

26108536D

SENATE BILL NO. 181
AMENDMENT IN THE NATURE OF A SUBSTITUTE
 (Proposed by the House Committee on Finance
 on _____)

(Patron Prior to Substitute—Senator Williams Graves)

A BILL to amend and reenact § 58.1-3220 of the Code of Virginia and to amend the Code of Virginia by adding a section numbered 58.1-3221.7 and by adding in Chapter 38 of Title 58.1 an article numbered 14, consisting of a section numbered 58.1-3855, relating to real property tax; partial exemption for repurposing underutilized structures for residential use; local incentives.

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-3220 of the Code of Virginia is amended and reenacted and that the Code of Virginia is amended by adding a section numbered 58.1-3221.7 and by adding in Chapter 38 of Title 58.1 an article numbered 14, consisting of a section numbered 58.1-3855, as follows:

§ 58.1-3220. Partial exemption for certain rehabilitated, renovated, or replacement residential structures.

A. The governing body of any county, city, or town may, by ordinance, provide for the partial 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, subject to such conditions as the ordinance may prescribe. The ordinance may, in addition to any other restrictions hereinafter provided, restrict such exemptions to real property located within described zones or districts whose boundaries shall be determined by the governing body. The governing body of a county, city, or town may (i) establish criteria for determining whether real estate qualifies for the partial exemption authorized by this provision, (ii) require such structures to be older than 15 years of age, (iii) establish requirements for the square footage of replacement structures, and (iv) place such other restrictions and conditions on such property as may be prescribed by ordinance. Such ordinance may also provide for the partial exemption from taxation of (a) multifamily residential units that have been substantially rehabilitated by replacement for multifamily use and (b) buildings that have undergone a qualifying residential conversion, in accordance with the provisions of § 58.1-3221.7 and to the extent allowed by the Constitution of Virginia.

B. The partial exemption provided by the local governing body may be an amount equal to the increase in assessed value or a percentage of such increase resulting from the rehabilitation, renovation, or replacement of the structure as determined by the commissioner of revenue or other local assessing officer or an amount up to 50 percent of the cost of the rehabilitation, renovation, or replacement, as determined by ordinance. The exemption may commence upon completion of the rehabilitation, renovation, or replacement or on January 1 of the year following completion of the rehabilitation, renovation, or replacement and shall run with the real estate for a period of no longer than 15 years. The governing body of a county, city, or town may place a shorter time limitation on the length of such exemption, or reduce the amount of the exemption in annual steps over the entire period or a portion thereof, in such manner as the ordinance may prescribe.

C. The local governing body or its designee shall provide written notification to the property owner of the amount of the assessment of the property that will be exempt from real property taxation and the period of such exemption. Such exempt amount shall be a covenant that runs with the land for the period of the exemption and shall not be reduced by the local governing body or its designee during the period of the exemption, unless the local governing body or its designee by written notice has advised the property owner at the initial time of approval of the exemption that the exempt amount may be decreased during the period of such exemption. In no event, however, shall such partial exemption result in totally exempting the value of the structure.

D. Nothing in this section shall be construed as to permit the commissioner of the revenue to list upon the land book any reduced value due to the exemption provided in subsection B.

E. The governing body of any county, city, or town may assess a fee not to exceed \$125 for residential properties, or \$250 for commercial, industrial, and/or apartment properties of six units or more for processing an application requesting the exemption provided by this section. No property shall be eligible for such exemption unless the appropriate building permits have been acquired and the commissioner of the revenue or assessing officer has verified that the rehabilitation, renovation, or replacement indicated on the application has been completed.

F. Where rehabilitation is achieved through demolition and replacement of an existing structure, the exemption provided in subsection A shall not apply when any 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.

§ 58.1-3221.7. Partial exemption for certain rehabilitated, renovated, or replacement underutilized structures for residential use.

HOUSE SUBSTITUTE

SB181H1

60 A. For purposes of this section, "qualifying residential conversion" means the conversion of a building
61 and its structural components from retail, commercial, or religious use to residential use wherein:

62 1. Such building was first placed into service at least 15 years prior to the start of such conversion;

63 2. Depreciation is allowed for such building;

64 3. At completion of conversion, (i) at least 30 percent of the residential units in such building are reserved
65 for or offered to households with per capita income at or below 80 percent of the median per capita income
66 for the locality in which such building is located or (ii) the building owner is subject to a binding, written
67 agreement with the Commonwealth or the locality regarding the provision of affordable housing and such
68 agreement is documented in the form and manner required by the Department of Housing and Community
69 Development; and

70 4. The certified expenses incurred within the taxable year such building is placed into residential service
71 exceed the greater of (i) the adjusted basis of the building and its structural components or (ii) \$15,000. The
72 adjusted basis of the building shall be determined as of the first day of the taxable year in which a credit
73 under this section is claimed.

74 B. The governing body of any locality may, by ordinance, provide for the partial exemption from taxation
75 of real estate for which a qualifying residential conversion of a building occurs, subject to such conditions as
76 the ordinance may prescribe. The governing body of a locality may establish criteria for determining whether
77 such building qualifies for the partial exemption authorized by this provision and place such other
78 restrictions and conditions on such property as may be prescribed by ordinance.

79 C. The partial exemption provided by the local governing body may be an amount equal to the increase in
80 assessed value or a percentage of such increase resulting from the repurposing of the structure as determined
81 by the commissioner of the revenue or other local assessing officer, but shall not exceed the amount of
82 expenses incurred in connection with the qualifying residential conversion of such building, excluding (i) any
83 costs associated with the acquisition of any building or interest thereon and (ii) any expenses incurred that
84 are attributable to the enlargement of an existing building. The partial exemption may commence upon
85 completion of the qualifying residential conversion or on January 1 of the year following completion and
86 shall run with the real estate for a period of no longer than 15 years. The governing body of a county, city, or
87 town may place a shorter time limitation on the length of such exemption, or reduce the amount of the
88 exemption in annual increments over the entire period or a portion thereof, in such manner as the ordinance
89 may prescribe.

90 D. The local governing body or its designee shall provide written notification of the partial exemption to
91 the property owner that includes the amount of the assessment of the property that will be exempt from real
92 property taxation and the period of such partial exemption. Such amount shall be a covenant that runs with
93 the land for the period of the partial exemption and shall not be reduced by the local governing body or its
94 designee during the period of the partial exemption, unless the local governing body or its designee by
95 written notice has advised the property owner at the initial time of approval of the partial exemption that the
96 amount may be decreased during the period of such partial exemption. In no event, however, shall such
97 partial exemption result in totally exempting the value of the structure.

98 E. Nothing in this section shall be construed as to permit the commissioner of the revenue to list upon the
99 land book any reduced value due to the partial exemption provided in subsection C.

100 F. 1. If a building owner claims a tax exemption pursuant to this section and at any subsequent time the
101 building no longer meets the requirements described in subdivision A 3, the locality may recapture all or a
102 portion of the tax exemption granted to such owner pursuant to this section in the immediately preceding
103 year. The amount of exemption subject to recapture shall be equal to the ratio of (i) the percentage of
104 residential units offered or reserved for households with per capita income at or below 80 percent of the
105 median per capita income for the locality in which such building is located and (ii) 30 percent.

106 2. If a building owner that claims an exemption pursuant to this section sells the building for which he is
107 claiming the exemption, and after such sale the property no longer meets the requirements of this section, the
108 purchaser shall be subject to a penalty. Such penalty shall be the sum of the difference between the tax levied
109 and the tax that would have been levied based on the fair market value assessment of the real estate for the
110 previous five tax years, plus simple interest, at a rate set by the governing body, no greater than the rate
111 applicable to delinquent taxes in such locality pursuant to § 58.1-3916. The original building owner shall
112 provide written notice to the purchaser prior to the sale that the property is subject to an exemption pursuant
113 to this section.

114 Article 14.

115 Local Incentives for Repurposing Underutilized Structures for Residential Use.

116 § 58.1-3855. Local incentives for repurposing underutilized structures for residential use.

117 A. For purposes of this section, "qualifying residential conversion" means the same as that term is defined
118 in § 58.1-3221.7.

119 B. Any locality may, by ordinance, establish a program to grant tax incentives or provide regulatory
120 flexibility to encourage qualifying residential conversions of buildings in the locality. Any such incentive or
121 regulatory flexibility provided may consider population density and shall be proportionate to the amount of

122 expenses incurred in connection with the qualifying residential conversion of a building, excluding (i) any
123 costs associated with the acquisition of any building or interest thereon, (ii) any expenses incurred that are
124 attributable to the enlargement of an existing building, or (iii) any expenses incurred in connection with the
125 conversion of a building that is allocable to the portion of the property that is a tax-exempt use property
126 under Virginia law.

127 C. The tax incentives or regulatory flexibility may include (i) a reduction in permit fees, (ii) a streamlined
128 process for the approval of permits, or (iii) a reduction in any gross receipts tax on a qualifying residential
129 conversion of a building or on businesses that maintain a building that has undergone a qualifying
130 residential conversion as defined by the local ordinance.