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*Your Home Is Our Business*

September 16, 2015

To: Chairman Bill Dyson, Chairman Bill Nickerson and Members of the State Tax Panel

From: Bill Ethier, CAE, Chief Executive Officer

Re: Two Recommendations for Tax Changes

The HBRA of Connecticut is a professional trade association with about eight hundred (800) member firms statewide employing tens of thousands of CT's citizens. Our membership includes residential and commercial builders, land developers, remodelers, general contractors, subcontractors, suppliers and those businesses and professionals that provide services to our diverse industry and to consumers. We build 70% to 80% of all new homes and apartments in the state each year and engage in countless home remodeling projects.

Thank you for the opportunity to provide comments on taxes in Connecticut. **As background, attached for your consideration is the testimony we provided to the Finance Committee's Republican hearing on May 11, 2015.**

Importantly, our **May 11 testimony contains information on the history of building permits issued in Connecticut through 2014 and the tremendous financial benefit to state and local governments (i.e., tax revenues) from home construction activity**. In 2015, building permits from January through July show a continuing disturbing trend toward multifamily construction and away from single family home construction.[1] It's disturbing because on a per unit basis, more jobs and economic activity derive from single family construction than from multifamily construction. It also signifies reluctance among buyers to pursue a single family home purchase, indicating weakness in the economy and job market. **As we said in our May 11 testimony, housing is and has been for a very long time a bellwether for the nation's and state's economy.**

**This leads us to the following two recommendations that we urge you to include in your final report:**

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[1] In July, for example, of the total 633 permits issued across the state, only 30.1% were for single family homes, whereas in a normal market, 70% to 80% of all units would be single family homes. And, July's permits were concentrated in only a few municipalities (i.e., New Haven with 232 permits, Bridgeport with 99, and Norwalk with 70). The next highest total for July was Milford with 19 permits. This leaves most of the rest of the state with very slow or no growth in home building activity. The anemic rate of housing permits and their concentration in a few urban areas and on multifamily structures are all indicators of a still severely struggling home building industry.

**1. Remove the Huge Property Tax Disincentive to Start Home Construction by Limiting Increased Tax Assessments on Unsold Inventory of 1 to 4 Family Homes.**

**Background:** This issue was first raised in 2011 in the wake of 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. Over our opposition, the legislature then overturned the case, and in doing so created a rule that unfairly taxes home builders while unjustly enriching municipal coffers.

**Problem:** Prior to the prolonged adverse housing environment, which continues to this day, the law and practice of increasing property tax assessments as soon as construction began 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. It takes longer now to construct a home as well because skilled construction labor has evaporated (construction workers have either left the state or gone into other jobs). Also, 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 of completed yet unsold homes – **builders face greatly higher tax bills for unoccupied homes**. **The prospect of having to pay $10,000 or more in annual taxes and for possibly multiple years while waiting to sell their new home, destroying the small margins builders receive today, is a major disincentive to start construction.**

This results in many jobs not created and much other tax revenues not realized.[2] The reasons to support our fix to this problem are summarized below:

- **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 to a buyer are big financial hits to a small business that has no income while being forced to hold his or her inventory.**
- **Taxing a builder's inventory of unsold homes is like taxing an auto dealer for all the unsold cars and trucks on the dealer's lot, or taxing a retailer's unsold merchandise as its own business equipment. Why are home builders singled out for taxing unsold inventory?**
- **Higher assessments are unnecessary and become a municipal windfall because municipalities have minimal expenses for these homes under construction. These homes are waiting to be sold and there are no people in these homes to serve.**

continued

[2] Again, see the attached May 11 testimony for the jobs and tax benefits of producing new housing in Connecticut.

- **The bulk of the financial benefit to municipalities from increasing assessments on buildings under construction comes from commercial construction projects. After a public hearing held on this issue in 2012, tax assessors agreed with this point.**
- **If and 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.**
- **The limited exemption we propose for one to four family homes under construction solves a huge disincentive on construction and tax burden on home builders without creating any service demands on municipalities.**

**Under our legislative proposal, tax assessments on a home builder's 1 to 4 family homes can be raised only when one of the following triggers occur: 1) When the home transfers to a buyer; 2) If the home is used as a residence prior to transfer; or 3) If the home receives a certificate of occupancy, whichever occurs first.**

The proposed legislation is as follows:

**An Act Clarifying the Real Estate Tax on**
**One to Four Family Homes Under Construction**

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

Section 1. Subsection (a) of section 12-53a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective upon passage*):

(a) Completed new construction of real estate completed after any assessment date shall be liable for the payment of municipal taxes from the date the certificate of occupancy is issued or the date on which such new construction is first used for the purpose for which same was constructed, whichever is the earlier, prorated for the assessment year in which the new construction is completed. Said prorated tax shall be computed on the basis of the rate of tax applicable with respect to such property, including the applicable rate of tax in any tax district in which such property is subject to tax following completion of such new construction, on the date such property becomes liable for such prorated tax in accordance with this section. Notwithstanding any provision of the general statutes or any special act, municipal charter or home rule ordinance, land, including individual parcels, lots in any approved subdivision, or land that is the subject of any approved site plan, special permit or exception, on which one to four family residential buildings are intended to be constructed, under construction or completed, shall be assessed exclusive of such residential buildings prior to the date on which (1) a certificate of occupancy is issued for such building, (2) such new construction is first used for the purpose it was constructed, or (3) a transfer occurs to the original home buyer, whichever is the earlier.

**2. Our second recommendation is to remove the double or triple assessment of the real estate conveyance tax that is imposed on buyers of new homes.**

Repealing or reducing the conveyance tax is a sound economic and housing development strategy because the reduced costs of production will spur more housing activity, which in turn will benefit the economy and tax receipts. However, we do not suffer from any delusions that the Connecticut legislature will reverse its broken promises to the real estate community and repeal the "temporary" conveyance tax increase that it adopted, then extended several times and then finally made permanent.

**Yet, for new home construction, home buyers must pay the conveyance tax two or three times to purchase their new home.** When real estate developers purchase land on which to build a new home community, the conveyance tax is paid. If the developer and builder are separate entities, the developer sells finished lots to a builder, and the conveyance tax is paid again. Then the tax is assessed a third time on the sale of the lot with a finished home to the original home buyer. The first, second and third payments of the tax are all passed onto the buyer, or absorbed by the seller. These additive taxes raise the cost of the new home, create more "sticker shock" for home buyers and create another disincentive to construction activity.

While we do not have legislative language to offer, we propose that a conveyance tax credit be adopted for any amount of a conveyance tax paid within the prior two years from the date of payment of a conveyance tax on the same land. Appropriate formulas for properly apportioning the tax paid on, for example, raw land to each individual lot would have to be created. Thus, new home buyers or sellers (i.e., builders) would be assured of paying the conveyance tax essentially just once.

**The adoption of these two recommendations will help produce more activity in the housing and real estate sector of our economy, which in turn will produce more income, sales and other tax revenues for the state and property tax revenues for municipalities plus all the ancillary benefits of a more robust economy.**

**Housing can lead the way to job growth and economic recovery – if Connecticut would just get out of our way and stop beating us down.**

Thank you again for the opportunity to provide comments on taxes in Connecticut and for your consideration of our recommendations.

Attachment (May 11, 2015, testimony to the Finance Committee's Republican hearing)