

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 42 (2nd Edition)

SHORT TITLE: Property Tax Homestead Exclusion

SPONSOR(S):

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(millions)				
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
State Government	No General Fund Impact				
Local Governments					
Income Component	0	(1.1)	(1.3)	(1.5)	(1.8)
Property Exemption	0	(10.7)	(10.7)	(10.7)	(10.7)
Total Local	0	(11.8)	(12.0)	(12.2)	(12.5)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: County and Municipal Governments.					
EFFECTIVE DATE: Effective for taxes imposed for taxable years beginning on or after July 1, 2002.					

BILL SUMMARY: The bill makes several changes to the existing homestead exclusion from property tax. First, the legislation adjusts the income eligibility limit. Currently the income eligibility level is \$15,000 with \$20,000 of property value exempted for those who qualify. The bill maintains the \$15,000 income threshold for FY 2001-02, but increases this limit to \$18,000 in FY 2002-03. Second, the bill allows for an annual adjustment of the new income limit by the federally defined Cost of Living Adjustment (COLA). In FY 2003-04 and subsequent years the amount is adjusted by the COLA multiplier used to increase SSI benefits. Third, the bill maintains \$20,000 as the minimum homestead exclusion, but allows for an exclusion of 50% of the tax value if the property value is greater than \$20,000. Finally, the bill extends the deadline for requesting a homestead exclusion from April 15 to June 1.

BACKGROUND INFORMATION: The homestead exemption is a partial exemption from property taxes for the residence of a person who is aged 65 or older, or totally disabled, and who has an income of less than \$15,000. The income threshold essentially counts income from all sources. The legislation has been amended eight times since 1972 in an

effort to adjust the eligibility and exemption amounts for increases in the assessed value of housing and income levels. The exemption amount was last increased in 1996, when it was raised from \$15,000 to \$20,000 effective July 1, 1997. At the same time, the income eligibility amount was increased from \$11,000 to \$15,000. Below is a chart outlining the changes to income eligibility and exemption levels since 1972.

<u>Year</u>	<u>Income Eligibility</u>	<u>Property Exemption</u>
1972	\$ 3,500	\$ 5,000
1973	\$ 5,000	\$ 5,000
1975	\$ 7,500	\$ 5,000
1977	\$ 9,000	\$ 7,500
1981	\$ 9,000	\$ 8,500
1985	\$ 10,000	\$ 10,000
1986	\$ 11,000	\$ 12,000
1993	\$ 11,000	\$ 15,000
1996	\$ 15,000	\$ 20,000

The current annual total cost of the homestead exemption program is approximately \$27.0 million. Of this total, \$19.1 million is borne by local governments, while the remaining \$7.9 million is funded by the state. When the homestead provision was enacted in 1972 and expanded in the 1970's, there was no reimbursement to counties and cities. In 1982 the state began to reimburse local governments for all of the expansion costs. The end result of the 1970's policy and that of the 1980's was that by 1991 there was mathematically an equal split between the state and local cost responsibility (\$7.9 million for each, for a total of \$15.8 million).

When the exemption was raised in 1993, local units absorbed all of the \$5.2 million cost increase. In 1996 the state granted a 50% reimbursement to local governments for costs associated with the changes made by the law during that year. That increased the reimbursements to local governments by approximately \$3 million, to \$10.9 million out of a \$27.0 million total. The \$3.0 million increase sunset in May of 1999, and the city and county reimbursement level returned to \$7.9 million (50% of 1991 costs).

ASSUMPTIONS AND METHODOLOGY: The bill makes four changes to the existing homestead exclusion.

Increase income limit to \$18,000: History indicates that approximately 80% of the total cost of the Homestead program (\$21.6 million) is related to the property exemption and 20% (\$5.4 million) is related to the income requirement. The proposal increases the income threshold by 20%. If 20% of the cost of the program (\$5.4 million) is devoted to the income threshold, then a 20% increase in the threshold equals 1.1 million in cost. This cost begins in FY 2002-03.

Index income limit: Starting in FY 2003-04 the \$18,000 income limit will be adjusted upward by the annual COLA made by the federal government in social security benefits. These annual COLAs are announced in October of each year. The annual average COLA for the last five years has been approximately 3.2%. Assuming the adjustment remains at

3.2%, indexing will cost \$210,000 in FY 2003-04 (3.2% of 6.5 million), and will increase by similar amounts in future years.

Alter exemption amount: Under the current system, as the assessed value of the residence increases, the exemption for qualified residents remains at \$20,000 regardless of value. Under the bill, if 50% of the assessed value of the property is greater than \$20,000 the qualified resident is allowed the greater of the exclusions. As a result, the bill increases the relief granted to low-income elderly and disabled homeowners residing in homes with assessed property values greater than \$40,000.

This estimate is generated using two principal data sources. The first source is a North Carolina Association of Assessing Officers study of the 1999 homestead exemption statistics and projected revenue losses for forty representative counties if the bill becomes law. Those 40 counties projected a combined loss of \$2.8 million.

The second source is the 1997 statewide summary of homestead exemption statistics provided by the Department of Revenue Property Tax Division. Because the exact loss in the remaining 60 counties is unknown, a ratio using the number and value of the existing exclusions was developed to use as a proxy. According to Department of Revenue data, the 40 counties that responded to the survey represent approximately 30% of both the number and value of current homestead exclusions. Using this number as a proxy suggests that the total statewide loss is \$9.33 million. (\$2.8 million is 30% of 9.33 million).

There is a disproportionately high percentage elderly households that fall within the \$15,000 to \$25,000 income range outlined in the chart below. The large number of households that fall within this range can be attributed to the great number of residents who draw the maximum social security payment, or the maximum amount plus a pension (The 2001 maximum social security payment for a recipient over 65 who paid in the maximum amount is approximately \$18,740). Therefore the preliminary estimate has been increased by 15%, to suggest an annual revenue loss of \$10.73 million.

**1998 National Income Distribution
of Elderly Households**

	Actual	Percent
Less than \$5,000	702,000	3.28%
\$5000 to \$9,999	3,777,000	17.64%
\$10,000 to \$14,999	3,614,000	16.88%
\$15,000 to \$24,999	5,016,000	23.43%
\$25,000 to \$34,999	2,952,000	13.79%
\$35,000 to \$49,999	2,334,000	10.90%
\$50,000 to \$74,999	1,614,000	7.54%
\$75,000 to \$99,999	686,000	3.20%
\$100,000 and over	714,000	3.34%
Total	21,409,000	100%

Given the limitations of the estimation methodology, only upon the completion of the detailed year 2000 census data will truly reliable estimates be available.

Application date: The bill extends the application deadline by approximately six weeks. This extension is not expected to have a fiscal impact as most assessors already allow late homestead applications.

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Linda Struyk Millsaps

APPROVED BY: James D. Johnson

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