

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 11 1st Edition

SHORT TITLE: Raise Homestead Exemption Income Limit

SPONSOR(S): Rep. Sherrill

FISCAL IMPACT

	Yes (X)	No ()	No Estimate Available ()		
	(\$ Millions)				
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
General Fund	(\$3.6)	(\$3.6)	(\$3.6)	(\$3.6)	(\$3.6)
Local Government	(See assumptions and methodology)				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue and Local Governments.

EFFECTIVE DATE: Effective for taxes imposed for taxable years beginning on or after July 1, 2001.

BILL SUMMARY: The Homestead Exemption allows low-income elderly and disabled homeowners to exempt the first \$20,000 in value of their home from property tax, if they meet the income requirements. Currently the household income must be below \$15,000 to qualify for the exemption. The bill raises the income test to \$25,000. It also provides for a state reimbursement to localities for the cost of the increase. The reimbursement sunsets after five (5) years.

ASSUMPTIONS AND METHODOLOGY: The current annual cost of the Homestead Exemption program is approximately \$27 million. That cost is divided between the state and the localities. History indicates that when the exemption amount and the income requirement are changed incrementally, approximately 80% of the resulting loss corresponds to the property exemption and 20% to the income requirement. Of course this ratio may change if either the exemption or income requirements are altered dramatically.

The bill increases the income threshold 66.7% but leaves the exemption level stationary. If 20% of the cost of the program is devoted to the income threshold or \$5.4 million, then a 66.7% increase in the threshold costs \$3.6 million. As such, the cost of this proposal is \$3.6 million annually. Because the state will reimburse localities for the loss for five (5) years,

this is shown as a general fund loss. In the sixth year the cost will shift to local governments.

FISCAL RESEARCH DIVISION 733-4910

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