TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 1796 – HB 2156

April 21, 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 (016372): Deletes all language after the enacting clause. Specifies that for tax year 2016, a disabled veteran and surviving spouse's combined annual income, excluding income from federal disability payments, shall not exceed $60,000 or such other amount as set forth in the general appropriations act in order to be eligible to receive state property tax relief. Increases the amount of full property value considered for property tax relief from $100,000 to $125,000 for eligible disabled veterans and surviving spouses who are 75 years of age or older. Increases the property value limit for eligible low income elderly and low income disabled property tax relief recipients from $23,000 of the property's assessed value to $23,500 of the property's assessed value.

Effective January 1, 2017, 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 $23,500 of the full market value of the property to $25,000 of the full market value of the property.

Effective January 1, 2017, 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 and $125,000 for veterans aged 75 and older to $175,000 of the full market value of the property.

Effective January 1, 2017, 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.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Expenditures – Exceeds $848,300/FY16-17
$7,034,900/FY17-18 and Subsequent Years

General assumptions for the bill as amended:

- 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.

Assumptions relative to Excluding Federal Disability Payments for Disabled Veteran Homeowner Property Tax Relief for FY16-17:

- Based on information from the Comptroller's Office, the precise impact of removing federal disability payment income from the calculation of income that enables Tennessee's eligible population of disabled veterans or their surviving spouses to receive property tax relief as a result of the bill as amended is not available; however, it is estimated that the number of eligible taxpayers will increase as a result of the bill as amended.
- Based on information from the Comptroller's Office, complete removal of the current $60,000 income limit for such taxpayers property tax relief as codified in Tenn. Code Ann. § 67-5-704, would increase state expenditures by an estimated $602,400.

- Based on information from the Comptroller's Office, it is estimated that the fiscal impact of the bill as amended, will increase state expenditures in an amount less than $602,400, but greater than $100,000; therefore, the increase in state expenditures is reasonably estimated to exceed $100,000 in FY16-17.

Assumptions relative to Value Limits on Disabled Veteran Homeowner Property Tax Relief for FY16-17:

- According to the Comptroller's Office (COT), using prior years' data, it is estimated that 20 percent of eligible disabled veterans and surviving spouses are 75 years of age or older.
- Based on information from COT, if the assessed property value limit was increased from $100,000 to $125,000 in FY15-16 for all disabled veteran and surviving spouse property tax relief recipients, the projected amount state expenditures would have been $1,873,153.
- Limiting the $125,000 assessed property value limit to disabled veteran and surviving spouses property tax relief recipients 75 years or older will result in an increase in state expenditures estimated to be $374,630 ($1,873,153 x 0.20) in FY16-17.

Assumptions relative to Low Income Elderly and Disabled Homeowner Property Tax Relief for FY16-17:

- Based on actual 2014 property tax relief data provided by the Comptroller, the calculated amount of property relief at a $23,500 assessed property value limit would have been $17,851,179 in 2014 for low income elderly and disabled homeowners.
- 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 $23,500.
- Projecting the estimated property tax relief from 2014 at each property valuation for these populations forward to FY16-17 will result in $18,572,367 ($17,851,179 x 102.0% x 102.0%) of property tax relief at the $23,500 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 increase in state expenditures for low income elderly and disabled homeowners for property tax relief from the General Fund is estimated to be $373,661 ($18,572,367 – $18,198,706) in FY16-17.

Assumption relative to the total impact of the bill for FY16-17:

- The total increase in state expenditures in FY16-17 from the General Fund resulting provisions of the bill as amended is estimated to exceed $848,291 ($100,000 + $374,630 + $373,661).

Assumptions relative to Low Income Elderly and Disabled Homeowner Property Tax Relief beginning FY17-18:

- 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 FY17-18 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 FY17-18 will result in $20,084,762 ($18,926,320 x 102.0% x 102.0% x 102.0%) of property tax relief at the $25,000 property value limit and $18,562,680 ($17,492,028 x 102.0% 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 $1,522,082 ($20,084,762 – $18,562,680) beginning in FY17-18.

Assumptions relative to Value Limits on Disabled Veteran Homeowner Property Tax Relief beginning in FY17-18:

- 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 FY17-18 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 FY17-18 will result in $18,113,021 ($11,909,605 x 115.0% x

115.0% x 115.0%) of property tax relief at the $175,000 limit and $13,292,989 ($8,740,356 x 115.0% 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 $4,820,032 ($18,113,021 - $13,292,989) beginning in FY17-18.

Assumptions relative to Income Limits on Disabled Veteran Homeowner property tax relief beginning in FY17-18:

- 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 FY17-18 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 FY17-18 from the General Fund is estimated to be $692,786 ($455,518 x 115.0% x 115.0% x 115.0%).

Assumptions relative to the total impact of the bill for FY17-18 and subsequent years:

- The recurring increase in state expenditures beginning in FY17-18 from the General Fund resulting from the repeal of PC481 of 2015 is estimated to be $7,034,900 ($1,522,082 + $4,820,032 + $692,786).

CERTIFICATION:

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

Krista M. Lee

Krista M. Lee, Executive Director

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