

# PIPER | SANDLER

## 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 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 Charter currently provides the following homestead exemptions:

1. **General Homestead Exemption:** An exemption of \$10,000 of the assessed value of the homestead from City of Stonecrest ad valorem taxes for municipal purposes.
2. **Senior Citizens and Disabled Residents Exemption:** An exemption of \$14,000 of the assessed value of the homestead for residents who are senior citizens or disabled.
3. **Unremarried Surviving Spouse of Armed Forces Member Exemption:** An exemption for the unremarried surviving spouse of a member of the armed forces killed in action, equal to the greater of \$32,500 or the maximum amount allowed under federal law.
4. **One Mill Equivalent Exemption:** An exemption providing the dollar equivalent of a one-mill reduction in the millage rate for the taxable year.

### **Should the City Opt Out?**

Stonecrest's 2023 Tax Gross tax digest was \$3.2 billion. The residential component was \$1.85 billion. That represents 58%. That is very high. The homestead property is \$1.1 million. 60% of residences in Stonecrest have a homestead exemption.

If the DeKalb Tax Assessor revalued homestead property this year at 10%, the homestead property (40% value) would go up by \$110 million or \$1.210 billion. If inflation is 3%, the \$1.1 billion would be allowed to go up by \$33 million. That would be \$1.133 billion. Subtracting the two would be a new homestead exemption of \$77 million. Stonecrest already gives a homestead exemption of 1 mill. The millage rate is 1.257 mills. So the 0.257 mills times the new homestead exemption of \$77 million would be lost revenue of approx \$20,000.

This number would increase each year if the tax assessor raises property higher than inflation and if you ever raise your millage rate for other city services.

Opting out would disqualify the City and DeKalb County from implementing a FLOST. But any City opting out will disqualify the FLOST.

### **Conclusion**

The City provides very generous Homestead Exemptions already. The property tax break for homeowners of the equivalent of 1 mill is something I have never seen and is very generous.

HB 581 floating homestead exemption, once opted in, does not allow a local government to ever opt out. Georgia's Constitution provides for Home Rule so that local governments, where city, county or schools, can control their own destiny and make decisions that are right for them. By staying opted in, the City of Stonecrest is giving up that local control. For this reason and other reasons stated, opting out, is my recommendation.