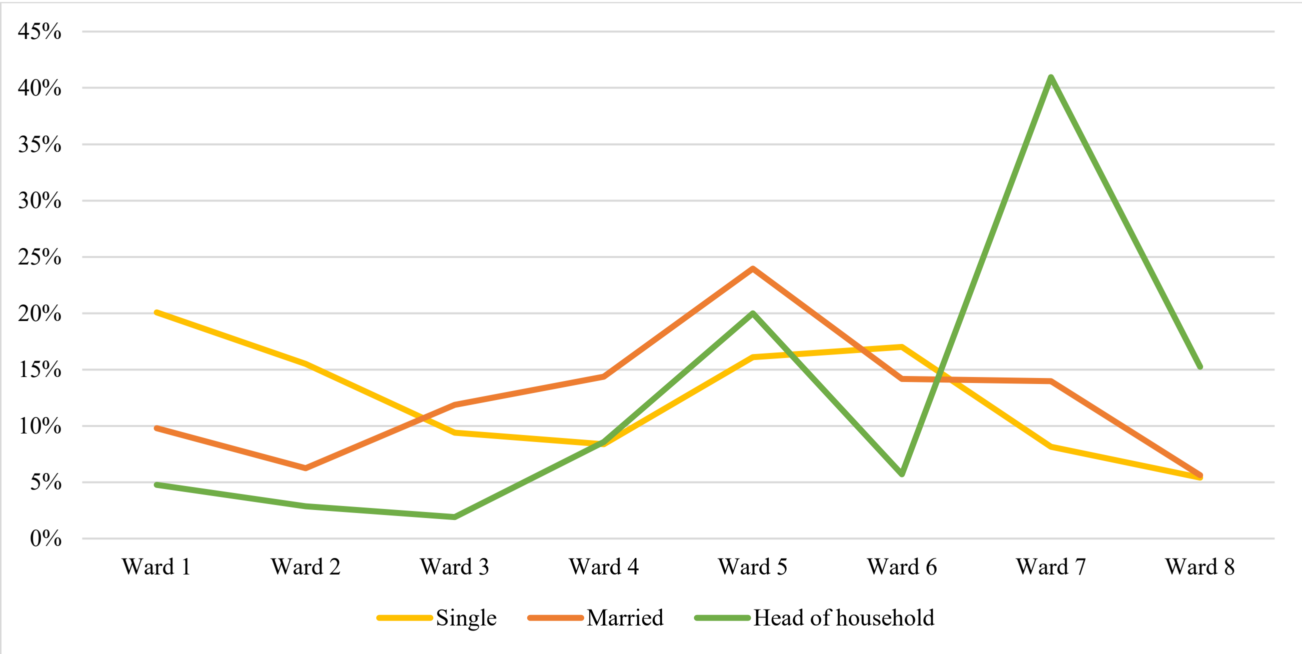




Source: OTR first-time homebuyer data, and individual income tax data

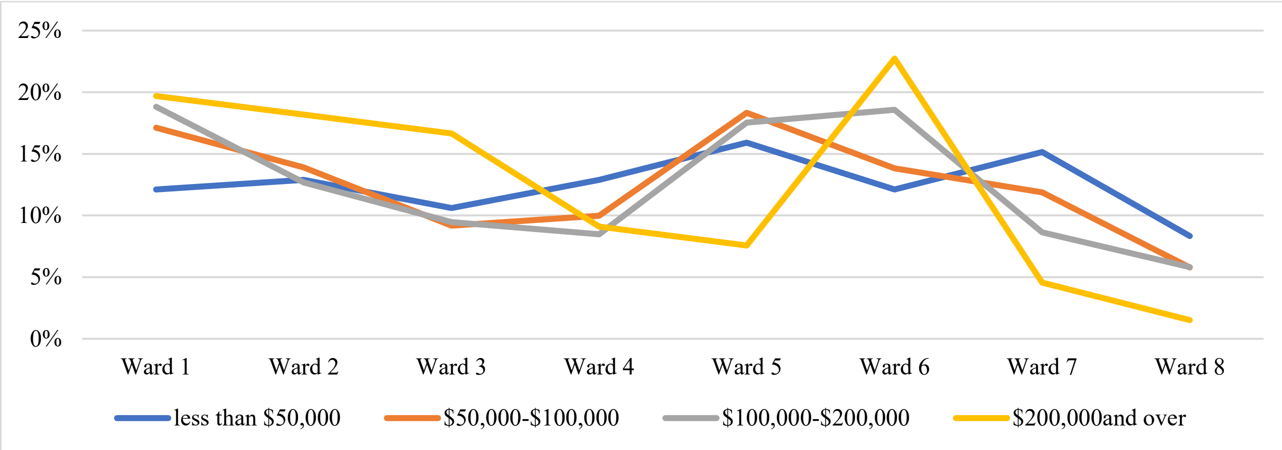
We also analyzed where FTHB deed tax beneficiaries live. We present the results by Ward and filing status and by Ward and income groups. Chart 32 shows that the highest share of HOH FTHBs is in Ward 7, while Wards 1 and 5 have the highest share of single and married FTHBs, respectively. Ward 3 has the lowest share of HOH FTHBs, followed by Ward 6. Ward 8, a lower income Ward, on the other hand, has the lowest share of married and single people within their respective filing groups. Wards 1 and 6 have the highest share of FTHBs with income over $100,000, Wards 1 and 5 have the highest share of FTHBs with income between $50,000-$100,000, and the highest proportion of FTHBs with income less than $50,000 are in Wards 5 and 7 (Chart 33).

Chart 32: Percent of Single, Married, HOH FTHBs by Ward



Source: OTR first-time homebuyer data, and individual income tax data

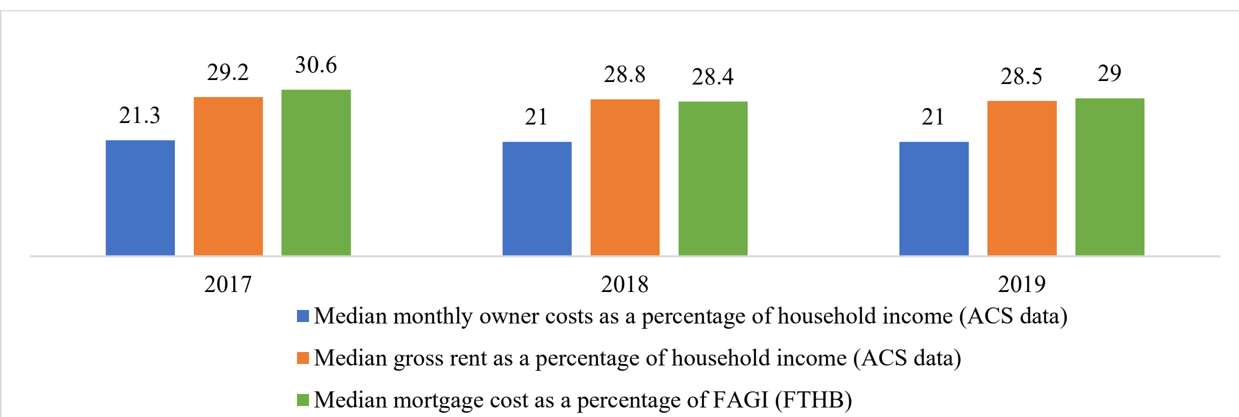
Chart 33: Percent of FTHBs by Income Group and Ward



Source: OTR first-time homebuyer data, and individual income tax data

While we have descriptive statistics about beneficiaries of the FTHB reduced deed recordation tax rate benefit, we cannot determine the tax expenditure's impact on homeownership. That is, we are unable to determine for instance if a $2,680 reduction in real property deed recordation tax made a difference in whether an individual buys a house. However, our data shows that the FTHB reduced tax rate has been helpful to younger first-time homeowners with moderate-to-mid household income between $50,000 and $200,000. A recent study estimated that in the first half of 2021 the average closing cost with taxes was about $30,352 and $6,524 without taxes.[80,81] Taxes, therefore, make up most of the closing cost when buying a home. The reduced FTHB tax rate provides an average of about 11.2 percent reduction in taxes alone towards closing cost (based on the average closing cost in the District), which translates to about an 8.8 percent reduction in total closing cost. Chart 34 shows that, in the District, the housing affordability ratio, defined as the median housing cost divided by household income, for first-time homebuyers is about the same as for renters. That is while the average homeowners in the District enjoy a low affordability ratio compared to renters, for FTHBs there is no difference in housing affordability between renting or owning a home.

Chart 34: Housing Cost as a Percentage of Household Income in DC



Source: OTR first-time homebuyer data, individual income tax data, and ACS data

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80 ClosingCorp (October 12, 2021). Closingcorp Reports Average Closing Cost Data for Purchase Mortgages in the First Half of 2021, October 21, 2021. Available at https://www.businesswire.com/news/home/20211012005504/en/ClosingCorp-Reports-Average-Closing-Cost-Data-for-Purchase-Mortgages-in-the-First-Half-Of-2021

81 ClosingCorp cost calculations include lender's title policy, owner's title policy, appraisal, settlement, recording fees, land surveys and transfer tax. The average cost does not consider government programs to reduce closing costs.

ORA does not have the data on other District homeownership programs to determine whether those programs when combined with the FTHB real property deed recordation tax benefit is a decisive factor for a potential homebuyer. Having access to such data would allow for a more comprehensive analysis of the impact of the first-time homebuyer tax benefit on housing affordability and home ownership in the District.

First-time Homebuyer Deed Recordation Tax benefit

Purpose:

To expand homeownership opportunities for residents who have never owned a home in DC.

Resources/Inputs:

Reduced deed recordation and transfer tax rate for first-time homebuyers.

Outputs:

About an average of $2,600 reduction in closing cost for first-time homebuyers.

Expected Benefits
(changes in short-, medium-, or long-term measures)

Short-term

Increase number of first-time homebuyers in the District.

Medium-term

The rate of homeownership for low-income residents in the District rises

Long-term

Better outcomes for residents and their families; strengthens neighborhoods as homeowners have a stake in community; more diverse city and neighborhoods; building a middle-class tax base for economic and tax base stability.

Assumptions:
This tax incentive will encourage homeownership, which, at least to a certain degree, promotes staying in DC versus moving out of the city.

Nonprofit Affordable Housing Developers
Real Property Tax Exemption

District of Columbia Code: D.C. Official Code § 47-1005.02
Sunset Date: None
Year Enacted: 2012

(Dollars in thousands)	FY 2022	FY 2023	FY 2024	FY 2025
Revenue Loss	$750	$775	$800	$825

DESCRIPTION: Non-profit affordable housing developers can maintain their real property tax exemption during the time that a project is under the restrictions of the federal low-income housing tax credit (LIHTC) program. The exemption lowers the cost of producing affordable housing in the District. Property that is developed through the LIHTC program is usually transferred to a private, for-profit subsidiary of the developer and becomes taxable. The exemption also applies to security interest instruments, including a mortgage or deed of trust, used in securing debt to acquire, develop, or redevelop or to refinance or modify a debt on the property through the FY 2019 Budget Support Act of 2018 (Title VII-Subtitle H).

The LIHTC program was established by Congress in 1986 to provide the private market with an incentive to invest in affordable rental housing. Federal housing tax credits are awarded by state housing finance agencies to developers of qualified projects, who usually sell the credits to investors to raise capital or equity for their projects.[82] The credit purchaser must be part of the property ownership entity; this transfer is usually accomplished by creating a limited partnership or limited liability company.

This approach reduces the debt that the developer would otherwise incur and thereby makes it possible for an affordable housing project to offer lower rents. If the project maintains compliance with LIHTC program requirements, investors receive a dollar-for-dollar credit against their federal tax liability for a 10-year period. Projects eligible for housing tax credits must meet low-income occupancy requirements.[83]

The Department of Housing and Community Development (DHCD) is responsible for administering the federal program. Federal law requires DC to adopt a plan to allocate the LIHTC to projects based on federally mandated requirements and priority needs determined by DHCD. DHCD's Qualified Allocation Plan (QAP) is intended to ensure the selection of only those Projects that comply with federal law and address, on a priority basis, the District's housing needs. DHCD also sets the priority areas.

PURPOSE: According to the Department of Housing and Community Development, "the LIHTC Program was created to encourage the private sector to invest in the construction and rehabilitation of housing for low and moderate-income individuals and families. Project owner/investors can claim the LIHTC on their federal income tax return each year for a period of 10 full years. However, Projects generally must meet certain requirements for low-income use for a minimum of 30 years per federal requirements."[84] The purpose of the exemption is to ensure that non-profit developers of affordable housing do not become subject to real property taxation when they participate in the LIHTC program.

[82] The developer typically sells the credit to raise up-front cash for the affordable housing project.
[83] Developers are required to set aside at least 20 percent of their units for households with incomes at or below 50 percent of the area median, or at least 40 percent of their units for households at or below 60 percent of the area median (adjusted for family size).
[84] 2021 Low Income Housing Tax Credit Qualified Allocation Plan. Retrieved from DHCD Qualified Allocation Plan signed.pdf (dc.gov)

IMPACT: The exemption supports the operations of a program that the D.C. Housing Finance Agency (which awards LIHTC credits in the District of Columbia) describes as one of the two primary long-term financing programs used to develop affordable multi-family rental housing projects.[85] The Department of Housing and Community Development (DHCD) has granted tax relief certifications to 42 projects and 28 developers. There are also 4 projects that are eligible for the credit, but not certified as of the writing of this report (Table 15).

Table 15: Certified and Eligible Developers under the Nonprofit Affordable Housing Developer Tax Relief Program

Fiscal Years	Number of tax relief certifications granted under the Nonprofit Affordable Housing Developer Tax Relief Program
2021	19
2022	23
	Number of projects eligible for DC LIHTC but not certified
2022	4

Source: Department of Housing and Community Development (DHCD)

[85] See www.dchfa.org.

Related Tax Provisions Passed since the 2015 Housing Tax Expenditure Review

- **Tax Abatements for Affordable Housing in High-Need Areas**
  DC Code: § 47-860; Year enacted: 2021

(Dollars in thousands)	FY 2022	FY 2023	FY 2024	FY 2025
Revenue Loss	$0	$0	$200	$4,125

  - The legislation allows properties in the designated high-need affordable housing areas (in Rock Creek West, Rock Creek East, Capitol Hill, and Upper Northeast) with the highest dedicated affordable housing production goals identified in the District's Housing Equity Report, published in October 2019, to receive tax abatement with a cap of $200,000 in 2024 and $4,000,000 in FY 2025, and to be increased by 4% annually thereafter (for 30 years). The act, which was amended in the FY 2022 BSA of 2021, expanded the high-need affordable housing area to include the Downtown and Golden Triangle BID areas.
    - According to DHCD, at least one-third of the housing units developed or redeveloped on the property shall be affordable to and rented by households earning no more than 100% of median family income (MFI). Housing units included in the development as part of the Inclusionary Zoning ("IZ") Program is counted toward the one-third requirement; the average MFI of households that occupy the one-third (1/3) of the affordable housing units is no greater than eighty percent of the median family income.

- **Nonprofit Workforce Housing Properties**
  DC Code: § 47–1005.03; Year enacted: 2019

(Dollars in thousands)	FY 2022	FY 2023	FY 2024	FY 2025
Revenue Loss	$1,013	$816	$487	$524

  - Land and buildings used by a nonprofit owner to provide rental housing is exempted from District of Columbia real property taxation as of the date of acquisition by the nonprofit owner if 1) at least 50% of the occupied units are occupied by tenants with household income that is a maximum of 80% of the adjusted median income; 2) the remaining occupied units are occupied by tenants with household income capped at 120% of the adjusted median income and; 3) rents charged to the tenants are not more than 30% of their adjusted median income for a household consisting of the number of persons indicated by the occupancy standard for the unit occupied by such tenant; provided, that the total rent paid to the non-profit landlord for any individual unit shall not exceed the greater of the Housing Choice Voucher Program rent for the submarket in which the property is located or in any submarket immediately adjacent to the property, established annually by the District of Columbia Housing Authority. Finally, the law requires that certified nonprofit owners maintain a policy to retain the tenants even when they become unable to pay rent due to financial hardship, and that the owners maintain a reserve to support such policy.

- **Property Tax Relief for Low Income Housing Harmonization**
  DC Code: § 47–1005.02; Year enacted: 2021

(Dollars in thousands)	FY 2022	FY 2023	FY 2024	FY 2025
Revenue Loss	$50	$93	$120	$148

Note: FYs 2022 to 2025 estimates are from the Executive Summary of the Fiscal Year 2022 Approved Operating Budget Book.

  - The Low Income Housing Harmonization Act extended the real property tax exemption to Nonprofit affordable housing developers to exempt them from real property taxes for affordable housing developed or to be developed on real property that has been awarded financial assistance in the form of a grant or loan from the Housing Production Trust Fund (HPTF) or other District government low-income housing financing assistance program to provide housing affordable to households earning not more than 80% of the adjusted median income as long as the assistance was awarded after August 23, 2021, the real property and owner or lessee has been certified by the Mayor, and the real property is in compliance with the restrictive covenants governing the income of residents that occupy or will occupy the affordable housing units developed or to be developed on the real property.

Summary of Categorical Housing Tax Expenditure Provisions

Categorical provisions made up the majority of the District's housing tax expenditure forgone revenue with a total forgone revenue of about $213.3 million in FY 2022. In this report, we conducted an in-depth review of six categorical tax provisions. These include:

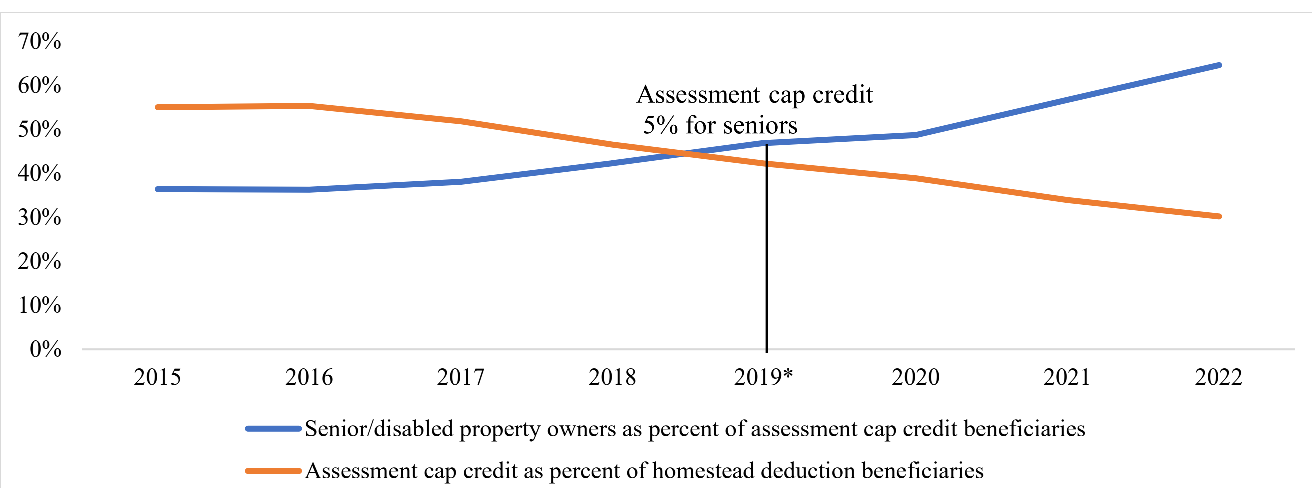
1. Homestead deduction,
2. Assessment increase cap credit,
3. Senior and disabled property owner tax relief,
4. Schedule H income tax credit/ property tax circuit breaker,
5. First-time homebuyer reduced deed recordation tax relief, and
6. Real property tax exemption for non-profit affordable housing developers.

Additionally, we reviewed how much tax filers benefit from claiming multiple housing tax provisions simultaneously. That is, we examined tax filers claiming the homestead deduction, assessment cap credit and senior and disabled tax relief at the same time, or claiming the homestead deduction, assessment cap credit, senior and disabled tax relief, and Schedule H income tax credit at once. In general, ORA finds that the categorical housing-related tax expenditures reviewed in this report support the District's broad housing goals.

HOMESTEAD DEDUCTION, ASSESSMENT INCREASE CAP and SENIOR CITIZEN OR DISABLED PROPERTY OWNER TAX RELIEF

The number of homeowners who qualify and receive the homestead deduction has increased by about 5 percent from FY 2015 to FY 2022. While the amount of forgone revenue increased by about 15.7 percent in the same period. Homesteaders automatically receive the assessment cap credit if their assessment value increased more than 10 percent (2 percent for seniors or disabled homesteads) the following year. However, Chart 35 shows a downward trend in the percentage of homesteaders that also receive the assessment cap credit. This downward trend is because the growth in assessed values has slowed in recent years. Nevertheless, Chart 35 shows an upward trend in the number of senior/disabled property owners tax relief claimants as percent of assessment cap credit beneficiaries. The upward trend started before the passage of the FY 2019 Budget Support Act of 2018 that decreased the taxable assessed value for senior citizens and residents with a permanent disability from 10 percent to a 5 percent increase from the prior tax year. This trend will likely continue as the senior and disabled assessment increase cap has been further reduced to 2 percent beginning in FY 2023.

Chart 35: Trends in the Percent of Assessment Cap Credit and Senior or Disabled Property Owner Tax Relief Beneficiaries



Source: ORA analysis

In TY 2022, 101,142 owner-occupied residential properties qualified for the homestead exemption, receiving approximately $669 in tax relief, which represents a revenue forgone of about $67.7 million. The deduction gives residential property occupying owners reprieve from increasing assessments, which was on average 5.3 percent annually between 2015 to 2022 based on total median yearly assessment change, which speaks to the benefit of the homestead deduction.

Among homesteads, 30,563 (30 percent) homeowners automatically received the assessment cap credit amounting to $19.5 million in forgone revenue in FY 2022. In general, the assessment cap credit reduced the tax rate for its beneficiaries by an average of 4.7 percent. However, using 2019 individual income tax data, ORA finds that the credit gives the bottom income quartile more tax relief both as a share of their pre-credit property tax liability and as a percentage of their gross income resulting in a lower effective property tax rate than all higher income quartiles, making the assessment cap a progressive tax credit. Additionally, among homesteads, homeowners with longer tenure benefit more from the assessment cap credit (more than 3 years tenure) than short-term homeowners who have been in their homes for at most three years.

Among homesteads who received the assessment cap credit, 64 percent (19,750) also claimed the senior and disabled tax relief. On average, the senior and disabled tax relief lowered the property tax burden for its beneficiaries by 3 percent. Moreover, most of the tax relief benefited households with a maximum income of $50,000 (whose property tax burden was lowered by five percent). Although, higher assessed homes benefit more from the credit than lower assessed homes because they receive a larger drop in the effective tax rates, which makes this tax expenditure somewhat regressive.

Separately, each tax expenditure meets its goal to provide property tax relief, protect resident homeowners from sharp growth in property values and assessments as well as protect senior citizens and people with disabilities, who often live on fixed incomes, from real property tax liabilities that may be difficult or impossible for them to pay.

When combined, the effects of the homestead deduction, assessment increase cap and senior citizen or disabled property owner tax relief provide the biggest reduction in tax liability for resident beneficiaries because it significantly lowers the tax filer's tax burden claiming all three expenditures at the same time. Senior or disabled homeowners receive the most tax relief when claiming the credit simultaneously. The cumulative effective tax rate for a senior or disabled homeowner claiming all three credits was, on average, about 62-65 percent lower than what would have been paid without the assistance. While homeowners who benefitted from the homestead deduction and assessment cap on average received about a 14 percent reduction in their property tax burden.

SCHEDULE H INCOME TAX CREDIT/PROPERTY TAX CIRCUIT BREAKER

The program allows low-income homeowners and renters to claim a property tax credit that is applied to the taxpayer's income tax liability. The goal of the credit is to enhance income security for residents who have relatively high property tax burdens, such as elderly residents on fixed incomes. Most claimants of the Schedule H credit are renters (82 percent), while homeowners make up less than a quarter of the beneficiaries (18 percent). Among homeowners, seniors make up the most beneficiaries of the schedule H credit. The Schedule H benefit is more evident when combined with the homestead deduction, assessment cap credit, and senior citizen or disabled property tax relief. In 2018, the Schedule H credit reduced property tax burden by about 29 percent for non-senior claimants not taking the homestead deduction compared 39 percent for non-senior homesteaders. Furthermore, the benefit of the circuit breaker was more pronounced for senior claimants with the largest tax relief going to homesteaders. Senior homesteaders receiving the circuit breaker credit, on average, saw about a 75 percent reduction in their property tax burden so that they paid about 2 percent of their income in property taxes, compared to a 36 percent reduction in their tax burden for senior claimants not getting the homestead deduction. However, like non-senior claimants, senior claimants not receiving homestead still had a higher tax burden than an average homeowner in the District.

FIRST TIME HOMEBUYER DEED RECORDATION TAX BENEFIT

Eligible first-time homebuyers (FTHBs) in the District can receive a partial recordation tax exemption. The purpose of the exemption is to encourage homeownership to combat homelessness and housing affordability in the District. On average, deed recordation and transfer taxes was reduced by about $2,680 for first-time home buyers through the reduced tax rate benefit, which represented about 11.2 percent reduction in taxes alone towards closing cost (based on the average closing cost in the District). Our findings show that most FTHBs tend to be young (20-39 years old), with mid-to-high income ($50,000 to $200,000) and single. Specifically, between 2017 and 2019, almost 80 percent of FTHB beneficiaries were single with a mean income of $96,990. Married FTHBs made up about 17 percent of the beneficiaries with the highest mean income ($133,373) in the same period. Head of household FTHBs made up about 4 percent of total number of applications for the reduced tax rate and were least amount of the deed tax beneficiaries.

NONPROFIT AFFORDABLE HOUSING DEVELOPERS

Non-profit affordable housing developers can maintain their real property tax exemption during the time that a project is under the restrictions of the federal low-income housing tax credit (LIHTC) program. The exemption reduces the debt that the developer would otherwise incur and thereby makes it possible for an affordable housing project to offer lower rents. The goal of the provision is to increase the amount of affordable housing in the District. The Department of Housing and Community Development (DHCD) has granted tax relief certifications to 42 projects and 28 developers. There are also 4 projects that are eligible for the credit but not certified as of the writing of this report.

Part III: Specific (or Individual) Housing Provisions

Specific provisions, or provisions resulting from legislation passed for the construction, renovation or rehabilitation of a specific project, are one of the avenues used to provide affordable housing in the District. When considering the specific properties with tax incentives listed in Table 16 below within the larger collection of subsidized or supported housing properties in the District, those that receive a specific tax abatement or exemption by name are but a handful of the thousands of properties receiving assistance. This could be partly due to new categorical tax expenditure which, had it existed at the time some of these specific tax expenditures were enacted would have avoided the need for them in the first place (for example, the Nonprofit affordable housing developers' property tax exemption).

There are 26 specific provisions (some in the list below are grouped together) largely intended to promote affordable and mixed-income housing. These provisions are very idiosyncratic, and include set-aside for low-income housing, senior citizen housing, workforce housing, or housing for people with disabilities. The exceptions include artist housing (Studio Theatre), and military housing. Many of these projects have drawn on public funds from a variety of sources: the US Department of Housing and Urban Development (HUD), federal low-income housing tax credits (LIHTC), the DC Department of Housing and Community Development (DHCD), Housing Finance Agency (HFA), Housing Production Trust Fund (HPTF), etc.

Almost all the specific tax expenditures listed below have an affordability requirement or are for organizations expressly providing housing for low-income or underserved communities. Many single projects that receive a property tax exemption must file an annual use report (FP-161) in accordance with DC Official Code § 47-1007 (documenting that they are in fact using the property for its intended, tax-exempt purpose), but this is not universally imposed. Other single projects have a monitoring component, as a condition of assistance from the DHCD, or HFA. Monitoring reports may be the best source of data for an evaluation; however, currently, we only indicate whether a property complies (Table 16).

The total estimated forgone revenue for all housing-related specific tax expenditures in FY 2022 is $6.4 million.[86] This estimated forgone revenue is a small portion of the District's total tax spending on housing-related provisions for affordable housing. More detailed information about the specific provisions listed below can be found in the 2015 District of Columbia Housing Tax Expenditure Review.[87]

Table 16: Specific Housing Tax Expenditures

#	Name	Year Enacted	D.C. Code	FY22 Estimate of Revenue Forgone ($ in thousands)	SSL/ Address	Receiving other DC/Fed Assistance?	Annual OTR Use Report on File/Reviewed?	Property Being Monitored for Compliance w/ Aff. Housing Standards?	Property Maintaining Compliance w/ Aff. Housing Standards?
1	Eckington One	2009	§ 47-4618	$1,447	Square 3576, lots 816-820; 817		N/A		
2	Parkside Parcel E And J Mixed-income Apartments	2013	§ 47-4658	$555	5041-0072; 5056-0042		N/A	Yes[3]	Yes[4]
3	St Martin's Apartments LP	2009	§ 47-4620	$466	3531-0116	Yes *	Yes	Yes[5]	Unknown
4	Douglas Knoll,	2005	§ 47-1065		*1728 W Street		Yes	Yes[5]	Unknown

[86]Summing tax expenditures does not consider possible interactions among categorical tax expenditures and therefore does not produce an exact estimate of the revenue.

[87] The 2015 District of Columbia Housing Tax Expenditure Review is available at https://ora-cfo.dc.gov/page/tax-expenditure-studies

	1728 W Street and Wagner			$455					
5	Park Place at Petworth, Highland Park	2010	§ 47-4629	$452	2900-0044; 2672-0884; and 2672-0726		N/A	Yes[3]	Yes[4]
6	Randall School Contemporary Art Museum and Housing Development Abatement	2009	§ 47–4626.01	n/a	0643-0801, Suffix S		N/A	N/A	N/A
7	Central Union Mission	2011	§ 47-4651	$400	65 Mass Ave NW		Yes	N/A	N/A
8	Samuel J. Simmons NCBA Estates	2012	§ 47–4646	$391	2855-0078; 2801 14th St NW		Yes	Yes[5]	Unknown
9	Campbell Heights Project	2010	§ 47-4632	$284	0204-0207 2001 15th Street, NW		N/A	No, because DHCD considers exempted from IZ requirements until 2052	Unknown
10	King Towers Residential Housing Rental Project	2009	§ 47-4639	$257	0281-0049 1220 12th Street, NW	Yes	Yes	Unknown	Unknown
11	Parkside Terrace Development Project	2006	§ 47-4607	$240	5926-0003; Valley Avenue and 9th Street, SE	Yes*	N/A	Unknown	Unknown
12	Emory Beacon of Light	2021	§ 47–1099.11	$223	Square 2940, Lots 826, 828, 831, 832, 7007, 7008, 7009, 7010, 7011, and 7012		N/A		N/A
13	Jubilee Ontario Apartments	2016	§ 47-1099	$70	2565-0805; 2525 Ontario Road, N.W.		Yes	Unknown	Unknown
14	SOME, Inc. & Affiliates	2008	§ 47-1078	$158	[2]	Yes *	Yes	Yes[5]	Unknown
15	Georgia Commons (3Tree Flats)	2008	§ 47-4610	$151	Square 2906, Lots 0848 and 0849; 3910 Georgia Avenue, NW	Yes *	N/A	Unknown	Unknown
16	Jubilee Housing Residential Rental Project	2010	§ 47-4633	$270	2560-0863, 2563-0873; 2233 18th Street, NW and 1740 Euclid Street, NW	Yes	Yes	Yes[5]	Unknown
17	Allen Chapel AME Senior Residential Rental Project	2011	§ 47-4641	$100	Square 5730; Lots 0024, 0025, 0026, 0038, 0214, 0215, 0923, 0924, and 0925		Yes	Unknown	Yes
18	The Studio Theatre	2009	§ 47-1082	$92	0155-0208; 0179-0094; Sq 0157; lots 2061, 2073, 2083, 2164, 2253, and 2300		Yes	N/A	N/A
19	Carver 2000 Low-income And Senior Housing Project	2005	§ 47-4605	$91	5190-0806; 5190-0807; 5190-0808; 5348-0001; 5348-0002; 5348-0003; 5348-0004; 5348-0005; 5348-0006; 5348-0007; 5348-0008	Yes *		Yes[5]	Unknown
20	Golden Rule Rehabilitation	2008	§ 47-1079		Square 0525, Lots 837, 841, and 842,				

	Project			$77	and Square 0526, Lot 840		Yes	Yes[5]	Unknown
21	St. Paul Senior Living at Wayne Place	2011	§ 47-4642	$63	6118-0045; 114 Wayne Place, SE		Yes	Unknown	Unknown
22	Affordable Housing Opportunities, Inc. Project	2010	§ 47-1084	$60			Yes	Yes[5]	Yes
23	Israel Senior Residences	2013	§ 47-4659	$57	3848-0060; 2401 Washington Place, NE	Yes	Yes	Unknown	Yes
24	The Elizabeth Ministry, Inc.	2013	§ 47-4657	$22	5252-0140 and 0141. 55th Street, Southeast	Yes	Yes	N/A	Yes
25	4427 Hayes Street NE	2011	§ 47-4649	$14	5129-0120		N/A	Unknown	Unknown
26	Gateway Market Center Residences (The Edison)	2009	§ 47-4621	$4	Square 3587, lots 820,821,7000-7003; 7005		N/A	Yes[3]	Yes[4]

[1]Doug Knoll: Square 5894, Lots 38-44, and Square 5895, Lots 69-72; Golden Rule: Square 0525, Lot 0840; 1728 W St: Square 5778, Lot 0166; Wag. Gains.: Square 5734, Lots 33-36, and Square 5835, Lots 42-44

[2] 11 properties: Square 3567, Lot 0811, located at 1876 4th Street, NE (Shalom House, a 93-unit single-room occupancy facility)
Square 3567, Lot 0812, located at 1876 4th Street, NE (Side door entrance to Shalom House)
Square 5322, Lot 0033, located at 360 50th Street, SE (formerly vacant buildings that were to be converted to 31 efficiencies and 46 single-room-occupancy units);
Square 5322, Lot 0034, located at 350 50th Street, SE (formerly vacant buildings that were to be converted to 31 efficiencies and 46 single-room-occupancy units);
Square 5616, Parcel 2180096, located at 1701 19th Street, SE (Zagami House, a 12-unit facility for families)
Square 5637, Lot 0815, located at 2810-2872 Texas Avenue, SE (17 family units plus community space for tutoring and after-school programming)
Square 5760, Lot 0047, located at 2125 18th Street, SE (Freedom House, a 30-unit single-room occupancy facility)
Square 5765, Lot 0894, located at 1667 Good Hope Road, SE (45 units for elderly residents)
Square 6129, Lot 0811, located at 3828-3830 South Capitol Street, SE (51 single-room occupancy units)
Square 6164, Lot 0822, located at 740 Barnaby Street, SE (Barnaby House, 10 units for families)
Square 6164, Lots 2086-2127, located at 730-736 Chesapeake Street, SE (22 two- and three-bedroom units for families)
Affordable Housing Opportunity: Square 5984, Lot 0800, and Square 5730, Lot 0916, in Ward 8. The addresses are 523-525 Mellon Street, SE, and 2765 Naylor Road, SE

[3] Yes, per DHCD.

[4] According to DHCD, there are no compliance issues.

[5] According to DHCD, property receives tri-annual monitoring consistent with LIHTC 4% requirements, LIHTC 9% requirements, or LIHTC Extended Use Period.

*Denotes that Mayor's Order 2009-112 states that DHCD shall monitor the properties for compliance with affordable housing standards

OCFO Monitoring of Properties Receiving Tax Expenditures with Exempt Property Use Report (FP-161)

DC law requires all nonprofit organizations or business entities that are receiving a real property tax exemption or abatement[88] (whether the provisions are categorical or Specific/Individual) to file an annual use report on or before April 1 of each year.[89] This report asks a series of questions related to the type of institution, whether any rent or income is earned from the buildings on the property, or whether there have been changes to the buildings or property. Additionally, some recipients of property tax exemptions (generally those with a housing or economic development purpose) are asked to list the community benefits provided by the property that year, or the progress made toward providing those benefits.

In 2022, OTR made the Exempt Property Use Reports that have been filed electronically available to ORA staff for review within the Modernized Integrated Tax System. However, the reports are only searchable by the square, suffix, and lot (SSL or property identification code). This both makes it challenging to search, and difficult to find properties if the

[88] Under chapters 10 (Property Tax Exemptions) or 46 (Special Tax Incentives) of Title 47 of the District of Columbia Official Code

[89] DC OTR Form FP 161. As of 2019, nonprofit organizations could access and submit the forms to OTR online. The printed forms are still available and OTR will now manage a dual process until all forms are submitted online. For 2020, about a quarter of the forms were submitted online, while just under three quarters were submitted on paper.

SSL happened to change since the legislation granting their tax exemption. Despite these drawbacks, the digitization of these reports is a big step forward and will assist in ORA's reviews of exempt properties.

As part of our review of specific housing tax expenditures, we have tried to find an Exempt Property Use Report for each property. Table 16 (pg. 70-72) above contains a column indicating whether we found this report, and another column indicating whether information in that report shows that the property is maintaining compliance with affordable housing standards, if applicable. Notes about properties that are also receiving some type of federal or DHCD assistance and for which we requested monitoring data from DHCD are added in a final column. The following section details the process of obtaining that information.

DHCD Monitoring of Properties with Affordability Standards Receiving Tax Expenditures

A critical aspect of the use of public funds for affordable housing is government follow up to ensure that the properties receiving the public funds continue to provide affordable housing according to the requirement of their funding agreements. Mayor's Order 2009-112 delegates to DHCD the mandate and responsibility to monitor and enforce compliance with requirements to provide or maintain affordable dwelling units" in DC when these requirements are imposed by "[L]egislation providing tax exemptions, tax abatements, or other financial assistance…".[90] However, DHCD suggests that it is not frequently entering into the agreements to create these requirements, like the Deputy Mayor for Planning and Economic Development (DMPED) Land Disposition Agreements; it is incumbent on the entities entering into those agreements to properly notify DHCD of the requirements to enforce. Within the policy space of providing and supporting affordable housing, there are scores of properties providing housing and receiving various types of government funds. In addition to the many types of financing available for affordable housing, there are often many different affordability standards as the requirements written into each individual property could be different and based on the agreement arrived at between the developer and the city. Over the years there has been a movement within the District to standardize affordability requirements,[91] including recent revisions to HPTF loan documents to make sure compliance requirements are clear and understood.

At DHCD, affordable dwelling units (ADUs)[92] created by a regulatory requirement, like inclusionary zoning units, or by a Zoning Commission order, or by negotiated contract are monitored by the Inclusionary Zoning (IZ) division. ADUs that have District and/or federal financing as part of their lending structure are monitored by the Portfolio and Asset Management Division (PAMD). To maximize compliance and inspection resources, most local tax expenditure projects for housing are monitored in conjunction with federal or District funding requirements.

In our research, we find that there is a wealth of data online about the different housing programs available, different types of federal and DC funding, and different properties receiving financial assistance to provide affordable housing. In our review of the District's recent housing policy actions, it is clear there is a lot of activity in this area, as evidence by the multiple new programs and bold goals the Mayor has set for new housing units. There are also resources for the reporting, compliance, and program requirements for properties and residents. For example, DHCD's IZ Unit publishes program

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[90] Mayor's Order 2009-112 "Delegation of Authority for Affordable Dwelling Unit Requirements" https://www.dcregs.dc.gov/Common/MayorOrders.aspx?Type=MayorOrder&OrderNumber=2009-112. Other types of requirements mentioned in the order include "agreements entered into by the Mayor or a delegee of the Mayor to provide tax increment financing of payment in lieu of taxes financing," as well as covenants "to which the Mayor or a delegee of the Mayor is a party, related to planned unit developments or the sale or lease of District-owned property."

[91] Our first Housing TE Review commented on the need for standardization to assist in monitoring and subsequent conversations with DHCD officials confirmed that this has been a trend within the District's affordability agreements.

[92] According to DHCD, "Affordable Dwelling Unit (ADU) is an umbrella term applied to for-sale and for-rent homes that are locally restricted for occupancy by households whose income falls within a certain range. ADUS are generally offered at a below-market rate."

requirements and tools for residents on the DHCD website.[93] Additionally, properties receiving District and/or federal funding are required to submit Annual Certifications of Continuing Program Compliance and Annual Financial Reporting to demonstrate compliance to DHCD.[94] According to DHCD, to be consistent with federal requirements, PAMD also physically inspects and conducts tenant file reviews on properties on a triennial basis and collects annual reporting each Spring. Properties that do not meet physical, compliance, and/or financial reporting requirements are allowed a period to cure deficiencies; continued non-compliance may result in Notices of Technical Default and/or reporting to federal agencies.

Although DHCD mentions that compliance monitoring is taking place, it is harder for the public to find information or data on how well properties receiving District financial assistance are complying with their agreements to provide affordable housing. For example, are properties developed through agreements continuing to uphold those contracts as to the provision of affordable units? Who is monitoring and ensuring the properties are complying? What are the consequences if a property is found to be not in compliance? Is this information publicly reported? Is it available upon request?

ORA considers this compliance to the agreed upon affordability standards to be a critical accountability issue for properties receiving District tax expenditures (and all other forms of District financial help; however, this report focuses on tax expenditures). If properties are not in compliance, this would mean, for example, that a property management may be renting units out at higher rents than required, thus effectively failing to meet the terms of their agreement, while further making housing unaffordable to many District residents that the financing was aimed at helping. It is important to track these efforts given the increasing problem of housing unaffordability in the District and to ensure the millions of public dollars spent to address this crisis are continuing to support housing that is meeting the goals of that funding.

In our 2015 Housing Review report, we noted that we reached out to DHCD and received no response or evidence as to whether monitoring of properties receiving District tax assistance for affordable housing was occurring. For the current report, DHCD provided some reporting for specified properties that are currently being monitored. DHCD also explained their increasing efforts at compliance for the numerous programs as the District has gotten better over the years at documenting the requirements and communicating with DHCD the need for enforcement. Additionally, we strengthened our efforts at ORA to obtain monitoring information and looked to other sources that may provide information on whether there is evidence that properties with affordable housing standards are complying with those standards.

In a 2016 report, the Office of the DC Auditor (ODCA) evaluated two private development projects which received District funding in exchange for community benefits and certain requirements, including the provision of affordable housing.[95] For the two projects it reviewed,[96] DHCD provided evidence that it monitored the apartments per affordable housing requirements, and the developers of the projects also provided evidence they were meeting the requirements in their agreements.[97]

However, a later ODCA 2019 presentation summarized a series of reports the office released reviewing funds used from the HPTF—an earmarked revenue fund used to produce and preserve affordable housing in the District of Columbia.

[93] https://dhcd.dc.gov/node/10512 and https://dhcd.dc.gov/service/inclusionary-zoning-iz-affordable-housing-program
[94] https://dhcd.dc.gov/node/1455266
[95] Office of the DC Auditor. "District Agencies Did Not Provide Sufficient Oversight of Private Development Projects and Have Not Collected Potentially Significant Fines." August 1, 2016. https://dcauditor.org/report/district-agencies-did-not-provide-sufficient-oversight-of-private-development-projects-and-have-not-collected-potentially-significant-fines/
[96] SeVerna on K apartment building located at 43 K Street NW and Station House at 701 2nd St NE
[97] As ODCA outlines in the report, other agencies involved in the audit did not provide evidence of monitoring for other public benefits stated in the agreements, such as procurements from certified business enterprise and first source compliance, which has to do with filling new jobs created as a result of the project or filling at least 51% of those jobs with District residents from the Department of Employment Services.

ODCA noted various issues with HPTF funded projects, including compliance to the area median income (AMI) targets, inconsistent income verification procedures, and a lack of compliance with legal reporting requirements, among other issues.[98] While the projects reviewed for these reports may not be properties receiving District tax expenditures,[99] the ODCA findings point to a broader issue with DHCD monitoring for compliance to affordable housing standards, which may also be an issue for projects receiving tax expenditures. Nevertheless, we were informed by DHCD that in their explanation to the DC Council in several public hearings, they contended that while all funding has gone to support affordable housing, the most efficient allocation of resources that creates more affordable units for District residents is in tension with compliance reporting requirements. Recent statutory changes in those compliance requirements better reflect the reality that tax expenditures and investments are, in fact, compliant with AMI targets and working towards the collective goal of building and preserving affordable housing across the city.

As part of our research for the current report the ORA team convened a call with representatives from DHCD and DMPED in March of 2022 to discuss affordability standards and monitoring issues. In that call, a DHCD official noted that the Portfolio and Asset Management division over the last decade has been building compliance capacity. We sent a data request to the group, with a spreadsheet of specific properties which receive a District property tax benefit, many of which also receive another type of federal or DHCD assistance (such as federal LIHTC, DC HOME, etc.). DHCD responded to our data request with a note describing the type of monitoring each property was receiving, and for several properties a note indicated there were "no compliance issues." In all, DHCD noted that 20 of 27 specific properties in our list were being monitored, many on a triennial basis per federal LIHTC requirements. We also listed properties identified as part of the categorical New Residential Developments tax expenditure (§ 47-857.01) and DHCD noted that two of the properties on that list were being monitored by DHCD.

DHCD has a web page[100] describing the types of monitoring activities it performs for a variety of projects with affordable housing requirements, including those funded by the HPTF, the Community Development Block Grant (CDBG), Home Investment Partnerships (HOME), and the Low-Income Housing Tax Credit Program (LIHTC) (the last three of which are federally funded programs that are supplemented by local assistance). Specifically, owners of properties receiving funds through the LIHTC, HOME and HPTF are required to submit an Annual Owner's Certification of Continuing Program Compliance, and to pay an annual compliance monitoring fee.[101] However, the local tax expenditures we track are not explicitly listed on these DHCD pages, leaving open the question as to whether projects receiving only local tax expenditures, and no other District or federal housing funds, are being monitored for compliance on a regular basis. Regulatory language should be clarified to identify monitoring standards and responsibility of District agencies to better ensure compliance with tax expenditure requirements.

[98] Office of the DC Auditor. "Internal Controls and Oversight of Trust Funds." Presentation to the Baltimore Affordable Housing Trust Fund Commission. October 22, 2019. https://zd4l62ki6k620lqb52h9ldm1-wpengine.netdna-ssl.com/wp-content/uploads/2019/10/HPTF-Presentation-Baltimore-1.pdf
[99] ODCA compiled a database of HPTF projects (pg. 44) funded from FY2011 – 2016 and at least 13 of the projects receiving HPTF assistance were projects also receiving some type of tax abatement or exemption.
[100] https://dhcd.dc.gov/service/project-monitoring
[101] https://dhcd.dc.gov/page/annual-owner-certifications

Part IV: Housing Tax Expenditure Review Summary

The District's housing policy goals have been to ensure housing affordability, foster affordable housing production, conserve existing housing stock, promote homeownership, and provide housing for residents with special needs. Most of the housing tax expenditures in the District reflect the overarching policy goals set by the Mayor, including assisting homeownership, particularly low-income homeownership, protecting residents, especially those who are low-income, seniors, or disabled, from sharp tax increases, increasing the supply of affordable housing, and encouraging revitalization and new development. This review focuses primarily on the 4 largest housing tax provisions (homestead deduction, assessment cap credit, senior citizen and disabled property tax relief, and schedule H income tax credit) as well as two tax expenditures enacted since the 2015 housing tax expenditure review (first-time homebuyer deed recordation tax benefit, and property tax exemption for nonprofit affordable housing developers).

Our review of the specific provisions, which we presented in a tabular format, show whether the properties with reporting or monitoring requirements to either OTR or DHCD submitted the required reports, and whether the report was reviewed to confirm the property is maintaining eligibility for its tax exemption and in compliance with its mandate.

Detailed analysis of the other categorical and specific housing tax expenditures not reviewed in this report can be found in the 2015 District of Columbia Housing Tax Expenditure Review or the 2022 Tax Expenditure Report available at ora-cfo.dc.gov.

HOMEOWNERSHIP

In this report, we reviewed one categorical provision, the first-time homebuyer deed recordation tax benefit that either supports homeownership generally or increases the number of first-time homeowners in the District. The total revenue forgone from the FTHB tax benefit is estimated to be nearly $10.9 million in FY 2022.

The first-time homebuyer deed recordation tax benefit encourages homeownership by providing a partial recordation tax exemption to first-time homebuyers (FTHBs) in the District. On average, deed recordation and transfer taxes are reduced by about $2,680 for FTHBs through the reduced tax rate benefit, which is about an 8.8 percent reduction in closing costs from reduced taxes. The reduced tax benefit has been most helpful to young and single FTHBs (20-39 years old), with mid-to-high income ($50,000 to $200,000). The reduced tax rate benefit is still new, but we find an increasing number of FTHBs benefiting from the tax rate reduction each year.

PROTECTION FROM SHARP PROPERTY TAX INCREASES

The homestead deduction, assessment increase cap credit, senior or disabled property tax relief, and Schedule H income tax credit tax expenditures are designed to protect homeowners broadly, as well as specific groups like low-income residents, seniors, and disabled homeowners, from sharp increases in their property taxes and alleviate high property tax burdens. The homestead deduction ($67.7 million), which benefits qualified homeowners, is the largest housing tax provision in terms of revenue forgone; the assessment increase cap credit ($19.5 million) automatically benefits homesteaders; the senior citizen, or disabled property owner tax relief ($39.6 million) specifically targets senior, and disabled low-to-mid income homeowners; and the Schedule H income tax credit ($39.9 million), targets low-income homeowners and renters.

Generally, we find that these tax provisions are furthering the District's goal of alleviating real property tax burdens on District homeowners. The homestead deduction provided approximately $669 in property tax relief to about 101,142 owner-occupied residential properties in FY 2022. Furthermore, homesteaders automatically receive the assessment cap credit if their assessment value increased more than 10 percent (2 percent for qualified senior or disabled homeowners) over the previous year. Homeowners with longer tenure benefit more from the cap credit than homeowners who have been in their homes for less than three years. This is because longer tenure homeowners bought homes when house prices were lower and have had the assessment value of their homes shielded from market prices by the 10% cap. The homes of more recent homeowners, on the other hand, are assessed at the prevailing market rate at the time of sale. The senior or disabled property tax relief reduces tax liability by 50 percent for senior and disabled homeowners and the Schedule H tax credit reduces tax liability by $1,250 for low-income homeowners and renters. The senior or disabled property tax relief, and Schedule H tax credit are effective especially when paired with the homestead deduction and assessment increase cap credit. Senior homeowners can get up to 75 percent reduction in their property tax burden from claiming all four assistance programs.

INCREASE SUPPLY OF AFFORDABLE HOUSING

In 2019, Mayor Bowser set a target of producing 36,000 new housing units by 2025, 12,000 of which should be affordable. Most of the newly enacted housing tax expenditures reflect the primary objective to increase the supply of affordable housing. In this report, we summarized the property tax exemptions for nonprofit affordable housing development, nonprofit workforce housing properties, and property tax abatements for affordable housing in high-need areas (HANTAs). These are new programs, making it impossible to conduct a thorough evaluation of each of these provisions. However, based on the available information, it appears that developers and some nonprofit organizations are interested in taking advantage of these programs.

While the District's housing-related tax expenditures support broad housing goals, policymakers may wish to study the amount of resources targeted toward specific types of housing or residents, to ensure funds are spent in the most effective way to address the District's housing needs.

Part V: Recommendations

Based on our review of the District's housing tax provisions, we propose the following recommendations for bringing more transparency and accountability to DC's housing tax expenditures.

<u>*Homestead Deduction*</u>

- Policy makers 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. Current law allows title companies to forgo acquiring a tax certification from OTR verifying that the property being purchased is up to date on taxes and fees thereby, creating a legal gap that allows them to not be held responsible for not collecting and delinquent taxes and fees owed by the seller at closing if they file the deed in a timely manner. The gap also makes the new homeowners liable for the unpaid tax. it would be best practice for policymakers to revise the statute governing this process to require title companies to get a tax certification before closing and OTR to deliver the certification within ten business days. If the title company fails to acquire the tax certificate prior to closing, then the title company will be liable for any delinquent taxes and fees owed to the District.

<u>*Schedule H*</u>

- The administration of Schedule H credit may become simpler if there is one income eligibility threshold as a percentage of household gross income for all eligible residents instead of the current two-tier system by age. Another option may be lower the age eligibility threshold for senior Schedule H credit to 65 years old to be like other senior property tax programs where the senior age threshold starts at 65 instead of 70 years old.
- A more equitable Schedule H credit would eliminate or reduce 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.

<u>*Monitoring and Compliance*</u>

- It would be good practice for policymakers to provide OTR with the resources they need to continue to support their marketing and auditing capabilities of the homestead and senior or disabled homestead programs. One reason for this suggestion is to determine if there are barriers to applying for these programs, specifically regarding housing co-operatives owner-occupied units' low rate of participation, or gaps in income limit compliance monitoring. A best practice recommendation would also be for policymakers to provide resources to agencies responsible for auditing and evaluating tax expenditure programs to ensure monitoring is done appropriately.
- Clarify 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. DC Council and Mayor should also clarify legislation on compliance requirements.
- A best practice for organizations that need to comply with reporting requirements would be for government agencies to find ways to improve reporting on affordable housing compliance without increasing their paperwork. It would be more efficient if both parties worked together to develop an evaluation process that eases the monitoring and compliance requirements for agencies and organizations.
- Require recipients of tax expenditures to remain compliant with the original terms to keep receiving the tax preference; include claw backs if they do not.
- Require annual reporting for all recipients of tax preferences. A recommendation that could help ensure compliance would be to require all entities receiving real property tax preferences to submit an annual report, like the one required by DC Official Code 47-1007, which requires any property receiving an exemption to submit an annual report proving that the use of the property meets the requirements of its exemption. Taking this requirement, a step further, to make this information (minus any confidential individual or taxpayer data) publicly available would improve the capability of the agency to fulfill their monitoring obligation and assist with evaluation. This would place additional administrative burden on both the tax expenditure recipient and the

government agency personnel who would be tasked with collecting and reviewing the reports. However, if successful monitoring and evaluation are to be done, this would be a helpful first step.

Appendix 1: Legislative Requirement

Subtitle N. Tax Transparency and Effectiveness
Sec. 7141. Short title. This subtitle may be cited as the "Tax Transparency and Effectiveness Emergency Act of 2014."
Sec. 7142. Definitions.
For the purposes of this subtitle, the term:

(1) "Categorical preference" means a tax preference that sets eligibility criteria and is potentially available to all entities that meet the criteria, subject to any funding limitations.

(2) "CFO" means the Chief Financial Officer of the District of Columbia.

(3) "Economic development purpose" means a goal to increase or retain business activity, including attracting new businesses or retaining existing ones, encouraging business expansion or investment, increasing or maintaining hiring, or increasing sales.

(4) "Individual preference" means a tax preference, such as a tax abatement, applied to one entity, project, or associated projects.

(5) "On-cycle tax preference" means a tax preference being reviewed in a current year.

(6) "Tax preference" shall have the same meaning as the phrase "tax expenditures" as defined in section 47-318(6) of the District of Columbia Official Code.

Sec. 7143. Tax preference review.
(a) The CFO shall review all locally adopted tax expenditures on a 5-year cycle and publish annually a report complying with the requirements of this section.
(b) By October 1, 2015, and by October 1 of every year thereafter, the CFO shall submit for publication in the District of Columbia Register a report for on-cycle tax preferences that complies with the requirements of this section.
(d) An on-cycle individual preference shall be analyzed and reported in the following manner:

(1) An individual preference shall be analyzed and reported in groupings of similarly purposed preferences, with the report focusing on collective effects or trends that emerge.

(2) The report shall include the stated purpose of the tax preferences within the grouping, if clarified in the authorizing legislation. (3) The report shall include the amount of lost revenue due to the tax preferences within the grouping.

(4) The report shall include an assessment of the general effects on the District resulting from the preferences.

(5) The report on groupings of individual preferences shall include recommendations on how to improve similar preferences in the future.

(6) For groupings of individual tax preferences with an economic development purpose, the analysis shall consider the economic impact of the preferences, and where sufficient data are available, take into account factors including:

(A) Whether the economic impact of the tax preferences would have been expected without the preferences;

(B) The extent to which the economic impact of the tax preferences was offset by economic losses elsewhere;

(C) The average economic impact for a level of direct expenditures equal to the cost of the tax preferences;

(D) The indirect economic impact of the tax preferences;

(E) The number of jobs created by the preference;

(F) The wages of the jobs created;

(G) The percentage of jobs filled by District residents; and

(H) Whether any terms of the tax preferences have been or are being satisfied.

(e) Except as provided in subsection (f) of this section, on-cycle categorical preferences shall receive a full review that, where sufficient data are available, includes:

(1) The purpose of the tax preference, if clarified in the authorizing legislation;

(2) The tax preference's cost in terms of lost revenue;

(3) An assessment of whether the tax preference is meeting its goals;

(4) An assessment of whether the tax preference is achieving other goals;

(5) Recommendations for improving the effectiveness of the tax preference;

(6) Recommendations for whether the tax preference should be modified, discontinued, or remain in its existent state; and

(7) For tax preferences with an economic development purpose, an analysis that measures the economic impact of the preference, including:

(A) Whether the economic impact of the tax preference would have been expected without the preference;

(B) The extent to which the economic impact of the tax preference was offset by economic losses elsewhere;

(C) The average economic impact for a level of direct expenditures equal to the cost of the tax preference; and

(D) The indirect economic impact effect of the tax preference.

(f) For on-cycle categorical tax preferences that the CFO determines do not merit a full review, the CFO shall instead perform a summary review. In determining which tax preferences are appropriate for a summary review, the CFO shall consider factors including, at a minimum:

(1) The revenue lost due to the tax preference and the number of potential or actual claimants;

(2) Whether the revenue lost due to the preference has increased or decreased since the preference was last reviewed;

(3) Whether the preference has been included in legislative or administrative proposals to modify or repeal; and

(4) Whether the preference is required by the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 774; DC Official Code §1-201.01 et seq.).

(g) A report on a categorical preference designated for summary review shall include:

(1) A narrative summary of the preference, including its purpose;

(2) The source and year of statutory authorization;

(3) The fiscal impact of the preference; and

(4) A description of the beneficiaries of the tax preference.

(h) All District agencies, offices, and instrumentalities shall cooperate with the CFO and shall provide any records, information, data, and data analysis needed to complete the reviews and reports required by this section.[102]

[102] http://lims.dccouncil.us/Download/32103/B20-0849-Enrollment.pdf

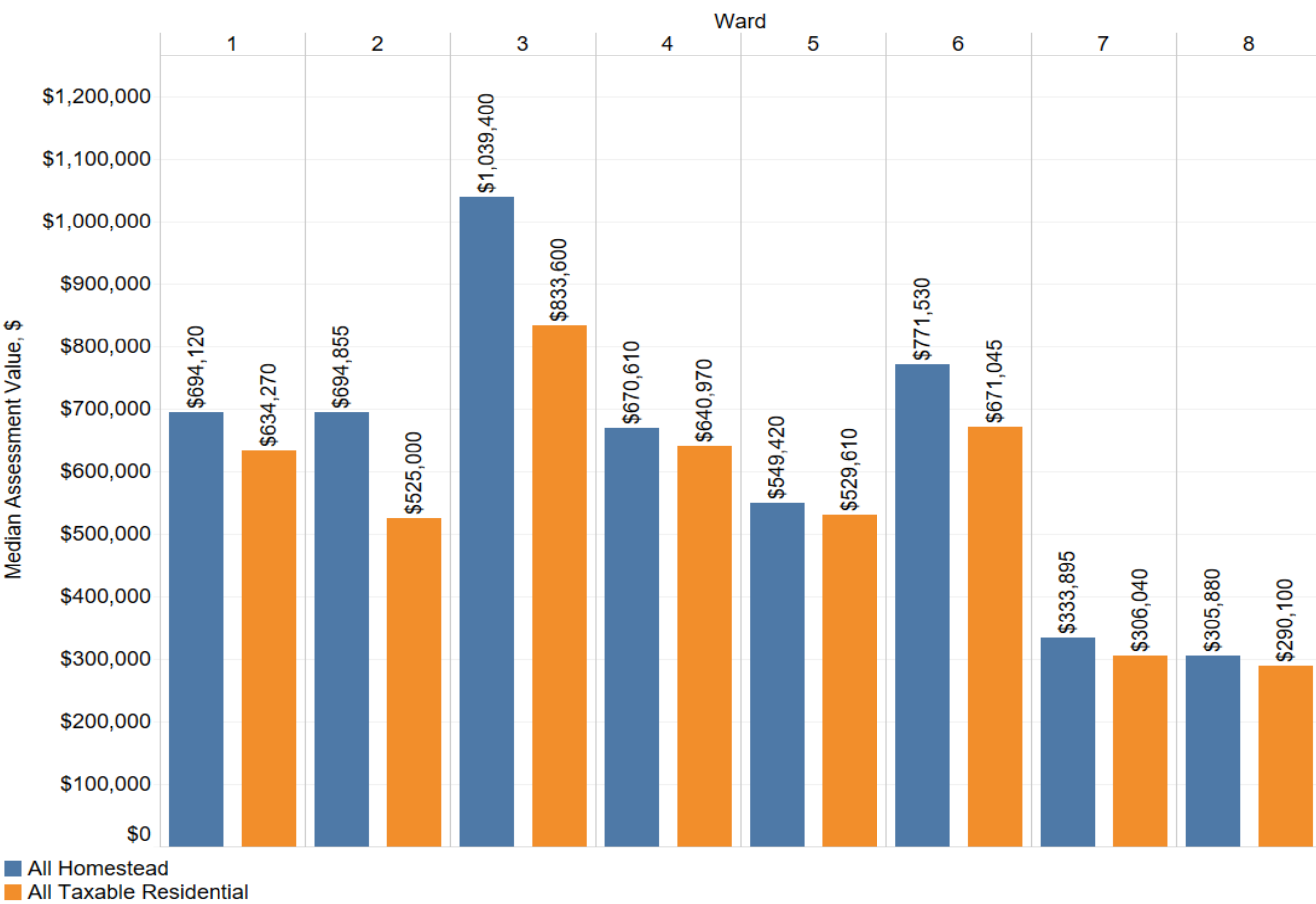
Appendix 2: Additional Charts and Tables

Table A1: Median Senior and Disabled Homestead Real Property Statistics by Aggregate Group, TY 2022

	Number of Observations	Percent of Total	Ownership Tenure in Years	Assessed Value	Real Property Tax Due After Credits and Deductions	Effective Tax Rate (ETR)	Percent Difference Between the Statutory Tax Rate and ETR
Disabled Homesteads	690	3.5%	11	$521,245	$1,675	0.0032	62.1%
Senior Homesteads	19,060	96.5%	13	$531,350	$1,525	0.0029	65.6%
Total	19,750		7	$581,030	$4,058	0.0078	8.4%

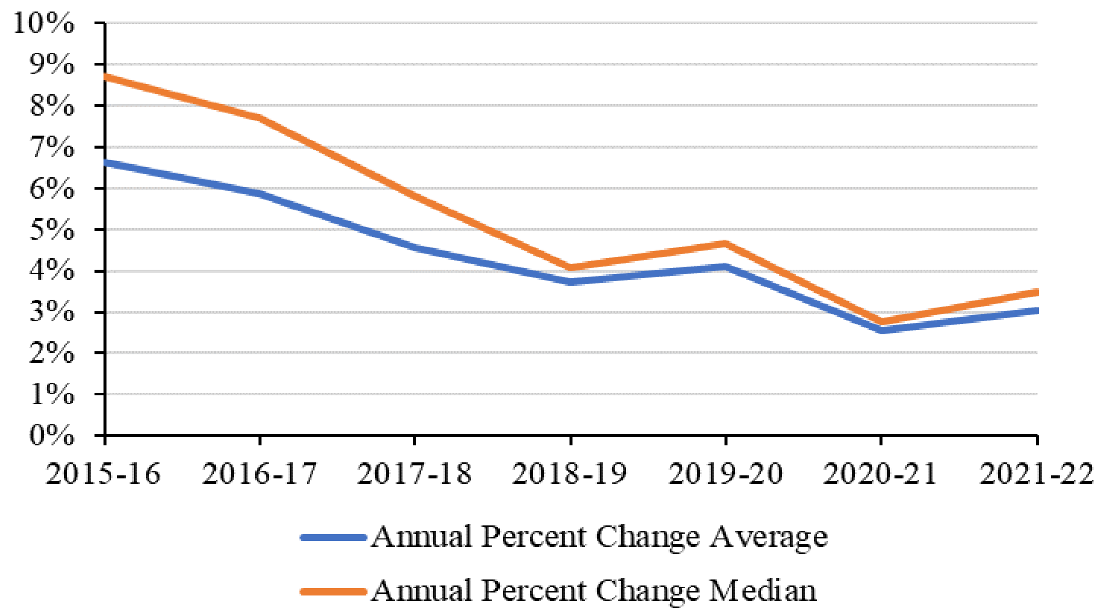
Source: ORA analysis of OTR real property tax data

Chart A1: 2022 Median Assessment Value of all Taxable Residential Property Compared to Homestead Properties, by Ward



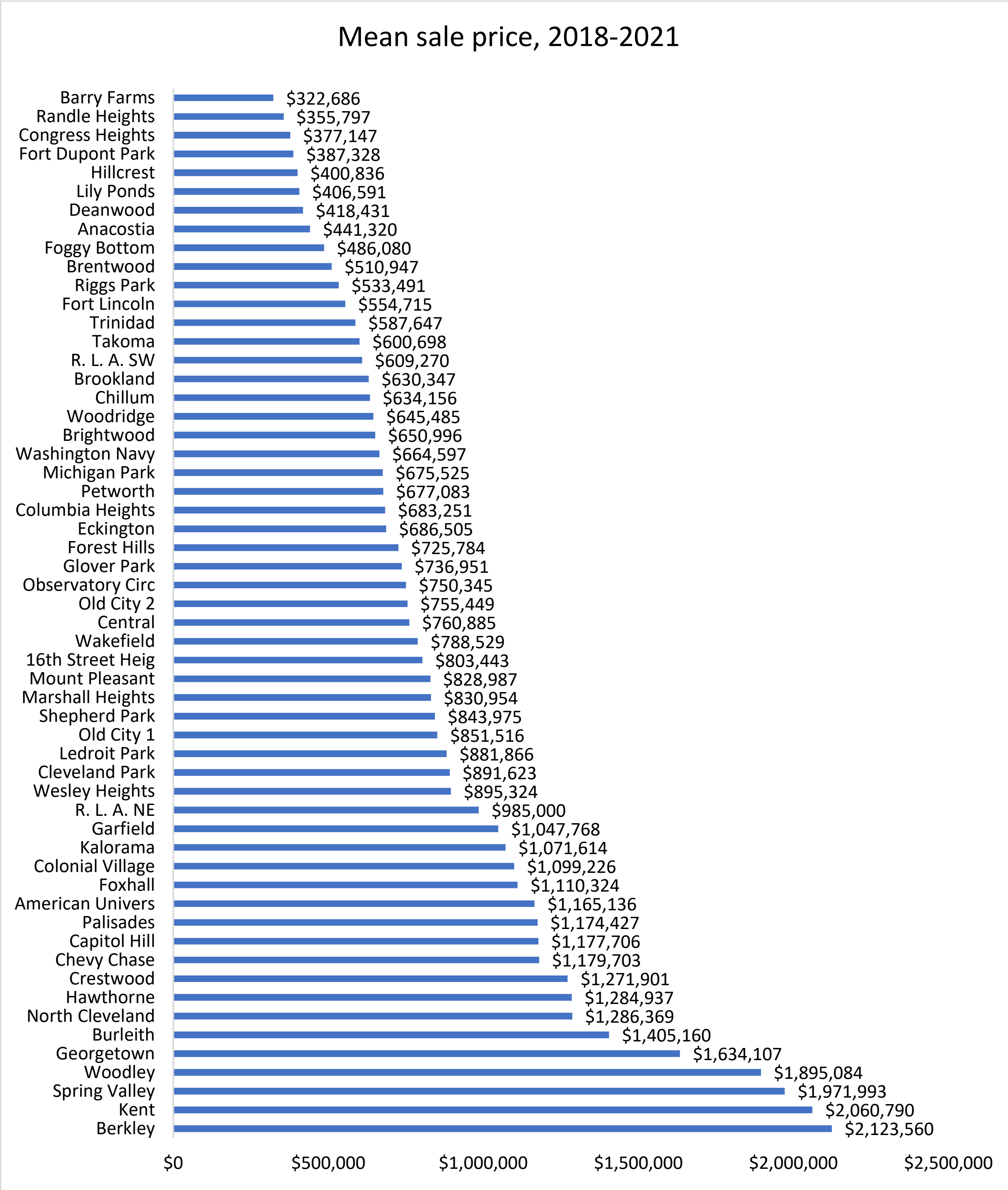
Source: ORA analysis of DC Real Property Tax Data, March 2022

Chart A2: Annual Percent Change in Assessed Values for all Homesteads in DC, TY 2015-2022



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

Chart A3: Mean Home Sale Price between 2018 and 2021



Source: OTR real property tax data

Chart A4: Mean Household Income, 2015-2019

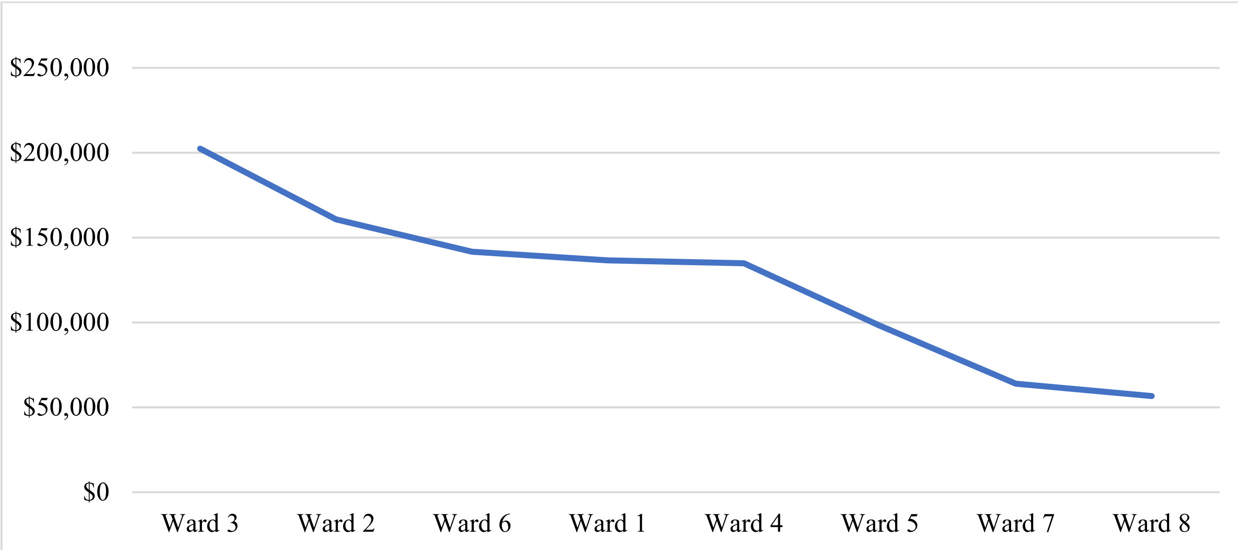


Table A2: Total Assessed Value Changes from TY 2021 to 2022 for all Homesteads

			Cumulative Assessment Values of Homesteads			
Neighborhood	Name	Ward	TY 2021	TY 2022	Difference	Percent Change
33	Marshall Heights	7	$258,692,490	$280,961,630	$22,269,140	8.6%
52	Trinidad	5	$927,152,550	$1,001,619,710	$74,467,160	8.0%
19	Eckington	5	$1,070,292,580	$1,152,104,860	$81,812,280	7.6%
2	Anacostia	7 & 8	$334,409,260	$359,340,180	$24,930,920	7.5%
48	Shepherd Park	4	$669,522,080	$713,185,480	$43,663,400	6.5%
3	Barry Farms	8	$85,778,960	$91,182,440	$5,403,480	6.3%
16	Congress Heights	8	$667,294,780	$708,931,680	$41,636,900	6.2%
21	Forest Hills	3	$1,398,481,339	$1,482,645,990	$84,164,651	6.0%
22	Fort Dupont Park	7	$676,157,658	$716,065,578	$39,907,920	5.9%
66	Fort Lincoln	5	$399,710,970	$422,043,260	$22,332,290	5.6%
42	Petworth	4	$2,813,982,572	$2,962,969,640	$148,987,068	5.3%
18	Deanwood	7	$1,059,030,460	$1,114,232,710	$55,202,250	5.2%
5	Brentwood	5	$224,514,700	$236,179,080	$11,664,380	5.2%
43	Randle Heights	8	$583,264,140	$613,187,270	$29,923,130	5.1%
35	Michigan Park	5	$393,981,960	$414,124,430	$20,142,470	5.1%
68	Bolling Air Force Base	8	$1,148,500	$1,206,630	$58,130	5.1%
32	Lily Ponds	7	$304,219,100	$318,765,380	$14,546,280	4.8%
28	Hillcrest	7	$903,948,760	$943,989,778	$40,041,018	4.4%
23	Foxhall	3	$227,337,330	$236,885,810	$9,548,480	4.2%
12	Chillum	4	$377,068,690	$392,873,730	$15,805,040	4.2%
39	Old City 1	6 & 7	$7,857,682,610	$8,168,077,470	$310,394,860	4.0%
9	Capitol Hill	6	$2,583,345,335	$2,682,725,425	$99,380,090	3.8%
14	Colonial Village	4	$509,220,100	$528,650,700	$19,430,600	3.8%
6	Brightwood	4	$1,746,980,440	$1,812,258,640	$65,278,200	3.7%
1	American University	3	$2,134,568,310	$2,201,678,900	$67,110,590	3.1%
26	Glover Park	3	$727,101,470	$749,134,700	$22,033,230	3.0%
30	Kent	3	$1,095,447,260	$1,128,608,700	$33,161,440	3.0%
31	Ledroit Park	1 & 5	$1,071,936,960	$1,103,370,500	$31,433,540	2.9%
11	Chevy Chase	3 & 4	$4,754,064,540	$4,887,517,940	$133,453,400	2.8%
47	Riggs Park	4 & 5	$964,046,900	$989,743,870	$25,696,970	2.7%
38	Observatory Circle	3	$822,629,960	$843,606,002	$20,976,042	2.5%
55	Woodley	3	$272,633,170	$279,577,020	$6,943,850	2.5%
4	Berkley	3	$990,681,980	$1,014,336,250	$23,654,270	2.4%
7	Brookland	5	$2,672,419,320	$2,735,617,620	$63,198,300	2.4%
8	Burleith	2	$553,354,490	$565,885,450	$12,530,960	2.3%
24	Garfield	3	$778,390,290	$795,730,230	$17,339,940	2.2%
17	Crestwood	4	$684,240,760	$699,218,340	$14,977,580	2.2%
13	Cleveland Park	3	$1,867,574,330	$1,903,382,320	$35,807,990	1.9%
51	Takoma	4	$332,546,960	$338,670,330	$6,123,370	1.8%
56	Woodridge	5	$1,096,400,240	$1,115,893,420	$19,493,180	1.8%
36	Mount Pleasant	1	$2,247,536,810	$2,287,473,490	$39,936,680	1.8%
15	Columbia Heights	1 & 4	$3,977,634,080	$4,047,640,960	$70,006,880	1.8%
49	16th Street Heights	4	$1,247,904,870	$1,267,107,820	$19,202,950	1.5%
40	Old City 2	1, 2, 5, & 6	$6,969,866,234	$7,064,636,290	$94,770,056	1.4%
29	Kalorama	1 & 2	$1,903,453,390	$1,928,699,190	$25,245,800	1.3%
46	R. L. A. SW	6	$825,298,960	$836,091,020	$10,792,060	1.3%
37	North Cleveland Park	3	$834,040,570	$844,878,930	$10,838,360	1.3%
53	Wakefield	3	$525,247,120	$529,047,750	$3,800,630	0.7%
73	Washington Navy Yard	6	$55,299,980	$55,669,770	$369,790	0.7%
50	Spring Valley	3	$1,306,297,670	$1,297,952,420	($8,345,250)	-0.6%
27	Hawthorne	4	$280,029,680	$276,658,520	($3,371,160)	-1.2%
41	Palisades	3	$903,726,630	$892,759,270	($10,967,360)	-1.2%
10	Central	2	$1,626,525,456	$1,606,114,110	($20,411,346)	-1.3%
20	Foggy Bottom	2	$207,520,860	$204,388,440	($3,132,420)	-1.5%
44	R. L. A. NE	5	$3,216,220	$3,152,730	($63,490)	-2.0%
25	Georgetown	2	$3,183,004,870	$3,117,334,600	($65,670,270)	-2.1%
34	Massachusetts Avenue Heights	3	$384,548,150	$376,581,410	($7,966,740)	-2.1%
54	Wesley Heights	3	$1,241,838,320	$1,214,913,570	($26,924,750)	-2.2%
	Total		$74,614,244,174	$76,557,279,383	$1,943,035,209	2.6%

Source: ORA analysis of OTR's annual real property tax data, March 2021 and 2022

Table A3: Average and Median Assessment Increase Cap Credit Statistics in Personal Income Quartiles, TY 2019

Quartiles by absolute values of FAGI	FY 2019 - 2018 assessed value change		Annual percent change		FY 2019 assessed values		Effective tax rate with assessment increase cap credit only		Property tax budren before credits and deductions as a percentage of FAGI	Property tax burden after assessment increase cap credit as a percentage of FAGI
	Average	Median	Average	Median	Average	Median	Average	Median	Median	Median
Bottom	$18,769	$15,010	3.9%	3.6%	$475,779	$414,650	0.0077	0.0079	9.6%	8.5%
Lower middle	$18,262	$19,270	3.6%	4.3%	$509,203	$445,930	0.0080	0.0085	4.1%	3.8%
Upper middle	$26,375	$23,575	4.1%	4.0%	$650,802	$583,200	0.0082	0.0085	3.2%	3.0%
Top	$38,860	$31,140	3.8%	3.6%	$1,036,109	$876,900	0.0083	0.0085	2.0%	2.0%
Total	$25,567	$20,770	3.8%	3.7%	$667,978	$554,160	0.0081	0.0085	3.6%	3.4%

Source: ORA analysis of OTR individual income and real property tax data