

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** John C. Watkins

2. **Bill Number** SB 1058

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Real Property Tax; Exemption for
Rehabilitated, Renovated or Replacement
Structures

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow a property that is currently ineligible for a partial exemption from the Real Property Tax because the property was rehabilitated through the demolition and replacement of a structure that was a registered Virginia landmark or was determined by the Department of Historic Resources to contribute to the significance of a registered Virginia landmark to qualify for a partial exemption, provided that the property is substantially changed into commercial or industrial use property by a person who did not own the property when the registered landmark was destroyed.

The effective date of this bill is not specified.

6. **Fiscal Impact:** Not available.

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

8. **Fiscal implications:**

This bill would have no impact on state revenues. It would have a potential negative revenue impact on any locality that provides partial exemptions from the local Real Property Tax for rehabilitated, renovated or replacement structures as additional structures may qualify for partial exemption.

9. **Specific agency or political subdivisions affected:**

All localities

10. **Technical amendment necessary:** No.

11. Other comments:

Current Law

The law currently authorizes local governments to provide for the partial exemption from taxation of certain real estate that contains a structure or improvement at least twenty years old, or fifteen years old if the structure is located in an area that Virginia has designated as an enterprise zone, provided that the structure has undergone substantial rehabilitation, renovation, or replacement for commercial or industrial use. The governing body is authorized to grant this partial exemption by ordinance, which may limit such exemptions to real property located within described zones or districts, whose boundaries may be determined by the governing body. The partial exemption is limited to either an amount equal to the increase in assessed value as a result of the rehabilitation or repair, or an amount up to 50% of the cost of rehabilitation, renovation or replacement. The governing body must include in its ordinance the method to be used to calculate the amount of the partial exemption. The law permits the exemption to commence upon completion of the rehabilitation, renovation, or replacement, or on January 1 of the year following completion of the rehabilitation, renovation or replacement. The partial exemption may remain with the real estate for no longer than fifteen years.

The law prohibits application of the partial exemption to individuals who have accomplished rehabilitation of a structure or landmark through demolition and replacement of an existing structure if that structure was a Virginia landmark or was determined by the Department of Historic Resources to contribute to the significance of a registered historic landmark.

An informal opinion of the Office of the Attorney General (OAG 03-043) opined that where rehabilitation is achieved through demolition and replacement of an existing structure, which was classified as a Virginia Landmark or was determined by the Department of Historic Resources to contribute to the significance of a registered Virginia landmark, only the owner who was responsible for demolishing the historic structure, and not any subsequent owner, is prohibited from receiving the partial tax exemption when he substantially changes the property into commercial or industrial use property.

Proposal

This bill would codify the Office of the Attorney General opinion and allow a property that is currently ineligible for a partial exemption from the Real Property Tax because the property was rehabilitated through the demolition and replacement of a structure that was a registered Virginia landmark or was determined by the Department of Historic Resources to contribute to the significance of a registered Virginia landmark to qualify for a partial exemption, provided that the property is substantially changed into commercial or industrial use property by a person who did not own the property when the registered landmark was destroyed.

Additionally, the partial exemption would not be available to owners who were members of an affiliated group with the person who owned the property when the registered landmark was demolished. As defined by the Internal Revenue Code § 1504, "affiliated group" means one or more chains of includible corporations connected through stock ownership

with a common parent corporation which is an includible corporation, provided that the common parent directly owns stock that meets certain voting and value test requirements and that the stock meeting those requirements in each of the includible corporations is owned directly by one or more of the other includible corporations.

cc : Secretary of Finance

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