

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 102 < 1st Edition>
SHORT TITLE: Property Tax Homestead Exclusion
SPONSOR(S): Rep. Hill

FISCAL IMPACT

Yes (X) No () No Estimate Available ()

FY 2001-02 FY 2002-03 FY 2003-04 FY 2004-05 FY 2005-06

REVENUES

State Government No General Fund Impact

Local Governments \$10.73 annual revenue loss

**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 legislation adjusts the basis for determining the exemption amount of the homestead exemption from property tax, and allows for an annual adjustment of income eligibility by the federally defined Cost of Living Adjustment (COLA). 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 by the COLA multiplier used to increase SSI benefits for subsequent years. The bill also 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. The bill is a recommendation of the Revenue Laws Study Committee.

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 last 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:

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 would be 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.

The proposed legislation maintains the current income eligibility requirement for FY 01-02, but increases this threshold annually by the amount of the COLA as determined by the Social Security Administration in subsequent years.

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 current maximum SSI payment is \$1,433 monthly, or \$17,196 per year. , If the bill becomes law, the current \$15,000 income eligibility threshold will be adjusted by the COLA after FY 01-02, and many more elderly and disabled citizens in this income range will qualify for the homestead property tax exclusion. 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.

FISCAL RESEARCH DIVISION 733-4910
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