NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: **HB 1676**

SHORT TITLE: **$30,000 Homestead Exemption**

SPONSOR(S): **Representative Allred**

FISCAL IMPACT ($million)

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

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
REVENUES					
General Fund	-$17.1	-$17.1	-$17.1	-$17.1	-$17.1
Local Governments	+$2.5	+$2.5	+$2.5	+$2.5	+$2.5

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina State General Fund, County Governments, and City Governments.

EFFECTIVE DATE: The increase in income eligibility and the exemption amount of the homestead exemption is applicable to taxes imposed for taxable years beginning on or after ***July 1, 2000.*** The 50% reimbursement to local governments would start in ***May 2001.***

BILL SUMMARY: The legislation increases both the income eligibility and the exemption amount of the property tax homestead exemption. Currently the income eligibility level is $15,000 with $20,000 of property exempted for those who qualify. The bill increases the income threshold to $30,000 and the exemption level to $30,000 for taxes imposed for taxable years beginning on or after July 1, 2000. In addition, the bill directs the State Department of Revenue to reimburse county and city governments for 50% of the total property tax loss associated with the homestead exemption, including the prior cost of changes in the exemption and income levels. The first 50% reimbursement under this section would occur in May 2001.

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.

Year	***Income Eligibility***	***Property Exemption***
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 cost of the homestead exemption program is approximately $27 million. Of this total, $19.1 million is borne by local governments, while the remaining $7.9 million reflects a state reimbursement.

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 around $3 million, to $10.9 million out of a $27.0 million total. However, the $3 million increase sunsets this year. Without the bill, city and county reimbursement levels return to the 50% of 1991 costs of $7.9 million. Below is a chart outlining the changes in reimbursement policy since 1972.

Year	***State Reimbursement***
1972	Homestead Enacted: No reimbursement
1982	State reimburses 15% of the cost to cities and counties
1985	State reimburses 35% of the cost to cities and counties
1987	State reimburses 50% of the cost to cities and counties
1991	State holds reimbursements at $7.9 million (Approximately 50% of the cost of the exemption for 1991)
1996	State enacts a two year reimbursement for 50% of costs associated with the 1996 changes

ASSUMPTIONS AND METHODOLOGY:

The proposed act increases the value of the exempt property 50% (from $20,000 to $30,000) and increases the income threshold 100% (from $15,000 to $30,000). Based on the experience under numerous past changes, it has been found that 80% of the cost or $21.6 million is devoted to exempt property. Therefore a 50% increase in the property exemption equals *$10.8 million*. If $5.4 million (20% of the cost of the program) is devoted to the income threshold, then a 100% increase in the threshold equals *$5.4 million*. Thus the total cost of this portion of the bill is *$16.2 million.*

The other fiscal impact of the bill is the 50% reimbursement to local governments for all homestead exemption reimbursements. As mentioned previously, the current total cost of the homestead exemption is $27 million, with $19.1 million of this cost borne by local governments and the remaining $7.9 million reimbursed by the state. Upon the passing of this bill, the total loss would increase to *$43.2* million. Because of the 50% total reimbursement, $21.6 million will be distributed to cities and counties, reducing local government loss by **$2.5 million** ($21.6 - $19.1). This reduction in local property tax loss is in essence a revenue gain of $2 ½ million for county and municipal governments. The 50% reimbursement increases the state loss by $13.7 million ($7.9 - $21.6). An additional 25% is added to this estimate to account for contributing factors outlined in the following paragraph. Therefore, the estimated cost to the state is **$17.125 million**.

These estimates have a great potential to understate the true impact of the adjustments to the homestead exemption tax. The method for estimating the percentage changes in criteria works quite well for incremental changes in both levels. However, in this case, the increases in both income eligibility and exemption are quite large. Additionally, the income distribution between the current $15,000 level and the proposed $30,000 threshold is disproportionately high.

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%

The high percentage of elderly households that fall within this range can be attributed in large part to 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. 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
PREPARED BY: David Crotts and Eugene Son (Research Assistant)
APPROVED BY: James D. Johnson

DATE: June 1, 2000

Official
Fiscal Research Division
Publication

Signed Copy Located in the NCGA Principal Clerk's Offices