GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 36 (First Edition)

SHORT TITLE: Expand Homestead Tax Benefit Via Tax Credit.

SPONSOR(S): Representatives Allred, Rayfield, Cole, and McGee

FISCAL IMPACT ($ millions)

	Yes (X)	No ( )	No Estimate Available ( )		
	FY 2005-06	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**
REVENUES:					
General Fund	**($26.2)**	**($29.8)**	**($29.9)**	**($30.0)**	**($30.1)**

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue

EFFECTIVE DATE: Effective for taxable years beginning on or after January 1, 2005

BILL SUMMARY:
This bill provides a refundable state income tax credit equal to 50% of the property taxes paid on a primary residence by elderly and disabled persons whose taxable income is not more than $30,000 for tax year 2005. For subsequent tax years, the taxable income is indexed based on cost-of-living adjustments in Social Security benefits. The credit is not allowed if the taxpayer is eligible for the existing homestead exclusion.

ASSUMPTIONS AND METHODOLOGY:
The current homestead exclusion applies to persons age 65 or older or totally and permanently disabled with income of $19,200 or less for 2004. Thus, this bill would affect elderly and disabled persons with incomes between $19,200 and $30,000. The income eligibility limits for both this bill and the existing homestead exclusion would increase each year based on the Social Security COLA. It is assumed that no additional disabled persons would be affected by this bill because the current homestead exclusion applies to disabled persons who are unable to be employed and would likely have minimal income.

According to the 2000 Census, there were 101,665 households 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. Based on this percentage, the total number of persons affected by this bill is estimated to be 62,016. The table below shows the distribution of household income in North Carolina for residents age 65 and older.

North Carolina Household Income for Residents Age 65 and Older		
Less than $10,000	123,409	20%
$10,000-$20,000	143,113	23%
$20,000-$30,000	***101,665***	***16%***
$30,000-$40,000	75,549	12%
$40,000-$50,000	51,887	8%
$50,000-$60,000	36,803	6%
$60,000-$75,000	32,202	5%
$75,000-$100,000	27,359	4%
$100,000-$125,000	12,563	2%
$125,000-$150,000	6,231	1%
$150,000 and over	15,192	3%
TOTAL	**624,973**	**100.0%**

Source: 2000 US Census

The next step in the analysis is to calculate an average property value. The 2000 Census data provides statewide property values for persons earning $20,000 - $35,000. Based on this data, the average property value for this income group is estimated to be $105,000. Because tax revenue is based on the assessed value of property rather than the market value, this figure is adjusted by the average statewide sales assessment ratio, which is 86%. Thus, the average assessed value is $90,300. Because the tax credit applies to 50% of the property value, the amount of the exclusion per property owner is estimated to be $45,150. Applying the average weighted tax rate for state counties and municipalities and multiplying by the number of property owners, the total revenue loss due to this bill for FY 2005-06 is estimated to be $26.2 million.

The bill indexes the income eligibility limit by the amount of the annual Social Security COLA. It is assumed that most of the increased cost in subsequent years resulting from higher income eligibility would be off-set by taxpayers becoming eligible for the existing homestead exclusion. A 1.5% increase in the portion of cost associated with income eligibility is included for subsequent years to account for the fact that property values for taxpayers added as eligibility limits increase are likely to be higher than those of taxpayers who are picked up under the homestead exclusion at the lower range of the income limit.

SOURCES OF DATA: North Carolina Department of Revenue; U.S. Bureau of the Census;

TECHNICAL CONSIDERATIONS: None

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