

H. 3272 — ATI/POINT OF SALE

WHAT THE AMENDED H. 3272 DOES:

H. 3272, as it came out of Senate Finance Committee, would exempt the value of property over a 15 percent increase in the previous taxable value when a property undergoes an assessable transfer of interest. That taxable valuation would be in place until the next regular reassessment, instead of going to the full fair market value as happens under the current law. The taxable value could increase up 15 percent at the next regular reassessment. The taxable values on the books for properties which had an ATI prior to January 1, 2009, would remain on the books. However, an ATI which occurred after January 1, 2009, would be subject to the 15 percent cap in H. 3272. A sunset provision was placed in the bill and would expire after property tax year 2014.

H. 3272, as reported out by Senate Finance Committee, would still have a fiscal impact of \$44 million in an average tax year, beginning with the tax bills sent out in 2010. That fiscal impact would grow by \$44 million each year.

WHY H. 3272 NEEDS MORE STUDY:

1. The \$44 million revenue loss next year will come after a \$50 million cut to the FY 2009–10 LGF and the FY 2010–11 will be lower than this year's LGF under the statutory formula. Most of the tax revenue growth in local governments has come from the ATI, and taking away that revenue growth will put pressure on millage rates which everyone pays. It is in effect a reverse impact fee which existing residents pay when someone moves into an existing house or buys a commercial property.
2. When the constitutional 15 percent cap on valuations was debated, it was said repeatedly that the loss in revenue would not be that great, because the ATI would bring values up to fair market value upon transfer; and the average property changes hands every seven years in South Carolina. H. 3272 reverses that decision.
3. Fast-appreciating property which undergoes an ATI in the future will never be taxed on its fair market value—while the great majority of homeowners got little or no benefit from the original 15 percent cap and will continue to pay on the full fair market value of their home.
4. The cost of reprogramming the assessors' computers, yet again, will be significant.
5. There has been no discussion of the impact of this change on the Index of Taxpaying Ability and the school funding which is affected by the Index. Taking value out of the school tax base will create winners and losers in the school funding system, and the losers will have to turn to higher millage rates.
6. Moody's bond rating service placed all school bonds in South Carolina on a negative outlook immediately after Act 388 passed. In discussing the negative impact of the constitutional 15 percent cap on bond ratings, they cited the ATI mechanism as a positive counterbalance in high turnover districts. There is a risk that county and municipal bonds could be in the same position as school bonds, if H. 3272 were to pass and wipe out most of the revenue growth from the ATI. At the very least, H. 3272 would reduce future bond issuing capacity, if it did not result in bond rating downgrades.
7. New construction—either residential or commercial—will be placed at a disadvantage, if H. 3272 is adopted. A purchaser could buy an existing home or commercial property and receive a capped tax value. If that purchaser buys a new home or commercial property, they would be taxed on 100 percent of the value of the structure. H. 3272 may encourage the sale of existing structures, but genuine new investment would be discouraged. The Home Builders Association does not support H. 3272 because of this disadvantage, but will not fight H. 3272. The home builders have also said they will be asking for relief from that disadvantage in the future, should H. 3272 pass.