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FISCAL IMPACT STATEMENT

LS 6974

BILL NUMBER: HB 1307

NOTE PREPARED: Jan 9, 2007

BILL AMENDED:

SUBJECT: Property tax exemption for senior citizens.

FIRST AUTHOR: Rep. Cheatham

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill exempts a homestead from property taxation if: (1) all owners of the homestead are at least 65 years of age; (2) at least one owner of the homestead uses the homestead as a primary residence and has been an owner of the homestead for at least ten consecutive years; (3) the annual income of the individual claiming the exemption, in combination with the annual income of the individual's spouse or co-owners, is less than \$25,000; (4) the assessed value of the property is not more than \$144,000; and (5) the individual claiming the exemption is not subject to certain delinquent property taxes, assessments, fees, or charges.

Effective Date: January 1, 2008.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this proposal and subject to appropriation, annual state PTRC and homestead payments will be reduced.

The total net state savings is estimated at \$3.5 M in FY 2009 (partial year) and \$9 M in FY 2010. PTRC and homestead credits are paid from the Property Tax Replacement Fund.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction

is estimated at about \$90,000.

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). These credits will decline by approximately \$850,000 in CY 2009. LOIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares.

Explanation of Local Revenues: Under current law, persons 65 or over (senior citizens) or their surviving spouses may receive an assessed value(AV) deduction on their real property or mobile home residence equal to one-half the assessed value of the property up to \$12,480. In order to qualify, the assessed value of the property may not exceed \$144,000 and the adjusted gross income of the person may not exceed \$25,000.

This bill would exempt a homestead from property taxation subject to certain conditions: all owners of the homestead must be senior citizens, and at least one of them must use the homestead as his/her primary residence; the combined annual adjusted gross income of the owners cannot exceed \$25,000 and the assessed value of the property cannot exceed \$144,000; additionally, the owner claiming the deduction must have lived in the homestead for at least ten consecutive years and cannot be liable for delinquent property taxes, assessments, fees, or charges.

Under this proposal, all persons currently receiving the aged deduction would qualify for this exemption if they meet the additional requirements (all owners must be senior citizens, the owner claiming the exemption must have lived in the home for a minimum of ten consecutive years, and must not be delinquent in tax payments), and this analysis assumes that this so. It also assumes that all taxpayers who are eligible for the aged deduction are currently receiving it. Under these assumptions, estimates from the most current parcel-level data indicate that there are approximately 112,000 senior citizen taxpayers that would qualify for the exemption under this proposal.

Under this bill, it is estimated that qualifying taxpayers will pay approximately \$59 M less in taxes in CY 2009 for an average net tax reduction of \$525 per household. This exemption will potentially reduce the tax base by \$3.8 B AV.

This reduction in the tax base will cause a shift of the property tax burden from the taxpayers receiving the exemption to all other taxpayers in the form of an increased tax rate. A \$3.8 B AV reduction in assessed value would cause a \$0.024 increase in the statewide average gross tax rate in CY 2009. This translates to a property tax shift to all other classes of property of approximately \$69 M. This number exceeds the \$59 M in tax savings to senior citizen households because the tax base for all other classes of property includes some property that does not qualify for homestead credits or the regular 20% PTRC. Senior citizen households, on the other hand, comprise only homesteads which qualify for these credits.

This analysis assumes that all taxpayers who would qualify for the exemption under this bill are currently receiving the aged deduction. If, however, the number of qualifying taxpayers under this bill is different from the number receiving the aged deduction, then the fiscal impact might be different from the results of this analysis. For example, if there is a percentage of senior citizens who have not lived in their homes for ten consecutive years, then the number of qualifying taxpayers will be less than the current estimate, and the impact on State and Local revenues and expenditures will be correspondingly smaller. On the other hand, if some senior citizens who did not apply for the aged deduction decide to do so for this exemption, then this would have a larger impact on State and Local revenues and expenditures.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the exemption amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County Auditors.

Information Sources: Local Government Database.

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