PUBLIC HEARING ON

BILL 17-0070, "REAL PROPERTY TAX BENEFITS REVISION ACT OF 2007"

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

March 14, 2007, 11:00 a.m.
Room 120, John A. Wilson Building

Testimony of
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Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Sherryl Hobbs Newman, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony today on Bill 17-0070, the "Real Property Tax Benefits Revision Act of 2007." It is the permanent version of emergency legislation that became law on December 19, 2006.

Bill 17-0070 responds to feedback that the Council and OTR received from citizens and the land title industry. The bill demonstrates the commitment of the Council and OTR to its citizens and homeowners.

The bill amends the real property tax homestead deduction and senior-disabled tax relief provisions of the D.C. Code to simplify the cessation of these benefits when a property is transferred to a non-qualifying owner. The bill would change the timing for rescinding these benefits, including the owner-occupied tax cap, from retroactive to prospective.

Currently, when a property receiving any of these benefits is sold by a qualifying homeowner to a non-qualifying owner, such as an investor, the benefits are taken away <u>retroactively</u> to the first day of the half tax year in which the transaction took place. Retroactive rescission of the homestead deduction also requires that the tax cap be similarly rescinded. This means, for example, that a qualifying homeowner who sells their home on March 2, 2007, would lose the above benefits and thus have to pay additional real property tax retroactive to October 1, 2006, even though the homeowner lived in the house until the date of the sale.

Homeowners have argued that the current law, which retroactively rescinds the above benefits, is unfair. In addition, these retroactive rescissions have caused problems at settlement in computing the correct amount of real property tax to be paid by the buyer, resulting in shock and frustration on the part of the seller.

The bill provides that when a qualifying homeowner sells his or her home to a non-qualifying owner, rescission of the benefits is delayed until the first day of the following half tax year. For example, under the provisions of the bill, the homestead deduction and tax cap for a property sold on March 2, 2007, to an investor will not be rescinded until April 1, 2007, the first day of the half tax year following the date of transfer. OTR has determined that it is not administratively feasible, given existing computer systems and resources, to rescind (adjust its records and bills to account for changes in the availability of the above benefits) over any shorter time-frame. Prospective rescission of the above benefits will greatly simplify the settlement process, decrease closing costs, and alleviate burdens on sellers.

In addition, in certain isolated instances, the homestead deduction or senior-disabled tax relief is not automatically rescinded when a qualifying homeowner sells his or her home to a non-qualifying buyer. The bill clarifies that audits may be performed not only of those non-qualifying buyers who erroneously applied for any benefit, but also of those who may have inherited the benefit without ever having applied for it.

For the above reasons, OTR believes that the Council should approve Bill 17-0070.

Fiscal Impact of Bill 17-0070

To implement Bill 17-0070 and properly administer it, OTR will incur approximately $101,000 in one-time computer programming costs and $10,000 in community outreach costs to educate particularly the title industry on the calculations required by the new law. Funds will need to be provided in the approved FY 2007-2010 budget and financial plan to support these costs ($101,000 in FY 2007 and $10,000 annually thereafter).

In the ordinary course of business, OTR does not keep separate records for the amount of additional revenue collected from retroactively rescinding these benefits. Thus, the loss is quite difficult to estimate. It depends on: 1) the number of sales in a tax year from qualified homeowners to non-qualified buyers (i.e., a homestead owner to an investor), 2) the date of each sale in the semi-annual billing cycle, and 3) the difference between each home's taxable assessment and its market value. Between 2004 and 2006, there were approximately 400 properties sold each year that represented a transfer between a qualified seller and a non-qualified purchaser. Taking into account the relatively low number of affected sales each year, we believe that the fiscal impact of this legislation is not substantial.

Thank you, Chairman Evans, for the opportunity to comment on this bill. I would be happy to answer any questions you or other Council members might have at this time.