

PIPER | SANDLER

22 JANUARY 2025

SUBJECT: HB 581 – FLOATING HOMESTEAD EXEMPTION AND FLOST

Background

During the final week of the 2024 legislative session, four separate bills were consolidated: House Bill 581 (HB 581). This comprehensive legislation introduces significant changes to property taxes and local sales tax options aimed at reducing the reliance on property taxes by shifting some of the tax burden to sales taxes. Specifically, HB 581:

1. Establishes a floating homestead exemption for property taxes tied to inflation.
2. Creates a new Floating Local Option Sales Tax (FLOST), a 1% sales tax that functions similarly to a LOST (Local Option Sales Tax) but replaces property tax revenue with sales tax revenue.
3. Simplifies the process for calculating and adopting property tax millage rates and rollback millage rates.

HB 581 required approval through a statewide Constitutional Amendment, which was on the ballot in November 2024. The amendment passed with 63% of the vote (3,087,240 votes in favor and 1,818,724 votes against).

The legislation allows local governments to opt out of the new homestead exemption between January 1, 2025, and March 1, 2025. If a government takes no action, it is automatically included in the exemption. After March 1, decisions to opt in or out are permanent—local governments that do not opt out will retain the exemption indefinitely, while those that opt out will be permanently excluded.

How Does the New Homestead Exemption Work?

The new floating homestead exemption ties the assessed value of a property to the annual Consumer Price Index (CPI) rate, limiting the increase in taxable value to the rate of inflation. Here's an example:

A house valued at \$250,000 in Georgia is assessed at 40% of its market value for property tax purposes. This means the assessed value of the house is \$100,000 ($\$250,000 \times 40\%$). Under HB 581, the base year for the homestead exemption is set as the assessed value in 2024.

If, in 2025, the tax assessor determines the house's fair market value has increased by 10%, the new market value would be \$275,000 ($\$250,000 + \$25,000$). At 40%, the assessed value would rise to \$110,000 ($\$275,000 \times 40\%$).

However, under HB 581, the increase in assessed value is limited to the annual inflation rate. Assuming inflation in 2025 is 3%, the allowable increase would be \$7,500 ($\$250,000 \times 3\%$), resulting in a new market appraised value of \$257,500. At 40%, this gives a new assessed value of \$103,000 ($\$257,500 \times 40\%$).

The \$7,000 difference between the \$110,000 assessed value and the inflation-adjusted \$103,000 would be added to the homestead exemption. This means the homeowner would be exempt from property taxes on the \$7,000, resulting in a savings and further reducing their tax liability due to the City.

This formula is applied annually, increasing the homestead exemption amount year over year. When a property is sold, the homestead exemption resets, and the new owner begins the process again based on the updated assessed value.

While this exemption benefits homeowners, it reduces the growth of the tax digest from residential properties, shifting the tax burden to other property classes, such as commercial, industrial, and multi-family properties.

How Does the FLOST Work?

Each of Georgia's 159 counties is eligible to implement a new 1% sales tax, known as the Floating Local Option Sales Tax (FLOST), to offset property taxes. However, this option is contingent on the county and all its municipalities choosing not to opt out of the new floating homestead exemption. The FLOST is exclusively available to cities and counties and does not apply to schools.

Unlike other sales taxes that require the full 1% rate, the FLOST can be levied in increments as small as 0.05%. The revenue generated from the tax is shared between the county and its cities based on population distribution.

FLOST does not generate new revenue; rather, it replaces property tax revenue in the same way as the Local Option Sales Tax (LOST). FLOST functions as an alternative to property taxes, shifting the revenue source from property owners to a broader base through sales taxes.

FLOST differs from LOST in several key ways. While LOST operates on a 10-year cycle with renegotiations between the county and its cities, FLOST is limited to a 5-year term. To renew FLOST after the initial term, the following process is required:

1. A new local act must be approved by the county's legislative delegation, passed by the General Assembly, and signed by the Governor.
2. A new intergovernmental agreement (IGA) must be executed between the county and all its cities.
3. The renewal must be approved by voters in a referendum.

If the FLOST renewal fails, the City will lose a critical source of revenue. Since FLOST is designed to replace property taxes, the City will need to increase its millage rate to make up for the loss, placing the burden back on property owners.

Current Homestead Exemptions in the City

The City currently provided the following homestead exemptions:

\$10,000 for any homestead eligible property.

Should the City Opt Out?

Jonesboro's 2023 gross tax digest was \$193.5 million. Residential property was 2,324 parcels totaling \$67.5 million or 35%. (That is very low concentration.) The value of all homestead property is hard to determine. I believe the City's homestead property is \$30.75 million from the Tax Digest. If in 2025, the tax assessor raised the values by 8%, the homestead property would be worth \$33.21 million. If inflation is 3%, the new Floating Homestead Exemption would only allow the City to tax at \$31.673 million (\$30.75 million x 3%). So the homestead exemption would increase by the difference between \$33.21 million and the amount tied to inflation of \$31.673 million or \$1.537 million. That increase exemption times your millage rate of 8.5 mills would total \$8,454.

Conclusion

In my opinion, the cost to the City is not so great that it would be prohibitive and the City does not have to opt out. Furthermore, it is an opportunity cost and not money out of the city's coffers that it has now. Lastly, there is no cap on the City's millage rate in its charter (like a School Board limited to 20 mills or some cities with a millage rate cap) and the city has the option to raise its millage rate if it needs to.

Lastly, if the City does opt out, it will forfeit for itself and all the other cities and Clayton County the ability to vote a FLOST.

Other considerations:

1. Some think that HB 581 takes away local control over levying and collecting property taxes and violates the Ga Constitution Home Rule provisions. HB 581 mandates that once in, you can never get out. Once opted out, you can never get back in.