OLR Bill Analysis

sSB 447

AN ACT CONCERNING A PILOT PROGRAM TO PROVIDE PROPERTY TAX RELIEF FOR BUSINESSES AND HOMEOWNERSHIP INCENTIVE PROGRAMS.

SUMMARY:

This bill authorizes several tax relief measures for homeowners and businesses in specific areas. It requires municipal property tax abatements and state income tax exemptions in municipalities and census blocks meeting specified homeownership criteria until homeownership rates reach specified levels.

The bill establishes an Office of Policy and Management (OPM)-administered pilot program under which municipalities may offer to tax commercial businesses based on their net profits instead of the fair market value of the buildings they occupy.

The bill allows Hartford to provide property tax relief to residents who own and reside in their homes by keeping the assessment ratio for their homes lower than the ratio for nonowner-occupied residences.

Lastly, the bill changes how the Hartford assessor must measure the change in the city's total tax levy between the current and prior fiscal year when adjusting the assessment ratio between one- to three-unit dwellings and apartments with four or more units.

EFFECTIVE DATE: July 1, 2014, except for the profit-based municipal assessment program, which takes effect July 1, 2014 and is applicable to assessment years beginning on or after October 1, 2014, and the change in the method for calculating residential property assessment adjustments, which takes effect October 1, 2014.

HOMEOWNERSHIP INCENTIVE PROGRAM

Municipal Participation

The bill allows, and in some cases requires, 100% municipal property abatements and state income tax exemptions for homeowners living in sections of a municipality with relatively low homeownership rates until those rates increase to a specified level, after which the exemptions are phased out over five years. A municipality must provide these benefits if 30% or less of its one- to three-unit dwellings (eligible units) are owned and occupied by their owners as their primary residences. Other municipalities may choose to do so, but in both cases, their legislative bodies must vote to provide the abatements and exemptions as the bill specifies.

The bill does not specify the data municipalities must use to determine their homeownership rate, but it appears to be the 2010 census.

Designating Homeownership Incentive Areas

Under the bill, a municipality adopting the program must identify census blocks where the homeownership rate for one- to three-unit dwellings is 15% or less. These dwellings include units in a condominium association with three or fewer units. In order to provide the abatements and exemptions, the municipality must choose at least two blocks where the homeownership rate is below this threshold.

Tax Exemptions

The municipality and the state must exempt the people who own and occupy eligible units from property and income taxes, respectively. Those eligible for the earned income tax credit may continue to claim it. The bill specifies that the income tax exemption does not apply to amounts an employer withholds from a paycheck for state income taxes. The municipality must provide the Department of Revenue Services (DRS) any information it needs to implement the income tax exemption.

Exemption and Abatement Phase-Out

The exemptions and abatements last until the ownership rate in a designated census block reaches or exceeds 49%. At that point, the municipality must notify the owners that the abatements and exemptions will be phased out over five years. The phase-out must reduce the value of the abatements and the exemptions by 20% per year until the owners are liable for 100% of the property and income taxes owed. The municipality must provide DRS with any information it needs to phase out the income tax exemption.

PILOT PROGRAM FOR MUNICIPAL PROFIT-BASED TAX ASSESSMENTS

Purpose

The bill authorizes an OPM-administered pilot program under which municipalities may offer a limited number of commercial businesses and property owners the option of paying taxes based on the business' net profits instead of the property's fair market value, as current law requires. (One of the ways the law allows tax assessors to determine the fair market value of leased property is to determine the amount of income it generates.)

Under the bill, the method a participating municipality must use to determine the tax rate for these properties must be agreed on by the municipality, the affected property owner, and the commercial businesses occupying the property.

Participating Municipalities

The bill allows OPM to institute the pilot by accepting applications from municipalities requesting authority to assess the net profits of commercial business owners on the bill's limited basis. Interested municipalities must apply in the form and manner the OPM secretary requires. The secretary may choose municipalities of varying sizes in different regions to participate in the pilot.

OPM must disseminate information about the program to the Connecticut Association of Assessing Officers, the Connecticut Economic Development Association, the Connecticut Tax Collectors Association, Inc., and various other statewide organizations. The information must explain how a municipality may apply to participate in the pilot program.

Implementing Profit-Based Tax Assessments

Municipalities participating in the pilot program must adopt ordinances allowing up to three commercial properties to be assessed based on the net profits of the business that owns or occupies each property for the previous calendar year. For a business moving into a vacant property, the municipality may base the assessment on the property's anticipated profits.

An ordinance implementing a profit-based tax assessment method must:

1. describe the properties eligible for this type of assessment;

2. describe how the tax rate for the net profits or anticipated net profits will be determined,

3. require agreement between the municipality and the property's owners and tenants on the assessment method before the municipality can institute it,

4. specify how property owners or tenants may apply to have the tenants' net profits taxed instead of the property's fair market value,

5. require property owners seeking this assessment method to show how it would benefit the property and the municipality, and

6. provide for a phase-out of the method and a return to an assessment based on fair market value.

Annual Report

Starting January 1, 2015, the OPM secretary must report annually on the pilot's status to the Finance, Revenue and Bonding Committee. The report must describe:

1. efforts OPM made to inform municipalities about the pilot program,

2. the application process,

3. inquiries and applications OPM received regarding the pilot, and

4. legislative recommendations for improving it.

PROPERTY TAX ASSESSMENT ADJUSTMENTS FOR OWNER-OCCUPIED RESIDENCES

Hartford Assessment Ratio Adjustments

The law generally requires municipalities to assess all property at 70% of its fair market value (assessment ratio), but allows Hartford to adjust the ratio for residential property. The bill allows Hartford to adjust the ratio for owner-occupied residences so that it stays below the ratio for nonowner-occupied property.

Adjustment Method

Under the bill, Hartford may, by ordinance, (1) divide residential property between owner-occupied dwelling units, including condominium units in maximum three-unit associations, and nonowner-occupied residential property and (2) adjust the assessment ratio for the latter so that it does not fall below the rate for owner-occupied property. Hartford may begin to adjust residential assessments in this manner starting on or after the October 1, 2016. It may amend the ordinance only during the years Hartford revalues property.

If Hartford chooses to adopt this program, it must determine the annual assessment rate for residential property largely using the statutory method under which it already adjusts the assessment ratios for residential and apartment property to reflect the growth in property taxes over the previous fiscal year. As explained in the next section, the bill modifies that method.

HARTFORD PROPERTY TAX RATIO ADJUSTMENTS

The bill modifies the way the Hartford assessor currently adjusts the assessments for one- to three- unit residential property. Under current law, the assessor must calculate an annual adjustment to the city's residential assessment to reflect the growth in property taxes levied over the previous fiscal year, adjusted for inflation.

The bill (1) changes the fiscal year for which the assessor must adjust the tax levy for inflation from the current to the prior one and (2) specifies the source he must use when doing so. Under current law, he must use the change in the consumer price index for all urban consumers in the north-east from the preceding fiscal year. Under the bill, he must use the change reported in the year-over-year January index that is generally reported in February.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 50 Nay 0 (03/25/2014)