

**CERTIFICATION OF ADMINISTRATIVE RULES
FILED WITH THE LEGISLATIVE SERVICES AGENCY
OTHNI LATHRAM, DIRECTOR**

(Pursuant to Code of Alabama 1975, §41-22-6, as amended).

I certify that the attached is/are correct copy/copies of rule/s as promulgated and adopted on Wednesday, August 21, 2024, and filed with the agency secretary on Wednesday, August 21, 2024.

AGENCY NAME: Alabama Department of Revenue

INTENDED ACTION: New

RULE NO.: 810-4-1-.28

(If amended rule, give specific paragraph, subparagraphs, etc., being amended)

RULE TITLE: Uniform Procedures for the Limitation on Assessed Value Increases for Class II and Class III Real Property

ACTION TAKEN: State whether the rule was adopted with or without changes from the proposal due to written or oral comments:

Adopted with changes

NOTICE OF INTENDED ACTION PUBLISHED IN VOLUME XLII, ISSUE NO. 9, AAM, DATED FRIDAY, JUNE 28, 2024.

STATUTORY RULEMAKING AUTHORITY:

§40-2A-7(a)(5); Chapter 99, Title 11; Article 1 Ch. 7, Title 40; §40-8-1; §40-5-34; 40-7-23; 40-7-32; §40-7-25; Code of Ala. 1975; Act 2024-344

REC'D & FILED
(Date Filed)
(For IRS Use Only)
AUG 21, 2024
LEGISLATIVE SVC AGENCY

Vernon Barnett

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Certifying Officer or his or her Deputy

APA-3

(NOTE: In accordance with §41-22-6(b), as amended, a proposed rule is required to be certified within 90 days after completion of the notice.)

810-4-1-.28

Uniform Procedures for the Limitation on
Assessed Value Increases for Class II and Class
III Real Property.

1. PURPOSE

- a. This rule establishes the procedures and guidelines for counties to limit increases in the assessed values of certain Class II and Class III real property, for ad valorem tax purposes, in compliance with Act 2024-344.
- b. The application of this limitation or "cap" is a new step added to the annual property tax administration process. The cap will be considered each year after the work of appraisal has been completed. For this reason,
 1. All property shall continue to be appraised at its fair market value or current use value following the laws, procedures, directives, guidance, and oversight of the Alabama Department of Revenue (ALDOR).
 2. Ratio studies, land studies, index studies, and directives will continue to be used.

2. DEFINITIONS - The following terms shall have the respective meanings set forth below:

- a. CAMA System - The Computer Assisted Mass Appraisal system used by a county.
- b. Cap - A limit on the percentage increase in taxable assessed value of a parcel of Class II or Class III real property from one year to the next, not to exceed seven percent. The cap only applies to increases in assessed values and does not set a limit on decreases in assessed values. The cap does not impact the calculation of state or local fees (fire, timber, garbage, etc.) or other similar assessments that are determined independently of a parcel's assessed value. The cap does not apply to the calculation of the assessed value of business personal property.
- c. Family Member - Includes a child, sibling, parent, grandparent, or grandchild. It also includes stepparents, stepchildren, stepsiblings, and adoptive relationships. This term also includes a spouse unless

the law makes a separate, specific reference to that individual.

- d. Ordinary Maintenance - Routine updates and maintenance to existing structures, including the refurbishment or replacement of components to meet current market expectations. This term would include activities such as painting, changing flooring, repairing or replacing roofs, replacing fixtures, replacing or upgrading existing HVAC, electrical, plumbing, or other similar systems, etc. This term would exclude significant improvements to an existing structure.
- e. Significant Improvement - An enhancement to a property that exhibits fundamental changes, encompassing multiple alterations that increases its market value and was not included in its appraised value for the preceding tax year. Significant improvements can include, but are not limited to:
 1. *Structural Additions*: Adding new rooms, garages, or other major expansions to an existing improvement in which significant finish or structural modifications have been made that enhance utility and attractiveness, involving complete replacement or expansion.
 2. *Extensive Remodeling or Renovation*: Major updates to existing rooms, such as kitchens or bathrooms, or comprehensive renovations of entire floors or sections of the property. Alterations may include replacing major components, relocating plumbing fixtures and appliances, and making structural alterations (e.g., moving walls or adding square footage). This includes any structures that have undergone a complete gut rehab.
 3. *Installation of New Systems*: Installation of HVAC systems, electrical systems, plumbing systems, or any other major infrastructure.
 4. *Repair of Damaged/Destroyed Improvements*: Making significant structural repairs to an existing improvement which was damaged or destroyed, regardless of whether the damage or destruction was done intentionally or was the result of natural disaster or manmade causes. However, repairs to remediate damage that return the improvement to its

previous state shall not be considered a significant improvement.

5. *Other Improvements*: Any other enhancements that substantially alter the structure or functionality of the ~~property~~parcel, such as constructing outbuildings, pools, or other similar projects.
- f. Tax Increment District - A contiguous geographic area within the boundaries of a public entity defined and created by a resolution of a local government body pursuant to Chapter 99 of Title 11, Code of Ala. 1975.
- g. Taxable Assessed Value - the assessed value of a parcel (before the application of any exemptions) which will be used to compute taxes for a given year. This will either be the property's true assessed value or its assessed value after the application of the cap, whichever is lower. This value would include the application of any errors, supplements, credits, etc.
- h. True Assessed Value - The assessed value of a parcel which is determined by multiplying fair market value ~~(including a value set by a county's Board of Equalization)~~ or current use value by the appropriate assessment rate for the class of property pursuant to §40-8-1, Code of Ala. 1975. This value would include the application of any errors, supplements, credits, etc. This value would also include an assessed value computed from the market value set by a county's Board of Equalization.

3. PROCEDURE

- a. As required by Article 1, Chapter 7 of Title 40, Code of Ala. 1975, the tax assessing official of each county will appraise the fair and reasonable market value of or grant current use value on all property within the official's county on an annual basis.
- b. During the appraisal and assessment period, each parcel of Class II and Class III real property must be evaluated to determine whether the parcel will be subject to the cap on assessed value, or whether the parcel will be excluded from the cap. When the assessing office discovers information that would exclude a parcel

from the cap, this information should be flagged and noted in the county's CAMA system.

- c. Certain events necessitate the removal of the cap, resulting in the parcel being assessed based on its true assessed value. If a parcel of Class II or Class III real property meets at least one of the criteria listed below, the entire parcel (including all improvements located on the parcel) is excluded from the cap:
 1. The property is located in a tax increment district pursuant to Chapter 99 of Title 11, Code of Ala. 1975.
 2. The property's classification pursuant to §40-8-1, Code of Ala. 1975 changed.
 3. The property changed ownership. This condition would not be met if the change in ownership is between spouses or family members for no or nominal consideration or because of the original owner's death. This condition would not be met if the change in ownership is due to redemption after foreclosure of a mortgage, tax sale, or tax lien.
 4. ~~One or more items of Class II or Class III real property on the parcel have~~Class II or Class III real property that has never been assessed. This would include escapes, pursuant to §40-7-23, Code of Ala. 1975, and a newly added improvement of any type to the parcel, such as a single-family home, canopy, or swimming pool that has never been assessed.
 5. ~~A new improvement~~An addition has been added to the parcel or a significant improvement has been made to the property. Ordinary maintenance to existing improvements on the parcel or its grounds do not meet this condition.
- d. For all parcels, the assessing office will compute the current year's true assessed value prior to the application of any exemptions by multiplying the property's fair market value or current use value by the appropriate assessment rate pursuant to §40-8-1, Code of Ala. 1975.
- e. If a parcel is excluded from the cap, then the county will use the parcel's current true assessed value as its

taxable assessed value for the current tax year (prior to the application of any exemptions).

- f. If the parcel is subject to the cap, the true assessed value of the entire parcel for the current year must be compared to the taxable assessed value of the entire parcel from the previous tax year.

To determine the percentage change from one year to the next, subtract the ~~current year's true assessed value from the previous year's taxable~~ previous year's taxable assessed value from the current year's true assessed value, then divide that number by the previous year's taxable assessed value. Multiply by 100 to convert to a percentage.

- g. Depending on the rate of change, the assessing office will determine the appropriate taxable assessed value for the current year:
 - 1. If the true assessed value of a parcel for the current year does not increase by more than seven percent from the prior year's taxable assessed value, the county will use the parcel's current true assessed value as its current taxable assessed value.
 - 2. If the true assessed value of a parcel for the current year increases by more than seven percent from the prior year's taxable assessed value, the CAMA system must retain the true assessed value of the parcel for later reference and analysis, but it will set the parcel's current taxable assessed value to 1.07 times the taxable assessed value from the previous year. The current taxable assessed value should be rounded to the nearest \$20 increment. If rounding in this manner would result in an assessed value that exceeds the seven percent cap, the value should be rounded down to the nearest \$20.
- h. After the cap is applied to the appropriate parcels, the county will proceed with the remainder of the property tax administration process in the same manner and following the same laws, procedures, and guidelines as all other property types.

4. CLARIFICATIONS

- a. The procedure must be completed on an annual basis, and it is not linked to a county's four-year reappraisal cycle.
- b. If a parcel is excluded from the cap in one tax year, it will not automatically be excluded for the next tax year. Each property must be reviewed annually to determine whether it meets one or more of the criteria to exclude it from the cap.
- c. When a new parcel (split) is created from an existing parcel (parent parcel), the split parcel is treated as property which has never been assessed, and it is excluded from the cap until the subsequent tax year. However, the parent parcel will still be subject to the cap, unless it meets another one of the criteria which would exclude it.
- d. When two or more parcels are combined upon the request of their owner, the combined parcel will remain subject to the cap, unless it meets one of the criteria which would exclude it.
- e. When an error in a past year's assessment is discovered, the appropriate correction must be made. If the correction of an error results in an escape, [pursuant to §40-7-23, Code of Ala. 1975](#), then the escape and current year's assessment are excluded from the cap. However, if the correction of an error results in a refund, the current year's assessment will remain subject to the cap.
- f. For improvement-only assessments of Class II or Class III real property, continue to consider the assessment on a parcel basis when evaluating the property for any criteria which would exclude it from the cap, or when comparing the current true assessed value to the prior year's taxable assessed value. The current status or changes to the improvements located on a specific parcel would be compared to the improvements that were located on the same parcel for the preceding tax year.
- g. A Class II or Class III manufactured home which is assessed for ad valorem tax (not registered), should be treated like any other real property improvement and will be subject to the cap unless its parcel meets one

of the criteria which would exclude the parcel from the cap.

- h. A parcel assessed on its current use basis should be treated like any other parcel of property and will be subject to the cap unless it meets one of the criteria which would exclude it.
- i. Any property valued by the income approach should be appraised as required by the laws, procedures, directives, and guidance of ALDOR; should be treated like any other real property; and will be subject to the cap unless it meets one of the criteria which would exclude it.
- j. If an improvement was removed or destroyed and not rebuilt, this change to the property is not sufficient, by itself, to exclude the property from the cap.

5. IMPACTS ON RELATED PROCESSES

- a. Board of Equalization hearings, subsequent appeals to circuit court, and other property tax court cases shall continue to function as disputes of a property's fair market value. Therefore, there should be no change in the administration of the board or court proceedings.
- b. The assessed values reported on the county's annual real property abstract should reflect the *taxable assessed value* of properties, not their true assessed value. By using taxable assessed value, the abstract will reflect the actual assessed values which are the basis of the collections which will go through final settlement with the state comptroller.

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Statutory Authority: §40-2A-7(a)(5); Chapter 99, Title 11; Article 1 Ch. 7, Title 40; §40-8-1; §40-5-34; 40-7-23; 40-7-32; §40-7-25; Code of Ala. 1975; Act 2024-344

History: New Rule: Published ~~_____~~; ~~effective _____~~ August 30, 2024; effective October 14, 2024.