

Statement of Estimated Local Revenue Impact

Date: May 13, 2014

Bill Number: H.B. 4520

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Committee Requesting Impact: House Ways and Means

Bill Summary

A bill to amend Section 12-43-220, as amended, Code of Laws of South Carolina, 1976, so as to enact "Uncle Preston's Law" to allow a taxpayer to claim the four percent assessment ratio on a residential property other than their legal residence if the additional residence is used as a residence by a family member who is over the age of sixty-five.

REVENUE IMPACT ^{1/}

This bill is not expected to impact State revenues. We estimate that the bill may lower property tax revenues by up to \$14,442,000 in FY 2014-15. To the extent possible given the millage rate increase limitations, we anticipate that local jurisdictions would increase millage rates to offset the revenue reduction.

Explanation

This bill would amend Section 12-43-220(c) to allow a taxpayer to claim the four percent assessment ratio on a second property other than his/her legal residence so long as the second property is used as a residence by a family member who is over the age of sixty-five. The section defines family member as a parent, sibling, child, aunt, uncle, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, grandparent, or grandchild. The reduced assessment ratio does not apply if family member pays rent. We estimate that this change would impact properties that are currently classified as second homes. We do not anticipate that taxpayers would elect the reduced assessment ratio for properties that are currently rental properties because the section specifies that the family member may not pay rent, and the property tax reduction is unlikely to exceed the rental income. The section is effective for tax years after 2013.

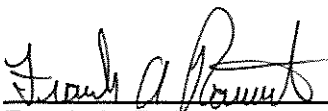
Based upon Census data for housing property, we estimate that there are approximately 257,968 second home properties in SC that are rented less than 14 days per year. An April 2014 report by the National Association of Realtors determined that 22% of vacation properties are purchased for a family member, friend, or relative. Based upon this, an estimated 56,753 second homes are potentially used as a residence by a family member without paying rent. Using the current percentage of people over the age of sixty-five in SC, we further estimate that 14.7% of these properties, or 8,343 homes, are used by a family member over sixty-five.

At an average value of \$140,427, the bill would impact an estimated \$1,171,582,000 in property value for the 8,343 potentially qualifying properties. The assessment ratio reduction from 6% to 4% at an average statewide millage rate of 317.7 would potentially lower property tax revenue by an estimated \$7,444,000 in tax year 2014.

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Additionally, the section designates that the property receives all exemptions allowed applicable to property that qualifies for the special assessment ratio. This would extend the school operating property tax exemptions to these properties, potentially reducing property tax revenue to school districts an additional \$6,998,000 in tax year 2014. We do not, however, anticipate that taxpayers over sixty-five would be allowed to take an additional homestead exemption on a second home since only one is allowed under the Constitution, and therefore we have not included this in our revenue estimate.

The total potential local property tax revenue reduction for both the reduced assessment ratio and the school operating exemption is estimated to be \$14,442,000 in FY 2014-15 or approximately \$1,731 per taxpayer. To the extent possible given the millage rate increase limitations, we anticipate that local jurisdictions would increase millage rates to offset the revenue reduction.



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^{1/} This statement meets the requirement of Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.