

**DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement**

1. **Patron** Rae Cousins

2. **Bill Number** HB 854

3. **Committee** Passed House and Senate

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Property Tax Exemption; local classification or designation for property

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. Summary/Purpose:

The bill would establish a property tax exemption for real or personal property, owned by an ownership entity of which a controlling interest of the managing member or general partner of such ownership entity is held directly or indirectly by one or more nonprofit organizations notwithstanding any for-profit ownership interests. The exemption would apply only when the property is used for charitable or benevolent purposes for the provision of affordable housing.

This bill would also specify that any rental income or other sources of income generated from a portion of real property that is used for charitable or benevolent purposes qualifying under the exemption established under this bill (specifically, nonprofit-controlled ownership entities providing affordable housing) shall not be considered as revenue or profit when determining whether the property qualifies for a tax exemption in accordance with constitutional designation or classification.

In addition, the bill would provide that it is declaratory of existing law for a county, city, or town to exempt property used for charitable or benevolent purposes, even if the ownership entity includes for-profit interests, provided a nonprofit organization holds the controlling interest.

The bill would state that its purpose is to stimulate public purpose projects by clarifying that localities have the authority to extend tax exemptions for real and personal property used for charitable or benevolent purposes, notwithstanding for-profit ownership of such properties, including ownership by for-profit investors and joint venture partners, so long as such ownership is integral to the purpose of facilitating such charitable or benevolent purposes, such as the facilitation of providing affordable housing through properties financed through the federal Low-Income Housing Credit.

Under current law, property tax exemption generally applies only to property owned directly by qualifying nonprofit organizations and used exclusively for exempt purposes. Rental income or other income generated from such property is treated as taxable revenue, which does not affect state revenues but limits localities' ability to exempt these properties.

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 on local administrative costs. This bill would have no impact on state administrative costs.

Revenue Impact

The bill would have an unknown impact on local revenues. 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:

Property Tax Exemptions by Classification or Designation

Prior to January 1, 2003, the Constitution of Virginia authorized the General Assembly to exempt from local taxation real and tangible personal property owned by certain nonprofit organizations and used for religious, charitable, patriotic, benevolent, cultural, or public park or playground purposes by classification or by designation by a three-fourths vote in each house. Property is exempt by classification if it fits within a class of property which the General Assembly has established as exempt. Property is exempt by designation when the law designates the property of a named organization as exempt.

On January 1, 2003, a constitutional amendment took effect that authorized local governing bodies to grant exemptions from local property taxation by ordinance, within the parameters established by the General Assembly. The property tax exemptions established by the General Assembly and existing prior to January 1, 2003 remain in effect, but can be revoked.

The General Assembly has set forth a process that localities must follow in enacting local property tax exemptions. Ordinances exempting property by designation require a public hearing with notice of such hearing. Before adopting an ordinance, the local governing body must consider the following questions:

- Whether the organization is exempt from taxation pursuant to § 501(c) of the Internal Revenue Code;
- Whether a current annual alcoholic beverage license for serving alcoholic beverages has been issued for use on the property;
- Whether any director, officer, or employee of the organization is paid compensation in excess of a reasonable allowance for salaries or other compensation for personal services rendered;
- Whether any part of the net earnings of the organization inures to the benefit of any individual, and whether any significant portion of the service provided by the organization is generated by funds received from donations, contributions, or local state or federal grants;
- Whether the organization provides services for the common good of the public;
- Whether a substantial part of the activities of the organization involves carrying on propaganda, or otherwise attempting to influence legislation and whether the organization participates in, or intervenes in, any political campaign on behalf of any candidate for public office;
- The revenue impact to the locality and its taxpayers of exempting the property; and
- Any other pertinent criteria, facts or circumstances.

The local ordinance exempting the property must state the specific use on which the exemption is based. The continuance of the exemption must be contingent on the continued use of the property in accordance with the purpose for which the organization is classified or designated. No exemption will be provided to any organization that has any rule, regulation, policy, or practice that unlawfully discriminates on the basis of religious conviction, race, color, sex, sexual orientation, gender identity, or national origin.

If a local governing body wishes to remove organizations whose property is designated as tax-exempt from its exempt property list, it must do so through legislative action. The locality may submit to the General Assembly a list of organizations it wishes to remove from its exempt property list no later than the first calendar day of any General Assembly Session, unless removal of the property exemption is requested by the Governor.

Proposal

The bill would establish a property tax exemption for real or personal property, owned by an ownership entity of which a controlling interest of the managing member or general partner of such ownership entity is held directly or indirectly by one or more nonprofit organizations notwithstanding any for-profit ownership interests. The exemption would apply only when the property is used for charitable or benevolent purposes for the provision of affordable housing.

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cc : Secretary of Finance

Date: 03/24/2026 KS
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