



**WEST VIRGINIA
TAX EXPENDITURE
STUDY**

Business Tax,
Excise Tax,
and Property Tax
Expenditures

January 2015

PROPERTY TAXES

PROPERTY TAX

OVERVIEW

The Property Tax, which was enacted in 1863, is one of the oldest forms of taxation in West Virginia. This tax is administered by county officials and officials of several State government agencies. For the purposes of taxation, property can be divided into two categories: real and personal. Real property is land and anything permanently attached to land and owned by the owner of the land. Personal property is all other objects or rights that can be owned. Personal property can also be categorized as tangible and intangible. Generally, intangible property consists of rights to, or claims against, other property or services. In West Virginia, the Property Tax is levied on all real and personal property, except that which is specifically exempt in the West Virginia Code. Most of the exemptions discussed in this study have been in effect since the Property Tax laws were first enacted.

Less than 0.5 percent of all the Property Taxes collected in West Virginia goes to State government. The other beneficiaries of the Property Tax are county boards of education, county commissions and municipalities. For the fiscal year ending June 30, 2015, \$1.6 billion in Property Taxes was levied by the State, county boards of education, county commissions and municipalities. The following list shows the amount of Property Taxes levied by each levying body for the fiscal year ending June 30, 2015 (Tax Year 2014).

<u>Levying Body</u>	<u>Taxes Levied</u>
State	\$ 6,763,028
County	427,943,271
School Boards	1,060,323,290
Municipalities	<u>114,742,034</u>
Total	\$1,609,771,623

The Property Tax is levied at different tax rates depending on the class of property. The State rate is set in the West Virginia Constitution. Each county and municipality can impose its own rates of property taxation. The West Virginia Legislature sets the rate of tax for county boards of education. This rate is used by all county boards of education Statewide. The following classes of property are used for tax purposes:

- Class I
- a. All tangible personal property used exclusively in agriculture, including horticulture and grazing, and
 - b. all products of agriculture, including livestock, while owned by the producer

- Class II a. All property owned, used and occupied by the owner exclusively for residential purposes, and
 b. all farms including land used for horticulture and grazing, which are occupied and cultivated by their owners or bona fide tenants
- Class III All real and personal property situated outside municipalities, exclusive of Classes I and II
- Class IV All real and personal property situated inside municipalities, exclusive of Classes I and II

Class I property has been exempt from Property Tax since 2008.

The maximum current tax rates shown in the table below for each local taxing authority are given in terms of class of property.

MAXIMUM PROPERTY TAX RATES

Rates in dollars per \$100

Taxing Authority	Class I	Class II	Class III	Class IV
State	\$.0025	\$.0050	\$.0100	\$.0100
County	.1430	.2860	.5720	.5720
School Boards	.2295	.4590	.9180	.9180
Municipalities	<u>.1250</u>	<u>.2500</u>	<u>--</u>	<u>.5000</u>
	\$1.5000	\$1.0000	\$1.5000	\$2.0000

Amendments to the State Constitution provide that these maximum rates can be temporarily exceeded by all the taxing authorities except State government. The voters of each taxing authority must approve any excess levy of tax proposed for their municipality, school board or county by a prescribed majority. The average actual tax rates per \$100 of assessed valuation for the 2014 tax year, expressed in rounded dollars, are shown in the following table.

ACTUAL TAX YEAR 2014 PROPERTY TAX RATES¹

Rates in dollars per \$100 of **assessed** valuation

	<u>Average</u>
Class I	\$.00
Class II	1.19
Class III	2.19
Class IV	2.87

Statewide, the average rate for all property is \$1.91 per \$100 of assessed valuation. Beginning in Tax Year 2008, all Class I property is completely exempt from all property taxes.

ESTIMATING COSTS OF TAX EXPENDITURES

Several sources of information were used to determine the expenditure valuations. These include publications from the United States Census Bureau, the West Virginia Division of Banking, the West Virginia Higher Education Policy Commission, and the West Virginia Public Service Commission. Estimates were calculated using tax levy rates provided by the Chief Inspector Division of the State Auditor's Office and include all regular, special and excess levy rates. The estimates were based on an assumed equalization rate of 60 percent.

ORGANIZATION AND ANALYSIS

Although all property is presumed to be taxable until its owner proves otherwise, there are many possible exemptions from the Property Tax. The exemptions can be divided into seven distinct groups. The following is the list of groups used in this study:

- Government Exemptions
- Educational Exemptions
- Exemptions for Church Property
- Exemptions for Property Owned by Nonprofit Organizations
- Miscellaneous Exemptions
- Property Valuation Preferences
- Homestead Exemption

An analysis provided for each tax expenditure includes a rationale for each item and the item's cost to the State and local governments.

¹ Rates include excess levy rates.

GOVERNMENT EXEMPTIONS

Exemptions from Property Tax are granted to several different government entities. The exemptions included in this section are as follows:

- United States Government Property
- State Government Property
- Local Government Property
- Property Belonging to Another State
- Government Property Subject to Lease Purchase Agreements
- Government-Owned Waterworks and Electrical Power Systems

Rationale

The exemption for property of the United States is required by the federal supremacy clause in the United States Constitution. Since state and local governments are prohibited from levying direct taxes upon the United States government, this exemption is **not** a true tax expenditure.

Unlike the exemption for property belonging to the United States government and its agencies, taxation of State property and local government property used for public purposes is not prohibited by constitutional restrictions. However, if the State imposed a Property Tax on State property and local government property used for public purposes, this would result in increased costs to those entities. An increase in costs to State and local governments would possibly result in an unintended transfer of funds from one government entity to another.

UNITED STATES GOVERNMENT PROPERTY

STATUTE: West Virginia Code §11-3-9(a)(1)

EXEMPTION: Property that belongs to the United States government, other than property permitted by the United States to be taxed under state law

VALUE: **\$6.7 million per year**

Revenue Analysis

All real and personal property belonging to the United States government is exempt from Property Tax in West Virginia. This includes all public corporations and other agencies created by the federal government for national purposes. This exemption does **not** include private corporations hired by the United States government.

STATE GOVERNMENT PROPERTY

STATUTE: West Virginia Code §11-3-9(a)(2)

EXEMPTION: Property that belongs exclusively to the state

VALUE: **\$70.2 million per year**

Revenue Analysis

All real and personal property belonging exclusively to the State of West Virginia is exempt from Property Tax in this State. This estimate does **not** include property belonging to State colleges and universities because such property is included in the exemption for educational institutions presented later in this report.

LOCAL GOVERNMENT PROPERTY

- STATUTE:** West Virginia Code §11-3-9(a)(3)
- EXEMPTION:** Property that belongs exclusively to any county, district, city, village or town in this State and used for public purposes
- VALUE:** **\$75.8 million per year**

Revenue Analysis

This exemption includes property owned by counties and municipalities, including the property of any parks and recreation commissions or county development authorities created by a county commission. Property used for municipal and county waterworks is **not** included in the calculations for this exemption. Also **not** included is property owned by county boards of education, which is included in the exemption for educational institutions discussed later in this section.

PROPERTY BELONGING TO ANOTHER STATE

- STATUTE:** West Virginia Code §11-3-9(a)(4)
- EXEMPTION:** Property located in this state belonging to any city, town, village, county or other political subdivision of any other state when it is used for public purposes
- VALUE:** **Negligible**

Revenue Analysis

Property located in West Virginia that belongs to any municipality, county or other political subdivision of another state is exempt from Property Tax in West Virginia if the property is used for public purposes. The value of this exemption is negligible since there is little property of this type within West Virginia.

GOVERNMENT PROPERTY SUBJECT TO LEASE PURCHASE AGREEMENTS

STATUTE: West Virginia Code §11-3-9(a)(27)

EXEMPTION: All property belonging to the state, any county, district, city, village, town or other political subdivision or any state college or university which is subject to a lease purchase agreement and which provides that, during the term of the lease purchase agreement, title to the leased property rests in the lessee so long as lessee is not in default or shall not have terminated the lease as to the property

VALUE: **Cannot be determined**

**GOVERNMENT-OWNED WATERWORKS
AND ELECTRICAL POWER SYSTEMS**

STATUTE: West Virginia Code §8-19-4

EXEMPTION: Personal and real property of a municipality or a county which was acquired and constructed for the purposes of a waterworks system or electrical power system and any leasehold interest in such systems which are held by other persons

VALUE: **\$41.6 million per year**

Revenue Analysis

Property used for a municipal or county waterworks is exempt from Property Tax in West Virginia. Additionally, the property used for municipal and county electrical power systems is exempt. An exemption for this type of property is justified for tax equity purposes only if the service does not compete with a similar service available from a non-government utility.

EDUCATIONAL EXEMPTIONS

Certain types of property related to education are exempt from Property Tax in West Virginia. These exemptions include the following:

Property Used for Educational Purposes
Property Whose Income Supports Institutions of Higher Education
Dormitories, Literary Halls and Clubrooms

Rationale

These exemptions presumably exist to maximize funding of education since a tax on school property would result in the net transfers of some funds from the schools to the State, county commissions, and municipalities.

PROPERTY USED FOR EDUCATIONAL PURPOSES

STATUTE: West Virginia Code §11-3-9(a)(9)

EXEMPTION: Property belonging to, or held in trust for, colleges, seminaries, academies and free schools when it is used for educational, literary or scientific purposes including books, apparatus, annuities and furniture

VALUE: \$138.9 million per year

Revenue Analysis

This exemption applies to property directly used for education, literary or scientific purposes by colleges, seminaries, and public and private elementary and secondary schools. However, colleges must have approval from the West Virginia Higher Education Policy Commission or the West Virginia Community and Technical College System to grant degrees of higher education to qualify for this exemption. The educational, literary or scientific use of the property must be the primary use of the property.

**PROPERTY WHOSE INCOME SUPPORTS
INSTITUTIONS OF HIGHER EDUCATION**

STATUTE: West Virginia Code §11-3-9(a)(10)

EXEMPTION: Property belonging to, or held in trust for, colleges and universities located in West Virginia, or any public or private nonprofit foundation or corporation which receives contributions exclusively for such college or university, if the property or dividends, interest, rents or royalties derived therefrom are used or devoted to educational purposes of such college or university

VALUE: \$1.1 million per year

Revenue Analysis

To qualify for this exemption, the property must meet several conditions. The property must belong to or be held in trust by a West Virginia college or university or a public or private nonprofit foundation that receives contributions exclusively for an institution of higher education in West Virginia. In addition, the property, or the dividends, interest, rents and royalties derived from the property, must be used for the educational purposes of the college or university. The property must belong exclusively to the college, university or foundation.

DORMITORIES, LITERARY HALLS AND CLUBROOMS

STATUTE: West Virginia Code §11-3-9(a)(15)

EXEMPTION: All real estate, not exceeding one acre in extent, and the buildings on the real estate, used exclusively by any college or university society as a literary hall, or as a dormitory or clubroom, if not used with a view to profit, including, but not limited to, property owned by a fraternity or sorority organization affiliated with a university or college or property owned by a nonprofit housing corporation or similar entity on behalf of a fraternity or sorority organization affiliated with a university or college, when the property is used as residential accommodations, or as a dormitory, for members of the organization

VALUE: \$8.7 million per year

Revenue Analysis

All real estate not exceeding one-half acre and any building on that property used by a college or university organization as a literary hall, dormitory or clubroom is exempt from Property Tax in West Virginia. This includes property used as residential accommodations for sorority or fraternity members and property owned by a nonprofit housing corporation and used as dormitories for students. In order for the property to be exempt, any revenue generated from that property must not exceed the cost of maintaining that property and the reasonable operating costs of the organization.

EXEMPTIONS FOR CHURCH PROPERTY

Several exemptions exist for churches and religious organizations. These include the following:

Property Used Exclusively for Divine Worship
Parsonages
Securities Sold by Churches and Religious Organizations

Rationale

The exemptions for churches were presumably enacted to avoid State interference with church activities.

PROPERTY USED EXCLUSIVELY FOR DIVINE WORSHIP

STATUTE: West Virginia Code §11-3-9(a)(5)
EXEMPTION: Property used exclusively for divine worship
VALUE: \$44.0 million per year

Revenue Analysis

This exemption applies only to property used exclusively for divine worship. Property considered to be used for "divine worship" includes property used for religious services, for educational activities, such as Sunday School or Hebrew School classes, and for meetings and other activities held to further the religious activities of the organization. Property used for divine worship usually qualifies for the exemption for property used for charitable purposes as well.

PARSONAGES

- STATUTE:** West Virginia Code §11-3-9(a)(6)
- EXEMPTION:** Parsonages and the household goods and furniture pertaining thereto
- VALUE:** \$2.5 million per year

Revenue Analysis

Parsonages and the household goods of these residences are exempt from Property Tax in West Virginia. In order for the property to qualify for this exemption, the parsonage must be owned by the trustees of the church and must be used as a home by the pastor, priest, bishop or other similar leader of that church. The household goods excluded from taxation by this exemption are those owned by the church and do not include those goods owned by the pastor or other leader. However, household goods owned by the resident of the parsonage would be exempt under the exemption for all household goods and personal effects.

SECURITIES SOLD BY CHURCHES AND RELIGIOUS ORGANIZATIONS

- STATUTE:** West Virginia Code §11-3-9(a)(7)
- EXEMPTION:** Mortgages, bonds and other debt securities in the hands of bona fide owners and holders hereafter issued and sold by churches and religious societies for the purposes of securing money to be used in the erection of church buildings to be used exclusively for divine worship or for the purpose of paying indebtedness thereon
- VALUE:** \$0 per year

Revenue Analysis

Mortgages, bonds and other types of debt securities sold by churches and religious societies to secure money to be used in the erection of church buildings used exclusively for divine worship are specifically exempt from Property Tax in West Virginia. Although this exemption is church-related, the taxpayers who are exempt from Property Tax in West Virginia on these types of debt instruments are the owners and holders of the securities, not the churches. Beginning in Tax Year

2008, all Class I personal property, including intangible personal property, is completely exempt from all property taxes.

EXEMPTIONS FOR PROPERTY OWNED BY NONPROFIT ORGANIZATIONS

The property of various nonprofit organizations is exempt in West Virginia. The organizations whose property is partially or completely exempt from Property Taxes are as follows:

- Libraries
- Charitable and Benevolent Organizations
- Nonprofit Corporations Distributing Electricity, Water or Natural Gas or Providing Sewer Services
- Public Institutions for the Deaf, Mute and Blind
- Nonprofit Hospitals
- Houses of Refuge, Lunatic or Orphan Asylums, and Homes for Those in Need
- Fire Departments

Rationale

These exemptions generally involve organizations providing socially desirable services, often for low-income individuals. These exemptions exist to promote the social welfare and public service activities of these organizations.

LIBRARIES

STATUTE: West Virginia Code §11-3-9(a)(11)

EXEMPTION: Public and family libraries

VALUE: \$3.7 million per year

Revenue Analysis

Both real and personal property owned by public and family libraries are exempt under this expenditure. Family libraries only qualify for this exemption if the materials kept in the library are available for use by the public. All books, manuscripts, musical scores and other literary, scientific or artistic writings or materials owned by the library are exempt. In addition, personal property, such as desks and audiovisual equipment, necessary for the operation of the library and the building that houses the materials is exempt.

CHARITABLE AND BENEVOLENT ORGANIZATIONS

STATUTE:	West Virginia Code §§11-3-9(a)(12) and 11-3-9(a)(16)
EXEMPTION:	Property used for charitable purposes and not held or leased out for profit (W. Va. Code §11-3-9(a)(12)) All property belonging to benevolent associations not conducted for private profit (W. Va. Code §11-3-9(a)(16))
VALUE:	\$10.5 million per year

Revenue Analysis

Charities are eligible for an exemption from Property Tax in West Virginia under certain conditions. The charity must be operated on a nonprofit basis, must directly benefit society and must be exempt from federal income tax as a 501(c)(3) or (4) organization. In addition, the primary and immediate use of the property must be for one or more charitable purposes in order for the property to be exempt.

Some property belonging to a fraternal, benevolent or relief society or association is exempt from the Property Tax in West Virginia. In order for the property to be exempt, it must be used primarily for charitable purposes. Lodges, meeting halls, clubhouses, and other buildings, which are used mainly for social purposes for the enjoyment of the members, are not exempt.

NONPROFIT CORPORATIONS DISTRIBUTING ELECTRICITY, WATER OR NATURAL GAS OR PROVIDING SEWER SERVICES

STATUTE:	West Virginia Code §11-3-9(a)(13)
EXEMPTION:	Property used for public purposes of distributing electricity, water or natural gas or providing sewer services by a duly chartered nonprofit corporation when such property is not held, leased or used for profit
VALUE:	\$40.5 million per year

Revenue Analysis

Property held by a duly chartered nonprofit corporation that distributes electricity, water or natural gas or provides sewer services for public purposes is exempt. To qualify for this exemption the property must not be used for profit.

PUBLIC INSTITUTIONS FOR THE DEAF, MUTE AND BLIND

STATUTE: West Virginia Code §11-3-9(a)(17)

EXEMPTION: Property belonging to any public institution for the education of the deaf, mute or blind

VALUE: **Minimal**

Revenue Analysis

This exemption applies to any public institution for the education of the deaf, mute and blind. Since there are very few of these types of institutions in West Virginia, the value of this exemption is minimal if considered in isolation from other exemptions. However, repeal of this exemption would not affect Property Tax revenue since these types of institutions would qualify for another exemption, such as that for charitable purposes.

NONPROFIT HOSPITALS

STATUTE: West Virginia Code §11-3-9(a)(17)

EXEMPTION: Property belonging to any hospital not held or leased out for profit

VALUE: **Cannot be determined**

Revenue Analysis

Nonprofit hospitals qualify for an exemption only if the primary and immediate use of the property is for charitable purposes. Any health care organization or hospital operated for the private gain of physicians, officers or members of the board of the institutions does not qualify for this exemption.

**HOUSES OF REFUGE, MENTAL HEALTH FACILITIES, ORPHANAGES
AND HOMES FOR THOSE IN NEED**

STATUTE:	West Virginia Code §§11-3-9(a)(18) and 11-3-9(a)(19)
EXEMPTION:	House of refuge and mental health facility or orphanage (W.Va. Code §11-3-9(a)(18)) Homes for children or for the aged, friendless or infirm not conducted for private profit (W. Va. Code §11-3-9(a)(19))
VALUE:	Minimal

Revenue Analysis

The following types of property are specifically exempted from West Virginia Property Tax:

1. houses of refuge, such as a community shelter for battered women;
2. mental health facilities;
3. orphanages;
4. homes for children, and
5. homes for the aged, the friendless or the infirm.

To qualify for an exemption from Property Tax, the property must be used for charitable purposes. A home for the aged, friendless, or infirm or for children does not qualify if, to gain admittance to the home, a person must deposit a substantial amount of money that could be equated as prepayment of rent. Homes also do not qualify if they require an application fee, damage deposit, or room charge unless the charge is substantially less than market value.

Although there is a specific exemption for these homes and shelters, the institutions would qualify for an exemption either as a charitable organization, an educational institution, or a government entity. Therefore, repeal of this exemption would have no impact on Property Tax revenue.

FIRE DEPARTMENTS

STATUTE: West Virginia Code §11-3-9(a)(20)

EXEMPTION: Fire engines and implements for extinguishing fires, and property used exclusively for the safekeeping thereof, and for the meeting of fire companies

VALUE: **\$5.7 million per year**

Revenue Analysis

All fire engines, equipment used to extinguish fires and all other equipment used by firefighters and the building and land used by the fire department to store those items are exempt from Property Tax in West Virginia. Since fire equipment owned by State, county and municipal fire departments is exempt under the exemption for State and local governments, the value of that equipment was not included in the calculations of the value of this exemption. The exemption value is based **only** on the value of equipment and real property owned by volunteer fire departments.

MISCELLANEOUS EXEMPTIONS

The West Virginia Code provides for several miscellaneous exemptions that cannot be classified in the above-listed groups. The following is a list of the exemptions not previously discussed:

- Property Used for Area Economic Development Purposes
- Inventory Property Stored While in Transit
- Cemeteries
- Property Used in the Subsistence of Livestock
- Household Goods and Personal Effects
- Bank Deposits and Money
- Farm Equipment, Crops and Livestock
- Capital Stock
- Class I Intangible Property
- Property Acquired by Land Reuse Agencies

An analysis of these exemptions follows.

PROPERTY USED FOR AREA ECONOMIC DEVELOPMENT PURPOSES

STATUTE: West Virginia Code §11-3-9(14), Legislative Regulation 11-3-20.1

EXEMPTION: Property used for area economic development purposes by nonprofit corporations when such property is not leased for profit whose purpose is to develop special programs to improve the quality of social participation in community life, contribute to the elimination of poverty and establish permanent economic and social benefits in urban or rural low-income areas

VALUE: **Cannot be determined**

Rationale

This exemption presumably exists to encourage economic development in the State. The exemption applies to property owned by community development corporations or property used by certain nonprofit corporations.

INVENTORY PROPERTY STORED WHILE IN TRANSIT

- STATUTE:** West Virginia Code §11-5-13
- EXEMPTION:** Tangible personal property which is moving in interstate commerce through West Virginia, or which was consigned from a point of origin outside the state to a warehouse, public or private, within the state for storage in transit to a final destination outside the state
- VALUE:** \$13.2 million per year

Rationale

This exemption, also known as the "Freeport Exemption," was approved by the voters in a Constitutional Amendment to encourage the development and maintenance of goods distribution centers in the State.

CEMETERIES

- STATUTE:** West Virginia Code §11-3-9(a)(8)
- EXEMPTION:** Cemeteries, except for certain personal property of commercial cemeteries, including any sites of unmarked graves which have been certified as such by the Division of Culture and History
- VALUE:** \$1.9 million per year

Rationale

This exemption relates specifically to burial plots at cemeteries and unmarked graves certified by the Division of Culture and History. This exemption presumably exists because of the use of the property as a burial site. Such property cannot readily be used for other purposes.

For purposes of this exemption, property classified as cemetery property includes property where remains are buried or interred, tombstones, and access roads to service the property. Family-owned cemeteries are exempt only if the immediate use of the entire parcel of land is as a cemetery. Property owned by a cemetery company, such as office furniture, office buildings and chapels, is **not** exempt from Property Tax.

Revenue Analysis

An accurate estimate of the value of this exemption could not be made since the property actually belongs to the individuals who own the burial lots, not the cemetery companies who operate the cemeteries.

PROPERTY USED IN THE SUBSISTENCE OF LIVESTOCK

STATUTE: West Virginia Code §11-3-9(a)(21)

EXEMPTION: All property to be used in the subsistence of livestock on hand at the commencement of the assessment year

VALUE: **\$640,000 per year**

Rationale

This exemption aids farmers by exempting all feed and other items intended to be used to feed livestock owned or kept by the farmer. This exemption is for the personal property a farmer uses in the subsistence of livestock the farmer owns.

Revenue Analysis

All Class I property is completely exempt from property taxes. Even if this exemption was eliminated, property to be used in the subsistence of livestock would be exempt under the constitutional amendment that excluded Class I property from Property Tax.

HOUSEHOLD GOODS AND PERSONAL EFFECTS

STATUTE:	West Virginia Code §§11-3-9(a)(22), 11-3-9(a)(24), 11-3-9(a)(25) and 11-3-9(a)(26).
EXEMPTION:	Household goods to the value of two hundred dollars, whether or not held or used for profit (W. Va. Code §11-3-9(a)(22)) Household goods, which for purposes of this section means only personal property and household goods commonly found within the house and items used to care for the house and its surrounding property, when not held or used for profit (W. Va. Code §11-3-9(a)(24)) Personal effects, which for purposes of this section means only articles and items of personal property commonly worn on or about the human body or carried by a person and normally thought to be associated with the person when not held or used for profit (W. Va. Code §11-3-9(a)(25)) Dead victuals laid away for family use (W. Va. Code §11-3-9(a)(26))
VALUE:	Cannot be determined

Rationale

This exemption benefits taxpayers by exempting their household goods and personal effects. These items were exempted to limit invasion of privacy. Also, there would be administrative and compliance difficulties associated with the collection of Property Tax on these items.

BANK DEPOSITS AND MONEY

STATUTE:	West Virginia Code §11-3-9(a)(23)
EXEMPTION:	Bank deposits and money
VALUE:	\$136.3 million per year

Rationale

This exemption presumably exists in recognition of the difficulty in administering a tax on intangible assets. However, the exemption was limited to bank deposits and money.

Revenue Analysis

All Class I property is completely exempt from property taxes. Even if this exemption was eliminated, bank deposits and money would still be exempt under the constitutional amendment that excluded intangibles from Property Tax.

FARM EQUIPMENT, CROPS AND LIVESTOCK

STATUTE: West Virginia Code §11-3-9(a)(28)

EXEMPTION: All implements, equipment, machinery, vehicles, supplies, crops and livestock used to engage in commercial farming

VALUE: **\$1.1 million per year**

Rationale

This exemption exists for items that are specifically used in commercial farming.

CAPITAL STOCK

STATUTE: West Virginia Code §11-5-6

EXEMPTION: Shares in companies whose stock is assessed

VALUE: **Cannot be determined**

Rationale

This exemption exists to avoid double taxation since the exemption only applies to shares in companies that have already been assessed Property Tax on their assets. This exemption only applies to shares owned by taxpayers in West Virginia.

CLASS I INTANGIBLE PROPERTY

STATUTE: West Virginia Code §11-1C-1b

EXEMPTION: Intangible personal property with tax situs in this state shall be exempt from ad valorem property tax beginning tax year one thousand nine hundred ninety-eight: Provided, That such property shall be subject to ad valorem property tax and taxed at fifty percent of assessed value for tax year one thousand nine hundred ninety-eight; at forty percent of assessed value for the tax year one thousand nine hundred ninety-nine; at thirty percent of assessed value for the tax year two thousand; at twenty percent of assessed value for the tax year two thousand one; at ten percent of assessed value for the tax year two thousand two and eliminated completely for the tax year two thousand three and thereafter

VALUE: Cannot be determined

Rationale

This exemption was approved by the voters in a Constitutional Amendment and presumably exists in recognition of the difficulty in administering a tax on intangible assets. All Class I property, including intangible personal property, is completely exempt from property taxes.

PROPERTY ACQUIRED BY LAND REUSE AGENCIES

STATUTE: West Virginia Code §31-18E-9

EXEMPTION: The real property of a land reuse agency and its income and operations are exempt from property tax. Provided, that this exemption does not apply to real property of a land reuse agency after the fifth consecutive year in which the real property is continuously leased to a private third party. A land reuse agency may acquire real property or interests in real property by any means on terms and conditions and in a manner the land reuse agency considers proper. Provided, that a land reuse agency may not acquire any interest in oil, gas or minerals which have been severed from the realty

VALUE: **Cannot be determined**

Rationale

Land reuse agencies, often called land banks in other jurisdictions, are one of the tools that municipalities and counties may use to facilitate the return of vacant, abandoned and tax-delinquent properties to productive use. These vacant, abandoned and tax-delinquent properties impose significant costs on neighborhoods, communities, municipalities, and counties by lowering property values, increasing fire and police protection costs, decreasing tax revenues and undermining community cohesion. Real property acquired by a land reuse agency may be used for purely public spaces and places, affordable housing, conservation areas, and retail, commercial, and industrial activities. Therefore, the real property of a land reuse agency and its income and operations are exempt from property tax.

PROPERTY VALUATION PREFERENCES

The West Virginia Code provides special valuation procedures for certain types of property. In the determination of tax appraisals, these valuation procedures generally place a greater weight upon actual economic use rather than market valuation based on the highest and best use of the property. The following types of property are subject to special valuation procedures which result in a partial exclusion from taxation:

- Farm Real Estate Property
- Managed Timberland
- Qualified Continuing Care Retirement Communities
- Pollution Control Facilities
- Specialized Manufacturing Production Property
- Qualified Capital Additions to Manufacturing Facilities
- Special Aircraft Property
- High Technology Business Property
- Owner-Occupied Residential Property

An analysis of these preferences follows.

FARM REAL ESTATE PROPERTY

STATUTE: West Virginia Code §11-1A-10

PREFERENCE: With respect to farm property, the tax commissioner shall appraise such property so as to ascertain its fair and reasonable value for farming purposes regardless of what the value of the property would be if used for some other purpose, and the value shall be arrived at by giving consideration to the fair and reasonable income which the property might be expected to earn in the locality wherein situated, if rented

VALUE: \$14.6 million per year

Rationale

This preference presumably exists to encourage the preservation of farming activities within the State. If such property is actually used for viable farming activity, then the preference exists to discourage the conversion of such property over to alternative uses. This preference applies to real property designated for farm use.

Rationale

This preferential treatment presumably exists to benefit retirement communities providing housing and health care to West Virginia citizens who are no longer able to live in their own homes, which are classified as Class II property. The tax rate is equivalent to the tax rate imposed upon citizens who own their own homes.

Revenue Analysis

The preferential treatment is only for retirement communities that are exempt from federal income taxes and that received no Medicaid funding.

POLLUTION CONTROL FACILITIES

STATUTE: West Virginia Code §11-6A-3

PREFERENCE: The value of a pollution control facility first placed into operation subsequent to July 1, 1973, shall ... be deemed to be its salvage value

VALUE: **\$72.8 million per year**

Rationale

This preferential treatment recognizes the limited economic benefits associated with pollution control facilities. Pollution control facilities are appraised at 5 percent of original cost.

SPECIALIZED MANUFACTURING PRODUCTION PROPERTY

STATUTE: West Virginia Code §11-6E-3

PREFERENCE: The value of specialized manufacturing production property shall ... be its salvage value

VALUE: **\$1.3 million per year**

MANAGED TIMBERLAND

- STATUTE:** West Virginia Code §11-1C-11b(a)
- PREFERENCE:** Property certified by the Division of Forestry as managed timberland shall be valued based upon the land's potential to produce future income according to its use and productive potential as managed timberland
- VALUE:** **\$8.3 million per year**

Rationale

This preferential valuation treatment was approved by the voters in a constitutional amendment to encourage the development and maintenance of managed timberland in the State. The preference arose out of concern that excessive property taxation encourages the clear-cutting of forest land. Managed timberland is defined by legislative regulation to include surface real property of at least ten contiguous acres which is devoted to forest use, has sufficient numbers of commercially valuable trees and is managed pursuant to a State-approved plan.

QUALIFIED CONTINUING CARE RETIREMENT COMMUNITIES

- STATUTE:** West Virginia Code §11-4-3
- PREFERENCE:** Property belonging to qualified continuing care retirement communities, which are defined as being
- a. owned by a corporation or other organization exempt from federal income taxes under the Internal Revenue Code;
 - b. used in a manner consistent with the purpose of providing housing and health care for residents, and
 - c. receiving no Medicaid funding under the provisions of W. Va. Code §9-4
- is included under the provisions of the "Tax Limitations Amendment".
- VALUE:** **\$310,000 per year**

Rationale

Specialized manufacturing production property includes molds, jigs, dies, forms, patterns and templates directly used in manufacturing. This preferential treatment recognizes the limited uses or useful life of this type of property. Such property is appraised at 5 percent of original cost.

QUALIFIED CAPITAL ADDITIONS TO MANUFACTURING FACILITIES

STATUTE: West Virginia Code §11-6F-3

PREFERENCE: The value of a certified capital addition which exceeds \$50 million added to an existing manufacturing facility with an original cost valuation of \$100 million or more first placed into operation for tax years beginning on or after July 1, 1997, shall be ... deemed to be appraised at five percent of its original cost. Beginning on and after July 1, 2011, when the new capital addition is a facility that is or will be classified under the North American Industry Classification System with a six digit code number 211112, or is a manufacturing facility that uses product produced at a facility with code number 211112, then wherever the term "100 million" is used in this subsection, the term "20 million" shall be substituted and where the term "50 million" is used, the term "10 million" shall be substituted. For capital additions certified on or after July 1, 2011, the value of the land before any improvements shall be subtracted from the value of the capital addition and the unimproved land value shall not be given salvage value treatment

VALUE: \$24.5 million per year

Rationale

This preferential treatment presumably exists to encourage manufacturing companies with huge existing facilities within the State to undertake major expansions within the State. The new qualifying investment would be appraised at 5 percent of original cost.

Revenue Analysis

The parameters for this preference were changed during the 2011 Legislative Session to reduce the amount of new and existing valuations for certain manufacturers and to add the stipulation that the value of the land before any improvements shall be subtracted from the value of the capital addition and unimproved land value shall not be given salvage value treatment. Previously, there was

no subtraction for the value of land. The cost of the preference under the previous parameters was \$10 million per year.

SPECIAL AIRCRAFT PROPERTY

STATUTE: West Virginia Code §11-6H-3

PREFERENCE: The value of special aircraft property, for the purpose of ad valorem property taxation under this chapter and under article X of the Constitution of the State of West Virginia, shall be its salvage value

VALUE: \$1.4 million per year

Rationale

This preferential treatment presumably exists to benefit commercial airlines, charter carriers, and private carriers by more closely mimicking the tax policy in place in surrounding states with regard to such mobile property.

HIGH TECHNOLOGY BUSINESS PROPERTY

STATUTE: West Virginia Code §11-6J-3

PREFERENCE: The value of servers directly used in a high-technology business or in an internet advertising business and the value of tangible personal property directly used in a high-technology business or in an internet advertising business, for purpose of ad valorem property taxation under this chapter and under Article X of the Constitution of the State of West Virginia, shall be its salvage value

VALUE: \$170,000 per year

Rationale

This preferential treatment presumably exists to benefit high-technology and internet advertising businesses.

OWNER-OCCUPIED RESIDENTIAL PROPERTY

STATUTE: West Virginia Code §§1-8-5; 11-8-6

PREFERENCE: Class II is all property owned, used and occupied by the owner exclusively for residential purposes, and the aggregate of taxes assessed in any one year by all levying bodies ... shall not exceed fifty cents on each one hundred dollars' assessed valuation on Class I property; one dollar on Class II property; one dollar fifty cents on Class III property; and two dollars on Class IV property

VALUE: \$392.9 million per year

Rationale

This preferential treatment presumably exists to benefit homeowners in West Virginia by allowing residential property to be taxed at 50 percent of the rate of other real and personal property.

Revenue Analysis

If this preferential treatment was eliminated, the cost for the Homestead Exemption would rise.

HOMESTEAD EXEMPTION

This program provides for a \$20,000 exemption against the total assessed value of single-family dwellings, including mobile or manufactured homes, owned and occupied as a residence by any person who is at least sixty-five years old or totally and permanently disabled and has legally resided in and paid taxes on a homestead in this State for two consecutive taxable years before filing for this exemption. In general, this represents an exclusion of the first \$33,333 of the appraised residential property value. However, the exclusion can exceed \$33,333 in cases of additional tax preferential treatment.

STATUTE: West Virginia Code §11-6B-3

EXEMPTION: An exemption ... shall be allowed for the first twenty thousand dollars of assessed value of a homestead that is used and occupied by the owner thereof exclusively for residential purposes when such owner is sixty-five years of age or older or is certified as being permanently and totally disabled

VALUE: \$48.3 million per year

Rationale

This exemption provides a measure of tax relief for some elderly and permanently and totally disabled taxpayers in addition to the 50 percent tax preference for all owner-occupied residential property. The exemption applies to these taxpayers regardless of income level or ability to pay.

