

Proposed Homestead Exemption

An analysis by City staff was done when this idea was first proposed showed that a 20% homestead exemption, such as the one proposed by Governor Kaine and now working its way through the General Assembly, by itself could reduce the City's revenues by approximately \$28.6 million, based on CY 2006 assessments. The decrease in revenues would have to be made up by expenditure cuts, increases in other taxes and fees, or an offsetting increase to the real property tax rate.

The chart below shows the estimated decrease in revenues by category, and the increase in the real property tax rate should the real property tax rate be increased to make up the revenue deficiency. It is apparent from the chart that about 38% of the tax decrease would go to the owner-occupiers of detached homes. 73% of the tax decrease would go to the owners of detached or attached single family homes. A 20% homestead exemption offset would cost the government the equivalent of a 9.1 cents in the real property tax rate for all property owners.

Tax Revenue	Share of Homeowners Subject to Homestead Exemption, by Category	Current Real Property Tax Revenue	Revenue after 20% Homestead Exemption	Difference	Equivalent Tax Rate Impact
Detached	95.0%	\$56,805,162	\$46,012,181	\$10,792,981	
Attached	90.0%	\$55,560,343	\$45,559,482	\$10,000,862	
Condo	75.0%	\$52,026,751	\$44,222,738	\$7,804,013	
Total	-	\$278,603,698	\$250,005,843	\$28,597,855	9.1

The chart below shows the expected tax bill reduction (using the 2007 assessment data) for the average owner/occupier of single family homes and condos.

	Tax Rate	All	Single Family	Condo
Average Property Value		\$509,593	\$ 660,866	\$ 341,008
Average taxed property value under homestead		\$407,674	\$ 528,693	\$ 272,806
Average tax bill-current	0.83	\$ 4,230	\$ 5,485	\$ 2,830
Average Tax bill – Homestead	0.83	\$ 3,384	\$ 4,388	\$ 2,264
Average Tax bill – Homestead	0.921	\$ 3,756	\$ 4,871	\$ 2,513
Total Net Reduction		\$ 474	\$ 614	\$ 317
% Net Reduction		11.2%	11.2%	11.2%

If the homestead exemption were funded out of a higher real property tax rate, the average bill for owner/occupiers could be expected to decrease by a net amount of approximately 11.2%. The tax decrease dollar amount under a straight 20% exemption would be larger for the owner/occupiers of more expensive single family dwellings than for the owner/occupiers of condos. Also, commercial properties (including apartments) would not be eligible for the homestead exemption and would pay the tax rate increase of 9.1 cents. It is also possible that landlords might pass the cost of increases to the real property tax rate on to their tenants, increasing rents throughout the City.

Overall, we estimate that from a tax equity standpoint, the homestead exemption would transfer the tax burden of the City's upper income residents to businesses and to the City's lower and middle income residents. While there are ways to structure the homestead exemption to make it more progressive (such as a 20% exemption not-to-exceed \$50,000), based on the proposed constitutional amendment and the enabling legislation (sample attached) the impact of shifting the tax burden to the commercial sector does not have clear property tax-based remedies.

Attachment: HB 1118 (as of 1-22-08)

Data Source: City of Alexandria Office of Management and Budget

082873802

HOUSE BILL NO. 1118

Offered January 9, 2008

Prefiled January 9, 2008

A BILL to amend the Code of Virginia by adding in Chapter 32 of Title 58.1 an article numbered 2.01, consisting of a section numbered 58.1-3218.1, relating to exemptions from and deferrals of local real estate taxes for certain residential or farm property designed for continuous habitation.

Patrons—Miller, P.J., Alexander, Bouchard, Ebbin, Eisenberg, Howell, A.T., Johnson, Jones, D.C., Mathieson, McClellan, Melvin, Morrissey, Plum, Scott, J.M., Spruill and Vanderhye

Referred to Committee on Privileges and Elections

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Chapter 32 of Title 58.1 an article numbered 2.01, consisting of a section numbered 58.1-3218.1 as follows:

Article 2.01.

Exemptions and Deferrals of Real Estate Tax for Residential or Farm Property Designed for Continuous Habitation.

§ 58.1-3218.1. Exemptions from and deferrals of real estate taxes; certain residential or farm property.

A. For purposes of Article X, Section 6 (k) of the Constitution of Virginia, and as used in this section, the term "value" means the assessed value or the assessment for local property taxation purposes.

B. Pursuant to Article X, Section 6 (k) of the Constitution of Virginia, for tax years beginning on or after January 1, 2009, the governing body of each county, city, or town may, by ordinance, (i) exempt or partially exempt from real property taxation, (ii) provide for the deferral of real property taxes, or (iii) provide for a combination program of exemptions from and deferrals of taxation of real property of up to 20 percent of the value of real property that is (a) residential or farm property designed for continuous habitation and (b) occupied as of the tax day as the primary dwelling of the owner or owners, who shall all be individuals. For purposes of this section, real property shall include any "manufactured home" as defined in § 36-85.3 and assessed pursuant to § 58.1-3522.

As provided in Article X, Section 6 (k) of the Constitution of Virginia and as otherwise authorized by law, any restrictions, conditions, or classifications of the tax relief program described under this section shall be provided by the local ordinance, including provisions to verify eligibility.

C. The governing body of the county, city, or town shall provide annual written notice to the general public of any local real estate tax exemption or deferral program established in the jurisdiction pursuant to this section. Such notice shall be enclosed with each real estate assessment notice or any other appropriate mailing or notice as determined by the local governing body.

D. In the event of a deferral of real estate taxes granted by ordinance pursuant to this section, the accumulated amount of taxes deferred shall be paid to the applicable county, city, or town by the vendor upon the sale of the dwelling, or from the estate of the decedent within one year after the death of the last owner thereof who qualifies for tax deferral under the local ordinance. Such deferred real estate taxes shall constitute a lien upon the said real property as if it had been assessed without regard to the deferral permitted under the local ordinance. Any such lien shall, to the extent that it exceeds in the aggregate 10 percent of the price for which such real property may be sold, be inferior to all other liens of record.

2. That the provisions of this act shall not become effective unless an amendment to the Constitution of Virginia, providing that the General Assembly may allow the governing body of any county, city, or town to exempt or partially exempt from real property taxation or provide for the deferral of real property taxes, within such restrictions and upon such conditions as may be prescribed by the governing body by ordinance, of up to 20 percent of the value of residential or farm property that is designed for continuous habitation and is occupied as the primary dwelling of the individual owners, is affirmed by a majority of those voting at the election and upon such question in November 2008.

INTRODUCED

HB1118

1/22/08 8:55