Response to Questions on the FY 2006 Advertised Budget Plan

Request By: Chairman Connolly

Question: Discuss the real estate tax deferral program for the elderly and disabled. What was its utilization and what is the cost of reinstituting the program?

Response: A local real estate tax deferral program for the elderly and disabled is authorized by Section 58.1-3211(4), of the Code of Virginia. The County used to offer this program but it was discontinued by the Board in 1990 due to low participation. The highest participation was in 1986 with 38 participants. The big disincentive appeared to be that citizens did not want to leave accumulated debt with their estate.

The Board of Supervisors could reinstitute this program simply by adopting a local ordinance amendment. A tax deferral program is tied to the same income and asset restrictions governing the tax relief program. Based on this, if the Board were to raise the income and asset limits for the tax relief program to each respective state maximum of $72,000 and $340,000, there would be little, if any, incentive for anyone to participate in a deferral program.

However, the income and asset limits for Fairfax County's tax relief program are currently below the state allowed maximum. The Board could, for example, choose to leave tax relief income at the current level of $52,000 and assets at $240,000. At the same time, they could reinstitute a tax deferral program set at the state's maximum limits. In this case, anyone whose income and assets fell between these two limits could apply for tax deferral. The following summarizes this possibility:

Tax relief participants under current program (income - $52,000; assets - $240,000)	5,488
Estimated potential applicants with income and assets above tax relief limits but below State maximum limits (income - $72,000; assets - $340,000)	3,273

Under this scenario, it is estimated that roughly 3,273 elderly and disabled homeowners could participate in a tax deferral program if they chose to do so. This could provide a safety net in cases where homeowners on fixed incomes faced a cash flow problem of rising taxes associated with higher property values.

Given historical experience however, it is more likely that a much lower number of people would actually participate due to the accrued liability on their estate. It is estimated that participation would in all likelihood be less than 10 percent, or 327 applicants. Based on this, staff estimates the actual amount of deferred real estate tax revenue would probably be not much more than about $1.0 million, or less. Any deferred taxes would of course eventually be paid to the County upon the sale of the home or the death of the owner. State law allows interest to be charged on the deferred taxes not to exceed 8.0 percent per year. A lower amount can of course be charged.