

**DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement**

1. **Patron** Joseph P. McNamara

3. **Committee** House Finance

4. **Title** Classification of land and improvements for tax purposes; Localities

2. **Bill Number** HB 1561

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would reclassify improvements to real property located in all localities as a separate class of real property for taxable years beginning on and after July 1, 2025. As a result of this reclassification, all localities would be authorized, after giving public notice and an opportunity for the public to be heard, to levy a tax on the improvements at a different rate than the tax imposed upon the land on which it is located, provided that the rate of tax on the improvements is not zero.

Under current law, improvements to real property in the Cities of Fairfax, Richmond, Roanoke, and Poquoson constitute a separate class of property for purposes of imposing the real property tax and these localities may levy a tax on the improvements at a different rate than the tax imposed upon the land on which it is located. The City of Poquoson may levy a tax on the improvements at a rate that exceeds the rate of tax levied on the land upon which the improvements are located.

If enacted during the regular session of the 2025 General Assembly, this bill would become effective July 1, 2025.

6. Budget amendment necessary: No

7. Fiscal Impact Estimates are: Not available. (See Line 8.)

8. Fiscal implications:

Administrative Costs

This bill may have an unknown impact on local administrative costs but would have no impact on state administrative costs.

Revenue Impact

This bill could have an unknown revenue impact to local revenues but would have no impact to state revenues.

9. Specific agency or political subdivisions affected:

All localities

10. Technical amendment necessary: Yes.

The text for subsection D of § 58.1-3221.1 is missing from the text of the introduced bill. Subsection D would presumably be stricken as the separate authorization for the City of Poquoson would no longer be necessary.

11. Other comments:

Background

Article X, § 1 of the *Constitution of Virginia* authorizes the General Assembly to define and classify taxable subjects. During the 2002 General Assembly session, the City of Fairfax was granted the authorization to reclassify improvements to real property located in the City of Fairfax as a separate class of real property, effective July 1, 2003. During the 2003 General Assembly session, the City of Roanoke was also granted this authorization, effective July 1, 2004. In the 2020 General Assembly Session, the City of Richmond was granted this authority effective July 1, 2020. As a result of this reclassification, the governing bodies of these cities are authorized, after giving public notice and an opportunity for the public to be heard, to levy a tax on improvements to real estate at a different rate than that imposed on all other real property, provided that the rate of tax on improvements is not zero, and that the rate is equal to or lower than the rate of tax on the land on which the improvement is located.

In 2011, the General Assembly gave authority to the City of Poquoson to reclassify improvements to real property located in the City of Poquoson as a separate class of real property and to levy a tax on improvements at a different rate than the tax imposed upon the land on which it is located, provided that the rate of tax on the property is not zero.

Proposal

This bill would reclassify improvements to real property located in all localities as a separate class of real property for taxable years beginning on and after July 1, 2025. As a result of this reclassification, all localities would be authorized, after giving public notice and an opportunity for the public to be heard, to levy a tax on the improvements at a different rate than the tax imposed upon the land on which it is located, provided that the rate of tax on the improvements is not zero.

If enacted during the regular session of the 2025 General Assembly, this bill would become effective July 1, 2025.

cc: Secretary of Finance

Date: 1/11/2025 VB
HB1561F161