

Area Property Taxes Low and Stable

A key consideration in business location decisions is the overall quality of local governments. When a business makes a substantial investment in a metropolitan area, it wants assurance for the business itself, as well as for its employees, that schools, public safety, transportation, recreation, libraries and other local services will be maintained at quality levels. It also wants to know that taxes are stable and reasonable relative to services.

While taxes are important, other features of the local government operations are often of equal importance. These include such considerations as whether the governments have reasonable long-term debt and an ability to meet future infrastructure needs, whether budgets are soundly balanced each year and whether adequate financial reserves are maintained. In short, whether local governments are soundly managed financially.

This report focuses on the real property taxes of area governments. Future reports will consider other qualities of area local governments.

Real Property Tax Rates in the Washington Area

All the Washington area major local governments, except the District, have a single tax rate that applies uniformly for all taxable real property. The rates expressed as a percent of estimated market value range from 0.90 percent in Frederick County to 1.36 percent in Prince William County. The District's residential rate is 0.96 percent. However, District commercial property is taxed at a much higher 2.15 percent

and rental properties are taxed at 1.54 percent. When the five District tax rates on different types of property are combined into one composite weighted rate, the resulting 1.43 percent rate is the highest in the area.

1998 Real Property Tax Rates in the Washington Metropolitan Area

	Tax Rate
District of Columbia	1.43
City of Alexandria	1.11
Arlington County	1.00
Fairfax County	1.23
Montgomery County	0.91
Prince George's County	1.34
Prince William County	1.36
Loudoun County	1.11
Frederick County	0.90

District rate is a weighted composite of five classified rates.

Maryland rates are adjusted based on a 40 percent assessment ratio. Rates apply for entire county.

Source: Annual Financial Reports.

Compared to Other Areas

A recent study by the prestigious Minnesota Taxpayers Association compares effective 1998 tax rates for the central cities in the largest metropolitan area in each state. The tax rates on median value homes vary widely from a high of 3.91 percent of values in the Newark, New Jersey to 0.31 percent in Honolulu, Hawaii. The average rate for all metropolitan areas surveyed was 1.48 percent. The District's effective rate was a low 0.75 percent (reduced from a nominal rate of 0.96 because of the \$30,000 home- stead exemption) that ranked it 47th from the

top. The average effective rate for the balance of the Washington metropolitan area is 1.12 percent, well below the national average.

**Comparison of Selected Tax Rates
Average Rate on Median Value Dwelling**

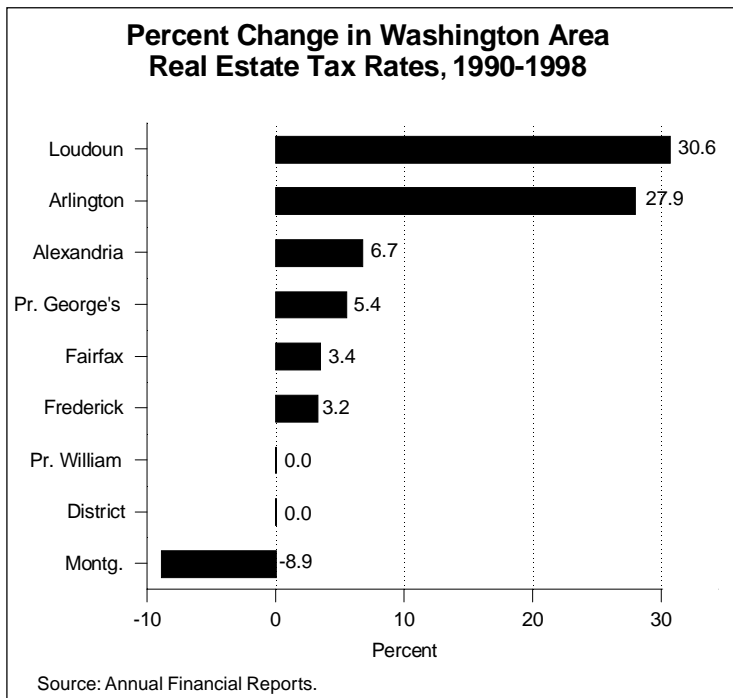
	<u>Tax Rate</u>
Average of Metro Areas	1.48
Washington Area <i>(excludes DC)</i>	1.12
District of Columbia	0.78
Baltimore	2.30
Atlanta	1.64
Richmond	1.34
Portland, OR	1.32
New York	1.26
Charlotte	1.26
Los Angeles	1.01

Source: Minnesota Taxpayers Association. *50-State Property Tax Comparison Study, Payable Year 1998, January 1999.*

The Minnesota study also compares property taxes on commercial and rental properties. The average tax on a commercial property valued at \$1 million, with \$200,000 of personal property, is 2.27 percent. The District's rate of 2.25 percent ranks 23rd from the top. For rental property valued at \$600,000, the average tax is 1.97 percent. The District's rate of 1.54 percent ranks it 29th from the top. Because the suburban jurisdictions in Virginia and Maryland do not have higher rates for commercial and rental properties, their average rate for all properties of 1.12 percent compares very favorably.

Tax Stability

An important concern when it comes to property taxes is the stability of rates. Because both commercial and residential purchases are made based on long-term assumptions about costs, including taxes, frequent or substantial rate changes create concerns for investors. The Washington area has had a relatively good experience with tax rate stability. Over the first eight years of the 1990s, the Montgomery County rate declined while the District and Prince William County rates stayed the same. The two jurisdictions whose rates did increase sharply—Arlington and Loudoun Counties—had the lowest rates in 1990 and still have relatively low rates after their increases.



Conclusion

By most measures, the Washington area has relatively low and stable property taxes. The District taxes on owner occupied residential properties are among the lowest in the country, but its rates on commercial and rental residential are less favorable. The rates in the suburbs for all classes of property are quite low.