

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer



MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi [signature]
Chief Financial Officer

DATE: January 13, 2004

SUBJECT: Fiscal Impact Statement: "Homestead Exemption Amendment Act of 2004"

REFERENCE: Bill Number 15-188 as Introduced

Conclusion

Funds are not sufficient in the FY 2004 budget to implement the proposed legislation; however, improvements in the District revenue forecasts could be used to support the proposed tax initiative for FY 2004. Under the current financial plan, the Mayor and the Council would have to adjust expenditures in FY 2005 through FY 2007 in order to fund this initiative in the out-years. The proposed legislation is intended to relieve real property tax burdens estimated to be \$58.2 million in FY 2004 and \$232.8 million in FY 2004 through FY 2007.

Background

The Homestead Deduction reduces a real property's assessed value prior to computing the yearly tax liability. The Homestead Deduction is limited to residential property. To qualify:

1. An application must be on file with the Office of Tax and Revenue;
2. The property must be occupied by the owner and contain no more than 5 dwelling units; and
3. The property must be the principal residence of the owner.

In the case of a cooperative housing association, the unit must be occupied by the shareholder as their principal residence, and the deduction is granted to the cooperative.

In the case of property transferred to a trust, the property may qualify for the Homestead Deduction if:

1. The property was eligible for the Homestead Deduction before the transfer;
2. The property is transferred to a revocable trust;
3. The transfer is not for money; and the property remains the principal residence of the transferer before and after the transfer.

The proposed legislation increases the maximum allowable amount of the deduction from \$30,000 per year to \$100,000 per year.

Financial Plan Impact

Funds are not budgeted in the FY 2004 budget to implement the provisions of the proposed legislation. However, improvements in the District revenue forecasts could be used to support the proposed tax initiative for FY 2004. In subsequent years, the Mayor and the Council would be required to adjust expenditures in the financial plan for FY 2005 through FY 2007. The table in Figure 1 presents the projected reductions in tax burdens as a result of the proposed legislation.

Figure 1.

Impact on Local General Fund Revenue				
(\$ in millions)				
FY 2004	FY 2005	FY 2006	FY 2007	4 -Year Total
\$58.2	\$58.2	\$58.2	\$58.2	\$232.8