PUBLIC HEARING ON

BILL 17-019, "OWNER-OCCUPANT RESIDENTIAL TAX CREDIT ACT OF 2007"

Before the

Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

February 7, 2007, 1:00 p.m.
John A. Wilson Building, Room 412

Testimony of
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Natwar M. Gandhi
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Good afternoon Chairman Evans and members of the committee. I am Robert Ebel, Deputy Chief Financial Officer for Revenue Analysis. I am pleased to be joined by my colleague Sherryl Hobbs Newman, Deputy Chief Financial Officer for Tax and Revenue, to present testimony on Bill 17-019, the "Owner-Occupant Residential Tax Credit Act of 2007."

Bill 17-019 would amend the District's owner-occupant residential tax credit (or cap) under Title § 47-864 of the District of Columbia Official Code to lower the allowable increase in taxable assessment value of residential real property from 10% to 5% starting in fiscal year (FY) 2008.

Our remarks this afternoon provide a brief background of the property tax cap legislation to date, and then proceed to report the findings of the fiscal impact statement that was transmitted to the Council on February 5, 2007.

Background

Lowering the allowable increase in taxable assessment value from 10% to 5% starting in FY 2008 would be the third reduction of the owner-occupant residential tax credit that first took effect in tax year 2002. The 2002 cap had an annual limit of 25% and was subsequently lowered to 12% in FY 2004 and then to 10% in 2006. During the period of 2001-2007, this change in the cap was accompanied by increases in the homestead exemption and reductions in the statutory tax rate (Table 1).

Table 1. Summary of Residential Real Property Tax Policy							
	2001	2002	2003	2004	2005	2006	2007
Statutory Tax Rate	$0.96	$0.96	$0.96	$0.96	$0.96	$0.92	$0.88
Homestead Exemption	$30,000	$30,000	$30,000	$30,000	$38,000	$60,000	$60,000
Initial Tax Cap		25%	25%	12%	12%	10%	10%
Adjusted Tax Cap, 2006		12%	12%	12%	12%	10%	10%

Note: Tax rate is per $100 of taxable assessed value. The "adjusted tax cap" reflects the reassessment that the District of Columbia undertook to create parity for homestead taxpayers who were in triennial groups one and two, when the District transitioned from triennial to annual property tax assessments.

To qualify for the tax cap, the taxpayer must (i) occupy the residence; (ii) have applied for the homestead exemption (under § 47-850 or § 47-850.01), and (iii) not have sold or completed a major renovation or rehabilitation in the past taxable year (which in the District of Columbia, coincides with the fiscal year). At present, approximately 93.1% of the 93,590 homestead properties qualify under the cap. For FY 2007, the cap is estimated to reduce real property tax revenue by $124.9 million, compared to a baseline of no cap (Table 2).

Table 2. Revenue Impact of Tax Cap for FY 2007	
Estimated Revenue from Homestead Properties (no tax cap)	$351.7 million
Estimated Revenue from Homestead Properties (with tax cap)	$226.8 million
Revenue Impact of Tax Cap	($124.9 million)

Source: Office of Revenue Analysis (ORA), Office of Tax and Revenue Real Property Tax Administration (RPTA) database and public release abstract

Financial Impact

Estimates for the cost of lowering the annual residential property tax cap from 10% to 5% were derived by analyzing the most recent real property tax database from the Office of Tax and Revenue (OTR). The cost estimate was generated in three steps. First, each owner-occupied property in the District was classified by its previous year's tax cap status, because the cap is calculated differently depending on whether or not the taxpayer was capped in that previous year. Second, the revenue loss due to the lowering of the cap to 5% was estimated for each eligible property. Third, data for the individual properties were then aggregated to generate an additional District-wide estimated loss of $17 million for the first year of the new cap. The proposed legislation would result in reduced revenue to the District of Columbia of $17.0 million in FY 2008 and $58.7 million in the FY 2007 through FY 2010 period (Table 3). This would raise the total cost of the property tax cap (vis-à-vis the baseline) to at least $142 million.

Table 3. Impact to the Financial Plan of the Owner Occupant Residential Tax Credit Act of 2007 ($ millions)

Item	FY 2007	FY 2008	FY 2009	FY 2010	4-Year Total
Reduced Revenue Collections	$0	$17.0	$19.6	$22.1	**$58.7**

Source: ORA, RPTA database and public release abstract

We will be pleased to respond to any questions you have at this time.