

October 18, 2007

PROPERTY TAX FORUM

Moderator: Tom Maeser

(Also in Attendance were CCAR Legislative Affairs Director Steven Neeves and SCAR Representative Nick Kremydas)

(Legislators in attendance were Rep. Allan Clemmons, Rep. Tracy R. Edge Rep. Nelson Hardwick and Rep. Thad T. Viers)

Tom Maeser:

- Welcome and Introductions

Nick Kremydas:

- Gave a brief overview of the Property Tax Reform Bill that was passed last year.
- The Issue of Point of Sale: Is it really a good thing to have homes brought up to their full market value for taxation/assessment at the time of sale?

Tom Maeser:

- Provided the audience with the following information on the Property Tax:

2008 Property Tax changes

H. 4449 (Code of Laws-1 sales tax) & H.4450 (Constitution amendment-how tax is collected)

We just experienced “the perfect storm”----

1. Rapid appreciation---Area was undervalued up to 2004-between 2004 & 2005 the country discovered Myrtle Beach and demand exceeded supply---prices increased dramatically—we had rapid appreciation and by 2006 investors found it hard to cash flow properties.

2. Dramatic increase in insurance rates—200% to 1200% in both wind and hail and flood---insurance companies were leaving the area and canceling policies—adding to cash flow problems of the investor.

3.Sub prime fiasco—105% loans, no docs. Required, approving bad credit risks—all led to recent problem with adj. rates increasing and home owners not being able to afford the payments—leading to foreclosures and new home owners are walking away from closing

on new homes because they can get fairly new re sales for much less than their original down payment on the new house.

4.All of this led to recent over supply with lowering demand---buyers waiting to buy until prices go down---we now have a 15 month supply in single family and a 24 month supply in condos.

Approx. 67% of our sales—especially in condos---are to the non perm. resident who are assessed at 6% versus 4% for the perm res.

All of this leads to a pretty good deal for the permanent resident (taxed at 4%) but not so good for the commercial, second home, or rental investor (taxed at 6%).

ATI – Assessable Transfer of Interest-The transfer of an existing real property that subjects the real property to appraisal.

Effective tax year 2007 –it will affect tax bills starting Nov. 2007

15% cap is on valuation—when they are going through their 5 year valuation process. 3% per year for 5 years.

Affects:

New construction---*Assessment position has changed from what was discussed at forum---now assessors office is saying:**

If land and house are sold as a package—they will be taxed at fair market value..

If lot is sold and the owner puts a house on it later, it will be assessed at a re-assessment rate which is based on an appraisal model that is established every five years when re-assessment takes place. The model stays in place for the five year period,

School millage only comes off 4% owner occupied permanent residence. Not commercial or second homes 6%.

Example:

A. Owner Occupied---4%--\$200,000 house

Pre 2007 -- Assessed at \$200,000 x 4%=\$8,000 x .1760 = **\$1408** (.1760 is 46.3 county millage plus 129.7 school millage). **The millage rate for 2008 will be approx. 115.3 mills for school operating and 47.3 mills for the county or .1626 compared to the .1760 for 2007.**

With no 1% sales tax

Now –Sales price \$200,000 x 4%=\$8,000 x .0463=\$370.40 (**No school millage**)—**savings of 1037.60**

Plus the 1% sales tax

B. Commercial/second home 6%

Pre 2007—Assessed at \$200,000 x 6% =\$12,000 x .1760=**\$2,112**

With no sales 1% tax

Sold to new investor—(Assuming property was worth \$200,000 in 2004 and was now worth \$400,000). Sales price \$400,000 x 6%=24,000 x .1760=**\$4,224**

Plus the 1% sales tax

Possible reason to review legislation---

- 1. Windfall tax dollars to the county** from the dollars generated from going from assessed value to sales price---It is being estimated that approx. 30,000 properties will impacted in 2008, or approx. \$5,056,200,000 of volume in Horry County. The estimate is that this could mean an additional \$5,000,000 to as high as \$17,000,000 to the county depending on market and types of property sold.
- 2. Huge disparity of taxes being paid on a like unit by an owner occupied unit (4%) not selling the property, and a non owner occupied (6%) property that was sold and is now at sales price.**

Example from above:

Owner Occupied---4% owner doesn't move. Now pays 1% sales tax.

Assessed 2004 at \$200,000 –at 3% per year house would have been assessed at \$218,545 in 2007.

Under new law taxes for perm res. would be:

$\$218,545 \times 4\% = \$8,742 \times .0463$ (County millage only)=**\$405**

plus 1% sales tax

New Investor Occupied—6%.

Same unit sold to investor in 2007 for \$400,000.

Under new law taxes for investor would be:

$\$400,000 \times 6\% = \$24,000 \times .1760$ (County plus school millage)=**\$4,224**

Plus 1% sales tax

Difference of \$4,224 minus \$405 or \$3,819 to the investor – a 1,043% increase

- 3. School millage is staying on non owner occupied (6%) commercial & second homes---most of these people have no children in the schools---they are not perm. residents and they, and their tenants, are paying the 1% sales tax while the are in Myrtle Beach..**

Latest discussion seems to point to the removal of the ATI which would limit assessment increases to 3% per year with a max. of 15%.

Rep. Allan Clemmons:

- Wanted to discuss “the politics of it all”.
- Discussed the homeowner led revolt on taxes with a goal to protect the homeowner from 100% increases in taxes from year to year.
- Explained that in the House of Representatives they would have taken off all school taxes including capital debt with a 2 penny referendum, and then the state would have to pay for the needs of education. The Senate, however, refused to negotiate on the full package and only went with half. He would like to revisit this issue.
- Explained what happened between last year's tax bill and this year's. Both the school board and the County Council raised taxes on us before the tax relief ever

kicked in! Taxes are less on homes, but are still high because of the county and the school board.

- Rep. Clemmons currently has a state economist looking at the taxes on residential and investment property in all states versus South Carolina. Here are the early numbers Florida and North Carolina, two states that compete with us in investment dollars: Using a \$100,000.00 benchmark, taxes on a \$100,000.00 home are \$2,200 in South Carolina but are \$1,800.00 in Florida and \$8,800 in North Carolina (school taxes are also counted in the North Carolina figure).
- Explained that we are experiencing sticker shock. If we are losing contracts with clients because of taxes, where are people taking their money? This is why he wanted a comparison with other states to take to the State House.
- Tax relief bills that have already been passed are difficult to revisit or reopen, but if the public can demonstrate that there is a problem as well as a solution, we may be able to revisit this.

Rep. Tracy R. Edge:

- Gave the audience his e-mail address so that they may give him the specifics on lost real estate transactions due to the Property Tax Reform (te@scstatehouse.net).
- Rep. Edge was the Vice-Chair of the House Study Committee that produced the House version of this bill. There were some anticipated consequences, but they did not anticipate how severe they would be.
- Explained the #1 problem: He has retired neighbors who live down the street from him who had a \$1,000.00 tax bill that rose to \$2,000.00 and then to \$4,000.00 due to assessments. They live on pensions. If nothing is done and their taxes rise to \$8,000.00, what will they do? People are being taxed out of their existing homes.
- He hopes that they can revisit wiping away all school taxes by way of a 1 penny increase.
- He has also heard complaints from out of state homeowners. Why do they pay school taxes without any children in school? Our state decided that public education is everyone's responsibility.
- Rep. Edge also added that their delegation met with the school board a year ago about the referendum and 1 penny being added. Without the tax increase, the school board got \$14 million in increased revenue from construction.
- Even with this increased revenue due to new property, the County Council still wanted to raise taxes.
- Over a 10 year period the school district saw an increase in spending of 157%, but with the new revenue from construction, why raise taxes?
- Under the penny sales tax, we are better off than under the first 5 pennies because we are a donor county, so we get a higher percentage back from a penny than from the first five pennies.
- There is one more problem: The Assessor's Office and how they assess property.
- He has an ocean front property that is split in two and the two parts are taxed separately, but one is more than the other. There is no rhyme or reason.
- Asked the Assessor's Office to attend a meeting in public with him, but they declined.

Rep. Thad T. Viers:

- Gave the audience a handout that he had used at a conference in Boston.
- There have been issues with homeowners who feel as though they are renting from the government!
- There is also the issue of school millage in poorer rural areas like Dillon. A mill is \$200,000.00 there.
- In Columbia, legislators see how a bill looks on paper but now they are seeing the effects.
- The local school board here is out of control with raising taxes.
- After this bill passed there was a loophole found that protects schools with millage. The loophole is that if schools raise taxes, they can get a little more back.
- The tax raised in our county was 5.5 mills. The schools have raised taxes 8 mills this year and may raise them another 8 mills next year.
- Has suggested that school taxes be raised every two years instead.
- The school board has a reserve fund that they must keep. There is over \$40 million in this fund now!

Rep. Nelson Hardwick:

- He did vote for this bill.
- Explained that most taxes are not fair.
- Is an engineer and studied physics. Explained that Newton had a law that stated that you cannot move one thing without moving something else.
- Mentioned a sales tax grab out of Horry County. We pay in a \$1.00 and we get back forty cents.
- We were the last delegation as a whole to buy into this.
- We are the biggest tax generator per capita in the state. We raise 12% of the taxes in the state.
- What's fair about paying 6% assessment on a second home? It amounts to highway robbery.
- But wants to remind the audience: "When you ask us to change something, maybe you don't want us to."
- This will be hard to fix. We need to get the facts and go about changing this very carefully. One of two things will happen: We can make it better, or we can make it worse.
- The bill is open to interpretation. It is a mess, but he will do everything he can to fix it.

Rep. Allan Clemmons:

- Wanted to bring to the audience's attention a bill filed last year that would have let seniors transfer the tax bill on their current home to a replacement home.
- Does not think that they will be able to reopen the penny sales tax.
- Wants to determine the windfall that the County and School Board get from the Point of Sale Assessment. Then he can show the government that this was an unintended consequence of the bill.

Nick Kremydas:

- Keep in mind that all that has been discussed is not enough. Horry County Council is talking about more impact fees/making impact fees unaccountable.
- Prior to last year's session there were seven or eight forums on taxation.
- Next February, SCAR will be having its annual Capital Conference. Mr. Kremydas encouraged everyone to attend and voice their concerns.

Rep. Thad T. Viers:

- School districts are exempt from the Home Rule Legislation of the 1970's.
- Pointed out that the Tax Assessor needs to be more consumer-friendly and suggested making the position of Tax Assessor an elected one.

(The Forum was then opened up for questions from the audience. The audience was told to go to the website www.schouse.org/reports for more information on this legislation.)