NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 42 1st Edition

SHORT TITLE: 30,000/30,000 Homestead Tax Relief

SPONSOR(S): Rep. Cary Allred

FISCAL IMPACT

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

	Millions				
	FY 2001-02	**FY 2002-03**	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**
REVENUES					
General Fund	**$(13.7)**	**$(14.4)**	**$(15.1)**	**$(15.8)**	**$(16.6)**
Local Governments	**(2.5)**	**(3.2)**	**(3.9)**	**(4.6)**	**(5.4)**

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue, Property Tax Division, and local governments.

EFFECTIVE DATE: Section 3 becomes effective July 1, 2001. The remainder of the act is effective for taxes imposed for taxable years beginning on or after July 1, 2001.

BILL SUMMARY: The bill increases both the income eligibility limit and the property tax exemption to $30,000, effective for tax years beginning July 1, 2001. After July 1, 2002 the exemption level will be the previous year's exemption limit increased by the Consumer Price Index for Housing. The income limit is increased in a similar manner based on the Consumer Price Index for all goods. The bill also changes the deadline by which assessors must file homestead information with the state from September 1 to February 1. The state will reimburse local governments for 50% of the total loss associated with the Homestead Exemption.

ASSUMPTIONS AND METHODOLOGY: 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.

The bill makes changes that have a fiscal impact in four ways.

1. Redistribute Current Losses

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. The bill removes the current distribution system and replaces it with an even cost split between the state and local governments.

	Millions	
	State	Local
Current Distribution	(7.90)	(19.10)
50-50 Distribution	(13.50)	(13.50)
Change	(5.60)	5.60

As the above chart indicates, the redistribution of the existing exemption results in a net loss to the General Fund and a net gain to local governments.

2. Increase Exemption and Income Limit to $30,000*

History indicates that approximately 80% of the total cost of the Homestead program is related to the property exemption and 20% is related to the income requirement. The proposal increases the value of exempt property 50% and increases the income threshold 100%. If 80% of the cost or $21.6 million is devoted to exempt property, then a 50% increase in the exemption equals $10.8 million. If 20% of the cost of the program is devoted to the income threshold or $5.4 million, then a 100% increase in the threshold equals 5.4 million in cost. Thus the total cost of the proposal is $16.2 million. This loss is borne equally by the state and local governments at a cost of $8.1 million each.

The combined loss to the state from these two elements is 13.7 million (5.6 + 8.1). Local governments also suffer a revenue loss of 2.5 million (5.6 gain – 8.1 loss). These amounts are reflected in the chart as the 2001-2002 revenue losses.

3. Property Exclusion Adjusted by CPI for Housing

In 2002-2003 and beyond the amount of property excluded from tax is calculated as the previous year's exclusion increased by the Consumer Price Index for housing. Since 1997 the CPI for housing in the southern United States has increased an average of 6% annually. Using the formula outlined in 2 above suggests that indexing the exemption will increase the annual cost of the exemption by approximately $1.3 million per year (21.6 million x 6%). This cost is divided equally between the state and local governments (650,000 each).

4. Income Limit Adjusted by CPI for All Goods

In 2002-2003 and beyond the income limit is calculated as the previous year's income limit increased by the Consumer Price Index for all goods. Over the past five years the CPI has increased by approximately 2.4% annually. Using the formula outlined in 2 above suggests that indexing the exemption will increase the annual cost of the exemption by approximately $130,000 per year (5.4 million x 2.4%). This cost is divided equally between the state and local governments ($65,000 each).

* Note: Fiscal Research believes these numbers may underestimate the cost of the proposal. There are a disproportionately high percentage of 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.

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.

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