

Statement of Estimated Local Revenue Impact

Date: May 19, 2014 (As amended May 15, 2014 by the House Ways & Means Committee)
Bill Number: H.B. 4520
Author: Herbkersman

Committee Requesting Impact: House of Representatives

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 as amended may lower property tax revenues by up to \$20,238,000 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 of Amendment (May 15, 2014) – By the House Ways & Means Committee

This amendment expands the conditions that allow taxpayers to claim an additional four percent assessment for a residential property other than their legal residence. The original bill allows 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 and does not pay rent. The amendment expands this to also include a family member who is permanently and totally disabled as defined in Section 12-37-250.

As originally calculated, an estimated 56,753 second homes are potentially used as a residence by a family member without paying rent. Based upon 2010 Census data, we estimate that approximately 20.6% of the population would meet the family member qualifications as over 65 or permanently and totally disabled, and therefore estimate that the amended bill would apply to a potential 11,691 homes. The assessment ratio reduction from 6% to 4% for the 11,691 homes would potentially lower property tax revenue by an estimated \$10,432,000 in tax year 2014. School operating property taxes for the 11,691 homes would potentially be reduced an estimated \$9,806,000 in tax year 2014 for the additional school operating exemption allowed for properties receiving the special assessment ratio.

The total potential local property tax revenue reduction for both the reduced assessment ratio and the school operating exemption is estimated to be \$20,238,000 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.

Explanation of Bill

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

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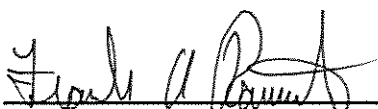
second property is used as a residence by a family member who is over the age of sixty-five. The section defines family member as a parent, sibling, child, aunt, uncle, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, grandparent, or grandchild. The reduced assessment 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.

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.