

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1014-01
Bill No.: HB 516
Subject: Elderly; Property, Real and Personal; State Tax Commission; Taxation and Revenue - Property
Type: Original
Date: January 31, 2007

Bill Summary: Would modify provisions of the Missouri Homestead Preservation Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue			(\$3,884,787)
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	(\$3,884,787)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government *	\$0	\$0	\$0

* net of revenue reduction and reimbursement.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue**, the **State Tax Commission**, The **City of Centralia**, and the **City of West Plains** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of the Secretary of State** (SOS) provided the following information:

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

In response to a similar proposal in the previous session, (HB 1808 LR 5066-01 (2006) the **State Tax Commission** (TAX) provided the following information:

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.

ASSUMPTION (continued)

TAX calculated the estimated change in tax collections as follows:

$\$42,782,543,503 \times 70.3\%$ (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 projected there will be an increase in assessed valuation of 10% for all real property.

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 in 2007 of 10 percent (as projected by TAX) would equate to \$36,137,550. The homestead exemption limit (maximum allowable increase in property taxes due) is 5% in a General Reassessment (odd numbered) year and 2 1/2 % in a year with out a General Reassessment (even numbered).

The current tax increase limit is based on the increase to tax liability from two years prior to the application to the year prior to the application. The proposal would fix the base year for applications filed in 2007 as 2005, and the base year for applications filed after 2007 would be the later of 2006 or the year before the taxpayer's first application was approved. The base year for taxpayers who file an initial application after 2007 would have a base year prior to the year in which they file an initial application.

Oversight assumes that most taxpayers who have already filed an initial application would have the same assessed value for 2006 as for 2005, and the same limited increase for 2007. The proposal would therefore have no fiscal impact for 2007 (FY 2008).

For 2009, however, the proposal would fix the base year for most taxpayers at 2006 rather than 2008. There would be an additional tax credit for 2009 (FY 2010) equal to $(\$36,137,550 \times 110\% \times 110\%) - (36,137,550 \times 105\% \times 105\%) = \$3,884,787$. The tax credit required would continue to increase since the fixed base year valuation would fall farther behind assessment increases.

ASSUMPTION (continued)

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 \$19,424 in FY 2008. In addition, the reimbursement to the counties would be subject to the 1/4% withholding for the county's Assessment Fund. In FY 2010 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.

Oversight will assume the tax credits for the reassessment year of 2009 will be appropriated for FY 2010. Oversight also assumes the county assessors will incur an unknown amount of additional expense from the proposal in the state's even fiscal years.

Officials from the **Office of the Cole County Assessor** and the **Boone County Collector** did not respond to our request for information

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Cost - Reimbursement of Homestead Exemption Tax Credits</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$3,884,787)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>(\$3,884,787)</u>
BLIND PENSION FUND			
<u>Revenue - reimbursement from appropriation for Homestead Exemption Tax Credits</u>	\$0	\$0	\$19,424
<u>Revenue Reduction - Homestead Exemption Tax Credits</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$19,424)</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 2008 (10 Mo.)	FY 2009	FY 2010
POLITICAL SUBDIVISIONS			
<u>Revenue</u> - State reimbursement to taxing authorities from appropriation for Homestead Exemption Credit	\$0	\$0	\$3,884,787
<u>Revenue Reduction</u> - Property tax credits	\$0	\$0	<u>(\$3,884,787)</u>
NET EFFECT ON POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

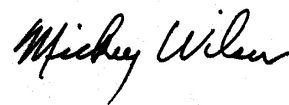
FISCAL DESCRIPTION

The proposal would modify provisions of the Missouri Homestead Preservation Act.

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

Office of the Secretary of State
Department of Revenue
State Tax Commission
City of Centralia
City of West Plains



Mickey Wilson, CPA

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