GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1442 (Second Edition)

SHORT TITLE: Senior Circuit Breaker Tax Benefit.

SPONSOR(S): Senator Snow

FISCAL IMPACT

Yes (x) **No ( )** **No Estimate Available ( )**

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
REVENUES:					
	No General Fund Impact				
Local Governments	***See Assumptions and Methodology***				

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

EFFECTIVE DATE: Effective for taxes imposed for taxable years beginning on or after July 1, 2008.

BILL SUMMARY:
Senate Bill 1442 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.

ASSUMPTIONS AND METHODOLOGY:
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)

SOURCES OF DATA: US Census Bureau

TECHNICAL CONSIDERATIONS: None

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