Fiscal Note

Fiscal Services Division

SF 2319 – Low-Income Rental Housing Property Tax Assessments (LSB 5441SV)
Analyst: Jeff Robinson (Phone: 515-281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – New
Requested by Senator Joe Bolkcom

Description

Senate File 2319 requires properties that were financed in part through the federal Home Investment Partnerships Program (HOME) funding to be assessed for property tax purposes only on the value of the rental income stream. The assessor is prohibited from considering the value of tax credits or other rent subsidies when establishing the property value. This change will make properties subsidized through the HOME Program eligible for the same property tax treatment currently available for properties subsidized through the federal Internal Revenue Code Section (IRC) 42 tax credit program.

Background

With a few exceptions, the basis for establishing the assessed value of real property in Iowa is the property's market value. One of the current law exceptions applies to rented or leased property built using IRC Section 42 income tax credits. Iowa law requires IRC Section 42 property to be assessed only on the actual rental income and without regard to the tax credits and other subsidies the property receives. This assessment method appears to reduce the assessed value of IRC Section 42 property by about 60.0%.

Assumptions

- The Iowa Finance Authority (IFA) provided a list of 97 properties in Iowa that received HOME Program subsidies, but did not receive tax credits through IRC Section 42. The number of units associated with those 97 properties was 1,199.
- The online data of Iowa's local assessors was accessed to determine how the 97 properties were currently classified for property tax purposes (commercial, residential, or exempt) and for those classified commercial, the assessed value of the property was collected. Of the 1,199 units, 472 were either exempt or residential, 497 were commercial, and 230 could not be located based on the information IFA provided.
- The average assessed value per unit, for the 472 units identified, was $26,600.
- Applying the $26,600 average to the 472 units identified, as well as the 230 units that could not be confirmed, yields $19.3 million in assessed value.
- The assessed value reduction is assumed to be 60.0%.
- The average tax rate is assumed to be $35.00 per $1,000 of taxable value. Of that amount $5.40 represents the school aid uniform levy.
- The exempt properties and the residential properties will not benefit from the changes in the Bill.

Fiscal Impact

The projected annual tax reduction for owners of the impacted buildings is $406,000 beginning in FY 2015. Of that amount, the State General Fund school aid appropriation will increase $104,000 and $302,000 represents reduced local government property tax revenue.

This assessment procedure change will also impact future properties constructed using federal HOME Program funding, but without Section 42 tax credits.

Sources

Iowa Finance Authority
Local Assessors

/s/ Holly M. Lyons

March 15, 2012

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to **Iowa Code section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.