MEMO

DATE May 17, 2021

TO: All County Clerks, Treasurers, and Assessors

FROM: Alan Dornfest, Property Tax Policy Bureau Chief

SUBJECT: Changes related to HB 389 – Guidance Note

This note is intended to outline the changes in property tax administration related to HB 389. Many of the features of this bill are retroactive to January 1, 2021 and are to be implemented immediately. Others, as noted, are effective beginning in 2022. All years referred to are tax years.

With regard to calculating and applying the new preliminary levy rates to new construction and annexation values, please note that the Tax Commission is in the process of developing spreadsheets to assist counties and taxing districts.

Assessment and Exemption Changes (2021)

1. Maximum Homeowner's Exemption: The maximum is 50% of the eligible property value up to a maximum exemption of $125,000. (January 1, 2021)

2. New Construction Roll Limitations:
    a. Change of land use can only be included on the new construction roll if "associated with the new construction." In a later subsection of the statute, there is further definition of this new construction as "new structure…." We interpret this as meaning that some sort of building or improvement must be occurring on the land, evidenced by a taxable improvement value; merely a land category change will not result in additional new construction roll value. Land value increases due to category changes can therefore be included once there is a taxable building or structure. If category change based land value changes without such improvements have been included on the 2021 new construction roll you are currently preparing, these should be removed. Corrections are allowed up until the 4th Monday in July.
    b. In addition to adjusting the new construction roll for the change of land use limitation, only 90% of new construction (all types that are eligible for inclusion) can be included on the 2021 (and future) new construction rolls. For all counties with Tax Commission supported software, the new construction roll report will do this calculation automatically, so continue to enter values as you have previously.
    c. For dissolving or de-annexing urban renewal revenue allocation areas, only 80% of the difference between the most recent increment and the 2006 increment value can be included on the 2021 (and future) new construction rolls. This will be accomplished by providing the necessary increment value to the Tax Commission, which will then make appropriate new construction roll adjustments.

Assessment and Exemption Changes (2021) (continued)

3. Site Improvement Exemption loss: This exemption is now lost only on completion of improvements, not just beginning of improvements (prior law). This is effective as of January 1, 2021, so any repealed site improvement exemption for which improvements have not been completed may be restored or the owner given an opportunity to reapply for the exemption.

4. Property Tax Reduction (circuit breaker) brackets: Benefit brackets are being adjusted upwards so that the lowest bracket (ie: highest income still eligible) claimants will receive up to $250 while the highest bracket claimants will receive up to $1,500 through the normal tax credit process. New bracket information will be sent shortly. This is in effect for 2021 benefits. The additional benefit for 100% service connected disabled veterans is also adjusted to $1,500.

5. Tax Deferral Applications: The deadline has been extended to the first Monday in September, 2021. Claims need to be sent to the Tax Commission by the 3rd Monday in September.

6. Urban Renewal Effects: The additional homeowner's exemption amounts should be subtracted from the base value of such parcels within a revenue allocation area. If there is insufficient base value, then the increment must be reduced for that parcel as well.

Assessment and Exemption Changes (2022)

1. Personal Property Exempt up to $250,000: Beginning in 2022, personal property is exempt up to a limit of $250,000 per taxpayer per county. This replaces the previous $100,000 exemption limit, but works the same way. For 2022, any new exempt amount of value above $100,000 needs to be tracked by parcel and by taxing district so that additional replacement money can be calculated in November, 2022 to be paid to counties in December, 2022 and thereafter (Pro-rata shares will be then paid by counties to taxing districts, beginning in January, 2023.) Taxpayers are required to file declarations as they normally would if they have personal property exceeding $100,000 in 2022. After that year, declarations would only be required if personal property value exceeds $250,000.

2. Transient Personal Property Exempt: For 2022 and thereafter all transient personal property is exempt and declarations of such are no longer required. There is no replacement money associated with this property, so no tracking is needed for 2022 or later.

3. Property Tax Reduction (circuit breaker) Claimants with High Value Homes Disqualified: Beginning in 2022, claimants with homestead assessed value (pre-homeowner's exemption) greater than 125% of the median assessed value for homesteads (including up to one acre of land) in the county are disqualified from these benefits.
   a. This provision does not apply to the any circuit breaker benefits or eligibility for 100% disabled veterans.
   b. The Tax Commission will need a report showing the median assessed values of homesteads for each county by the 1st Monday in June, 2022 and each year thereafter.
   c. In cases of partial ownership, the 125% test will only be applied to the claimant's eligible value of the homestead (ie: not the full value, since that never qualified). For example, assume two people own a house worth $500,000 and one qualifies for PTR with a 50% interest, if the value associated with the 50% interest ($250,000 in this case) is less than the 125% threshold, the claimant qualifies, even if the full value of the homestead exceeds that threshold.

Budget and Levy Changes (2021)

1. New Construction Roll Budget Capacity Calculations (effective 2021): The prior year's non-exempt levy rate (currently reported on our website: Max budget and Forgone) can no longer be used by taxing districts for this calculation.
    a. For this year's new construction based additional budget allowance, the calculation is to be based on 2021 equalized values for locally assessed property and 2020 operating property values for each taxing district. The district will then need to take the highest non-exempt budget of the previous three years (found on the Tax Commission website: Max budget and Forgone), decide how much, if any, of the allowable 3% increase it wishes to include, and divide that total by the 2021 value (with 2020 operating property values) to determine a preliminary levy rate. That rate then can be multiplied by the district's new construction value for 2021 and the result is their potential new construction budget capacity allowance (subject to additional limits – see item 2 in this section).
    b. For school district tort funds, the maximum budget of the last three years includes replacement monies previously subtracted from that fund. Otherwise, the procedures outlined in 1a. (above) can be used to determine the new construction budget allowance.
    c. Value information needed to complete this calculation should be provided to each taxing district by the 1st Monday in August. This value should include estimated current year's subsequent roll values (if available) or prior year's subsequent roll values. Since only 90% of new construction is to be included on the new construction roll, no further reduction is required in these steps. Note that only 80% of increment value can be entered for dissolving or deannexing urban renewal revenue allocation areas (RAAs). Contact the Tax Commission to ensure proper calculations and inclusion of such increment amounts.
    d. Example: A district has a prior three year maximum property tax budget of $100,000. The district wants a 3% increase as a starting point. That moves the budget for the preliminary levy calculation to $103,000. The district has a 2021 taxable value of $80,000,000 including 2020 operating property. The preliminary levy rate is .0012875. The district has a new construction roll value of $2,000,000. Multiplying the rate by this value, its budget capacity is increased by $2,875.

2. Property Tax Budget Increase Limits (effective 2021):
    a. Annexation values – A second preliminary levy rate will need to be calculated using the taxing district's budget amount determined in 1a ("Budget and Levy Changes (2021)") divided by 2021 equalized values for locally assessed property plus an estimated 2020 operating property value (actual is unknown). To determine the estimated operating property value for the annexed area, first determine the percent the locally assessed value in the annexed area is of the locally assessed property value in the taxing district as a whole. Then apply that percent to the 2020 operating property value for the district and add the result to the district's 2021 equalized locally assessed value. This is the annexation value and needs to be divided into the 1a budget to get the second preliminary levy rate. The rate resulting

from this calculation can be used to calculate additional budget capacity related to annexation. However, only 90% of the annexation value can be used for this purpose, except for fire districts annexing cities prior to July 1, 2021, in which case 100% of annexation value can be used.

   i. Example: A city has a 2021 taxable value of locally assessed property of \$500 Million. Of this, \$100 Million is in an area annexed in 2020. The city also had \$40 Million in operating property value in 2020. \$100 Million / \$500 Million = 20%. \$40 million X 20% = \$8 million, the presumed operating property component for the annexed area for 2020. The value to be used to determine the preliminary levy applicable to the annexation value will be \$508 million, which is divided into the city's maximum property tax budget plus as much of the 3% budget increase as they choose.
   ii. Assume the city had a highest property tax budget of \$500,000 and wants a 3% increase to \$515,000. The preliminary levy would be \$515,000 / \$508 Million, which equals 0.00101378. That can then be multiplied by 80% of the estimated 2021 annexation value (\$108 Million X 80% X 0.00101378 = \$87,590). This represents potential additional budget capacity for the city (subject to the 8% limit in 2b).

b. Upper limit on increases – Except for forgone amounts, described in 2c., the total increase in each district's non-exempt property tax budget based on the sum of 3%, new construction, and annexation budget increases cannot exceed 8%.
c. Forgone limits –
   i. Ordinary: Although forgone can be accrued by resolution (filed no later than December 31 of 2021 and future years), the amount of previously accrued forgone that can be added to the budget, (otherwise limited by the 8% limit) cannot increase that budget by more than 1%. For example, assume the district has enough new construction to permit an 8% increase. This increase moves its budget from \$100,000 last year to \$108,000 this year. It can increase that amount by \$1,080 to \$109,080 using accrued forgone.
   ii. Capital Projects: For capital projects, the increase from previously accrued forgone can be up to 3%. However, on completion of the capital project, the amount taken must be subtracted from the next year's budget. The Tax Commission is preparing special forms to be included with L2s for identifying and tracking this additional forgone. Forgone increases related to capital projects should be shown on the L2 as a separate line item (like a fund) and are not included in non-exempt budget for future 3% and other increases. They may be left as line items as long as they are ongoing.
d. Special provisions for cities upon annexation by fire districts – In the year following such an annexation, the city must subtract the portion of its budget used for funding fire protection and previously included in any levies. Special reporting procedures will be developed for this provision.

Budget and Levy Changes (2022)

1. Additional homeowner's exemption subtraction (option) –
    a. Beginning in 2022, taxing districts will have an option to reduce their new construction roll amount by the amount by which the homeowner's exemptions within the district increased due to the increase in the upper limit of the exemption from $100,000 to $125,000.
    b. The Tax Commission is working on reports to provide this information by taxing district, beginning in 2022.
    c. Contact the Tax Commission if any taxing district indicates an intent to request such a subtraction.

2. Personal property – levies and replacement money
    a. Newly exempt personal property (ie: amounts exceeding $100,000, but not related to transient personal property) needs to be identified by taxing district and urban renewal revenue allocation area.
        i. The Tax Commission will provide additional exempt operating property personal property values based on a formula in HB 389. Counties will be notified of these values in September, 2022.
        ii. Levies will be set in September, 2022 **including** the value of the newly exempt personal property (ie: related to the additional $150,000 only)
    b. The county clerk will compute replacement money for each taxing district and urban renewal revenue allocation area and provide reports to the Tax Commission by the 3rd Monday in November, 2022. These reports will include new exempt values, applicable levies, and resulting taxes. Payments will be made to each county by December 20, 2022 (half), with the second half paid by June 20, 2022 (same pattern for each year thereafter).
    c. Replacement money eligibility:
        i. **Taxing districts and urban renewal revenue allocation areas created prior to January 1, 2013 and levying (or receiving allocations based) on personal property in 2022:** Eligible for original amounts locked in since 2014 and additional amounts based on additional (up to $150,000) exemption. Only new replacement money based on additional amounts should be computed and reported in November, 2022 reports.
        ii. **Taxing districts created January 1, 2013 or later, but prior to January 1, 2022, and levying (or receiving allocation based) on personal property in 2022:** Eligible for additional amounts, but not any amount based on exemption of first $100,000 of value of otherwise taxable personal property.
        iii. **Taxing districts or revenue allocation areas created January 1, 2022 or later:** Not eligible for any replacement money related to exempt personal property.
        iv. **Annexations to existing taxing districts and urban renewal revenue allocation areas January 1, 2022 or later:** No replacement money related to exempt personal property.

MEMO No. 2 HB 389

DATE May 24, 2021

TO: All County Clerks, Treasurers, and Assessors

FROM: Alan Dornfest, Property Tax Policy Bureau Chief
Kathlynn Ireland, Property Tax Policy Specialist

SUBJECT: HB 389 – Addendum Exception - Forgone

Forgone Limits -Section 7, House Bill 389

Section 63-802 Limitation on Budget Requests – Limitation on Tax Charges Exceptions.

(e) (ii) No cap: If a taxing district does not budget, or reserve as future forgone, the 3% increase otherwise allowed, new construction, or annexation, there is no limit to the amount of forgone allowed to be budgeted for maintenance and operations.

This is found in the subsection about the allowance of a 1% budget increase due to taking previously accrued forgone. However, under this option, the only limits would be the total amount of forgone the district has and the district's levy rate limits, which cannot be exceeded.

MEMO – No. 3 HB 389

DATE June 1, 2021

TO: All County Clerks, Treasurers, and Assessors

FROM: Alan Dornfest, Property Tax Policy Bureau Chief
Kathlynn Ireland, Property Tax Policy Specialist

SUBJECT: HB 389 – Addendum Exception – Forgone Total Percent Allowed

Forgone Limits -Section 7, House Bill 389

Section 63-802 Limitation on Budget Requests – Limitation on Tax Charges Exceptions.

(e) (ii) If the forgone increase is budgeted for the purpose for maintenance and operations, the rate of recovering the reserved forgone money may increase the taxing district's budget by no more than one percent (1%).

(iii) If the forgone increase is budgeted for a capital project or projects, the rate of recovering the reserved forgone moneys may not exceed three percent (3%) of the taxing district's budget.

If a taxing district has accrued enough forgone to cover a 1% budget increase and a 3% increase associated with a stated capital project, the district may increase their annual budget using forgone by a **total of 4%.**

However, under this option, the only limits would be the total amount of forgone the district has and the district's levy rate limits, which cannot be exceeded.

If this option is elected, the 1% taken can be included with any appropriate fund of the district; the 3% taken for the capital project must be listed separately on the L2.

MEMO – No. 4 HB 389

DATE June 2, 2021

TO: All County Clerks, Treasurers, and Assessors

FROM: Alan Dornfest, Property Tax Policy Bureau Chief
Kathlynn Ireland, Property Tax Policy Specialist

SUBJECT: HB 389 – Addendum Exception – County Median Assessed Value of Homesteads Receiving the Homeowner's Exemption

Property Tax or Occupancy Tax Reduction – Section 4 HB 389

Section 63-705 Publication of Changes in Income Limitations and Property Tax or Occupancy Tax Reduction Amounts.

Starting in 2022, when calculating the county's median assessed value for the determination of the value cap for PTR applicants, the dataset should only consist of residential properties receiving the homeowner's exemption. Additionally, the values captured should follow the definition of 'homestead' as found in section 63-701 IC which includes the residential improvement and up to one acre of land. Manufactured homes and similar properties qualifying for the homeowner's exemption, but without any land component should be included in the dataset, as well.

Idaho State Tax Commission
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MEMO

DATE December 16, 2021

TO: All County Assessors

FROM: Kathlynn Ireland, Property Tax Policy Specialist
Alan Dornfest, Property Tax Policy Bureau Chief

SUBJECT: 2022 Provisions of HB 389 – PTR and Tax Deferral

This note is intended to summarize the changes to the Property Tax Reduction (PTR) and Tax Deferral programs as referenced in HB 389. **Please encourage all PTR claimants to continue to apply for the program and accept all applications filed with your office, no matter the property's assessed value in 2021.** No one will know the value threshold which disqualifies applicants in your county by the April 15th PTR application deadline.

County's median assessed value

1. Beginning in 2022, if the current year's assessed value of a home owned by a PTR applicant exceeds one hundred twenty-five percent (125%) of the median assessed valuation for all homes in the county ***receiving the Homestead Exemption***, the applicant will be disqualified from the program.

2. Only that portion of the parcel receiving the Homestead Exemption is used in the county's median value calculation.

3. This provision of HB 389 does not apply to Property Tax Benefits for Veterans with 100% Service-connected Disability.

4. Each county will report to the State Tax Commission the median assessed value of all properties receiving the Homestead Exemption by the ***first Monday in June.***

5. Applicants disqualified from the PTR program due to exceeding the value threshold will be referred to the Property Tax Deferral program. They must apply to the Idaho State Tax Commission by no later than the first Monday in September. Qualifications include:

    a. Household income does not exceed $50,650 for tax year 2022.
    b. Receives the Homestead Exemption
    c. Holds sufficient equity in the home