

REPORT OF THE
JOINT SUBCOMMITTEE TO STUDY THE EQUITY OF
THE REAL PROPERTY TAX IMPOSED ON REAL RENTAL
PROPERTY
TO
THE GOVERNOR
AND
THE GENERAL ASSEMBLY OF VIRGINIA



HOUSE DOCUMENT NO. 33

COMMONWEALTH OF VIRGINIA
Richmond
1980

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**Report of the
Joint Subcommittee to Study the Equity of
the Real Property Tax Imposed on Real Rental Property
To
The Governor and the General Assembly of Virginia
Richmond, Virginia
December, 1979**

To: Honorable John N. Dalton, Governor of Virginia
and
The General Assembly of Virginia

I. INTRODUCTION

The Joint Subcommittee to Study the Equity of the Real Property Tax Imposed on Real Rental Property was created by House Joint Resolution No. 64 of 1978 and continued by House Joint Resolution No. 226 in 1979, as follows:

HOUSE JOINT RESOLUTION NO. 64

To establish a joint subcommittee of the Committees on Finance of the Senate and the House of Delegates, respectively, to examine the equity of the real property tax imposed on real rental property.

WHEREAS, the real property tax is the largest local source of revenue to the localities of Virginia which burden on Virginians has risen rapidly in recent years due not only to the escalating selling prices of real property but also to the increasing revenue requirements of Virginia's localities; and

WHEREAS, the real property tax is based on the assessment of the fair market value of real property; and

WHEREAS, the assessment factors used in determining the fair market value of rental real property are necessarily not the same as those used in determining the fair market value of owner occupied residential real property; and

WHEREAS, the determination of value for real rental property is especially difficult to determine because of a variety of factors that influence value such as vacancy levels, rent levels, operating expenses, capitalization rates and methods, neighborhood trends, and changing market valuations; and

WHEREAS, these factors may cause an inequitable value and therefore cause an inequitable tax; and

WHEREAS, the Commonwealth is constantly monitoring the equity of taxes to ensure that all citizens are treated fairly and equitably; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a joint subcommittee of the House of Delegates and Senate Finance Committees be appointed to study the equity of the real property tax on real rental property.

The joint subcommittee shall be composed of ten members who shall be appointed in the following manner: five members appointed by the chairman of the House of Delegates Finance Committee from the membership of that committee, three members appointed by the chairman of the Senate Finance Committee from the membership of that committee, and two citizens, one to be appointed by the chairman of the Finance Committee of the House of Delegates and one to be appointed by the chairman of the Finance Committee of the Senate.

The legislative members of the joint subcommittee shall receive such compensation as is authorized by law for members of the General Assembly and be reimbursed for their expenses

incurred for the work of the joint subcommittee. The Division of Legislative Services shall serve as staff to the joint subcommittee. The officials and employees of all State agencies shall cooperate fully with the joint subcommittee.

The joint subcommittee shall make a report of its findings and recommendations to the Governor and the General Assembly not later than November one, nineteen hundred seventy-eight.

HOUSE JOINT RESOLUTION NO. 226

Continuing the joint subcommittee of the Committees on Finance studying the equity of the real property tax imposed on real rental property.

WHEREAS, House Joint Resolution No. 64 of the nineteen hundred seventy-eight Session of the General Assembly directed the Finance Committees of each house to establish a joint subcommittee to study the taxation of real rental property; and

WHEREAS, the joint subcommittee was appointed in accordance with HJR No. 64 and met on several occasions during the nineteen hundred seventy-eight interim; and

WHEREAS, the joint subcommittee concluded that the equity consideration in the taxation of rental real property centers around the assessment practices and techniques currently utilized in Virginia; and

WHEREAS, the joint subcommittee did not have ample time to delve into this extremely complicated field of assessment practice; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the joint subcommittee of the House of Delegates and Senate Finance Committees established pursuant to HJR No. 64 of the nineteen hundred seventy-eight session of the General Assembly is hereby continued.

The membership of the joint subcommittee shall consist of those same persons appointed in nineteen hundred seventy-eight; provided, however, in the event any such member cannot or will not serve on the subcommittee, replacements shall be made in the manner of the original appointment.

The joint subcommittee shall examine the assessment procedures used in taxing commercial and rental real property and determine whether such procedures result in an equitable tax burden.

The joint subcommittee shall report its findings not later than November one, nineteen hundred seventy-nine.

The membership was composed of five members of the House Committee on Finance: Bernard G. Barrow, Virginia Beach, David G. Brickley, Woodbridge, C. D. Dunford, Tazewell, George W. Jones, Bon Air, and Warren G. Stambaugh, Arlington; three members of the Senate Committee on Finance: Peter K. Babalas, Norfolk, Omer L. Hirst, Annandale, William F. Parkerson, Henrico; and two citizen members: Ervin Hall, Richmond, and John B. Piper, Sr., Vienna. Delegate Stambaugh and Senator Hirst were elected Chairman and Vice-Chairman, respectively.

Staff assistance was provided by Jill M. Pope and John A. Garka, Division of Legislative Services, and the Office of the Clerk of the House of Delegates.

RECOMMENDATION : The Joint Subcommittee makes no recommendation for change at the present time. The Joint Subcommittee does, however, wish to present its findings for information as to the methods of assessment utilized throughout the Commonwealth.

FINDINGS :

At the first meeting of the Subcommittee, the concern with escalating property taxes was expressed with particular emphasis on the disparity in the assessment of owner-occupied residential property and rental property. One member expressed the feeling that the assessment of rental property bore no relation to fair market value but to rent paid with no consideration of what

constituted the rental fee. In this respect, the property tax on rental property was compared to the gross receipts tax—no relation to ability to pay.

The Joint Subcommittee heard from three experts in the field of real estate assessment and appraisal: Mr. Fred C. Forberg, Director, Real Estate Appraisal and Mapping Division, Department of Taxation; Mr. Richard A. Chandler, Assessor of Real Estate, City of Richmond; and Mr. James R. Vincent, Director of Real Estate Assessments, County of Arlington. Their presentations concerned the appraisal and assessment of real property.

There are three basic approaches to the assessment of real property: cost analysis, market analysis, and income analysis. These approaches are used to determine the fair market value of real estate with the weight of the approach being determined by the type of property (residential, owner-occupied, commercial, etc.) and the information available.

The cost analysis approach is also known as the reproduction cost approach. Factors considered are the replacement and land cost less depreciation. This approach is given the greatest weight in the assessment of institutional and unique properties.

The market approach is also known as the sales analysis or comparison of sales approach. As the name implies, this method utilizes information regarding sales of comparable property. This approach is normally given greatest weight in the assessment of single-family residences, condominiums, and some rental property.

The income analysis approach uses the capitalization of income to determine the assessment. This method assumes complete information and is used primarily in the assessment of non-residential buildings. Greatest weight is also given this method in assessing a structure with a large number of rental units.

Complete information for the income approach is not always available or accessible to the assessing official. Only in Alexandria, Hampton, Richmond, and Williamsburg were there provisions for allowing access to such information to assessors. All Commissioners of the Revenue are allowed such access.

As stated earlier, the Joint Subcommittee makes no recommendation, but does wish to provide information for a greater understanding of the assessment of real property.

Respectfully submitted,

Warren G. Stambaugh
Peter K. Babalas
Omer L. Hirst
William F. Parkerson, Jr.
Bernard G. Barrow
C. D. Dunford
George W. Jones
David G. Brickley
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