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**
Chief Financial Officer

DATE: **February 16, 2001**

SUBJECT: **Fiscal Impact Statement: "Real Property Tax Clarity and Litter Control Administration Emergency Act of 2001"**

REFERENCE: **Draft Legislation - Bill Number Not Available (B 14-91, A 14-8)**

Conclusion

Funds are sufficient in the FY 2001 through FY 2004 budget and financial plan because no additional staff or resources will be required to implement the components of the proposed legislation. The proposed legislation will increase revenue in the District by $15.8 million from Tax Year 2002 through Tax Year 2005.

Background

The proposed legislation affects sales taxes, exempts organizations, businesses and deregulated utilities, tax compliance simplification and real property tax. The purpose of the Act is to simplify provisions of the D.C. Code and clarify issues related to individual and business taxation in the District of Columbia.

The Act makes the provisions of the D.C. Code more consistent and streamlines Code provisions where necessary. For example, all penalty and interest provisions for business taxes are combined into one section rather than having a different penalty and interest provision for each tax type.

The proposed legislation will also amend the Litter Control Act of 1985 to authorize the collection of assessments for the costs and expenses incurred due to the abatement of nuisances.

Financial Plan Impact

There are 35 identified components in the proposed legislation. A component by component analysis follows. The provisions of the proposed legislation have been analyzed in the order they appear in the proposed legislation.

1. The proposed provision defines an owner as anyone holding 30-year lease or life tenant. Presumably, this will include private tenants in buildings owned by the government of non-profit organizations.

This component may have a negative revenue impact, which is included in #2 below.

2. The proposed provision provides that commercial interests in government owned exempt property are taxable to owner or leaseholder of commercial property interest as a part/part.

This component has a revenue impact estimated to be $4.1 million in FY 2001 and $3.7 million in FY 2002 and beyond. These interests currently are not subject to the real property tax. Currently, private businesses operating within a structure owned by the government or a non-profit organization pay no real property tax on their space. This is in contrast to businesses operating elsewhere. This provision will serve to "level the playing field" for merchants, whether they lease space from a private company or from the government or a non-profit organization.

3. The proposed provision requires recordation and transfer taxes apply to usufructuary interest (life estate or interest of 30 or more years).

This provision in combination with #4 below are estimated to increase revenue by at least $300,000 annually.

4. The proposed provision requires that the assignment of commercial leasehold interests constitutes a transfer of economic interest and is subject to recordation and transfer taxes.

The revenue impact of this provision is noted in #3 above.

5. The proposed provision provides that new owners may appeal assessments.

This component may slightly reduce real property tax revenue. Revenue loss of $300,000.

6. This component clarifies that administrative corrections that benefit taxpayer may go back three years.

The impact of this component is estimated to be a revenue loss of $100,000.

7. This provision permits supplemental assessments for residential construction.

The revenue impact is estimated to be a revenue gain of $200,000 annually. Currently, OTR can only reassess for new construction during the tri-group cycle. This provision will allow reassessment during the year when residential construction is completed.

8. Proration of exemptions is changed by this component to half-year rather than monthly.

The impact of this component is an increase in revenue by an estimated $50,000 annually.

9. This provision provides that work related to notice and research in the Mennonite search process can be done by OTR or the tax sale purchaser. Notice and research fees can be collected by either the private company doing the work or by the Office of Tax and Revenue if it does the work.

The proposed provision provides that fees for Mennonite work can be charged. If the work is done by OTR, fees are retained so there is no general fund impact.

10. The proposed provision clarifies that transfer tax is based on sales price, rather than higher of assessed value or sales price. This brings the transfer tax practice in harmony with that of the recordation tax. Currently, OTR bases the transfer tax on the higher of assessed value of sales price.

This component will align requirements for transfer tax with those for recordation tax. Will not change revenue or codification of the current practice.

11. The proposed provision permits taxpayer 30 days to pay real property tax bill from time bill is mailed. Currently, it is not clear when the 30-day period begins.

This provision has no revenue impact. It merely clarifies current practice.

12. The proposed provision repeals moot amnesty provisions.

The proposed provision has no revenue impact.

13. The proposed provision substitutes September 30 for June 30 in several real property tax provisions making them consistent with real property tax year.

The proposed provision has no revenue impact.

14. The proposed provision clarifies that the tax roll is estimated and eliminates the requirement for publishing proposed property tax rates and calculated rate letter.

The proposed provision has no revenue impact. It eliminates obsolete provisions.

15. The proposed provision clarifies that real property tax assessment increases are phased within a triennial group period.

The proposed provision has no revenue impact. It clarifies current practice.

16. The proposed provision provides the Mayor with power to approve regulations related to real property tax administration.

The proposed provision has no revenue impact.

17. This component clarifies confidentiality provisions regarding income and expense information submitted by property owners during the appeals process. The proposed provision allows the OTR to submit information on how assessments were derived. The proposed provision is identical to that used in the Maryland appeals process.

The proposed provision has no revenue impact.

18. The proposed provision allows the Mayor to publish the assessment roll on the Internet.

The proposed provision has no revenue impact. It clarifies current practice.

19. The proposed provision clarifies time periods for notice of real property tax requirements by the Mayor to taxpayers.

The proposed provision has no revenue impact.

20. This component provides that delayed assessment notices can be mailed up to and including September 1.

The proposed provision has no revenue impact. It clarifies current practice.

21. The proposed provision amends the "omitted property" statute to allow administrative review and BRPAA review, prior to court petition. Omitted properties are those properties, which have not been assessed for whatever reason.

The proposed provision has no revenue impact. The properties will be assessed one way or the other. This makes it easier to correct such problems.

22. The proposed provision clarifies that part/part assessment does not apply to exempt organization use of government owned property. Part/part assessment applies to the commercial activities within a property owned by the government or by non-profit organizations.

The proposed provision has no revenue impact.

23. The proposed provision changes the filing date for exemption use report forms to April 1. Currently, these forms are due March 1. The new filing date makes these forms due at the same time as other real property tax filings.

The proposed provision has no revenue impact.

24. The proposed provision gives the Mayor authority to abate taxes if property was used for exempt purposes and the taxpayer has not applied for an exemption. Under current law, the Council must take legislative action in these cases to abate real property taxes.

The proposed provision has no revenue impact. This provision streamlines the current practice of going through Council. The proposed provision should have no revenue impact.

25. The proposed provision removes the deadline for submission of proposed economic development incentives legislated by the Mayor.

The proposed provision has no revenue impact.

26. This component requires Taxpayers to file for real property tax refunds within a three-year period of paying the real property tax. Currently, the statute does not set such a limit. This does not apply in the case of appeals cases that go to the courts.

The proposed provision has no revenue impact. It clarifies current practice.

27. The proposed provision clarifies statistics used to compute trash credit. This is necessary because the consumer price index used to compute when the credit has changed. The consumer price index for the Washington D.C. area includes a new benchmark period and a different geographic region than the previous index.

The proposed provision has no revenue impact.

28. This provision eliminates the option to pay real property tax quarterly. Quarterly billings are required to be prepared by hand. Not enough taxpayers take advantage of the option to make it cost effective to automate.

The proposed provision has no revenue impact.

29. The proposed provision excludes weekends and holidays from the computation of time concerning payment for certificate of sale. Currently, taxpayers bidding upon tax sale properties have five days to pay for the certificate of sale after they are the winning bidder. This component specifies that the five days are business days and do not include weekends and holidays.

The proposed provision has no revenue impact.

30. The proposed provision clarifies that bulk tax sale properties may be sold by purchaser for their
fair market value.

The proposed provision has no revenue impact. It clarifies current law.

31. The proposed provision provides for 18 percent delinquent tax interest rate even after expiration of redemption period.

The proposed provision has no revenue impact. It clarifies current law.

32. The proposed provision clarifies that a tax sale purchaser must pay the bill for the deed within 30 days after the expiration of the six-month redemption period. This is the current practice, but not clearly specified in current law.

The proposed provision has no revenue impact. It streamlines the tax sale process.

33. The proposed provision clarifies that property is sold for the amount of oldest lien in special deed process. The special deed process occurs when a purchaser buys a bid-off property (one which nobody purchased at tax sale). Under this procedure the purchaser pays the amount of the oldest lien, the appropriate title searches are conducted etc. and then when title is cleared the owner pays the remainder of the liens outstanding and receives deed to the property.

The proposed provision has no revenue impact. It codifies the current practice.

34. The proposed provision requires that refinancing instruments be taxable under the deed recordation tax with a pro-rata credit allowed for tax previously paid.

The proposed provision has no revenue impact. It clarifies current practice.

35. This component adds a chapter 13A, which revises the real property tax sale process. The changes will provide that before a deed is issued, the purchaser will serve a complaint to the court for all interested parties to come forward to explain why the deed

should not be issued. This is an attempt to insure that property is not sold at tax sale simply because an owner may not have been notified due to a change of address etc. The deed will not be issued until such time as the court is satisfied that there are no valid reasons to issue the deed.

The proposed provision has no revenue impact. This component will provide another safety check to insure that properties are not sold without the knowledge of owners.

36. The proposed provision will allow the District to levy and collect assessments to offset the costs incurred due to the abatement of nuisances.

The proposed provision will have very little affect on District revenue.

TITLE V: REAL PROPERTY TAX					
	Revenue Impact				
Proposal	**Current**	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**
Owner defined to include 30-year lease or life tenant (1)	Tenant now can't appeal	+$4.1 M	+$3.7 M	+$3.7 M	+$3.7 M
Commercial interests in government-owned property are taxable (2)	Not taxed now				
Deed taxes apply to leases of 30 years or more (3,4)	No rev. w/ transfer of leases	+$0.3M	+$0.3M	+$0.3M	+$0.3M
New owners may appeal assessments (5)		-$0.3 M	-$0.3 M	-$0.3 M	-$0.3 M
Admin. Corrections that benefit taxpayer to go back 3 years (6)		-$0.1 M	-$0.1 M	-$0.1 M	-$0.1 M
Supplemental assessments for residential construction (7)		+$0.2 M	+$0.2 M	+$0.2 M	+$0.2 M
Proration of Exemptions (8)		+$0.05 M	+$0.05 M	+$0.05 M	+$0.05 M
Provides that fees can be collected for Mennonite research (9)		Revenue retained	Revenue retained	Revenue retained	Revenue retained
Transfer tax based on sales price (10)	Done for Record' Tax now	$0 M	$0 M	$0 M	$0 M
Other Provisions (12-35)		$0	$0	$0	$0
Total, Real Property Tax		**+$4.25 M**	**+$3.85 M**	**+$3.85 M**	**+$3.85M**

The revenue impact for FY 2002 through FY 2005 has a four-year total of $15.8 million.