NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE

BILL NUMBER: S.B. 421
SHORT TITLE: Homestead Property Tax Relief

FISCAL IMPACT

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

($ Millions)

	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
REVENUES					
General Fund		**(1.0)**	**(1.0)**	**(1.0)**	**(1.0)**
Counties and Cities		**(1.0)**	**(1.0)**	***(1.0)**	***(1.0)**

PRINCIPAL DEPARTMENT(S) &
PROGRAM(S) AFFECTED: North Carolina Department of Revenue, cities and counties.

EFFECTIVE DATE: Effective for taxable years beginning on or after July 1, 1999.
* See Note in Assumptions and Methodology.

BILL SUMMARY: The proposal increases the Homestead Property Tax Exemption income eligibility threshold to $20,000. The localities will be responsible for ½ the revenue loss. The state will absorb the remaining ½ of the cost. The bill also authorizes a statewide vote to allow counties to increase the exemption, at their own cost. The vote will take place at the first general election in 2000. If the option passes statewide, the counties can increase the exemption locally, should they choose to do so.

ASSUMPTIONS AND METHODOLOGY: The Homestead Exemption is a partial exemption from property taxes for the residence of a person who is aged 65 or older, or totally disabled, and who has an income of less than $15,000. The exemption amount was last increased in 1996, when it was increased from $15,000 to $20,000 effective July 1, 1997. Before then the exemption was last increased in 1993 from $12,000 to $15,000. The income eligibility amount was last increased in 1996, when it was increased from $11,000 to $15,000. Before then the income threshold had last been increased in 1987, when it was increased from $10,000 to $11,000.

The proposal increases the Homestead Property Tax Exemption income eligibility threshold from $15,000 to $20,000. The localities will absorb ½ the cost. The state will absorb the remain revenue loss.

The current annual cost of the Homestead Exemption program is approximately $26 million. That cost is divided between the state and the localities. History indicates that when the exemption amount and the income requirement are changed, approximately 80% of the resulting loss corresponds to the property exemption and 20% to the income requirement. The bill increases the income threshold by 33.4%. If 20% of the cost of the program is devoted to the income threshold or $5.2 million ($26 million x 20%), then a 33.4 7% increase in the threshold equals $1.8 million ($5.2 million x 33.4%). An additional adjustment of $0.2 million was added to account for the disproportionate number of elderly that receive between $15,000 and $20,000 annually. One-half of the loss, approximately $1 million, will be borne by the state. The remaining one-half will be absorbed by local governments.

Note: The estimated local losses associated with the bill provide only a minimum for the out years. If the concept is approved by voters statewide, localities could take action to further increase the exemption and/or the income threshold. In that case, the revenue loss would grow as a direct result of the act of individual counties. The first year any county initiated changes could become effective is FY 2001-02.

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