Bill Analysis

Peter A. Cooper *Legislative Service Commission*

H.B. 30

123rd General Assembly
(As Introduced)

Reps. **Olman, Cates, Thomas, Mottley, Tiberi, Metzger, D. Miller, Jolivette, Allen, Bender, Taylor, Pringle, James, Willamowski, O'Brien, Opfer, Krupinski, Calvert, Evans, Metelsky, Myers, Young, DePiero**

BILL SUMMARY

- Modifies the computation of income for purposes of determining eligibility for the homestead exemption in order to prevent a person from losing eligibility due to the person's benefits converting from disability to retirement.

CONTENT AND OPERATION

Homestead exemption

Eligibility

The homestead exemption is available for residences (including manufactured homes) that are owned and occupied by persons who are elderly or disabled and who have limited incomes. To be eligible for the homestead exemption, a household must have income (after certain adjustments) of $20,800 or less, and the owner or the owner's spouse must be either (1) disabled, (2) at least 65 years of age, or (3) at least 60 years of age and the surviving spouse of a person who received the exemption at the time of death. The exemption is in the form of a reduction in the taxable value of the residence, which translates into a reduction in the tax bill. The extent of the reduction in taxable value depends on a person's income, with greater reductions afforded to those with relatively lower incomes, as follows:

Income	Reduction in taxable value
$0 to 10,800	$5,000 or 75% (lesser of the two)[1]
$10,801 to 15,800	$3,000 or 60% (lesser of the two)
$15,800 to 20,800	$1,000 or 25% (lesser of the two)

Income determination; retirement and disability benefits

(secs. 323.151(C) and 4503.064(B))

Eligibility for the homestead exemption is determined by the "total income" of the owner and the owner's spouse. "Total income" is federal adjusted gross income with certain items of income added or deducted. Among the items added are pension or other retirement benefits that are not included in federal adjusted gross income (including Social Security and Railroad Retirement benefits). Among the items deducted are disability benefits that are included in federal adjusted gross income: up to $5,200 of disability benefits are deducted, unless they are paid by the Veterans Administration or armed forces on account of an injury or disability, in which case the entire amount of benefits is deducted.

Neutralizing income effects of converting benefits from disability to retirement

The bill addresses situations in which persons who previously qualified for the homestead exemption on the basis of being disabled have reached the age when they qualify on the basis of age, and a change in the way their benefits are characterized affects their eligibility for the exemption. Since disability benefits are deducted at least in part in determining eligibility for the exemption, whereas retirement benefits are fully included, a person who receives disability payments one year and retirement benefits the next year may have to report an increase in total income. The increase in total income may decrease the amount of the homestead tax reduction, or may even cause the person's income to exceed the $20,800 limit and thereby disqualify the person for any tax reduction. Thus, a change in how a person's income is characterized, from disability to retirement, may result in a change in the person's tax reduction, regardless of any change in the amount of income they receive.

[1] *The lesser of the two usually will be the dollar amount. In order for a residence to receive a 60% reduction in taxable value, for example, it would have to have a taxable value of $5,000 or less, which equates to an appraised market value of only $14,286.*

The bill prevents such a change in the characterization of a person's benefits from affecting the person's eligibility for the homestead exemption. Under the bill, for persons who once qualified for the homestead exemption on the basis of disability and who subsequently qualify on the basis of age, the manner in which total income is computed will be modified so that they can deduct an amount equal to the amount of disability benefits they deducted just prior to the time when they began qualifying for the exemption on the basis of age.

Specifically, if a person received disability benefits in the last year he or she qualified for the exemption on the basis of disability, and those benefits were not included in adjusted gross income, the person would subtract the amount of all disability benefits received in that year (but only to the extent of the current year's total income, and to the extent that the benefits have not been deducted as disability benefits in the current year). If the person's disability benefits were included in adjusted gross income in the last year they qualified on the basis of age, the person would subtract the amount of those benefits that were subtracted in that year (but only to the extent of the current year's total income, and to the extent that the benefits have not been deducted as disability benefits in the current year).

The bill would begin to apply to homestead taxes charged for 1999 (payable in 2000), and to manufactured home taxes charged for 2000.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	01-20-99	pp. 89-90

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