House Bill 581
Changes to Property Tax Assessments and Homestead Exemptions*

City of Statham, Georgia
January 21, 2025, February 4 and 18, 2025

*PORTIONS OF THIS PRESENTATION ARE DERIVED FROM "HB 581 SUMMARY AND GUIDANCE," JOINT TRAINING OF ACCG & GMA

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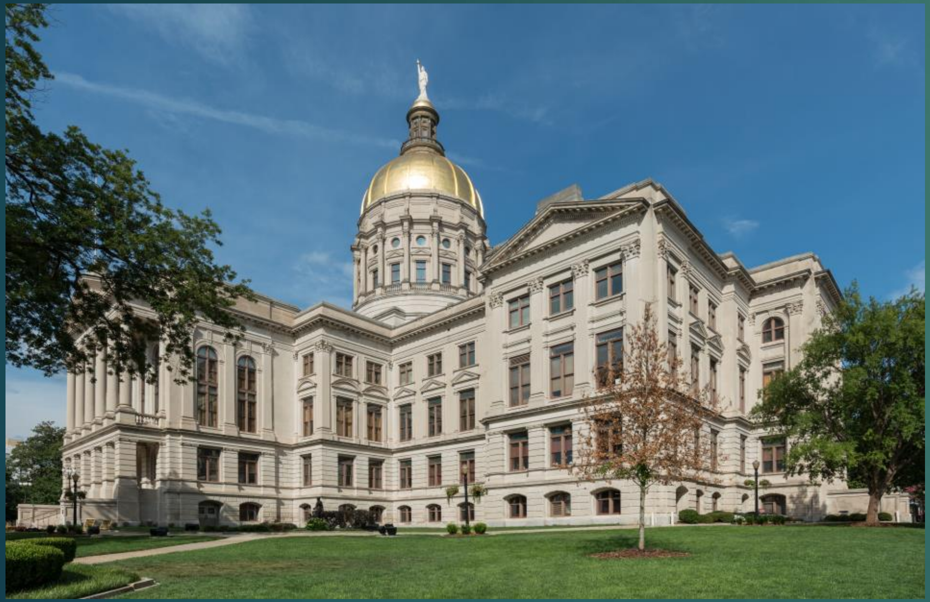
Background: Where Did This Come From?



- Legislature entered 2024 session concerned about what it deemed to be reckless spending and rising property taxes caused by sharp increases in property assessments and in turn property tax
- Senate leaders wanted measures to control rapid increases in property assessments
- House leaders looked to expand sales tax options as methods of reducing ad valorem property taxes

HB 581: Passage and Ratification

- **Passed House 164-2**
- **Passed Senate 52-0**
- **Signed into law April 18, 2024.**
- **Ratified by Statewide Constitutional Referendum 63%-37%**
- **Effective January 1, 2025**

Major Components

1. Statewide Floating Homestead Exemption (Part 1)
   - What is a floating homestead exemption?
   - Who gets a floating homestead exemption?
   - Can a City Opt Out?

2. New Local Option Sales Tax (Part 2)
   - What is the new sales tax?

3. Property Tax Procedural Changes (Part 3)
   - Other property tax changes

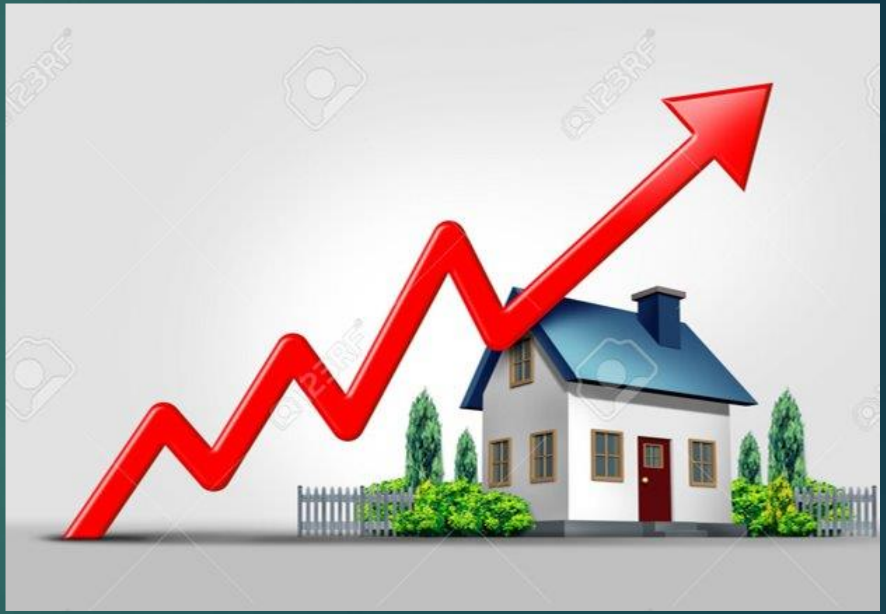
PART ONE

Statewide Floating Homestead Exemption

- Annual ad valorem property taxes consist of two figures: 1) Assessed value x 2) millage rate.

- Homestead exemptions are created and established by the taxing authority and are applied against a property's valuation prior to the application of the millage rate.

- HB 581 does not affect or cap the ability of a local government to increase the millage rate.



PART ONE

Statewide Floating Homestead Exemption

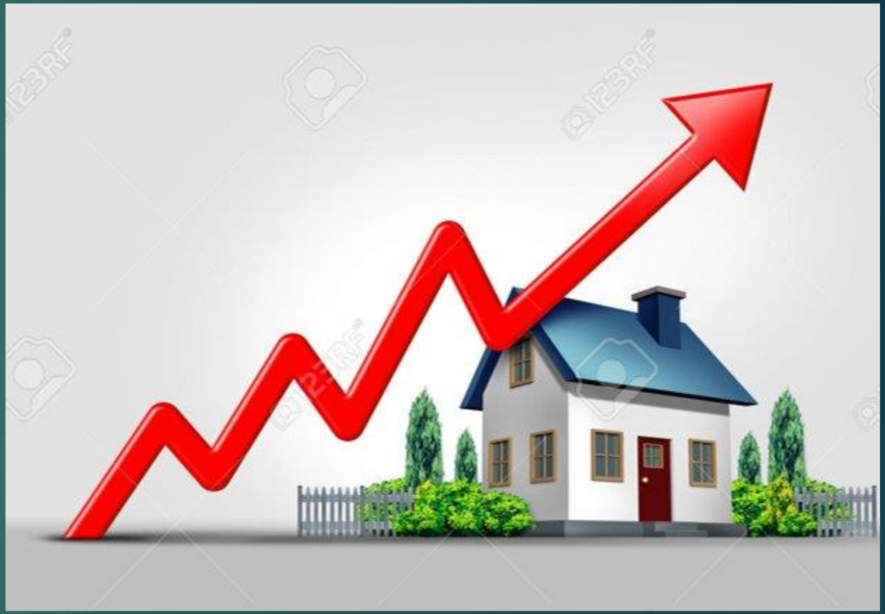
- HB581 uses a two-step process to offset the impact of property value increases.

- Step One: HB 581 creates a **statewide** floating homestead exemption for all local governments, i.e., counties, cities and school boards designed **to offset or minimize the impact of increases in the taxable value to the property.**

- Step Two: Caps property value increases at the rate of inflation.

Step One: The Floating Exemption

- Property A has a taxable value of $100,000.00 in Year 1.
- In Year 2, the value increases due to market changes to $110,000.00.
- The homestead exemption “floats” to be worth $10,000.00 of taxable value
- $110,000.00 minus $10,000.00 = $100,000.00, so the taxpayer still pays on the original base year value of $100,000.
- In year 3, the value increases by another $5,000. The exemption increases to $15,000.00.



Step Two: The Inflationary Adjustment

- HB581 authorizes the taxing authority to increase the base year value by a rate of inflation determined by the State Revenue Commissioner – likely CPI.
- Same Property as the previous example,
  - $100,000 base value
  - $10,000 market increase
  - $10,000 floating homestead exemption
- However, in Year 2, the CPI is 2%. Thus, the new base value becomes $102,000.00.
- The homestead exemption is reduced by the same inflationary amount ($2,000.00), so the property owner would only pay taxes on the property value after the inflationary increase, i.e., $102,000.00. In this example, the homestead exemption is $8,000.00.

Step Two: The Inflationary Adjustment, continued

- Year 3, the property increases in value by $5,000.00. So new homestead exemption is $13,000.00.

- CPI is 1.96%. $102,000 x 1.96% = $2,000.

- New Base Value = $104,000. New Market Value = $115,000.00. Floating Homestead Exemption = $11,000.

How is the “Base Year Valuation” established?

- For homes first receiving this exemption in taxable year 2025, the base year assessed value will be the 2024 assessed value.
- For homes first receiving the exemption in later years, the base year assessed value will be the assessed value for the immediately preceding year.
- Similar to other homestead exemptions, the value will be reset when the home is sold and is adjusted with “substantial property change.”
- Homeowners can not transfer exemption to new property.

Impact on Other Exemptions

- This new floating homestead exemption is in addition to and not in lieu of all non-floating homestead exemptions. This will not repeal/replace existing homestead exemptions.
- If there is a local floating homestead exemption (now or future), the taxpayer will receive whichever of the two exemptions is more beneficial. Property owners get the benefit of whichever results in greater tax savings.
- Existing local exemptions, such as senior exemptions, are added after the floating homestead exemption is calculated.

<u>Net Effects on Property Assessments and Taxation</u>

1. The taxable value of a home may only increase at a rate of inflation each year.
2. Homeowners who apply for and receive county and city homestead exemptions will automatically receive this exemption. This may impact what exemptions local jurisdictions offer in the future.
3. Non-homesteaded property (i.e. Commercial, Industrial, Agricultural) will continue to be valued at fair market.
4. Since the floating homestead exemption slows the growth in value for residential homestead properties, **<u>it will create upward pressure on the millage rate</u>**. The effects of a floating homestead increase over time, so this will have a smaller impact in the early years and a larger impact in the later years.

Questions?

Is New Homestead Exemption Mandatory?

- If a governing authority does nothing, yes, the new Floating Homestead Exemption becomes binding unless/until it is changed by the General Assembly.

- Any governing authority may elect to “opt out” of the floating homestead exemption created by HB 581 by following a procedure like the “public notification of tax increase” when a full rollback is not taken.

    - The local government must advertise and conduct three public hearings of intent to opt out and later adopt a resolution.
    - Wording of Notice is set by statute.
    - Must file resolution to Secretary of State **by March 1, 2025**!

Is the Decision to “Opt Out” or “Stay In” Permanent?

- **Yes**
  - Once the opt out period has passed, currently there is no future method to opt out
  - If a local government opts out, there is no future method to opt in to the HB 581 exemption
  - However, the local delegation may pass a local Act of the General Assembly to implement a local floating homestead exemption at any time.

PART TWO:

Sales Tax Changes

1. Revises the provisions of O.C.G.A. 48-8-6 which limits the percentage of local sales tax a jurisdiction may levy (not part of this presentation).

2. Creates new local option sales tax contingent upon jurisdictions having a base year value homestead exemption (“FLOST”).

What is the New Sales Tax?

- A new sales tax of up to one percent is created for the limited purpose of property tax relief.
- To be eligible to levy the tax, **both the county and all cities within the county that levy a property tax** must have in effect a floating homestead exemption: either the one created by this bill or a local floating homestead exemption.
- If any jurisdiction (City or County) opts out of the Homestead Exemption, all jurisdictions are ineligible for the FLOST.

How is the New Sales Tax Implemented?

1. The county and city/cities representing at least fifty percent of the municipal population of cities that levy a property tax must enter into an intergovernmental agreement (IGA) calling for the tax.

2. The IGA shall specify the rate, duration (not to exceed five years), and the distribution between the county and cities.

3. Approved by voters at public referendum. Renewal requires local legislation, new IGA, and new vote.

<u>How are Funds From the New Sales Tax Used?</u>

- Funds must be used exclusively for property tax relief.

- Funds collected must be used by municipality for M&O, thereby reducing need for ad valorem property taxes to balance budgets.

- Each taxpayer's property tax bill shall state the amount by which property tax has been reduced because of the imposition of this tax.

Impact of FLOST on Rollback Rates

- When increases of existing property values in the digest would increase property tax revenue, state law requires the calculation of a rollback rate, which is the rate that would keep property tax revenue at the same amount as the prior year.
  - Example.
    - Year 1 - City establishes a millage rate of 5 mills resulting in $1 million in taxes.
    - Year 2 – Because of property value increases, the same millage rate would generate $1.1 million in taxes. Instead, a millage rate of 4.75 mills would generate $1 million in revenue. **The Rollback Rate is 4.75 mills.**

Impact of FLOST on Rollback Rates, continued.

- Because HB581 caps the increases in property values, and therefore increases in the tax digest, the difference between the millage rate and the rollback rate will necessarily **shrink** each year as a result of HB581.

- If the City receives proceeds from a FLOST, those funds shall be used to reduce the need for ad valorem taxes, so the difference between millage rate and rollback rate will spread back out.

Part 3:

Procedural Property Tax Changes

- Creates an “estimated roll-back rate” which is certified to the tax commissioner/collector by the local governments.
- The estimated roll-back rate is required to be included on the **assessment notice**, replacing the previous year’s millage rate.
- If the adopted millage rate exceeds the estimated roll-back rate, then a disclaimer is included on the tax bill stating the name of the governing authority that exceeded the estimated roll-back rate and that this will result in an increase of taxes owed.

Other Changes

- Modifies the three-year lock for appeals so the taxpayer only receives the lock if they receive a value reduction upon appeal.

- Updates settlement conference requirements for tax appeals.

- Requires that the chief appraiser must appraise every parcel in the county at least every three years.

Policy Considerations for Local Governments

- Will the cost of goods and services outpace CPI/inflation?
- Taxes do not necessarily decrease – they only shift:
  - Type (Homesteaded vs. Commercial/Industrial/Agricultural).
  - Mechanism (Digest vs. Millage).
- FLOST eligibility and other jurisdictions.
  - Other Cities considering opting out (Auburn & Braselton).
- Floating Homestead Exemption would apply to Special Service Districts.
- Can add homestead exemption later by local act.

Questions?