

5. Property Tax and Local Revenue Diversification

Discussion Draft
December 15, 2015

Real Property Taxation

Administrative Issues

Recommendation 1: Fractional Assessment.

Eliminate the 70 percent fractional assessment and define assessed value as 100 percent of estimated market value. When this transition is made, all municipalities must lower their property tax mill rate to raise the same amount of revenue as they raise currently. (No revenue implications)

Recommendation 2: Assessment Cycle

Eliminate the 5-year reassessment cycle and institute annual reassessments. This recommendation should be implemented over a five-year period. The Tax Study Panel recognizes there may be some cost implications for smaller municipalities and recommends ways to mitigate increased costs resulting from moving toward annual reassessments should be explored. For example, 74 municipalities have already joined together for regional revaluations. (Revenue Implications: could impact administrative costs for some smaller municipalities).

Recommendation 3: Local Fiscal Disparities

The Tax Study Panel's mandate is to review the state's overall state and local tax structure. The Panel affirmed at its May 2015 meeting it would not look at state and local expenditure policy. Accordingly, addressing the magnitude and design of state grants to local governments in Connecticut is beyond the scope of this project. However, in view of evidence presented to the Panel that there are significant differences in the capacity of municipalities ("fiscal disparities) across municipalities the Panel concludes that state grant policies should be re-examined in an effort to further relieve pressure on the property tax and to equalize fiscal disparities across municipalities. (No revenue implications)

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Tax Exempt Properties

Recommendation 4: Payments in Lieu of Taxes (PILOT)

The Panel recommends that municipalities in Connecticut institute a traditional payment-in-lieu-of-taxes (PILOT) program to generate revenues from tax exempt properties to help finance the delivery of local public services benefiting those properties. Such a program would better match the property tax revenues foregone because of a tax exemption and the benefits received by the community from the exempt organization. This is a *quid pro quo* argument for tax exemption. A municipality should determine what portion of their budget finances goods and services that benefit all properties. This would be a starting place for the conversation with exempt organizations about a potential PILOT payment. The Panel recommends that the Office of Policy and Management develop estimates of the value of locally provided services to provide a framework for informing such a discussion. In order to minimize or eliminate any burden on small charitable organizations providing services directly to local residents a municipality may exempt organizations with real property valuations below some amount, e.g., \$10,000,000. (This would expand the revenue base for the municipalities, but revenue implications depend on how individual local governments implement such an approach).

For Discussion:

Method/Model 1: The Boston program

1. applies when existing nonprofits expand their real estate holdings, undertake new construction or apply for exempt status for newly acquired previously taxable property or for a new nonprofit
2. created a PILOT task force, which included representatives from exempt organizations, to develop policies for the new program which allowed the initiative to be “collaborative and driven by consensus”
3. made the discussion about exempt organizations and PILOTs more transparent
4. applies to all nonprofits except churches, social service organizations and nonprofits with assessed value less than \$15 million and the program allows for deductions for “extraordinary community services” provided by the nonprofit
5. reduce uncertainty for both the participating nonprofits and the city budget process because agreements extend between 10 and 30 years with annual escalation provisions.

Method /Model 2: New Haven

An alternative approach might be similar to the less formal approach taken in New Haven. Specifically, Yale University entered into an agreement with New Haven to make an annual PILOT and is now contributing around \$7.5 million per year since 2010. But the agreement goes further by including services provided by Yale that promote local economic development in New Haven. Specifically, Yale contributes to the city’s revitalization effort in a number of ways, including

- funding The Center for the City, an organization aimed at accessing New Haven’s local resources to address social problems;
- redeveloping several blocks of the City’s retail center; and
- paying stipends to Yale employees to buy homes in the city.

Direct Property Tax Relief

Recommendation 5: Low Income Tax Credit “Circuit Breaker”

Eliminate the (more than) 100 state and local option partial property tax exemptions and replace them with a single unified state circuit breaker mechanism that provides property tax relief targeted to homeowners and renters whose property taxes are high relative to their household resources. Such a circuit breaker would be a single threshold type circuit breaker implemented as a refundable credit through the Connecticut state income tax to provide targeted relief, replacing the current property tax credit. The circuit breaker could be designed so that this recommendation is revenue neutral. (Revenue Implications: implement this replacement on a revenue neutral basis).

Agricultural Land Use Valuation

Recommendation 6: Agricultural Land

Tighten up the implementation of the PA490 use value assessment program so the program is more aligned with the intended purpose of the program by

1. Implementing an objective test of agricultural use in order to qualify for participation in the program (e.g., establish a *de minimis* level of gross income from agricultural production)
2. Rationalizing use value assessment computation methods using more accurate income measures and more realistic capitalization rates
3. Requiring forest land participating in the program to be contiguous parcels
4. Allowing towns to remove land from the program if it has been rezoned for subdivision
5. Expanding the time period which land must remain undeveloped from 10 to 15 years
6. Increasing the penalties for early withdrawal from the program
7. Moving away from general tax relief for agriculture broadly and move toward strategic use of use value assessment to protect and preserve land that provides ecosystem services that are a form of public good or generates positive externalities. (Revenue Implications: broadening the property tax base could increase revenues or result in reduced property tax rates, but revenue estimates are not provided due to limited information).

Revenue Diversification

Recommendation 7: Local Non Property Taxation.

Allow for a local sales tax of 1 percent to be implemented on a statewide, or regional, basis with the revenue to be collected by the Department of Revenue Services (DRS) acting as the agent for local governments. Revenues will be deposited in the Municipal Revenue Sharing Account to be returned to municipalities in a manner that builds on the existing structure to ensure the revenue from the local sales tax gets to the jurisdictions that need it. If adopted regionally, local governments would identify regional projects to be funded by the revenues. (Revenue Implications: generates approximately \$600 million)

Personal Property Taxes

Recommendation 8: Taxation of Business Tangible Property

Exempt the first \$10,000 of personal property from taxation removing 46 percent of personal property accounts. There must be a mechanism put in place so that each municipality will continue to be able to identify individual businesses located in their jurisdiction. For example, this could be done by a small business fee collected by the Department of Revenue Services as part of their business entity tax. Alternatively, the Secretary of State could create a one stop shopping process for the registration of small businesses like that in West Virginia and the registration information could be shared with the municipality in which the business is located. (Revenue Implications: Reduces the number of accounts by 46 percent and revenues by nearly \$6 million, or about 1 percent).

Recommendation 9: Personal Property Tax Revenue Administration/Implementation

The Office of Policy and Management or other research agency should revisit the implementation of the personal property tax by

1. Examining depreciation schedules and the 30 percent residual value
2. Improving audit procedures and practices
3. Strengthening the role of OPM in overseeing uniformity of assessment administration
4. Estimating economic and functional obsolescence in at least chemical products manufacturing and other industries where standard depreciation schedules are inadequate.

(Revenue Implications: this is not a revenue generating recommendation but rather goes to administration and implementation)

Recommendation 10: Motor Vehicles (“Car Tax”)

The Panel supports the changes in the motor vehicle tax made in 2015 and recommends that the impact of these changes on the equity, efficiency and administration costs of the motor vehicle tax should be evaluated after they have been in place for a period of no more than three years. This will also provide time to see how the Municipal Revenue Sharing Fund works to hold harmless those municipalities that experience a decline in motor vehicle tax revenues because of the ceiling place on the mill rate applied to motor vehicles.

Recommendation 11: Antique Vehicles

The assessed value of antique vehicles should be set at current market value.

Conveyance and Controlling Interest Taxes

Recommendation 12: Maintain the status quo.