Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL: **H.B. 166** DATE: **March 3, 1999**

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

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

CONTENTS: **Maintain disability benefit deduction for homestead exemption at age sixty-five and index for inflation the total qualifying income brackets.**

State Fiscal Highlights

STATE FUND	FY 1999	FY 2000	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	$2.5 million to $3.0 million	$2.6 million to $3.1 million

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000.

- 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 has no cost due to timing of property tax payments.
- 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.
- Indexing the current qualifying income brackets would increase the programs total cost by approximately $1,000,000 each year.

Local Fiscal Highlights

- No direct fiscal effect on political governments.

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. H.B. 166 would allow disabled persons to continue deducting disability benefits from total income for purpose of qualifying for the homestead exemption program after reaching age sixty-five and use an inflationary index to annually adjust the program's qualifying total income brackets.

Maintaining Disability Benefit Deduction

Three components must be estimated to determine the additional cost of maintaining the disability deduction after age sixty-five: (1) The number of disabled persons who were completely removed from the homestead program when they turned sixty-five, (2) The number of disabled persons who lost a portion of their homestead exemption when they turned sixty-five, and (3) Disabled persons who fell into categories (1) or (2) in the past and may now claim a larger homestead exemption.

Under current law, the reduction in value is calculated based on the guidelines presented in Table 1.

Table 1: Current Law Homestead Qualifications and Reductions

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 sixty-five, 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. A person who becomes disabled after age sixty-five would not qualify under this bill. They must have received disability benefits at one time for recalculation using the disability deduction.

To estimate the impact of allowing disabled persons to continue deducting disability benefits from total income, LBO obtained data from all 88 counties regarding disabled persons who lost their entire exemption due entirely to turning sixty-five in tax year 1997. This information is not readily available from the county auditors, but eighteen counties (representing 26 percent of all homesteaders) were able to provide the exact number of persons who lost the entire exemption due solely to reclassification. Fourteen of the eighteen counties reported zero or one persons losing their entire exemption and the other four counties reported 2, 4, 6, and 13 persons losing their entire exemption. Two of the eighteen counties (Cuyahoga and Ashtabula) supplied detailed information of persons who lost all or a portion of their exemption. The remainder of the counties (70) provided estimates of the number of persons losing their entire homestead exemption in tax year 1997.

Cuyahoga County has the largest number of qualifying homeowners, with 39,304 (15.5%) of the 249,798 exemptions granted in tax year 1996.[1] 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, with a total county credit loss of $7,524.30.

Ashtabula County is the twentieth largest homestead county with 3,098 exemptions granted in tax year 1996. 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, with total county credit loss of $2,065.13.

Given the wide disparity in the impacted number of individuals, LBO estimated the cost of the bill based on the exact measure provided by eighteen counties and the estimates of counties (52) projecting loses within the reasonable bounds of the actual data values.[2] For persons who lost their entire exemption and for persons who still qualify for the exemption but received a smaller amount, the estimated state cost increase will be approximately $200,000 per tax year for disabled persons turning sixty-five in that year.

However, persons who currently qualify for the program based on age and had received a disability exemption before age sixty-five are also eligible for a recalculation of homestead benefits, potentially increasing their exemption 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 for maintaining the disability deduction will be in the $1 million to $2 million range after half a dozen years and remain approximately constant at that point.

[1] Tax year 1996 is the most recent data set available.
[2] Estimated data ranged from zero to 550 person losing their entire exemption. Using exact data and discussions with auditors, a reasonable bound was made at 25 persons. Fifty-two of the seventy counties reported 25 persons or less losing their entire homestead exemption. Estimates were made for the remaining 18 counties.

Inflationary Adjustment of Qualifying Income Brackets

H.B. 166 would also annually adjust the qualifying income brackets for inflation using the consumer price index-all urban consumers (CPI-U). LBO subscribes to two forecasting firms and data was used from one of these firms, WEFA, to index the qualifying income brackets to inflation through 2004. This is presented in Table 2.

Table 2: Inflationary Adjustment of Qualifying Income Brackets through 2004

$10,800 HEX Bracket		$15,800 HEX Bracket		$20,800 HEX Bracket	
Year	**Indexed Bracket**	**Year**	**Indexed Bracket**	**Year**	**Indexed Bracket**
1999	$10,800	1999	$15,800	1999	$20,800
2000	$11,100	2000	$16,200	2000	$21,300
2001	$11,300	2001	$16,500	2001	$21,700
2002	$11,600	2002	$16,900	2002	$22,200
2003	$11,800	2003	$17,300	2003	$22,800
2004	$12,100	2004	$17,700	2004	$23,300

WEFA expects inflation to grow by 2.2% to 2.5% between 2000 and 2004, which will increase the program's total cost by approximately $2 million each year. Therefore, the program's second year will cost an additional $4 million, the third year will cost an additional $6 million, and so on.

Total Program Cost

The combined fiscal effect of maintaining the disability benefits deduction and annually adjusting qualifying income brackets for inflation would be to increase the program's total cost by $2.5 to $3.0 million in the first year and $2.6 million to $3.1 million each successive year.

❑ *LBO staff Jeff Petry, Economist*

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