

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 1796 – HB 2156

April 13, 2016

SUMMARY OF ORIGINAL BILL: Requires the property value limits of property tax relief for elderly low-income; disabled; disabled veterans; and surviving spouse homeowners to increase proportionately with any change in inflation as measured by the United States Bureau of Labor Statistics' Consumer Price Index for All Urban Customers (CPI-U) and to be rounded to the nearest \$100 for tax year 2016 and subsequent years.

Revises the calculation of assessed property value for the purposes of disabled veteran homeowners' and their surviving spouses' property such that a sliding scale shall be used that multiplies the full market value of the such owners' property up to the \$100,000 limit or according to the percentage increase in the CPI-U, as appropriate, by an appropriate percentage that is in proportion to the applicant's income. Veterans and their surviving spouses that received property tax relief in tax year 2016 shall use the current system of property relief calculation.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures – Exceeds \$209,000/FY16-17
Exceeds \$200,000/FY17-18 and Subsequent Years

SUMMARY OF AMENDMENT (015539): Deletes all language after the enacting clause. Increases the property value threshold for determining the extent of any property tax relief payments to low-income elderly homeowners and low-income disabled homeowners from \$23,000 of the full market value of the property to \$25,000 of the full market value of the property.

Increases the property value threshold for determining the extent of any property tax relief payments to disabled veterans and their surviving spouses from \$100,000 of the full market value of the property to \$175,000 of the full market value of the property.

Deletes provision in Tenn. Code Ann. § 67-5-704 (relative to property tax relief) that requires an eligible disabled veteran's total household income to not exceed \$60,000 for the purpose of qualifying for local property tax relief in tax year 2015 and subsequent tax years.

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FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Expenditures - \$6,286,000

Assumptions Relative to Eligible Taxpayers and the Repeal of Public Chapter 481 of 2015:

- This act shall take effect upon becoming a law; therefore, it is assumed the first tax year that will be impacted is 2016.
- Given that property tax notices will be sent to taxpayers in late 2016, and paid by February 2017, the first fiscal year impact will be FY16-17.
- Pursuant to the provisions of Tenn. Code Ann. §§ 67-5-702 to 67-5-704, there shall be paid to certain low income elderly taxpayers, low income disabled taxpayers, and disabled veterans or their eligible surviving spouses, the amount necessary to pay or reimburse such taxpayer for all or part of the local property taxes paid for a given tax year on a property that the eligible homeowner owned and used as the their residence from the state's general fund.
- Tax relief payments are made to eligible homeowners to reimburse the taxpayer for local property taxes paid by the homeowner; therefore it is assumed that all applicable local property taxes have been paid at the time tax relief payments are submitted to eligible recipients.
- Any change in property tax revenue received by the applicable local government entities is estimated to be not significant.
- This bill as amended repeals provisions in Public Chapter 481 (PC481) which were effective May 18, 2015.
- Public Chapter 481 was enacted in 2015 and property tax payments for 2015 are due by February 2016; therefore, the decrease in property tax relief as a result of the restrictions imposed by PC481 is not available.
- Actual individual tax relief records from FY13-14 have recently become available from the Comptroller of the Treasury and were analyzed by the Comptroller's office to project the decrease in state revenue resulting from the passage of PC481. This analysis is the basis for this fiscal estimate for all affected populations.

Assumptions relative to Low Income Elderly and Disabled Homeowner Property Tax Relief:

- Based on information provided by the Comptroller, the amount of actual property relief for low-income elderly and disabled homeowners at the \$25,000 property value limit was \$18,926,320 in 2014.
- Based on actual 2014 property tax relief data provided by the Comptroller, the calculated amount of property relief at a \$23,000 assessed property value limit would have been \$17,492,028 in 2014 for low income elderly and disabled homeowners.
- Based on the growth rate in property tax relief payments over the last three years to low-income elderly and disabled homeowners, the impact to these populations have been projected forward to FY16-17 using an annual growth rate of two percent in order to

determine the estimated increase in tax relief payments if the current \$23,000 property value limit is increased to \$25,000.

- Projecting the estimated property tax relief from 2014 at each property valuation for these populations forward to FY16-17 will result in \$19,690,943 [(\$18,926,320 x 102.0%) x 102.0%] of property tax relief at the \$25,000 property value limit and \$18,198,706 [(\$17,492,028 x 102.0%) x 102.0%] of property tax relief at the \$23,000 property value limit.
- The recurring increase in state expenditures for low income elderly and disabled homeowners for property tax relief from the General Fund is estimated to be \$1,492,237 (\$19,690,943 – \$18,198,706) beginning in FY16-17.

Assumptions relative to Value Limits on Disabled Veteran Homeowner Property Tax Relief:

- Based on information provided by the Comptroller, the amount of actual property relief for disabled veteran and surviving spouse homeowners at the \$175,000 assessed property value limit was \$11,909,605 in 2014.
- Based on actual 2014 property tax relief data provided by the Comptroller, the calculated amount of property relief at the 100,000 assessed property value limit would have been \$8,740,356 in 2014.
- Based on the growth rate in property tax relief payments over the last three years to low-income elderly and disabled homeowners, the impact to this population has been projected forward to FY16-17 using an annual growth rate of 15 percent in order to determine the estimated increase in tax relief payments.
- Projecting the estimated property tax relief from 2014 at each property valuation for this population forward to FY16-17 will result in \$15,750,453 [(\$11,909,605 x 115.0%) x 115.0%] of property tax relief at the \$175,000 limit and \$11,559,121 [(\$8,740,356 x 115.0%) x 115.0%] of property tax relief at the \$100,000 limit.
- The recurring increase in state expenditures for disabled veteran and surviving spouse homeowner's property tax relief from the General Fund is estimated to be \$4,191,330 (\$15,750,451 - \$11,559,121) beginning in FY16-17.

Assumptions relative to Income Limits on Disabled Veteran Homeowner property tax relief:

- Based on information provided by the Comptroller, the calculated amount of property tax relief, at a \$100,000 assessed property value limit, that was attributable to new veteran applications in 2014 was \$1,518,394.
- Based on the information provided by the Comptroller, it is estimated that 30 percent of the applicants in 2014 would not have qualified if the \$60,000 income limit pursuant to PC481 had been in place in 2014. This would have resulted in the state retaining approximately \$455,518 (\$1,518,394 x 30.0%) in 2014 that it eventually paid out in property tax relief.
- Based on the growth rate for property tax relief over the last three years, the reduction has been projected forward to FY16-17 using an annual growth rate of 15 percent in order to determine the estimated increase in tax relief payments if the current \$60,000 income limit is removed.

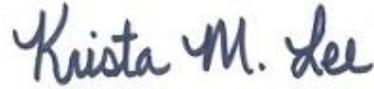
- The recurring increase in state expenditures beginning in FY16-17 from the General Fund is estimated to be \$602,423 [(\$455,518 x 115.0%) x 115.0%].

Assumptions Relative to the total impact of the bill:

- The recurring increase in state expenditures beginning in FY16-17 from the General Fund resulting from the repeal of PC481 is estimated to be \$6,285,990 (\$1,492,237 + \$4,191,330 + \$602,423) beginning in FY16-17.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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