

Please Amend HB 5035, section 1-3, to Provide Relief to Home Builders from Increased Tax Assessments on Unsold Inventory of 1&2 Family Homes

(FILE No. 51) (Passed P&D 15-5)

HB 5035 is the Governor's Municipal Mandate Relief Bill; Sections 1-3 Allow Tax Assessors to Raise Assessed Values on all Buildings Under Construction.

We request an exception for 1&2 family homes under construction by registered home builders (i.e., essentially the inventory held by a builder).

Under our exception, tax assessments on a home builder's 1&2 family homes can be raised: 1) When the home transfers to a buyer; 2) If the home is used as a residence; or 3) If the home receives a certificate of occupancy, whichever occurs first. (see reverse)

Background: Sections 1-3 of HB 5035 are a response to a tax appeal case, Kasica v. Columbia, in which the trial court ruled tax assessors cannot raise the valuation of homes or buildings under construction until a Certificate of Occupancy (C.O.) is issued (the case is currently on appeal). Most towns assumed they had the authority to raise tax valuations during construction.

Problem: It is exactly that understanding of current law (and clarification by sec. 1-3) that now presents severe financial stress on home builders only because of the deep housing recession we find ourselves in. Prior to the prolonged adverse housing environment, current law had not been an issue because homes were built, sold and transferred well within a single year. Now, housing developers face substantially decreased absorption rates for selling homes and must carry completed yet unsold homes for extended periods in this economic downturn. Through no fault of their own, builders experience lost buyers because of the buyer's loss of a job, difficulty in obtaining financing, or the inability of the buyer to sell their existing home. Thus, when tax assessors raise the valuation of homes under construction – or even completed yet unsold homes – **builders face greatly higher tax bills for unoccupied homes**. These unnecessary higher tax burdens create huge disincentives to pursue housing development.

- **Higher tax assessments on homes under construction (or even completed homes) prior to issuance of a C.O. or the home's use or transfer are big financial hits to a small business that has no income while being forced to hold his or her inventory.**
- **Higher assessments are unnecessary because municipalities have minimal expenses for these homes under construction or waiting to be sold because they provide no services to non-occupants (i.e., by definition, there are no people in these homes to serve).**
- **The bulk of the financial hit to municipalities comes from commercial construction projects. After the public hearing on this bill, tax assessors agreed with this point.**
- **When the economy and housing do rebound, our exemption would not be an issue for builders or municipalities because, again, homes will be built, sold and transferred much more quickly.**

Please Provide this Relief to a Struggling Home Building Industry & Remove a Huge Disincentive to Build Housing in Today's Economy

Language to provide a tax exemption for the inventory held by new home builders

Similar to the tax exemption for the inventory held by other types of businesses, this proposal would amend the statutes to provide a tax exemption for a new home builder's inventory up to the point 1) a certificate of occupancy is obtained, 2) the home is occupied, or 3) the home transfers to a buyer, whichever occurs first.

It would be added as a new section of the statutes (e.g., section 12-88b) and added to (not substitute for) the language of section 1-3 of HB 5035, which overturns the trial court decision in Kasica v. Columbia and clarifies existing law.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective upon passage*): Real property belonging to a new home construction contractor, upon which a one or two family home has been constructed, or is being constructed, shall be deemed the new home construction contractor's inventory and such real property shall be assessed exclusive of such construction until the home has transferred to a buyer, a certificate of occupancy has been issued for such home, or such home is occupied as a residence, whichever occurs first.