

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5085-01
Bill No.: HB 2417
Subject: Taxation and Revenue - Property; Elderly; Disabilities; Bonds - General
Obligation and Revenue
Type: Original
Date: April 9, 2008

Bill Summary: Would allow disabled individuals or individuals 60 years of age or older to delay paying property taxes on their residences under certain conditions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Blind Pension	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
Senior Property Tax Deferral Revolving Account	More than \$100,000	More than \$100,000	More than \$100,000
Total Estimated Net Effect on <u>Other</u> State Funds	Unknown	Unknown	Unknown

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE			

☐ 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 2009	FY 2010	FY 2011
Local Government	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

FISCAL ANALYSIS

SS:LR:OD (12/02)

ASSUMPTION

Officials from the **Office of the State Treasurer (STO)** assume this proposal would have no fiscal impact to their organization.

Officials from the **Office of Administration, Division of Budget and Planning** assume there would be no added cost to their organization as a result of this proposal.

This proposal would create a property tax deferral program for qualifying seniors. Deferred property taxes would be reimbursed to the county from the newly created property tax deferral revolving account, to be repaid on the death of the owner or transfer of the property. This proposal would have no impact on general and total state revenues. Funds for the newly created revolving account would be transferred from the state General Revenue Fund or from the sale of bonds and therefore could have an impact on the General Revenue Fund

Officials from the **Department of Elementary and Secondary Education** noted that the proposal would appear that local school districts would not lose local tax revenues since the deferred property tax is replaced. There would appear to be no increased cost to the state public school foundation formula to school districts.

Officials from the **State Tax Commission (TAX)** assume this proposal would have no fiscal impact on their organization, but that local assessors would have some additional duties. TAX officials were not able to estimate the impact on those offices.

Officials from **Linn State Technical College** and the **Metropolitan Community Colleges** assume this proposal would have no fiscal impact on their organizations.

Officials from **Clinton County** assumed that counties would experience a shortfall of revenues if there was no state reimbursement.

Officials from **St. Louis County** assumed that additional staff would be required to track and update county records for the program. The county estimated the staff cost at \$60,600 per year. In addition, the county estimated that changes to the county's computer system would be required at a cost of \$50,000.

Officials from the **City of Centralia** assume this proposal would have no fiscal impact to their organization.

ASSUMPTION (continued)

Officials from the **City of Gladstone** assume there would be a revenue loss of \$422,000 per year beginning in 2009. City officials estimated there would be an additional cost of approximately \$35,000 per year in personnel cost, computer support and software.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow those that are disabled or 60 or older on October 15 of the year of filing to file a claim with the assessor, provided the Homestead Preservation credit is not claimed. The assessor would forward the claim to the Department of Revenue to determine if property is eligible. The election by the taxpayer would defer the tax for the year; continue the deferral of past deferrals which are not delinquent; continue the deferral of future property taxes as long as specified requirements are met. A guardian or conservator could act on behalf of taxpayer, and a trustee may act on behalf of taxpayer under certain conditions. A joint claim is not required of spouses.

The taxpayer's claim would be submitted on a form prescribed by the Department of Revenue. DOR could deny a claim may be made, and the property must meet certain requirements. DOR would be required to notify the assessor of which property is tax deferred.

The county collector would a tax statement for each tax deferred property to DOR, and DOR would pay to the respective county an amount equivalent to the deferred taxes less 2%. DOR would cause to be recorded in the mortgage records of the county a list of tax deferred properties of that county but would not be required to pay a recording fee. The deferred tax would accrue interest, and DOR would track deferred taxes, accrued interest, and partial deferrals.

On or before December fifteenth of each year, DOR would send a notice to each taxpayer who is qualified to claim deferral of property taxes for the current tax year; under certain circumstances, the taxpayer could delay filing until January 30, of the following year. When the taxpayer elects to defer property taxes, DOR would estimate the amount of property taxes that will be deferred, thereafter, DOR would have a lien in the amount of the estimate

The deferred taxes become payable if the eligible owner dies, moves from the property, or if the property is sold or refinanced. A spouse could continue the deferral under certain circumstances.

ASSUMPTION (continued)

The Senior Property Tax Deferral Revolving Account would be created to pay county tax collectors the property taxes deferred, for administrative expenses, and to receive repayments of deferred property taxes. Interest would accrue annually on the actual amount of taxes advanced to the county for the tax-deferred property at the rate of the average annual interest rate paid on bonds plus 2% rounded up to the nearest whole percentage. If there is insufficient money in the account to make payments to the counties as determined by the State Auditor, the necessary amount would be transferred from the General Revenue Fund and repaid as funds become available, or the account may be funded by bonds.

DOR assumes that new forms and instructions would need to be created, and a deferred property tax system would need to be developed.

Due to the complexity of this legislation, the detailed tracking that would be required, and the lien process, DOR assumes that Personal Tax would require twenty-three FTE Tax Processing Technician I in addition to the current 9 FTE that process the property tax credit claims. There are approximately 192,000 property tax credit claims for individuals that could qualify for this deferral system. DOR also assumes that {Personal Tax would require one FTE Section Supervisor to maintain the unit and handle policy issues, and one FTE Revenue Band Manager to oversee the new requirements of this section.

DOR assumes that Customer Assistance would require one FTE Tax Collections Technician I for every 15,000 calls on the income tax line, one FTE Tax Collections Technician I for every 24,000 calls on the delinquent tax line, and seven FTE Tax Processing Technician I for the field offices.

DOR provided this estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) assumes the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional FTE/overtime would be needed. ITSD/DOR estimates that this legislation could be implemented utilizing three FTE existing CIT III for 3 months for modifications to MINITS and an additional 5 CIT III for 6 months at a total cost of \$163,254.

DOR provided an estimate of the total cost including thirty-four additional employees and the related equipment and expenses for a total of \$1,297,380 for FY 2009, \$1,377,188 for FY 2010, and \$1,418,503 for FY 2011.

ASSUMPTION (continued)

Oversight has reviewed the federal Census Data and notes that approximately 70% of housing units are owner-occupied, and approximately 22% of Missouri residents are 60 years of age or older. Therefore, approximately $(70\% \times 22\%) = 15\%$ of Missouri housing units would be owned by persons 60 years of age or older.

Oversight assumes it is not possible to estimate the number of persons who would actually apply for this tax deferral, the value of real estate they own, or the amount of taxes which would be subject to deferral under this proposal. Oversight notes that the proposal would limit the amount of deferred taxes based on the assessed value of the home and any existing liens against the home, and also assumes that many of the potential tax deferral claimants would be enrolled in the Homestead Preservation Credit program. These factors would significantly reduce the number of additional claims filed. DOR has personnel involved in tracking Homestead Preservation Credit claims; therefore oversight assumes this proposal could be implemented with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

Oversight assumes the first applications for deferral would be prepared in October, 2008 for 2008 taxes. The resulting deferrals would be for 2008 taxes otherwise payable December 31, 2008. The first reimbursements to county collectors would be in January 2009 for those deferred taxes. The deferrals, reimbursements, and withholdings would begin in state FY 2009. Oversight assumes that transfers from the state General Revenue Fund to the Senior Property Tax Deferral Revolving Account would be required for the first few years of operation, but that there would be insufficient funds in the state General Revenue Fund to make the required transfers, and that a bond issue would instead be needed to fund Department of Revenue expenses and payments to county collectors.

Oversight also assumes there would be significant unknown costs for county collectors, assessors, clerks, and recorders in implementing this proposal.

Oversight assumes that the two percent withholding from payments to the collectors would result in an unknown reduction in revenues to the political subdivisions since county collectors would abstract the reduced tax collections resulting from the tax deferrals and reimbursements from the Senior Property Tax Deferral Revolving Account to all taxing authorities. Oversight assumes the impact on the state Blind Pension Fund would be $\frac{1}{2}$ of 1% of the impact to local governments, with an unknown net loss of tax revenue less than \$100,000.

This proposal could affect total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
BLIND PENSION FUND			
<u>Revenue</u>			
Reimbursements from Senior Property Tax Deferral Revolving Account	Less than \$100,000	Less than \$100,000	Less than \$100,000
<u>Revenue reduction</u>			
Reduced tax collections	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>
 SENIOR PROPERTY TAX DEFERRAL REVOLVING ACCOUNT			
<u>Revenues</u> - collections of deferred taxes	\$0	More than \$100,000	More than \$100,000
<u>Transfers</u> - proceeds from bond sales	More than \$100,000	More than \$100,000	More than \$100,000
<u>Reimbursements</u> - to county collectors	(Unknown)	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
NET EFFECT ON SENIOR PROPERTY TAX DEFERRAL REVOLVING ACCOUNT	<u>More than \$100,000</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
<u>Revenue</u>			
State reimbursements from Senior Property Tax Deferral Revolving Account	More than \$100,000	More than \$100,000	More than \$100,000
<u>Revenue reduction</u>			
Reduced tax collections	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Withholding from tax collections	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
<u>Cost to counties</u>			
Additional administrative cost to county assessor, collector, clerk, and recorder	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
NET EFFECT ON LOCAL GOVERNMENTS	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>

FISCAL IMPACT - Small Business

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

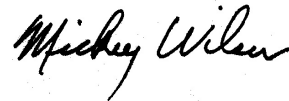
FISCAL DESCRIPTION

This proposal would allow disabled individuals or individuals 60 years of age or older to delay paying property taxes on their residences under certain conditions.

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 State Treasurer
Office of Administration
 Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission
Linn State Technical College
Metropolitan Community Colleges
Clinton County
St. Louis County
City of Centralia
City of Gladstone



Mickey Wilson, CPA
Director
April 9, 2008