Response to Questions on the 2016 LOBs

Request By: Supervisor Foust **Relevant LOB(s):** LOB #100

Question: Describe the asset and acreage components of the local Real Estate Tax Relief Program.

Response:

The current income and asset limits of Fairfax County's Real Estate Tax Relief Program are shown in the table below. For each relative (other than the spouse) residing in the dwelling, the first $6,500 of income is excluded. Disabled applicants may exclude the first $7,500 of income. Fairfax County exempts up to one acre of land upon which the dwelling is located.

FY 2016
Real Estate Tax Relief for the Elderly and Disabled

	Income Limit	Asset Limit	Percent Relief
Elderly and Disabled	Up to $52,000	$340,000	100%
	Over $52,000 to $62,000		50%
	Over $62,000 to $72,000		25%
100% Disabled Veterans or Surviving Spouse	No Limit	No Limit	100%

The Commonwealth of Virginia no longer imposes maximum income or net asset limits for real property tax relief. The limits are now strictly local option. The information below includes staff's best estimate of the effects of modifying asset or income limits.

Staff does not have solid information about the income and assets of residents who have never applied for the tax relief program. The last time staff attempted to analyze asset limits was in 2011, based on survey data collected by the Department of Tax Administration (DTA). At that time, it was estimated that raising the net asset limit from $340,000 to $420,000 would result in an additional revenue loss of $4 million. Increasing the net asset limit to $540,000 was estimated to result in an additional loss of more than $10 million. It was estimated that the new limits would increase the tax relief rolls by between 1,100 to 3,300 additional applicants. Staff has no reason to believe that this order of magnitude has materially changed since the last survey.

Similarly, staff has no data from which to calculate the impact of a tax relief income change, other than extrapolating from the American Community Survey (ACS) data compiled by the Department of Neighborhood and Community Services. Based on 2014 profile data, compiled as of September 2015, staff estimates there are more than 3,800 households that might qualify for tax relief based on incomes between $72,000 and $100,000. Assuming equal distribution of households across all income levels (which is highly speculative), it is estimated that each $1,000 increase in the current income limit would relieve an additional $153,000 (or about 136 applicants per additional income rung) – assuming that only 25 percent relief was granted. The current upper income tier of the program, or $62,001 to $72,000, provides 25 percent relief. In sum, if the allowable income limit was increased from $72,000 to a maximum of $100,000, it is estimated that the cumulative loss would be about $4.3 million at 25 percent relief. However, this remains a very soft estimate based on an extrapolation from ACS survey data and assumes an equal distribution. Many variables could cause the fiscal impact to be significantly different.

For perspective, the current tax relief program serves approximately 8,000 households and relieves $28 million in annual General Fund revenue. This compares to 62,597 owner occupied houses that are believed to be owned by residents who are age 65 years and older.

401 (K) retirement funds and pensions
Retirement vehicles such as 401(k) funds are in fact treated as assets for purposes of tax relief. Unlike a pension, a 401(k) is owned by and is accessible to the applicant. The owner has a measure of control over these funds. Any penalties and taxes that might apply to cashing out a 401(k) would be netted against the asset as a liability. The net asset would be reportable on the Tax Relief application.

Regular distributions from a 401(k) would be treated as income, consistent with a Virginia Attorney General's Opinion. The remainder after the annual distributions would be part of the applicant's assets.

Upon retirement under a pension plan, a vested employee will get a defined payment. These payments are also treated as income for Tax Relief purposed, the same as 401(k) distributions. However, once a person starts receiving pension payments, there is no way to suddenly 'cash out' the remaining annuity. The pensioner has no access to these funds except through the initial selected payment distribution plan. In addition, upon one's death, a 401(k) would be treated as an asset as part of the person's estate. While a pensioner may elect to take lower payments throughout their lifetime so that a spouse may have partial access to pension after death, pensions do not automatically pass to beneficiaries of an estate.

The fact that both pensions and 401(k)'s are retirement funds is immaterial to the determination of assets. The determination is based more on the access to and availability of funds.

Acreage

State law allows tax relief to be granted on up to 10 acres for qualified owners. The County's existing program limits tax relief to one acre. In tax year 2015, 85 applicants had excess acreage over the current one acre maximum and still qualified for tax relief. In other words, even with the value of the excess acreage the applicant's net worth was still below the $340,000 maximum limit. The average parcel size for these 85 applicants was 2.197 acres and the average value of the excess acreage was $34,306. This in part reflects DTA's practice to assume that the home site (i.e., the first acre upon which the house sits) contains the greatest majority of value; and, the value of the home site is not included in the applicant's calculation of net assets.

Tax year 2015 also had another 8 applicants with excess acreage who were denied tax relief. The average parcel size was 2.203 acres and the average value of the excess acreage was $50,750. In other words, these applicants had on average at least $289,251 (or more) in other assets in addition to the excess acreage. What staff does not know is how many potential applicants never applied for tax relief because they already knew they did not meet the allowable program limits.

Based on the table below, tax year 2015 had $1.466 billion in General Fund tax levy from 247,495 owner occupied residential parcels that were one acre or less. The County's tax relief program relieves approximately $28 million in General Fund tax levy out of this same population, or only about 2 percent of the potential tax levy. It is assumed the remaining 98 percent would not qualify and did not apply because of the age, disability, income and net asset limits.

Assuming this 2 percent relationship holds constant at all acreage sizes, the table below suggests the number of additional tax relief applicants and the amount of additional tax levy that might be relieved if the program were expanded to provide relief on more than one acre. For example, this table suggests that, all things being equal, increasing the limit up to 2 acres could result in the relief of $1.56 million in additional tax levy. Unfortunately, there is no way in advance to validate the accuracy of the 2 percent assumed participation rate, and to that extent it must be cautioned that the fiscal impact is a soft estimate.

Parcel Size	Number of Parcels	General Fund Levy	Parcels at 2 %	Levy at 2%
<=1 acre	247,195	$1,466,168,703		
>1 acre and <=2 acres	6,419	$ 77,938,516	128	$1,558,770
>2 acres and <= 3 acres	1,872	$ 24,330,619	37	$486,612
>3 acres and <= 4 acres	390	$ 5,255,704	8	$105,114
>4 acres and <= 5 acres	1,041	$ 12,763,513	21	$255,270
>5 acres and <=10 acres	2,589	$ 31,516,824	52	$630,336
Total	**259,806**	**$1,617,973,879**	**246**	**$3,036,104**

2016 Tax Relief Survey (as of February 2016)[1]

Locality	Net Asset Limit	Income Limits	Comment
Fairfax County	$340,000	Up to $52,000=100% relief $52,001 to $62,000=50%	Excludes dwelling and up to 1 acre of land.
City of Alexandria	$430,000	Up to $40,000=100% relief $40,001 to $55,000=50% $55,001 to $72,000=25%	The assets of the household may not exceed $430,000 (excluding the house and two acres of adjoining property). Also have a tax deferral program. To qualify a household's gross combined income may not have exceeded $72,000 in the prior year.
Arlington County	$340,000	Up to $55,953=100% relief $55,954 to $68,387=50% $68,388 to $99,472=25%	Other income limits based on household size to determine percentage of relief. If income is within limits and assets are from $340,000 to $540,000 may qualify for deferral.
City of Fairfax	$340,000	Up to $42,000=100% relief $42,001 to $52,000=50%	Also have a "Tax Freeze", "Tax Deferral" and "Tax Freeze/Deferral" Program.
City of Falls Church	$540,000	Up to $22,950=up to $4,000 off taxes owed $22,951 to $38,250=up to $3,000 $38,251 to 47,600=up to $1,000	Other income limits based on household size to determine percentage of relief. Maximum amount of exemption is $4,000 per year. If income is $47,601 to $75,000 and assets under $540,000 then can get tax deferral.
Loudoun County	$440,000	Up to $72,000	If the real property is owned by two or more individuals, not all of whom are 65 or totally and permanently disabled, the net worth of the owners cannot be more than $578,382 including the fair market value of the dwelling and land. Excludes dwelling and up to 3 acres of land. No deferral program for elderly/disabled.
City of Manassas	$340,000	Up to $54,400=100% relief $54,401 to $62,560=25% $62,561 to $70,720=15% $70,721 to $78,880=10%	Excludes dwelling and up to 1 acre of land. Have a tax deferral program. If applicant qualifies for tax relief program they can get deferral.
City of Manassas Park	$150,000	Up to $50,000=100% relief $50,001 to $60,000=Partial	No acre limit. No tax deferral program.
Prince William County	$340,000	Up to $56,200=100% relief $56,201 to $64,630=75% $64,631 to $73,060=50% $73,061 to $81,490=25%	Applicants who meet the net worth criteria and whose total income does not exceed $81,490, may qualify for exemption of the solid waste fee. Excludes dwelling and up to 1 acre of land. No tax deferral program.
Stafford County	$300,000 $200,000 $400,000	Up to $35,000=100% relief $35,001 to $40,000=50% Up to $30,000=50%	Net worth calculation excludes dwelling value and up to 20 acres; but tax relief is only for dwelling and one acre of land. Additional acreage does not qualify for tax relief. If applicants passes away or sells the property, taxes have to be paid back for that year. No tax deferral program.

[1] Data gathered from websites and phone interviews.