

## Response to Questions on the FY 2005 Advertised Budget Plan

**Request By:** Chairman Connolly and Supervisor Gross

**Question:** What is the legislative history of the Tax Relief for the Elderly Program as it relates to exceptions to the asset or income limit that can be applied when income is solely or primarily derived from assets? What would be the impact if Fairfax County raised its tax relief cap on assets to \$340,000?

**Response:** Staff is not aware of any discussions on the State level for exceptions to the income or asset limits when income is solely derived from assets. Sections 58.1-3210 through 58.1-3215 of the *Code of Virginia* relate to Real Estate Tax Relief. The definition of what is to be considered income for the purpose of Tax Relief is defined in Section 58.1-3211(5): “For purposes of this article, income shall mean total gross income from all sources, without regard to whether a tax return is actually filed. Income shall not include life insurance benefits or receipts from borrowing or other debt.” Federal tax returns are the primary source of income data used to determine eligibility for the Tax Relief Program. The Internal Revenue Code defines gross income as “all income from whatever source derived, including but not limited to the following items:

1. Compensation for services, including fees, commissions, and similar items;
2. Gross income derived from business;
3. Gains derived from dealings in property;
4. Interest;
5. Rents;
6. Royalties;
7. Dividends;
8. Alimony and separate maintenance payments;
9. Annuities;
10. Pensions;
11. Income from life insurance and endowment contracts;
12. Income from discharge of indebtedness;
13. Distributive share of partnership gross income;
14. Income in respect of a decedent; and
15. Income from an interest in an estate or trust”

Current State caps for tax relief in Northern Virginia are up to \$62,000 in income and up to \$240,000 in assets; however, SB 361 has passed both chambers of the 2004 Virginia General Assembly and is awaiting consideration by the Governor. If adopted into law, this bill would authorize localities in Northern Virginia to increase tax relief caps up to \$340,000 for assets and \$72,000 for income.

Staff does not have the necessary data from which to make a reliable forecast of the impact of raising the asset limit to the new State maximum. Making some broad assumptions however, an ‘educated guess’ is that these levels could bring another 500 to 750 applicants into the program at a cost of \$1 to \$2 million.

Current tax relief forecasts are based upon program data, previous household survey information, and direct surveys conducted by DTA in FY 2003. In order to make a more refined estimate of the future limits, DTA would need to conduct another survey in the coming months in order to get further data.

It should also be noted that the public hearing scheduled for March 29, 2004 advertised the increased asset limit under current law-- a maximum of \$240,000.