

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron:** Diamonstein

3. **Committee:** House Finance

4. **Title:** Real Property Tax;
Separate Classification for Improvements

2. **Bill Number:** HB 2663

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would reclassify improvements to real property as a separate class of real property. As a result of this reclassification, a locality would be authorized to impose a real property tax on improvements to real property at a rate of tax which is not zero and does not exceed the rate applicable to the land on which the improvements are located.

Under current law, land and improvements are considered to be one class of property subject to the same rate of tax. Localities are, however, required to separately state the value of land and improvements.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Not available (See Line 8).

7. **Budget amendment necessary:** No.

8. Fiscal implications:

This bill would have no impact on state revenues. The immediate impact on local revenues is uncertain because localities may or may not exercise the authority to impose a lower rate of tax on improvements than imposed on land. To the extent that a locality imposes a lower rate of tax on improvements than on land, the locality may experience a reduction in real property tax revenues.

9. Specific agency or political subdivisions affected:

All Localities

10. Technical amendment necessary: No.

11. Other comments:

Subject to limited exceptions, Article X, §§ 1 and 2, of the Constitution of Virginia provide that all real property in a locality is considered one class of property, valued at fair market value and subject to the same rate of tax.

This bill would create a statutory exception to these requirements to enable localities to tax improvements at a lower rate than applicable to the land, but not a zero rate.

Under current law, any locality may provide, by ordinance, for the partial exemption from real estate taxes for structures or improvements that have undergone substantial rehabilitation, renovation or replacement. Eligibility for these exemptions depends on the age, size, location and use of the structures or improvements. These exemptions may run with the land for a number of years that depends on the use of the structure or improvements.

House Bill 2037 would reclassify improvements to real property located in any city having a population of no less than 19,500 and no greater than 21,500 as a separate class of real property. Currently, Fairfax City is the only locality that meets these population criteria. As a result of this reclassification, the City of Fairfax would be authorized to impose a real property tax on improvements to real property at a rate of tax which does not exceed the rate applicable to the land on which the improvements are located.

c: Secretary of Finance

Date: 1/18/01/JEM

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