GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 972 (First Edition)

SHORT TITLE: Raise Homestead Exempt Income Limit to 30K.

SPONSOR(S): Representative Allred

FISCAL IMPACT ($ millions)

	Yes (x)	No ( )	No Estimate Available ( )		
	FY 2007-08	**FY 2008-09**	**FY 2009-10**	**FY 2010-11**	**FY 2011-12**
REVENUES:					
NC Counties and Municipalities	**($29.6)**	**($31.6)**	**($33.7)**	**($35.9)**	**($38.2)**

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue; NC counties, Municipalities and Special Tax Districts.

EFFECTIVE DATE: Effective for taxable years beginning on or after July 1, 2007

BILL SUMMARY:
HB 972 raises the Homestead Exemption income eligibility limit for qualifying property owners to $30,000. The income limit is currently $20,500 and is increased annually by the amount of the Social Security cost-of-living adjustment (COLA).

ASSUMPTIONS AND METHODOLOGY:
The current homestead exclusion applies to persons age 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 $30,000. The income eligibility limit would continue to increase each year based on the cost-of-living adjustments (COLA) for Social Security payments.

According to the 2005 American Community Survey (ACS), there were 105,121 households in North Carolina with occupants age 65 or older that fell within the $20,000 to $30,000 income range. It is estimated that 61% of persons in this income range own their own home. Therefore, as of 2005, there were 64,123 (105,121 * 61%) homeowners 65 or older with household incomes between $20,000 and $30,000.

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 10% 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 $82,818. Because the tax credit applies to 50% of the property value, the amount of the exclusion per property owner is estimated to be $41,409. Applying the average weighted tax rate for counties, municipalities and special tax districts and multiplying by the number of property owners results in the total annual 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

TECHNICAL CONSIDERATIONS: None

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