GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 1499 (Fourth Edition)

SHORT TITLE: Property Tax and PUV Changes and Studies.

SPONSOR(S): Representatives Holliman, Martin, R. Warren, and Braxton

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:					
Part I – Local Governments	**$0**	**($16.5)**	**($17.6)**	**($18.9)**	**($20.1)**
Part II – Local Governments	***See Assumptions and Methodology***				
Part III – Local Governments	***Minimal Property Tax Revenue Loss***				
Part IV	***No Impact***				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Local Governments, NC Department of Revenue

EFFECTIVE DATE: Section 1.1 of this act is effective for taxes imposed for taxable years beginning on or after July 1, 2008. The remainder of this section is effective when it becomes law. Section 2 is effective for taxes imposed for taxable years beginning on or after July 1, 2008. Section 3 is effective for taxes imposed for taxable years beginning on or after July 1, 2008. Section 4 is effective when it becomes law.

BILL SUMMARY:

Part I increases the income eligibility limit for a qualifying property owner for the property tax Homestead exclusion to $25,000 beginning in 2008, with annual indexing thereafter according to the Social Security Cost of Living Adjustment (COLA). The bill also increases the amount of the Homestead Exclusion to $25,000 or 50% of the assessed value, whichever is greater (the current exclusion amount is $20,000 or 50% of the assessed value).

In addition, the bill amends the definition of "income" used to determine the income eligibility limit to clarify that income includes ALL moneys received from every source other than gifts or inheritances received from a spouse, lineal ancestor, or lineal descendant.

The bill also directs the Revenue Laws Study Committee to study whether to index the excluded value limit in the property tax homestead exclusion and, if so, which index to use.

Part II of the bill proposes a property tax deferral benefit for North Carolina residents who have owned and occupied property located in the State as a permanent residence for at least five years and are either 65 years of age or older or totally and permanently disabled. The amount of taxes deferred would be based upon the income eligibility limit of the property tax homestead exclusion. Under this system, an owner who met the requirements of the circuit breaker benefit and made less than the income eligibility limit could elect to defer the portion of taxes imposed on the permanent residence that exceeds four percent (4%) of the owner's income. An owner who met the requirements of the circuit breaker benefit and made between the income eligibility limit and one and one-half times the income eligibility limit could elect to defer the portion of taxes imposed on the permanent residence that exceeds five percent (5%) of the owner's income.

Part III establishes substitute production and acreage requirements for agricultural land used as an aquatic species farm. For aquatic species farm agricultural land only, the tract qualifies for PUV if it either (i) consists of at least five acres in actual production, or (ii) produces 20,000 pounds of aquatic species for commercial sale annually, irrespective of acreage. There is no income production requirement. Aquatic species is defined as any species of finfish, mollusk, crustacean, or other aquatic invertebrate, amphibian, reptile, or aquatic plant, and including but not limited to fish and fishes as defined in G.S. 113-129(7).

Part IV provides for the Revenue Laws Study Committee to review implementing tax benefits for donating perpetual easements on property to ensure continuation of non-developmental uses; extending present-use value benefits to property that is used for wildlife conservation; and other ways to reduce property taxes to preserve property used for farmland and other non-developmental uses.

ASSUMPTIONS AND METHODOLOGY:

PART 1. PROPERTY TAX HOMESTEAD EXCLUSION MODIFICATION

Homestead Income Limit Increase

The current homestead exclusion applies to person’s 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 $25,000. 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 60,325 households in North Carolina with occupants age 65 or older that fell within the $20,000 to $25,000 income range. It is estimated that 61% of persons in this income range own their own home. Therefore, as of 2005, there were 36,798 (60,325 * 61%) homeowners 65 or older with household incomes between $20,000 and $25,000.

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 15% 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 $78,322. Because the tax credit applies to 50% of the property value, the amount of the exclusion per property owner is estimated to be $39,161. Applying the average weighted tax rate for counties, municipalities and special tax districts and multiplying by the number of property owners results in the estimated 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.

Increase in Amount of Exclusion

Under current law, the first $20,000 or 50% of the assessed value (whichever is greater) of the home of a qualifying homeowner is excluded from taxation. HB 1499 would increase the $20,000 amount to $25,000. This change would benefit taxpayers with homes valued between $40,000 and $50,000. For example, a taxpayer with a $45,000 home would be able to exclude $25,000 from taxation; currently the taxpayer benefits most by taking the 50% exclusion, which is $22,500; therefore an additional $2,500 is excluded. Based on Census data, it is estimated that the total cost of this change is less the $500,000.

PART II. SENIOR CIRCUIT BREAKER PROPERTY TAX BENEFIT

A simulation model was developed to determine the estimated tax liability of homeowners in the qualifying income categories compared to their calculated income thresholds. The amount of tax liability in excess of the threshold is the potential deferred amount.

For purposes of this analysis, the Homestead income limit is assumed to be $25,000. Therefore, a homeowner with income up to $25,000 would be subject to the 4% income threshold. Homeowners earning between $25,000 and $37,500 (150% of $25,000) would be subject to the 5% threshold.

For example, if a taxpayer's home is valued at $150,000 and the tax rate is $1 per $100 in assessed value, the total tax due is $1,500. If the taxpayer earns $25,000 in income, he may defer any taxes in excess of 4%, or $1,000. Therefore, the taxpayer would be able to defer $500 in this example.

Because the bill includes a rollback provision in the event the homeowner sells the property or otherwise becomes ineligible for the program, the total impact of the bill is determined by subtracting the rollback payments from the amount of deferred taxes in any given year. The rollback provides for payment of current taxes due plus the previous three years. Finally, a participation rate is applied to reflect the estimated percentage of eligible homeowners who will participate in the program.

To determine the potential impact of the deferral, a distribution table was obtained from the American Community Survey of the US Census Bureau. The table provides a distribution of home values by income groups. [NOTE: the distribution reflects the relationship of home values and incomes for all age groups. It is not known to what degree the relationship between income and home value would differ for senior citizens.]

For each income group, the income threshold is calculated by multiplying the income by 4% for incomes below $25,000 and by 5% for incomes between $25,000 and $37,500. Within each income group, the distribution table provides the number of homeowners in various home value ranges. For each group, the property tax owed can be calculated and compared to the income threshold.

The amount of tax liability in excess of the income threshold for each home value category is the amount eligible for deferment for each homeowner in the category. This amount is multiplied by the number of homeowners in the category to determine to total amount of deferred taxes. This process is repeated for each home value category in all eligible income groups. For future year projections, the income values are assumed to grow by 5% per year and home values are projected to grow 5% per year. Population is assumed to grow 2% per year.

The bill also limits the program to homeowners who have been in their homes for 5 or more years. The percentage of homeowners in this category is estimated to be 60 percent based on Census data. The rollback amount is calculated based on the assumption that homeowners sell their homes on average every 7 years. Thus, each year of the estimate assumes that 1/7 of the participating homeowners will drop out of the program and pay the appropriate rollback of the current year taxes plus deferred taxes from the previous three years with interest.

Although many other states offer circuit breaker programs, few are structured as deferrals. Those that offer deferral programs typically experience low participation rates. The reasons cited is that homeowners are reluctant to have a lien placed on their homes and in many cases elderly homeowners are reluctant to leave their heirs with a deferred tax payment.

The estimated impact below is based the assumption that of the eligible taxpayers, 60% would be eligible for the Homestead exemption and would choose that option. Of the remaining eligible homeowners, the analysis assumes a participation rate of 20%. Although other states typically have lower participation rates, they also tend to have shorter rollback periods (the number of years of deferred taxes that become due upon transfer of the property).

Estimated Impact of SB 1442 ($millions)					
	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
Local Governments	$0	($7.8)	($7.2)	($6.8)	($6.0)

PART III.

There is no data available on the number or value of land used for aquatic farms. The fiscal impact is expected to be minimal, however, the amount of the impact is not known.

PART IV. TAX RELIEF FOR NONDEVELOPMENTAL PROPERTY

There is no fiscal impact for this section.

SOURCES OF DATA: NC Department of Revenue; NC Association of Tax Assessors; U.S. Census Bureau

TECHNICAL CONSIDERATIONS: None

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