

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** H.B. 89

**SHORT TITLE:** Homestead Tax Reduction

**SPONSOR(S):** Rep. Cary Allred

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b>(\$ Millions)</b>				
	<b><u>FY 1999-00</u></b>	<b><u>FY 2000-01</u></b>	<b><u>FY 2001-02</u></b>	<b><u>FY 2002-03</u></b>	<b><u>FY 2003-04</u></b>
<b>REVENUES</b>					
<b>General Fund</b>	<b>(10.1)</b>	<b>(10.1)</b>	<b>(10.1)</b>	<b>(10.1)</b>	<b>(10.1)</b>
<b>Local Governments</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> North Carolina Department of Revenue, County Governments, City Governments.					
<b>EFFECTIVE DATE:</b> Section 3 of this act becomes effective July 1, 1999. The remainder of this act is effective for taxes imposed for taxable years beginning on or after July 1, 1999.					

**BILL SUMMARY:** The legislation increases both the income eligibility and the exemption amount of the Homestead exemption to property taxes. The bill increases the income threshold to \$25,000 and the exemption level to \$25,000. Currently the income level is \$15,000 with \$20,000 of property exempted for those that qualify. It also directs the Department of Revenue to reimburse county and city governments for 50% of the total property tax loss associated with the homestead exemption. This includes the cost associated with all previous changes in the exemption and income levels.

**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 exemption amount was last increased in 1996, when it was increased from \$15,000 to \$20,000 effective July 1, 1997. Before then the exemption was last increased in 1993 from \$12,000 to \$15,000. The income eligibility amount was last increased in 1996, when it was increased from \$11,000 to \$15,000. Before then the income threshold had last been increased in 1987, when it was increased from \$10,000 to \$11,000.

The bill has two primary fiscal impacts. First, it increases the Homestead Property Tax Exemption amount for the elderly and disabled from \$20,000 to \$25,000 and increases the income eligibility threshold from \$15,000 to \$25,000.

The current annual cost of the Homestead Exemption program is approximately \$27 million. That cost is divided between the state and the counties. History indicates that approximately 80% of the total cost is related to the property exemption and 20% is related to the income requirement. The proposed act increases the value of exempt property 25% and increases the income threshold 66.7%. If 80% of the cost or \$21.6 million is devoted to exempt property, then a 25% increase in the exemption equals \$(5.4) million. If 20% of the cost of the program is devoted to the income threshold or \$5.4 million, then a 66.7% increase in the threshold equals (\$3.6) million. Thus the total cost of this portion of the bill is \$9 million.

The second fiscal impact of the bill is the 50% reimbursement to local governments for the homestead exemption. When the Homestead provision was enacted in 1972 there was no reimbursement to counties and cities for the resulting revenue loss. In 1982 the state began to reimburse local governments for a portion of the loss. By 1987 the state had increased the reimbursement rate to 50% of the total loss. This equal split between the state and local governments remained in place until 1991. At that time the state froze reimbursements at \$7.9 million. In 1996 the state granted a 50% reimbursement for the costs associated with the changes made in the law that year. That increased the reimbursements to local governments by approximately \$3.0 million, to \$10.9 million. The \$3.0 million increase sunsets after two years. With out the bill, counties and cities reimbursement level will return \$7.9 million this year. Below is a chart outlining the changes in reimbursement since 1972.

<u>Year</u>	<u>State Reimbursement</u>
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	The state freezes reimbursements at approximately \$7.9 million (Approximately 50% of the cost at the time).
1996	State enacts a two year reimbursement for 50% of the costs Associated with their 1996 changes (\$3.0 million).

As mentioned previously, the current total cost of the Homestead Exemption is \$27 million. Approximately \$19.1 million of this cost is borne by local governments. The balance or \$7.9 is a state loss. When the bill passes the total loss increases to \$36 million. Because of the 50% total reimbursement, \$18 million will be provided to the counties as reimbursement. This increases the state loss by \$10.1 million, and reduces the county loss by \$1.1 million. Therefore, it creates a revenue gain of \$1.1 million for local governments.

**Note:** Notwithstanding the provisions of G.S. 105-277.1(c), an application for the benefit provided in this act for the 1999-2000 tax year is timely if it is filed on or before September 1, 1999. This means the tax change will be in effect for the 1999-00 fiscal year.

**FISCAL RESEARCH DIVISION 733-4910**

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**DATE:** Friday, June 04, 1999



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