Response to Questions on the FY 2016 Budget

Request By: Supervisor Foust

Question: What is the impact if the Board chooses to reinstate a tax deferral program for the elderly and disabled?

Response: The County used to have a tax deferral program, authorized by Va. Code Section 58.1-3210. This program was abolished by the Board in 1990 because of low participation. At its height in 1986 the program only had 38 participants. The disincentive appeared to be that citizens did not want to leave accumulated debt with their estate. Although unpopular in the past, the program would provide a safety valve in the event an elderly or disabled person's cash flow was unable to accommodate taxes.

The Board of Supervisors could reinstate this program simply by adopting a local ordinance amendment. A tax deferral program for the elderly and disabled can be tied to the same income/asset limits, or can provide for deferrals beyond current limits.

For example, 78% of current applicants already receive 100% relief. However, 13% receive 50% and 9% receive 25%. A program could be adopted to allow the deferral of the amounts not relieved for these latter two categories. If all of the tax relief participants in the 25% and 50% categories availed themselves of this opportunity, General Fund revenue would be decreased by approximately $4.3 million. This would be the worst case loss however. Given past participation rates it seems unlikely that more than a small percentage would actually take advantage of the program. If only 10% participate, the loss would only be $430,000.

This would establish the annual baseline revenue loss but this would fluctuate somewhat each year as additional deferrals occur, offset by payments made as properties come out of deferral. Any deferred taxes must be repaid upon the applicant's death or upon the sale of the property. The law allows the County to charge interest up to 8% per year. While the eventual payment is generally secure, Va. Code Section 58.1-3216 does state that "any such lien shall, to the extent that it exceeds in the aggregate ten percent of the price for which such real estate may be sold, be inferior to all other liens of record." This is a less favorable position; taxes today represent a priority lien.

Another alternative would be to offer deferral to applicants who otherwise exceed the income/asset limits for the current tax relief program. The maximum allowable income under today's program is $72,000, and the maximum allowable net asset limit is $340,000. Under this alternative, for example, the Board could allow elderly and disabled taxpayers to enroll in a deferral program if their income met the existing program limits but their net assets exceeded the existing cap. In other words, an elderly or disabled person with $72,000 income and $500,000 in net assets, such as an IRA account, would not qualify for tax relief, but the Board could permit them to participate in a deferral program. This type of program would unquestionably create a much larger pool of potential applicants who could participate in deferral, but would likewise increase the amount of General Fund revenue lost (deferred) in any given year. Unfortunately, staff has no income or asset data from which to project the potential fiscal impact at these higher levels. It also remains unknown what the actual participation rate might be.