

OFFICE OF LEGISLATIVE RESEARCH  
PUBLIC ACT SUMMARY



PA 14-174—sSB 447

*Finance, Revenue and Bonding Committee  
Planning and Development Committee*

**AN ACT CONCERNING A PROGRAM TO PROVIDE PROPERTY TAX RELIEF FOR BUSINESSES, A HOMEOWNERSHIP INCENTIVE PROGRAM, ADJUSTMENTS TO A PROPERTY TAX SYSTEM AND A MUNICIPAL OPTION FOR ASSESSMENT OF PROPERTY USED FOR WHOLESALE AND RETAIL BUSINESS**

**SUMMARY:** This act authorizes several tax relief measures for homeowners and businesses in specific areas. It requires municipal property tax abatements and state income tax exemptions to boost the homeownership rate in two Hartford census blocks until it reaches specified levels.

The act establishes an Office of Policy and Management (OPM)-administered pilot program under which municipalities may offer commercial business property owners the option of paying property taxes based on the net profits of the businesses occupying the property instead of the property's fair market value. Participating municipalities may tax a property on this basis if the property owner and the business occupant agree.

The act 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.

The act 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 for residential property.

Lastly, the act expands municipalities' options to fix the real and personal property tax assessments on certain retail development projects.

EFFECTIVE DATE: Various, see below.

§ 3 — HOMEOWNERSHIP INCENTIVE PROGRAM

*Municipal Participation*

The act requires 100% municipal property abatements and state income tax exemptions for residents meeting specified criteria in a municipality that annually adjusts the property tax assessment ratios for residential property. Because Hartford is the only municipality that adjusts these ratios, it is the only municipality where these benefits must be granted.

*Designating Homeownership Incentive Areas*

The act's tax benefits are available only in census blocks where relatively few people own and occupy their homes as their primary residence. A block falls in

## OLR PUBLIC ACT SUMMARY

this category if its homeownership rate for one- to three-unit dwellings is 15% or less. (Owner-occupied homes include those that are part of a common interest community (e.g., condominium) with three or fewer units.) After identifying the eligible blocks, Hartford must choose two where the tax benefits will be granted. (The act does not specify the data Hartford must use to determine homeownership rates.)

### *Tax Benefits*

Hartford and the state must provide the tax benefits to certain people who reside in the designated census blocks. Hartford must abate 100% of the property taxes on owner-occupied homes (residential structures with three or fewer units). The state must exempt from paying income taxes these residents and those renting dwellings in the designated blocks as their primary residence who graduated from a four-year college within two years before signing the lease agreement. Those eligible for the earned income tax credit may continue to claim it. The income tax exemption does not extend to the 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 exempt eligible residents from the income tax.

### *Exemption and Abatement Phase-Out*

The exemptions and abatements last until the home ownership rate for one- to three-unit dwellings in a designated census block reaches or exceeds 49%. At that point, the municipality must notify the owners and eligible renters 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 residents 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.

EFFECTIVE DATE: July 1, 2015

## §§ 1 & 2 — PILOT PROGRAM FOR MUNICIPAL PROFIT-BASED TAX ASSESSMENTS

### *Purpose*

The act establishes an OPM-administered pilot program under which municipalities may tax up to three commercial properties based on the net profits of the businesses occupying or anticipated to occupy the property instead of the property's fair market value, as the law requires. The method used to determine the tax rate for these properties must be agreed to by the municipality, the affected property owner, and the business occupants.

### *Participating Municipalities*

Municipalities can participate in the pilot program by applying to OPM as the OPM secretary requires. The secretary may select up to five municipalities of

## OLR PUBLIC ACT SUMMARY

varying sizes in different regions.

OPM must disseminate information about the program to statewide organizations, including the Connecticut Association of Assessing Officers, the Connecticut Economic Development Association, and the Connecticut Tax Collectors Association. 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 for the previous calendar year of the businesses that own or occupy each property. For a vacant property, the municipality may base the assessment on profits anticipated by a new business tenant.

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 institutes it,
4. specify how property owners or tenants may apply for the program,
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. OPM's efforts 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.

EFFECTIVE DATE: July 1, 2014, and the authorization to establish the pilot program is applicable to assessment years beginning on or after October 1, 2014.

### §§ 4 & 5 — PROPERTY TAX ASSESSMENT ADJUSTMENTS FOR OWNER-OCCUPIED RESIDENCES

The law generally requires municipalities to assess all property at 70% of its fair market value (assessment ratio), but requires Hartford to adjust the ratio for two types of dwellings—apartment property (four or more residential units) and residential property (three or fewer units). The ratio determines the amount of a property's fair market value subject to the municipality's tax rate. (Adjusting the ratios for different types of property affects their share of the overall tax burden.)

The act allows Hartford to divide the residential property category into two

## OLR PUBLIC ACT SUMMARY

groups and assess them at different rates.

Under the act, Hartford may, by ordinance, (1) divide residential property between owner-occupied and nonowner-occupied residential property categories and (2) adjust the assessment ratio for nonowner-occupied property so that it stays above the rate for owner-occupied property. Hartford may begin adjusting residential property assessments in this manner starting on or after October 1, 2016. It may amend the implementing ordinance only during those years it revalues property. (By law, municipalities must revalue property at least once every five years.)

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 act modifies that method.

EFFECTIVE DATE: October 1, 2014

### § 4 — HARTFORD PROPERTY TAX RATIO ADJUSTMENTS

The act modifies how Hartford's tax assessor must adjust the assessments for residential property. Under prior law, the assessor calculated an annual adjustment to the city's residential assessment ratio to reflect the growth in property taxes levied over the previous fiscal year, adjusted for inflation.

The act (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 prior law, he had to use the change in the consumer price index for all urban consumers in the northeast region from the preceding fiscal year. Under the act, he must use the change reported in the year-over-year January index that is generally reported in February.

By law, residential property includes one- to three-unit dwellings. The act conforms the law to practice by including common interest communities, including condominiums, in the definition of residential property.

EFFECTIVE DATE: October 1, 2014

### §§ 5 & 6 — FIXING THE TAX ASSESSMENTS ON RETAIL DEVELOPMENT PROJECTS

#### *Real Property*

The act expands municipalities' options for fixing the real property tax assessment on certain retail development projects. By law, municipalities can fix the assessment for different types of projects anywhere in a municipality for a specified number of years based on a project's costs (see BACKGROUND).

The act allows a municipality to pass an ordinance designating an area where it can fix the assessment on improved retail property and specifying the number of years for fixing these assessments. Improvements include rehabilitating existing structures for retail use. Retail projects located outside the designated area remain eligible for a fixed assessment according to the law's schedule.

# OLR PUBLIC ACT SUMMARY

## *Personal Property*

The act also allows municipalities to fix the assessment on personal property located in wholesale or retail facilities according to the same statutory schedule for fixing the assessment on personal property located in manufacturing facilities. (By law, manufacturing machinery and equipment is exempt from property taxes.) As Table 1 shows, the period for fixing the assessment is based on the increase in the assessed value of the personal property located in the facility.

**Table 1: Schedule for Fixing the Assessment on Eligible Personal Property**

<i>Minimum Increase in the Assessed Value of Personal Property</i>	<i>Period for Fixing the Assessment</i>	<i>Percent of Value Exempted from Taxation</i>
\$3 million	Up to seven years	100%
\$500,000	Up to two years	100%
\$25,000	Up to three years	Up to 50%

EFFECTIVE DATE: October 1, 2014

## BACKGROUND

### *Periods for Fixing the Tax Assessment on Improved Real Property*

The law allows municipalities, with their legislative bodies' approval, to fix the assessment on certain types of real property. They may fix the increase resulting from the improvements made to real property used for offices, residences, and other specified purposes, and in doing so, exempt the value of the improvements from property taxes. As Table 2 shows, the period for fixing the assessment depends on the value of the improvements.

**Table 2: Schedule for Fixing the Assessment on Eligible Real Property Improvements**

<i>Minimum Value of the Improvement</i>	<i>Period for Fixing the Assessment</i>	<i>Percent of Value Exempted from Taxation</i>
\$3 million	Up to seven years	100%
\$500,000	Up to two years	100%
\$10,000	Up to three years	Up to 50%

OLR Tracking: JR:RP:JKL:ts