Legislative Analysis

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TAXABLE VALUE ON RECONSTRUCTED PROPERTY

Senate Bill 396 (Substitute H-1)
Sponsor: Sen. Tom Casperson *(Enacted as Public Act 18 of 2014)*
House Committee: Tax Policy
Senate Committee: Finance

Complete to 1-27-14

A SUMMARY OF SENATE BILL 396 (SUBSTITUTE H-1) AS ADOPTED IN HOUSE COMMITTEE ON 1-22-14

Senate Bill 396 would amend the General Property Tax Act to provide that, after December 31, 2011, if a property is destroyed due to an accident or other act of God, the taxable value of the replacement construction would be the taxable value of the original property in the year before it was destroyed, adjusted annually by the lesser of the rate of inflation or 5%. This would apply <u>if</u> the reconstruction property meets the following requirements:

- It is built of substantially the same materials as the original property, as determined by the State Tax Commission. For the purposes of this provision, any construction materials required to comply with any applicable health, sanitary, zoning, safety, fire, or construction codes or ordinances would be considered to be "substantially the same materials."

- The square footage of the replacement construction is not more than 5% greater than the original property.

- It is completed no later than the December 31 in the year that is 3 years after the accident or act of God that destroyed the original property.

Under current law, as established by Proposal A of 1994, year-to-year increases in the taxable value of a parcel of property are generally limited to 5% or the rate of inflation, whichever is lower. However, the value of the property may be adjusted for certain additions and losses, irrespective of the assessment cap. The General Property Tax Act includes "replacement construction" within the definition of "additions."

Under the act "replacement construction" means construction that replaced property damaged or destroyed by accident or act of God and that occurred after the immediately preceding tax day to the extent the construction's true cash value does not exceed the true cash value of property that was damaged or destroyed by accident or act of God in the immediately preceding 3 years. For purposes of determining the taxable value of property under Section 27a, the value of the replacement construction is the true cash value of the replacement construction multiplied by a fraction, the numerator of which is the taxable value of the property to which the construction was added in the immediately preceding year and the denominator of which is the true cash value of the property to which the construction was added in the immediately preceding year, and then multiplied by the lesser of 1.05 or the inflation rate.

FISCAL IMPACT:

As written, the bill could result in forgone property tax revenue for state and local units, relative to current law. Local units of government could realize a reduction in general operating revenue, as well as dedicated millages; local schools could see a reduction in the 18-mill non-homestead levy; and state education tax revenue (which is dedicated to the School Aid Fund) could also decline. To the extent that local schools receive less from the non-homestead levy, School Aid Fund expenditures would need to increase to maintain the per-pupil foundation allowance. Because the bill is likely to affect only a small number of properties, the amount of forgone revenue should be minimal.

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