

# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

## Legislative Fiscal Note

**BILL NUMBER:** House Bill 1499 (Third Edition)

**SHORT TITLE:** Increase Homestead Income Limit to 25K.

**SPONSOR(S):** Representatives Martin, Holliman, R. Warren, and Braxton

<b>FISCAL IMPACT (\$millions)</b>					
	<b>Yes (x)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2007-08</u></b>	<b><u>FY 2008-09</u></b>	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>
<b>REVENUES:</b>					
<b>Local Governments</b>	<b>\$0</b>	<b>(\$16.0)</b>	<b>(\$17.1)</b>	<b>(\$18.3)</b>	<b>(\$19.5)</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> NC Department of Revenue; NC Local Governments					
<b>EFFECTIVE DATE:</b> Effective for taxable years beginning July 1, 2008.					

### **BILL SUMMARY:**

House Bill 1499 increases the income eligibility limit for a qualifying property owner for the property tax Homestead exclusion to \$25,000 beginning in 2008, with annual indexing thereafter according to the Social Security Cost of Living Adjustment (COLA).

### **ASSUMPTIONS AND METHODOLOGY:**

The current homestead exclusion applies to persons aged 65 or older or totally and permanently disabled with income of \$20,500 or less for calendar year 2007. Thus, this bill would affect elderly and disabled persons with incomes between \$20,500 and \$25,000. The income eligibility limit would continue to increase each year based on the cost-of-living adjustments (COLA) for Social Security benefits.

According to the 2005 American Community Survey (ACS), there were 60,325 households in North Carolina with occupants age 65 or older that fell within the \$20,000 to \$25,000 income range. It is estimated that 61% of persons in this income range own their own home. Therefore, as of 2005, there were 36,798 (60,325 \* 61%) homeowners 65 or older with household incomes between \$20,000 and \$25,000.

The next step in the analysis is to calculate an average property value. According to the US Census Bureau, the median home value for 2004 for the 65 and older population in North Carolina was \$107,143. The value is adjusted downward by 15% to account for the fact that home values of taxpayers in the targeted income group for this analysis are lower than the median for all homeowners in the 65 and older age group.

The median home value is further reduced to account for the sales assessment ratio, which is the average assessed value divided by the average market value. The current average statewide sales assessment ratio is 86%. The resulting median tax value for property owners over 65 in the target income group is \$78,322. Because the tax credit applies to 50% of the property value, the amount of the exclusion per property owner is estimated to be \$39,161. Applying the average weighted tax rate for counties, municipalities and special tax districts (93.4 cents per \$100 valuation) and multiplying by the number of property owners results in the estimated revenue loss.

Growth for future years is based on the change in the number of eligible taxpayers and the increase in property values. The increase in eligible taxpayers is estimated by calculating the average increase in the 65 and older population in North Carolina for the most recent available four-year period (2000 to 2004), which is 1.5% annually. Property values are assumed to increase by 5% each year.

**SOURCES OF DATA:** US Census, American Community Survey, NC Department of Revenue

**TECHNICAL CONSIDERATIONS:** None

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