



Legislative
Council Staff

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FISCAL NOTE

Drafting Number: LLS 20-0094
Prime Sponsors: Sen. Marble
Rep. Saine

Date: February 3, 2020
Bill Status: Senate Finance
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Bill Topic: **PROPERTY TAX EXEMPTION VALUE ADJUSTMENTS**

Summary of Fiscal Impact:

<input type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

This bill increases the senior homestead and disabled veterans homestead exemption from 50 percent of \$200,000 to 50 percent of \$435,000 for the 2020 tax year, and increases the exemption amount to account for home price appreciation each year. This will increase expenditures for reimbursement to local governments for these exemptions. In years when there is not a sufficient TABOR surplus to fully fund the expanded exemption it will increase General Fund expenditures.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: This fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under SB 20-148

		FY 2020-21	FY 2021-22	FY 2022-23
Revenue		-	-	-
Expenditures	Local Governments*	\$121.2 million	\$127.1 million	\$129.5 million
	Sales Tax Refund	(\$121.2 million)	(\$127.1 million)	(\$129.5 million)
	Total	-	-	-
Transfers		-	-	-
TABOR Refund		-	-	-

* Reimbursements to local governments for the senior homestead and disabled veteran property tax exemptions.

Summary of Legislation

This bill increases the senior homestead and disabled veterans homestead exemptions (homestead exemption) from 50 percent of \$200,000 to 50 percent of \$435,000 for the 2020 tax year, and increases the exemption amount to account for home price appreciation each year.

The Property Tax Administrator determines the change in the average home price each year while excluding new construction. This amount will be used to determine home price appreciation.

Background

Under current law, the homestead exemption reduces the actual value of a qualifying home for property taxation by 50 percent, up to a maximum of \$100,000. For example, a home with an actual value of \$150,000 is taxed as if it were worth \$75,000, and a home with an actual value of \$500,000 is taxed as if it were worth \$400,000 using the maximum exemption.

Local government reimbursements. The state is required to reimbursement local governments for the revenue reduction attributable to these exemptions. These reimbursements are made as expenditures from the state General Fund.

TABOR refund mechanisms. SB17-267 made reimbursements to local governments for the property tax exemptions a TABOR refund mechanism. Under this mechanism, a TABOR surplus in one year (e.g., FY 2019-20) is set aside to fund these reimbursements in the following year (e.g., the 2020 tax year, or FY 2020-21). There are currently three refund mechanisms under current law. After fully funding local government reimbursements for the exemptions, any remaining TABOR refunds are returned to taxpayers by a temporary income tax rate reduction (if there is sufficient revenue) and a sales tax refund made on taxpayers income tax forms. For more information, see the December 2019 Legislative Council Staff forecast of the TABOR outlook.

Senior homestead exemption. A homeowner is eligible to claim the senior homestead exemption if he or she meets the following requirements:

- the homeowner is 65 years old as of January 1 of the tax year; and
- the homeowner has occupied the home as his or her primary residence for at least ten years.

Disabled veteran homestead exemption. A disabled veteran is eligible to claim the disabled veterans homestead exemption if he or she is rated permanently disabled by the U.S. Department of Veterans Affairs, and owned and occupied the property as their primary residence on January 1st of the year in which they apply for the exemption.

State Expenditures

The bill increases expenditures for the homestead exemption by \$121.2 million in FY 2020-21, \$127.1 million in FY 2021-22, and \$129.5 million in FY 2022-23. Based on the December Legislative Council Staff forecast, the increased expenditures are expected to be paid from the prior year's TABOR refund obligation and are not expected to impact the amount of revenue available for the General Fund budget. However, if revenue subject to TABOR comes in lower than expected, the bill may result in an increase in General Fund expenditures in one or more years. In future years when there is not a sufficient TABOR surplus to fully fund the senior and disabled veterans homestead exemptions, this bill will increase the General Fund expenditures.

Assumptions. The Division of Property Taxation provided data on properties that qualified for the homestead exemption in 2018. These data were adjusted for forecast home price appreciation and the property tax benefit was recalculated under the bill. Table 2 shows the increased homestead exemption, the forecast for current law reimbursements, and the net impact of the bill.

Table 2
Change in Homestead Exemptions Under SB 20-148

	FY 2020-21	FY 2021-22	FY 2022-23
Expanded Homestead Exemption	\$283,093,730	\$297,496,137	\$308,915,943
Current Law	\$161,895,930	\$170,414,401	\$179,381,087
Net Change	\$121,197,800	\$127,081,736	\$129,534,856

Department of Local Affairs. Workload in the Division of Property Taxation will increase to estimate the change in average actual value of residential property, update information on the division website, and respond to questions from taxpayers. The workload increase is minimal and can be accomplished within existing appropriations.

TABOR refund mechanism. Beginning in tax year 2021, the bill increases the amounts of TABOR refunds that will be paid via reimbursements to local governments for property tax exemptions rather than sales tax refunds on income tax forms. Based on the December 2019 LCS forecast, revenue subject to TABOR is expected to exceed the Referendum C cap in each of FY 2019-20, FY 2020-21, and FY 2021-22. Under this forecast, larger property tax exemptions under the bill will offset a decrease in sales tax refunds by \$121.2 million for tax year 2020, \$127.1 million for tax year 2021, and \$129.5 million for tax year 2022. A forecast of state revenue subject to TABOR is not available beyond FY 2021-22, so the refund mechanisms that will be used beyond tax year 2022 have not been forecast.

Local Government

The bill has offsetting impacts on local government revenue that will not change net revenue to any jurisdiction. It decreases property tax revenue with offsetting increased state reimbursements to local governments by the amounts shown in Table 1.

Effective Date

The bill takes effect August 5, 2020, if the General Assembly adjourns on May 6, 2020, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Counties
Local Affairs

County Assessors
Property Tax Division

Information Technology
Treasury