TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1717 - HB 2138

March 11, 2016

SUMMARY OF BILL: Deletes and rewrites Tenn. Code Ann. 67-5-704 relative to property tax relief for disabled veterans. This will effectively repeal the provisions of Public Chapter 481 (PC 481) from the Public Acts of 2015 relative to such relief.

Requires 100 percent reimbursement of the property tax for disabled veterans acquiring 100 percent permanent and total disability based on individual employability (IU) from any service-connected cause as determined by the United States Department of Veterans Affairs (VA).

Requires 50 percent reimbursement of the property tax paid by disabled veterans that have a total household income of less than $30,000; acquired a service disability from paraplegia or permanent paralysis of both legs and lower part of the body resulting from traumatic injury or disease to the spinal cord or brain, legal blindness, or loss of two or more limbs; and acquired 100 percent permanent disability resulting from having served as a prisoner of war; or a service-connected permanent and total disability or disabilities as determined by the VA.

Declares that this legislation shall not affect disabled veteran and surviving spouse taxpayers who have received a reimbursement for tax year 2015 and who reapply to receive a reimbursement for tax year 2016 and subsequent years without interruption. Declares that dishonorably discharged veterans are ineligible for property tax relief under this legislation. Extends property tax relief benefits to surviving spouses of disabled veterans and outlines eligibility requirements. Clarifies that a disabled veteran or surviving spouse homeowner receiving property tax relief under this legislation may not receive relief under the provisions of Tenn. Code Ann. §§ 67-5-702 - 67-5-703.

Requires information concerning disability status of a disabled veteran or the death of a solder to be available to local or state officials who administer, enforce or audit the tax relief program or requirements, but such information shall remain confidential and not subject to inspection under the Tennessee Public Records law compiled in Tennessee Code Annotated Title 10 Chapter 7.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – Net Impact –
$1,645,800/FY16-17
$1,636,900/FY17-18 and Subsequent Years

Assumptions Relative to Eligible Taxpayers and Repeal of PC 481 of 2015:

- Disabled veteran or surviving spouses who applied for and received tax relief in 2015 or in prior fiscal years, without interruption, are grandfathered in under the provisions of this bill, at the level of reimbursement and qualification that was in effect prior to this legislation.
- This act shall take effect upon becoming 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 impacted will be FY16-17.
- 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 repeals provisions in PC 481 which were effective May 18, 2015.
- PC 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 PC 481 is not available at this time.
- 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 PC 481.

Assumptions Relative to Individual Employability Tax Relief:

- Currently, disabled veterans meeting the criteria of 100 percent disabled based on IU and their surviving spouses are not eligible to receive property tax relief under the provisions of Tenn. Code Ann. § 67-5-704.
- The IU designation allows the VA to compensate veterans who are unable to work due to service-connected disability at the 100 percent disability rate, although the veteran's rating according to the VA's Schedule for Rating Disabilities does not reach 100 percent.
- According to the VA National Center for Veterans Analysis and Statistics, as of September 30, 2014, 97,944 Tennessee veterans and 3,949,066 veterans nationally were receiving disability compensation in federal fiscal year FY13-14. Based on the forgoing data, veterans in Tennessee represent three percent of all veterans receiving disability compensation.
- According to a report compiled by the United States Government Accountability Office, approximately 333,000 veterans nationwide received IU benefits in 2013. Assuming the number is consistent in 2014 and the same percentage of Tennessee veterans receiving disability compensation are receiving IU benefits; it is estimated that 9,990 (333,000 x 0.03) veterans in Tennessee are currently receiving IU benefits.

- The precise number of Tennessee veterans currently receiving IU benefits, the assessed value of their homes, the applicable county and/or city property tax rate in which the veteran remits property taxes, and the number of veterans receiving IU benefits that apply for property tax relief are unknown; however, it is reasonable to assume 5,000 of the 9,990 veterans receiving IU benefits will apply for and receive property tax relief.
- Assuming an average property tax rate of $2 per $100 of assessed property value, and an average home appraisal value of $100,000, the state will incur a recurring increase in expenditures estimated to be $2,500,000 {[($100,000 x 0.25) / 100] x $2} x 5,000} in order to provide property tax relief to veterans with an IU designation who rated 100 percent disabled.

Assumptions Based on Current Disabled Veteran Homeowner Property Tax Relief:

- Based on information provided by the Comptroller's Office (COT), the calculated amount of property tax relief, at a $100,000 assessed property value limit, that was attributable to new veteran applications in FY13-14 was $1,518,394.
- Based on the information provided by COT, it is estimated that 30 percent of the applicants in 2014 would not have qualified if the $60,000 income limit pursuant to PC 481 had been in place in 2014. This would have resulted in the state paying approximately $1,062,876 ($1,518,394 x .70) in relief for new applicants with a $60,000 income limit.
- 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 property tax relief payments.
- The current expenditures beginning in FY16-17 from the General Fund would be estimated at $1,405,653 [($1,062,876 x 115.0%) x 115.0%)] under the provisions of PC 481 as adopted in 2015.

Assumptions Relative to $30,000 Income Limit and 50 Percent Tax Relief for Disabled Veteran Homeowner Property Owners:

- According to information provided by COT, new veteran and surviving spouse tax relief applicants received benefits totaling $2,604,736 with no income limit in FY13-14.
- According to information provided by COT, it is estimated that 30 percent of new disabled veteran and surviving spouse property tax relief applications from 2014 would not have qualified for property tax relief had the provisions of PC 481 were in place in 2014, which would have reduced the FY13-14 property tax relief to $1,823,315 ($2,604,736 x 0.7).
- According to information provided by COT, 55 percent of new disabled veteran and surviving spouse property tax relief applications would not qualify for relief at the $29,999 income limit. This would result in a total amount of $820,492 ($1,823,315 x 0.45) in property tax payments for those eligible for property tax relief for this category of veterans assuming that provisions of the bill had been in effect in 2014.

- The provisions of the bill allow for 50 percent reimbursement on property taxes for this category of veterans; therefore, the resulting impact for property tax relief that would have been paid to this population of veterans in 2014, if the provisions of this bill had been in effect in that fiscal year is estimated to be $410,246 ($820,492 x 0.5).
- Projecting 50 percent of the estimated total property tax relief that would have been paid to this category of veterans in 2014 at the $30,000 income limit forward two years at fifteen percent annually to FY16-17 will result in $542,550 [($410,246 x 115.0%) x 115.0%)] of property tax relief.
- The recurring decrease in state expenditures beginning in FY16-17 resulting from the $30,000 income limit and 50 percent property tax relief to eligible disabled veteran and surviving spouses is estimated to be $863,103 ($1,405,653 current expenditures- $542,550 estimated expenditures from FY16-17).

Assumptions Relative to Comptroller's Office Software Upgrades:

- Modifications of COT's software are necessary to calculate the percentages of relief, annual income limits, and categories of disabled veterans.
- Based on information from the COT, the one-time increase in state expenditures for the COT to develop and deploy the software is estimated to be $8,950 (development $7,065 + testing/quality assurance $1,885).

Assumptions Relative to the Total Impact of the Bill:

- The net increase in state expenditures from the General Fund in FY16-17 is estimated to be $1,645,847 ($2,500,000 - $863,103 + 8,950).
- The net recurring increase in state expenditures from the General Fund in Fy17-18 and subsequent years is estimated to be $1,636,897 ($2,500,000 - $863,103).

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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