

Fiscal Estimate Narratives

DOR 7/25/2007

LRB Number	07-1043/1	Introduction Number	AB-0452	Estimate Type	Original
Description Creating a homeowner's property tax credit, increasing the amount of the school property income tax credit, and making an appropriation					

Assumptions Used in Arriving at Fiscal Estimate

HOMEOWNER'S TAX CREDIT

The bill creates a homeowner's tax credit equal to the school property tax on a fixed amount of full value of all primary residences. The maximum value on which the credit can be paid is \$60,000. The value on which the credit is paid can vary from year to year with changes in funding and school property tax rates.

The credit would be funded by changing corporate income and franchise taxes (excluding rate increases) and repealing exemptions from the sales and use tax that primarily benefit corporations. A nonstatutory provision directs the Joint Survey Committee on Tax Exemptions to prepare a report recommending which changes should be made. The report is due no later than 60 days after the bill takes effect. Until the required report is prepared and acted on, no funds would be available for the proposed credit.

The bill provides the homeowner's tax credit to parcels used as principal dwellings, and thus to the same parcels as the lottery and gaming credit. For the 2006/07 property tax year, the average school property tax rate was \$8.31 per \$1,000 full value and about 1,487,000 lottery and gaming credits were paid to owners of primary residences. Thus, if the bill had been in effect for the 2006/07 tax year, a homeowner's tax credit on \$10,000 in full value would have required \$123.6 million ($1,487,000 \times 10,000 \times 0.00831$) in new funding, and a homeowner's tax credit on \$60,000 would have required \$741.4 million ($1,487,000 \times 60,000 \times 0.00831$) in new funding.

The proposed credit would be paid to municipalities on the fourth Monday in March. Municipalities would be required to settle for the credit with overlying tax jurisdictions by April 15.

INDIVIDUAL INCOME TAX

Current law permits a non-refundable credit for 12% of property taxes or rent constituting property taxes of up to \$2,500 (\$1,250 for married separate filers). The maximum credit is \$300 ($\$2,500 \times 0.12$).

The bill makes no changes to the statutes governing the credit claimable by homeowners. To the extent that funding is provided for the proposed homeowner's tax credit, the amount of property taxes for which homeowners can claim a credit will decrease. Since the amount of funding for the proposed homeowner's tax credit is unknown, it is not possible to estimate the potential reduction in the income tax credit (and increase in individual income tax collections) this part of the bill would engender.

The bill increases the non-refundable income tax credits claimable by renters from 12% to 16% of the first \$2,500 of rent constituting property taxes (\$1,250 for married separate filers). This would increase the maximum credit for a renter to \$400 ($\$2,500 \times 0.16$). If this part of the bill had been in effect for 2007 taxes, there would have been an increase in credit claims (and a decrease in individual income tax collections) of \$17.4 million.

AVERAGE PROPERTY TAX RATE

The statewide average net property tax rate is calculated by dividing the total tax levy minus the school levies credit by the state total equalized value. The lottery and gaming credit is excluded because it does not apply to all taxpayers. The homeowner's tax credit would be excluded for the same reason. The statewide average net property tax rate would therefore not be affected by the bill. The bill would therefore have no effect on property taxes for non-residential property, the incremental levy for tax incremental finance districts, state ad valorem utility taxes, exempt computer aid, and the terminal tax distribution.

HOMESTEAD CREDIT

Under the homestead credit, certain low-income households receive a payment from the state to help offset part of their property taxes or rents. To the extent that funding is provided for the homeowner's tax credit, property taxes on which homestead credits are paid will decrease. Since the amount of funding for the proposed homeowner's tax credit is unknown, it is not possible to estimate the potential reduction in homestead credits.

FARMLAND PRESERVATION CREDIT

This credit pays a percentage of property taxes for owners of farm property with 35 or more acres of farmland who meet certain zoning, land use, and conservation requirements. The proposed homeowner's tax credit would reduce property taxes on farm homesteads. Since the amount of funding for the proposed homeowner's tax credit is unknown, it is not possible to estimate the potential reduction in farmland preservation credits.

ADMINISTRATIVE COST

The Department of Revenue (DOR) would incur one-time costs of \$108,000 to modify its computer programs regarding the calculation of the property tax and rent credit on individual income tax forms, to change procedures for auditing credit claims, and for related changes to other departmental programs.

Given the potential for the proposed credit to be paid on a fairly high amount of value, it is possible that additional auditors could be needed to review credit claims for improper or fraudulent claims. DOR estimates that it would incur annual costs of \$214,000 and require 4.0 FTE positions to carry out these duties.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): \$108,000 to modify computer programs for the property tax and rent credit on income tax forms and to modify procedures for identifying miscalculated or incorrect credit claims			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes	\$196,000		\$
(FTE Position Changes)	(4.0 FTE)		
State Operations - Other Costs	18,000		
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$214,000		\$
B. State Costs by Source of Funds			
GPR	214,000		
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
	Increased Rev	Decreased Rev	
GPR Taxes	\$	\$-17,400,000	
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$	\$-17,400,000	
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>	<u>Local</u>	
NET CHANGE IN COSTS	\$214,000	\$	
NET CHANGE IN REVENUE	\$-17,400,000	\$	
Agency/Prepared By		Authorized Signature	Date
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