

**DEPARTMENT OF TAXATION
2007 Fiscal Impact Statement**

1. **Patron** L. Scott Lingamfelter

2. **Bill Number** HB 1706

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Real Estate Tax: Limitation on Tax Rate

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would provide that no locality may approve a real estate tax rate that would increase its total real estate tax levies by more than three percent from the previous year, with one exception. The exception would allow the locality to raise the property tax levy by the rate of population growth plus inflation in the locality for the immediately preceding year, but not more than six percent.

Under current law, the annual growth in a locality's total real estate tax revenue from an annual assessment, biennial assessment or general reassessment is capped at one percent unless the locality holds a public hearing in regard to its real property tax rate, in which case there is no cap on real property tax rates.

The provisions of this bill would apply to real property tax rates for tax years beginning on or after January 1, 2008.

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

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

8. **Fiscal implications:**

There would be no state revenue impact associated with this bill. Localities would be limited in the rate of the real estate tax that they may impose.

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

All localities.

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

11. Other comments:

Background on Real Estate Tax Rates

Currently, when an annual assessment, biennial assessment or general reassessment of real property by a locality would result in an increase of one percent or more in the total real property tax levied, the locality must reduce its real estate tax rate so as to produce no more than 101 percent of the previous year's total real property tax revenues. Additional assessments or reassessments due to the construction of new or other improvements are excluded from this calculation. As an alternative to lowering the tax rate to the calculated rate, the governing body of the locality may, after holding a public hearing, vote to set the real estate tax rate at a different rate, which may be higher or lower than the calculated rate. State law does not limit the rate set pursuant to such a hearing.

Proposal

This bill would provide that when setting the real property tax rate to generate more than 101% of the prior year's revenue pursuant to a hearing, the rate selected may not result in more than a three percent increase in the total real estate tax levies, with one exception. The exception allows the locality to raise the property tax rate by the rate of population growth plus inflation in the locality for the immediately preceding year, but no more than six percent.

The bill would define "rate of inflation" as the percentage change in the consumer price index for all items for all urban consumers (CPI-U) for the 12-month period ending September 30 of the year immediately preceding the tax year in which the new rate is adopted by the governing body. The "consumer price index" would be defined as the consumer price index as published by the Bureau of Labor Statistics. The rate of population growth would be determined using the provisional population estimates as published by the Weldon Cooper Center for Public Services.

cc : Secretary of Finance

Date: 1/16/2007 AMS
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