

Commission on Local Government

Estimate of Local Fiscal Impact
2013 General Assembly Session

Bill: HB 1401 **Patron:** Cole **Date:** January 18, 2013

In accordance with the provisions of §30-19.03 of the Code of Virginia, the staff of the Commission on Local Government offers the following analysis of the above-referenced legislation:

I. Bill Summary

HB 1401 prohibits localities from instituting a judicial sale for delinquent taxes on real property that is the sole dwelling of the taxpayer.

II. Fiscal Impact Analysis

The Commission on Local Government (CLG) received fiscal impact statements from 18 localities – the Counties of Arlington, Campbell, Henrico, King George, Rappahannock, Rockingham, and Spotsylvania; the Cities of Chesapeake, Danville, Lynchburg, Norfolk, Richmond, Roanoke, and Winchester; and the Towns of Christiansburg, Louisa, Strasburg, and Wytheville.

One of the responding localities – Spotsylvania County – did not provide an estimate, but provided written comments. They acknowledged other means for collecting delinquent taxes, but stated that delinquencies may stay that way for a longer period of time without the threat of a judicial sale.

Four of the responding localities – the Counties of Henrico and Rappahannock, the City of Roanoke, and the Town of Strasburg – reported that they would not experience a net decrease in revenues.

Henrico County, Rappahannock County, and the City of Roanoke indicated that they do not institute a judicial sale for delinquent taxes on real property that is the sole dwelling of the taxpayer.

Five of the responding localities – Campbell County, the Cities of Chesapeake, and the Towns of Christiansburg, Louisa, and Wytheville – indicated that they would experience a revenue decrease of less than \$5,000. Campbell County and the City of Chesapeake both indicated that they avoid a judicial sale for delinquent taxes as much as possible. Campbell County, the City of Chesapeake, and the Towns of Christiansburg and Louisa all expressed concern over the removal of their primary method for real estate tax collection.

The remaining eight respondents – the Counties of Arlington, King George, and Rockingham and the Cities of Danville, Lynchburg, Norfolk, Richmond and Winchester – reported that they would experience a revenue decrease of over \$5,000. The estimates ranged from \$25,000 per year in the City of Lynchburg to \$700,000 per year in the City of Danville. Listed below are the revenue estimates:

Arlington County:	\$150,000
King George County:	185,500
Rockingham County:	38,900
Danville City:	700,000
Lynchburg City:	25,000
Norfolk City:	unknown
Richmond City:	unknown
Winchester City:	30,000

Arlington County indicated that they do not track cases where the judicial sale was a sole dwelling. Additionally, Arlington County provides real estate tax relief or deferral to residents who meet specific criteria. They expressed concern that HB 1401 could provide a reward to property owners who do not pay their real estate tax bill but can afford to do so.

Rockingham County believes that without the threat of property seizure, they will struggle to collect delinquent real estate taxes. Their revenue loss estimate is based upon a 20-year average of delinquent real estate taxes.

The City of Danville's estimate is based upon one-third of all delinquent real estate in the city. They noted that the judicial sale is the most powerful incentive to ensure tax collections. They expressed a concern that property owners would stop paying real estate taxes after they have paid off their mortgage.

The City of Lynchburg's estimate is based upon an average amount of delinquencies from sole dwellings. Like other localities, they expressed concern about the loss of a primary tax collection mechanism.

The City of Norfolk does not collect data on sole dwellings for their judicial sales and was unable to provide an estimate. They also expressed concern about being limited in their means to collect delinquent real estate taxes.

III. Conclusion

HB 1401 would prohibit a locality from initiating a judicial sale of real estate to recover delinquent taxes on the property if the property is the sole dwelling of the taxpayer. It is reasonable to assume that not all localities track whether these judicial sales of real estate are the sole dwelling of the taxpayer, so estimates of revenue loss can be difficult to ascertain.

The Department of Taxation notes that, if HB 1401 is passed, localities will still have a variety of methods to collect delinquent taxes. A locality could collect delinquent taxes from the taxpayer's bank account, wages, and income tax refunds. However, most responding localities have specifically indicated that the judicial sale is their primary and most effective means for enforcing real estate tax collections. Localities could explore other means for collections, but they could be more time consuming, with less effective results.