

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** Angelia Williams Graves
3. **Committee** Senate Finance and Appropriations
4. **Title** Real property tax; Partial exemption for repurposing underutilized structures for residential use; Local incentives

2. **Bill Number** SB 181

House of Origin:

Introduced

Substitute

Engrossed

Second House:

In Committee

Substitute

Enrolled

5. **Summary/Purpose:**

This bill would permit localities to provide partial real estate taxation exemptions for converted real property where such conversion establishes a residential structure that has set aside at least 30 percent of the structure for households with a per capita income at or below 80 percent of the locality's median income or where the building owner is subject to an agreement regarding the provision of affordable housing.

The bill would also provide localities with discretion to determine (i) whether a converted building qualifies for the partial exemption, (ii) any additional restrictions and conditions, (iii) whether the exemption is the amount equal to the increase in assessed value or a percentage of such increase resulting from the repurposing of the structure, and (iv) the length of time the exemption will run with the land, not to exceed 15 years. The bill would also allow localities to grant tax incentives or provide regulatory flexibility to qualifying converted real property to encourage qualifying residential conversion of buildings within the locality.

If enacted during the regular session of the 2026 General Assembly this bill would become effective July 1, 2026.

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 to administrative costs in localities that choose to exercise the authority granted by the bill.

This bill would have no impact on state administrative costs.

Revenue Impact

This bill may have an unknown impact to revenues in localities that choose to exercise the authority granted by the bill.

This bill would have no impact on state revenues.

9. Specific agency or political subdivisions affected:

All localities

10. Technical amendment necessary: No.

11. Other comments:

Partial Exemptions for Real Property in Redevelopment or Conservation Areas

Local governing bodies are authorized to provide, by ordinance, for the partial exemption from taxation of new structures or other improvements to real estate located in redevelopment or conservation areas or rehabilitation districts. Local governing bodies are also authorized to provide an exemption from taxation of real estate on which any structure or other improvement no less than 15 years of age has undergone substantial rehabilitation, renovation or replacement for residential use. The partial exemption is a percentage of the increase or an amount equal to the increase in assessed value resulting from the construction of the new structure or other improvement to the real estate or 50% of the cost of such construction or improvement.

The exemption must run with the real estate for a period determined by the local governing body, which is not to exceed 15 years. The governing body is authorized to reduce the amount of the exemption in annual steps over the entire period or a portion thereof. The governing body is also authorized to establish (1) criteria for determining whether real estate qualifies for the partial exemption, 2) requirements for the square footage of new structures that qualify for the partial exemption and 3) other restrictions and conditions.

In addition, the governing body may assess a fee at a maximum rate of \$125 for residential properties or \$250 for commercial, industrial, and/or apartment properties of six units or more for processing each application requesting the partial exemption.

Where the construction of a new structure is achieved through demolition and replacement of an existing structure, the property does not qualify for the partial exemption if the structure demolished is a registered Virginia landmark or is determined by the Department of Historic Resources to contribute to the significance of a registered historic district.

Proposal

This bill would permit localities to provide partial real estate taxation exemptions for qualifying residential conversions of real property.

The bill would define “qualifying residential conversion” as the conversion of a building and its structural components from retail, commercial, or religious use to residential use wherein:

- (1) Such building was first placed into service at least 15 years prior to the start of such conversion;
- (2) Depreciation is allowed for such building;
- (3) At completion of conversion, (i) at least 30 percent of the residential units in such building are reserved for or offered to households with per capita income at or below 80 percent of the median per capita income for the locality in which such building is located or (ii) the building owner is subject to a binding, written agreement with the Commonwealth or the locality regarding the provision of affordable housing and such agreement is documented in the form and manner required by the Department of Housing and Community Development; and
- (4) The certified expenses incurred within the taxable year such building is placed into residential service exceed the greater of (i) the adjusted basis of the building and its structural components or (ii) \$15,000. The adjusted basis of the building shall be determined as of the first day of the taxable year in which a credit under this section is claimed.

The bill would also provide localities with discretion to determine (i) whether a converted building qualifies for the partial exemption, (ii) any additional restrictions and conditions, (iii) whether the exemption is the amount equal to the increase in assessed value or a percentage of such increase resulting from the repurposing of the structure, and (iv) the length of time the exemption will run with the land, not to exceed 15 years. The bill would also allow localities to grant tax incentives or provide regulatory flexibility to qualifying converted real property to encourage qualifying residential conversion of buildings within the locality.

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cc : Secretary of Finance

Date: 01/23/2026 VB
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