DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement

1. Patron John J. Welch, III

2. Bill Number HB 1231

House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
__X__ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee Senate Finance

4. Title Real Property Tax; Local Deferral of Taxes

5. Summary/Purpose:

This bill would eliminate the current requirement mandating how localities must calculate the amount of taxes eligible for the local deferral program for real estate taxes that exceed a locally designated percentage of the tax on the property in the previous year.

Under current law, the amount of real estate taxes that may be deferred is calculated by subtracting from the tax for the current tax year the "base amount of nondeferrable tax." The base amount of nondeferrable tax for each tax year equals the tax in the first full tax year of ownership by the taxpayer after the adoption of the deferral program, multiplied by designated percentage adopted by the locality in each tax year until the current tax year.

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 allow localities to grant deferrals for the full amount by which each taxpayer's real estate tax levy exceeds the locally designated percentage. Accordingly, this bill may have a negative fiscal impact on localities to the extent that localities choose to change the method by which deferred real estate taxes are calculated.

9. Specific agency or political subdivisions affected:

All localities.

10. Technical amendment necessary: No.

11. Other comments:

Real Estate Tax Deferral

Under current law, localities may adopt, by ordinance, a deferral program for real estate taxes allowing taxpayers to defer all or part of their real estate tax levy that exceeds 105 percent of the real estate tax on their property in the previous year. Localities may adopt a higher percentage increase threshold.

The deferral program does apply to the following:

- Real estate which participates in the real estate tax relief or deferral program for the elderly or permanently or totally disabled;

- Persons who are delinquent on any portion of real estate taxes for which deferral is sought; and

- Real estate assessed on the basis of use value.

The deferred amount is subject to interest. The accumulated amount of deferred taxes and interest must be paid by the owner upon the sale or transfer of the property, or from the estate of a deceased owner. The accumulated amount of deferred taxes and interest constitutes a lien upon the real estate.

Under current law, the amount of real estate taxes that may be deferred is calculated by subtracting from the real estate tax for the current tax year the "base amount of nondeferrable tax." The base amount of nondeferrable tax for each tax year equals the real estate tax in the first full tax year of ownership by such taxpayer after the adoption of the program by the locality, multiplied by 105 percent, or such higher percentage adopted by the locality, in each tax year until the current tax year. This required subtraction of the "base amount of nondeferrable tax" effectively limits the amount that taxpayers may defer if the increase in any previous year's levies on the property were less than the locally designated percentage.

Proposal

This bill would eliminate the requirement that the amount of real estate taxes that may be deferred is calculated by subtracting from the real estate tax for the current tax year the "base amount of nondeferrable tax." As a result, localities would be allowed to grant deferrals for the full amount by which each taxpayer's real estate tax levy exceeds 105 percent, or such higher percentage adopted by the locality, of the real estate tax on their property in the previous year.

cc : Secretary of Finance

Date: 02/14/2006 JEM