

**DEPARTMENT OF TAXATION
2012 Fiscal Impact Statement**

1. **Patron** Vivian E. Watts

2. **Bill Number** HB 408

3. **Committee** Senate Finance

House of Origin:

Introduced

Substitute

Engrossed

4. **Title** Real Property Tax; Computation for
Determining Annual Income for Real
Property Tax Relief

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

This bill would relax the formula for computing annual income and net worth for purposes of determining whether elderly or disabled taxpayers qualify for real property tax relief. In computing annual income and net worth, localities would not be required to use total income or total net worth.

Under current law, localities are authorized to establish annual income and net worth limitations for purposes of determining whether the elderly and disabled qualify for real property tax relief. If the governing body establishes an annual income limitation, annual income must be computed by adding together the total income received during the preceding calendar year, without regard to whether a tax return is actually filed, by 1) owners of the dwelling who use it as their principal residence, 2) owners' relatives who live in the dwelling, and 3) at the option of each locality, nonrelatives of the owner who live in the dwelling except for bona fide tenants or bona fide paid caregivers of the owner.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

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

8. Fiscal implications:

This bill would have no impact on state revenues. To the extent that local governments have more flexibility in determining the income and financial worth of the elderly and disabled, this bill may result in a decrease or increase in local revenues, the magnitude of which is unknown.

9. Specific agency or political subdivisions affected:

Localities with net financial worth or income limitations related to tax exemptions and deferral programs for the elderly.

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Virginia authorizes localities to adopt exemption and deferral programs for the elderly or handicapped to provide tax relief for persons sixty-five years of age or older and for those who are permanently and totally disabled. The governing body of any locality may elect to adopt an exemption program, a deferral program, a combination of both, or none of the above. Income and net financial worth restrictions were incorporated in the exemption and deferral programs to direct tax relief to those whose incomes and financial worth are sufficiently low to merit such relief.

Prior to 2010, the *Virginia Code* specified the net financial worth and income limitations an elderly or disabled individual had to meet in order to qualify for exemption or deferral from real property taxes. Some localities were statutorily granted authority to increase their income limits to certain specified amounts.

On November 2, 2010, voters approved a constitutional amendment to Article X, § 6 of the *Constitution of Virginia*, authorizing the General Assembly to permit localities to establish their own income or financial worth limitations for purposes of granting property tax relief for homeowners who are 65 years of age or older or permanently and totally disabled. The General Assembly subsequently enacted legislation, effective for tax years beginning on or after January 1, 2011 authorizing local governing bodies to establish by ordinance their own net financial worth or annual income limitations as a condition of eligibility for any exemption or deferral of real property tax. For those localities that establish annual income limitations, the law now provides that annual income must be computed by adding together the total income received during the preceding calendar year, without regard to whether a tax return is actually filed by 1) owners of the dwelling who use it as their principal residence, (2) owners' relatives who live in the dwelling, and (3) nonrelatives of the owner who live in the dwelling except bona fide tenants or bona fide paid caregivers of the owner. The law limits income to those sources of gross income that are subject to tax under federal income tax laws, regulations, rules or policies.

In addition to the statutory restrictions on income, localities may exclude at their discretion additional sources of income for purposes of the annual income limitation.

Proposal

This bill would relax the formula for computing annual income and net worth for purposes of determining whether elderly or disabled taxpayers qualify for real property tax relief. In computing annual income or net worth, instead of requiring localities to compute the income and net worth using total income or total net worth, this bill would allow localities to base the annual income and net worth determination on the sum of the income received during the preceding calendar year, or the sum of the net financial worth for the preceding year.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 2/19/2012 KP
DLAS File Name HB 408FE161