Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **H.B. 780** DATE: **November 3, 1998**

STATUS: **As Introduced** SPONSOR: **Rep. Olman**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Maintain disability benefit deduction for homestead exemption at age 65.**

State Fiscal Highlights

STATE FUND	FY 1999	FY 2000	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	$250,000 - $500,000 Increase	$500,000 - $1,000,000 Increase	$600,000 - $1,100,000 Increase

- By allowing disabled homestead recipients to maintain disability deductions from qualifying income after turning age 65, the number of individuals qualifying for the homestead exemption will increase slightly and some disabled individuals in the program will qualify for greater tax relief. The state is required to reimburse local taxing districts for the increased costs of the program.
- FY 1999 is one half of annual cost due to collection and payment differences between tax and fiscal years.
- By allowing current homestead recipients to recalculate income by maintaining disability deductions, the former disability recipients that turned 65 over the last 10 years or more are potentially eligible to have their homestead eligibility recalculated. This should result in a first tax year cost increase of $500,000 to $1,000,000 with additional increases likely as more eligible persons join the program each year.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

The homestead exemption program allows senior citizens, disabled persons, and surviving spouses who own and occupy their principal residence and whose total income is less than $20,800 to receive a reduction in taxable property value. The program cost is reimbursed by the state to local taxing districts. The bill would allow disabled persons to continue deducting the same disability amount from total income for purpose of qualifying for the homestead exemption program after reaching age 65.

Under current law, the reduction in value is calculated based on the guidelines presented in the following table:

Total Income	By the lesser of:
Total Income ≤ $10,800	$5,000 or 75% of Total Income
$10,800 < Total Income ≤ $15,800	$3,000 or 65% of Total Income
$15,800 < Total Income ≤ $20,800	$1,000 or 25% of Total Income
Total Income ≥ $20,800	$0

Persons applying for the exemption calculate their total qualifying income based on the following formula:

	Federal Adjusted Gross Income
+	Nontaxable Social Security Retirement Benefits and Survivor Benefits
+	Nontaxable Retirement, Pension, and Annuity Benefits
+	Interest on Tax Exempt Government Obligations
-	Disability Payment paid by Veterans Administration or any branch of Armed Forces
-	All other Disability Benefits up to a maximum of $5,200
=	Total Income

When a disabled person turns 65, disability benefits from the Social Security Administration are reclassified as retirement benefits. With no change in total income, a disabled person may lose all or a portion of their homestead exemption due solely to reclassification.

To estimate the impact of allowing disabled persons to continue deducting disability benefits from total income, LBO obtained data from 81 of Ohio's 88 counties regarding disabled persons who lost all or a portion of their exemption due solely to turning 65 in tax year 1997. Given the nature of the data request, only sixteen counties (23 percent of all homesteaders) provided exact numbers of persons who lost the entire exemption due solely to reclassification. Two of the sixteen counties (Cuyahoga and Ashtabula) supplied detailed information of persons who lost all or a portion of the exemption. Thirteen of the sixteen counties reported zero or one persons losing their entire exemption and the other three counties reported 2, 4, and 6 persons losing their entire exemption.

Cuyahoga County has the largest number of qualifying homeowners, with 39,304 (15.5%) of the 249,798 exemptions granted in tax year 1996. They reported zero persons losing the entire exemption and 105 persons losing a portion of their exemption. The average credit loss was $71.66 per person and a total county credit loss was $7,524.30.

Ashtabula County is the twentieth largest homestead county with 3,098 exemptions granted last tax year. They reported one person losing the entire exemption and eight persons losing a portion of their exemption. The average credit loss was $229.46 per person and a total county credit loss was $2,065.13.

The remaining sixty-five counties provided estimates of the number of persons losing their entire exemption. Forty-seven of these counties reported the maximum estimate to be under 25 persons losing their entire exemption and the other eighteen counties reported 30 to 550 persons losing their entire exemption. Since these values tended to be much larger than the exact information obtained, they were considered cautious estimates provided by auditors.

Given the wide disparity in the impacted number of individuals, LBO estimated the cost of the bill based on the exact measure provided by sixteen counties and the estimates of those counties (47) projecting loses within the same bounds as the actual numbers. The estimate is based on both persons who lost their entire exemption and persons who still qualify for the exemption but received a smaller amount. It is projected that the increase in cost will be approximately $200,000 per tax year for disabled persons turning 65 that year.

However, persons currently qualified for the program based on age and had received a disability exemption before age 65 are eligible for a recalculation of homestead benefits; this would potentially increase their homestead amount. It is difficult to estimate how many persons are eligible for recalculation of their exemption, but the first years of the program will have a higher cost increase as a result. After the first few years, cost increases will taper off as the number of new eligibles and the number leaving the program reach a balance point. LBO estimates the first year of the program (FY 2000) to cost between $500,000 to $1,000,000. Subsequent years would see additional cost increase, as more recipients become eligible for the program. While $200,000 in new recipients would be eligible for the program each year, other recipients would drop off the rolls due to changed circumstances. Total annual costs will be in the $1 million to $2 million range after half a dozen years and remain approximately constant at that point.

❑ *LBO staff: Jeffery T. Petry, Economist*
Barbara Mattei-Smith, Economist

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