

**DEPARTMENT OF TAXATION
2008 Fiscal Impact Statement**

1. Patron Kenneth C. Alexander

2. Bill Number HB 215

3. Committee House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. Title Real Property Tax; Separate Classification
for Residential Property

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would classify residential real estate as a separate class of real property from all other real estate and authorize localities to tax it at a lower rate than other real estate. In addition, this bill would prevent localities from offsetting a lower rate of taxation on residential property with an increase in the rate on other types of real property by limiting the amount by which localities could raise the tax rate for such other types of real property.

Under current law, generally all real estate is considered to be one class of property subject to the same rate of tax.

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 residential property than imposed on the general classification of real property. The revenue impact on each locality would be dependent upon the assessed value of residential property subject to the lower rate of tax and the rate of tax imposed.

9. Specific agency or political subdivisions affected:

All localities.

10. Technical amendment necessary: No.

11. Other comments:

Article X, § 1 of the *Constitution of Virginia* authorizes the General Assembly to define and classify taxable subjects. Under current law, all real estate is generally considered to be one class of property subject to the same rate of tax. In the 2002 and 2003 General Assembly Sessions, however, separate classifications of real property were created composed of improvements to real property located in the Cities of Fairfax and Roanoke. These cities were authorized to tax improvements at a lower rate than that applicable to the land. The 2007 General Assembly session created separate classifications of real property for energy efficient buildings and for real property used for or zoned to permit commercial or industrial uses in the counties and cities embraced by the Northern Virginia Transportation Authority and the Hampton Roads Transportation Authority. The Northern Virginia Transportation Authority embraces the Cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park and the Counties of Arlington, Fairfax, Loudoun, and Prince William. The Hampton Roads Transportation Authority embraces the Cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg and the Counties of Isle of Wight, James City, and York.

Proposal

This bill would create a separate real property tax classification for residential property. Localities would be authorized to impose the local real property tax on residential property at a rate that does not exceed that applicable to the general class of real property.

"Residential property" would be defined as "improved real property used or occupied, or intended to be used or occupied, for residential purposes." Residential property would not include any "commercial real estate," defined as "any real estate other than (i) real estate containing one to four residential units, (ii) real estate on which no buildings or structures are located, or (iii) real estate classified for assessment purposes as real estate devoted to agricultural, horticultural, forest or open-space use. Commercial real estate would not include single family residential units, including condominiums, townhouses, apartments or homes in a subdivision when leased on a unit by unit basis even though these units may be part of a larger building or parcel of real estate containing more than four residential units."

In addition, this bill would prevent localities from offsetting a lower rate of taxation on residential property with an increase in the rate on other types of real property by limiting the amount by which localities could raise the tax rate for such other types of real property. If the rate of taxation imposed on residential property in a locality was lower than the rate imposed on other real property, then the rate imposed thereafter on the other real property could not exceed the rate imposed on real property in the locality immediately prior to the imposition of the lower rate on residential property. If the rate of taxation on other real property was imposed less than one year prior to the imposition of the lower rate on residential property, then the rate imposed on other real property could not exceed the lower of i) the rate imposed on real property in the locality immediately prior to the imposition of the lower rate on residential property or ii) the most recent rate on real property that was imposed for at least one year.

Similar Legislation

House Bill 162 would create an individual income tax credit for individuals who purchase and reside in a newly built house that has been constructed in accordance with and certified by the EarthCraft House Program and has received an EarthCraft House Certificate.

House Bill 239 and **Senate Bill 174** would change the performance guidelines and standards that energy efficient buildings must meet or exceed to be classified as a separate class of real property.

House Bill 699 would create separate real property tax classifications for commercial and industrial real property, single family dwellings for residential purposes, and multifamily dwellings for residential purposes.

House Bill 1123 would clarify that the real estate and tangible personal property of public service corporations is subject to local taxation at the general real estate rate of taxation and does not include any other rate localities are permitted to apply to certain energy-efficient buildings.

cc : Secretary of Finance

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