

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5066-01
Bill No.: HB 1808
Subject: Housing; Revenue Department; Taxation and Revenue
Type: Original
Date: March 15, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$0	(\$9,034,388)	\$0
Total Estimated Net Effect on General Revenue Fund	\$0	(\$9,034,388)	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Blind Pension*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

* Offsetting revenues and revenue reductions in FY 2008

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	(Unknown)	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation changes the homestead exemption limit from 5% on years of reassessment and 2.5% on years without reassessment, to 2.5% whether a reassessment year or not.

DOR assumes this change will allow more taxpayers to qualify. DOR's Personal Tax requires 1 Temporary Tax Employee for every additional 10,750 returns filed, and 1 Tax Processing Technician I for every 5,000 errors for errors and correspondence. Due to the unknown number of effected applicants, the FTE is not being requested at this time. If needed, the additional FTE will be requested through the regular budget process.

Officials from the **State Tax Commission (TAX)** assume the proposal will not fiscally impact their agency. TAX assumes this legislation if passed will become effective on August 28, 2006. The next reassessment year is calendar year 2007 with collections occurring in FY 2008.

TAX does not have any information on the number of individuals who may apply for the homestead exemption. Therefore, TAX is unable to provide what the fiscal impact would be if this legislation is enacted. However, TAX will provide the project assessed valuation for real property in 2007.

ASSUMPTION (continued)

According to the 2000 census information, 70.3% of the housing units are owner occupied with 22.4% of the householders 65 years of age and older. In addition, 89.6% of these households have income less than \$70,000. TAX does not have any information available as to spouse age or handicapped status for spouses of homeowners over 65. For fiscal note purposes, TAX assumes all householder are over 65 and have a spouse over 60 or handicapped.

The 2005 assessed valuation for residential property is \$42,782,543,503. As there are minimal improvements to residential property in an even-numbered year, TAX will assume for 2006, the assessed valuation will again be approximately 42.7 billion dollars.

$\$42,782,543,503 \times 70.3\%$ (residential property owner occupied) = \$30,076,128,082.

$\$30,076,128,082 \times 22.4\%$ (residential property owner occupied 65 years and older) = \$6,737,052,690.

$\$6,737,052,690 \times 89.6\%$ (income under \$70,000) = \$6,022,925,104.

In the next reassessment year (2007), TAX projects there will be an increase in assessed valuation of 10% for all real property.

This proposal provides that the property of the eligible owners may only increase 2.5% and any loss of revenue would be reimbursed to the local political subdivision from General Revenue.

Oversight assumes that by utilizing TAX's estimate of assessed valuation of \$6,022,925,104 for those residential properties with owners 65 years of age and older and with incomes under \$70,000, this would equate to property taxes of roughly \$361,375,506, using a \$6 per hundred average state tax rate ($\$6,022,925,104 / 100 \times \6). The increase of 10 percent (as projected by TAX) would equate to \$36,137,550. The current homestead exemption limit of 5% would be replaced with a new exemption limit of 2.5%, thus resulting in additional credits of \$9,034,388 ($(\$361,375,506 \times (5\% - 2.5\%))$).

Oversight assumes the county collectors would abstract the tax credits to all taxes levied, resulting in losses to the Blind Pension Fund of approximately ½ of 1% of the credits, or \$45,172 in FY 2008. In FY 2008 there would be a state reimbursement, subject to appropriation, of an amount equal to that tax loss which would be abstracted by the county collectors and received by the Blind Pension Fund.

ASSUMPTION (continued)

The **Cole County Assessor** states they processed approximately 1,000 homestead applications in 2005. It is assumed that number could double by lowering the homestead threshold from 5% to 2.5% in a year of reassessment. Although the assessor no longer has to process applications, we are still charged with listing the assessed value on each homestead property to determine what percentage new construction and improvements caused in any value increases. The assessor's portion of the work will have to be completed at a time of the year when no additional resources are available; thus the fiscal note reflects the hiring of one temporary employee to work the homestead list from DOR in the time allowed (one month). The Cole County Assessor assumes a cost of \$1,500 in fiscal years 2007 and 2009 for the hiring of the temporary employee.

Officials from **Hickory County** assume no fiscal impact from the proposal.

Oversight will assume the tax credits for the reassessment year of 2007 will be appropriated in FY 2008. Oversight also assumes the county assessors will incur an unknown amount of additional expense from the proposal in the state's even fiscal years.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Cost</u> - Reimbursement of Homestead Exemption Tax Credits	<u>\$0</u>	<u>(\$9,034,388)</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$9,034,388)</u>	<u>\$0</u>
BLIND PENSION FUND			
<u>Revenue</u> - reimbursement from appropriation for Homestead Exemption Tax Credits	\$0	\$45,172	\$0
<u>Revenue Reduction</u> - Homestead Exemption Tax Credits	<u>\$0</u>	<u>(\$45,172)</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE BLIND PENSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
POLITICAL SUBDIVISIONS			
<u>Revenue</u> - State reimbursement to taxing authorities from appropriation for Homestead Exemption Credit	\$0	\$9,011,802	\$0
<u>Revenue</u> - State reimbursement to county assessment funds from appropriation for Homestead Exemption Credit	\$0	\$22,586	\$0
<u>Revenue Reduction</u> - Property tax credits	\$0	(\$9,034,388)	\$0
<u>Costs</u> - County Assessors for additional expense of working the homestead lists	<u>\$0</u>	<u>(Unknown)</u>	<u>\$0</u>
NET EFFECT ON POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>(Unknown)</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

Currently, the state homestead exemption is 5% in years when there is a general reassessment of property values and 2.5% in years when there is no reassessment. This bill sets the exemption limit at 2.5% for homesteads of all eligible owners in any year.

The provisions of the bill will expire six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
State Tax Commission
Hickory County
Cole County Assessor

NOT RESPONDING: Numerous County Assessors

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 15, 2006