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Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Merrin

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Summary

- Exempts from property tax the value of unimproved land subdivided for residential development in excess of the fair market value of the property from which that land was subdivided, apportioned according to the relative value of each subdivided parcel.
- Authorizes the exemption for up to eight years or until construction begins or the land is sold.
- Entitles itself the "Affordable Homebuilding and Housing Act."

Detailed Analysis

Exemption of residential development property

The bill exempts from property tax a portion of the value of land subdivided for residential development measured from when the land is subdivided until construction begins or the land is sold, but not for more than eight years (see, "**Exempted portion**," below). Specifically, the exemption applies to any unimproved parcel subdivided pursuant to a plat and on which construction of residential buildings, e.g., single- or multi-family dwellings, is planned but has not started (referred to in the bill as "pre-residential development property").[1] The exemption applies beginning with the tax year in which the subdivided parcel first appears on the tax list, but no sooner than the tax year that includes the bill's effective date.[2]

The exemption applies for eight tax years unless, within that period, the parcel is sold or construction of a residential building begins, in which case the exemption ceases to apply to the tax year following the year in which either event occurs.[3] The bill specifies that residential construction is not deemed to have begun solely on the basis of streets, sidewalks, curbs,

[1] R.C. 5709.51(A)(1) and (2).

[2] R.C. 5709.51(A)(6) and (B).

[3] R.C. 5709.51(B).

driveways, or water, sewer, or other utility lines having been constructed or installed.[4] Also, if title to the parcel is transferred without payment of any money or other consideration, the transfer would not be considered a sale that terminates the exemption.[5]

Exempted portion

The bill exempts the value of each subdivided parcel in excess of a portion of the "true," or fair market value of the parcel from which each such parcel was subdivided (in the bill's terms, the larger parcel is the "original property").

Under continuing law, real property is valued according to its "fair market value," which, generally, is the unconditioned price the property would sell for in an arm's length sale, or the price for which it has in fact been sold recently in such a sale. However, certain agricultural land may alternatively be valued according to the land's current agricultural use value (CAUV), which is the estimated value of the land based on its income-producing potential as farmland. County auditors must appraise the fair market value of CAUV land even though the land is taxed according to its CAUV.[6]

Regardless of whether the original property was valued according to its fair market value or CAUV, the bill attributes a base, taxable value to each parcel resulting from the subdivision since a subdivided parcel would not have had its own individual assessed value before it was subdivided. This base value ("unexempted value" in the bill's terms) equals the original property's fair market value apportioned to each subdivided parcel according to the parcel's appraised value once the subdivision occurs in proportion to the total of the appraised values of all parcels resulting from the subdivision.

For example, if original property having a CAUV of $46,000 and an appraised fair market value of $100,000 is subdivided into two residential development parcels that, once the subdivision occurs, are assessed at a fair market value of $50,000 and $75,000, the unexempted values are $40,000 and $60,000, respectively, since the first parcel's assessed value is two-thirds of the second's value. The bill would exempt the value of the first parcel in excess of $40,000 and the value of the second parcel in excess of $60,000, which combined equals the original property's $100,000 fair market value.[7] If the exemption continues until another reappraisal or assessment update occurs – i.e., no construction has begun and the property has not been sold in the meantime – the new assessed value of each parcel would be exempted to the extent that it exceeded the parcel's unexempted value of $40,000 or $60,000.

The bill accounts also for how the exemption applies if a residential development parcel that resulted from a prior subdivision is itself further subdivided. In such a case, the exemption continues to apply to the new parcels resulting from the later subdivision, with each of the new parcels having an unexempted value that is a proportion of the unexempted value of the larger

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[4] R.C. 5709.51(A)(1).

[5] R.C. 5709.51(A)(6) and (B).

[6] R.C. 5713.33, not in the bill.

[7] R.C. 5709.51(A)(3)(a) and (B).

parcel from which it was most recently subdivided; the proportion is based on each new parcel's appraised value relative to the total appraised value of all the new parcels.[8]

The bill specifies that the partial exemption does not create a new method for valuing property for tax purposes and reaffirms that fair market value and CAUV are the only two authorized valuation methods.[9]

Real property tax valuation, generally

Under continuing law, the value of each parcel of real property is appraised for tax purposes and is entered as a separate entry on the tax list. The appraisal is supposed to approximate the fair market value or, if applicable, the CAUV of the parcel.[10] Each parcel is so valued as of January 1 of each year (the "tax lien date"). When a parcel is subdivided into several parcels, each new parcel is then valued as a separate unit.[11]

The subdivision of land itself might cause the aggregate appraised true values of the new parcels to exceed the appraised true value of the original parcel before it was subdivided, because the subdivision itself might influence the market value of the land or make the land ineligible for CAUV. Also, the appraised value of any parcel, subdivided or not, may change because of market factors or changes in the CAUV formula without the parcel itself undergoing any construction or other physical change.

Exemption application

A parcel's owner is required to apply annually to the Tax Commissioner for the bill's exemption, as with other property tax exemptions.[12] However, as part of an exemption application for pre-residential development property, the owner must expressly certify that the parcel qualifies as such.[13]

History

Action	Date
Introduced	03-19-19

H0149-I-133/ks

[8] R.C. 5709.51(A)(3)(b).

[9] R.C. 5709.51(D).

[10] R.C. 5713.01, 5713.03, and 5713.31, not in the bill; Article II, Section 36 and Article XII, Section 2, Ohio Constitution; see also *State, ex rel. Park Investment Co. v. Board of Tax Appeals*, 175 Ohio St. 410 (1964).

[11] R.C. 5713.09 and 5713.18, not in the bill.

[12] R.C. 5715.27, not in the bill.

[13] R.C. 5709.51(C).