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4th Sub S.B. 197 Property Tax Amendments

The state currently provides property tax relief to elderly and indigent taxpayers through policies of both abatement and deferral. The reform effort described in this document aims to make property tax deferral the primary policy approach to property tax relief in the state while not substantially impacting the existing population of taxpayers enrolled in abatement programs. The relief programs for properties with a qualifying increase, veterans with a disability, active-duty armed forces, and the blind are not modified by this policy change.

Key Points

- There are currently four property tax relief programs for the elderly and the indigent (two abatement, and two deferral programs)
- In this bill, the four existing programs would be consolidated into two tax deferral programs, and the Renter's Credit would be expanded
- The costs of abated property taxes are borne by the other taxpayers in the county, while deferred property taxes are ultimately paid by the homeowner or the homeowner's estate

Property Tax Relief Provisions to be Consolidated or Modified

Homeowner Low Income Abatement (Circuit Breaker)

Targeted at homeowners with limited income, the program offers an abatement of property taxes on a primary residence. The homeowner must have a household income less than \$40,840 and be at least 66 years old. The homeowner may have up to \$1,259 of property tax abated, based on income, plus an additional credit equal to the tax on 20% of a home's fair market value.

This proposal ensures that all recipients of Circuit Breaker tax relief who have received relief in at least one of two years prior to applying for tax relief may continue to claim the tax abatement and 20% valuation reduction. However, no new applicants will be accepted into the program, applicants can't receive indigent abatement or a deferral, and the indexing for inflation will be removed from the income thresholds and the credit amounts.

Indigent Abatement

This program assists homeowners who are facing extreme financial hardship or medical disability or are at least 65 years old. The homeowner must have a household income less than \$40,840. The homeowner may have abated the lesser of 50 percent of the total tax for the current year, or a maximum of \$1,259.

This proposal ensures that all recipients of Indigent Abatement who have received relief in at least one of two years prior to applying for tax relief may continue to claim the abatement. However, no new applicants will be accepted into the program and applicants can't receive Circuit Breaker or a deferral.

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Renter Credit (Circuit Breaker/Renter Refund)

Targeted at elderly renters with limited income, the program offers a percentage refund of rent paid during the year. A renter must be at least 66 years old or be an unmarried surviving spouse regardless of age. The credit amount that can be claimed varies based on household income.

This proposal would expand the top income threshold from \$40,840 to \$46,000 with corresponding increases in the lower brackets and would increase the maximum claimable credit amount from \$1,259 to \$2,000 with corresponding changes in the other brackets. The proposal also decouples the renter's credit from the Homeowner Low Income Abatement program.

New Property Tax Relief Provisions

Non-Discretionary Property Tax Deferral

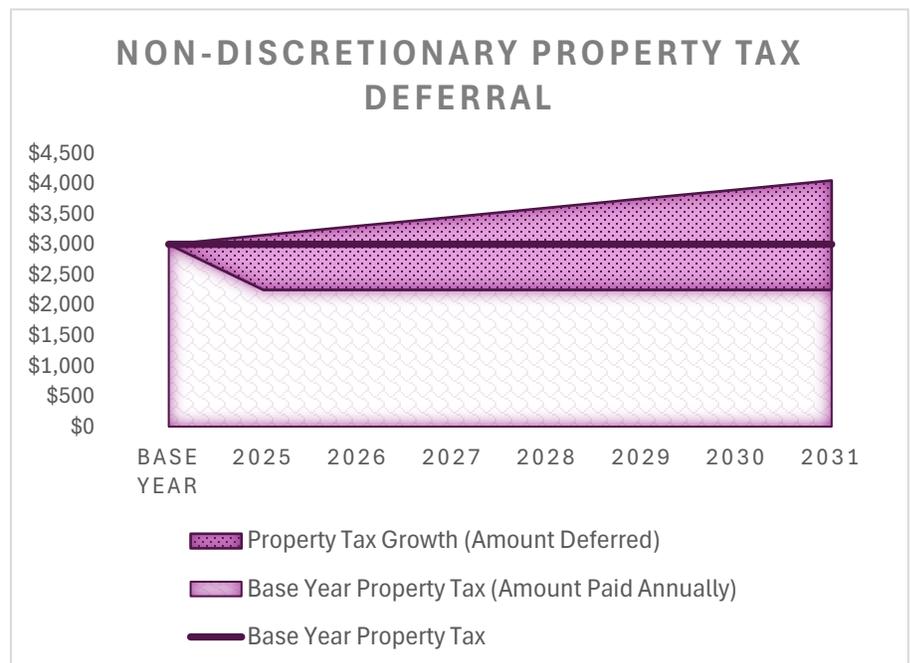
Under this proposal, the primary program for property tax relief for homeowners would be a non-discretionary deferral program. This proposal will replace the Elderly Property Owners Deferral (75+) program and would freeze the amount of property tax paid annually at 75% of the base year amount. Counties would be required to offer this deferral to qualified homeowners who apply.

To be a qualified homeowner, the taxpayer must:

- Have household income of less than \$60,000
- Be at least 65 years of age
- Have household liquid resources of less than 20X the base year property tax amount
- Have owned the property for at least one year
- Disclose all outstanding mortgages
- Not have a reverse mortgage
- Have at least 5% equity in the property
- Not receive abatement or discretionary deferral

Characteristics of program:

- The homeowner's annual property tax bill is frozen at an amount that is no more than 75% of the amount the homeowner paid in taxes on the property in the year prior to enrolling in the program (base year)
- Each year, any increase in property taxes above the first-year amount is deferred and accrues 3% interest
- The deferred taxes, plus interest, are due at the time that the property is no longer the taxpayer's primary residence, except when the property is transferred to a surviving spouse or to a special needs trust
- The deferred taxes, plus interest, are not due if the property is transferred to a trust and it remains the primary residence of the taxpayer.
- A lien is placed on the property until the deferred taxes are paid
- The county will be required to put on the tax notice of each deferral recipient the amount of property tax deferred and interest accrued



Discretionary Property Tax Deferral

An additional, discretionary, deferral program would be created and targeted to homeowners with lower household incomes. This proposal will replace the Indigent Deferral program.

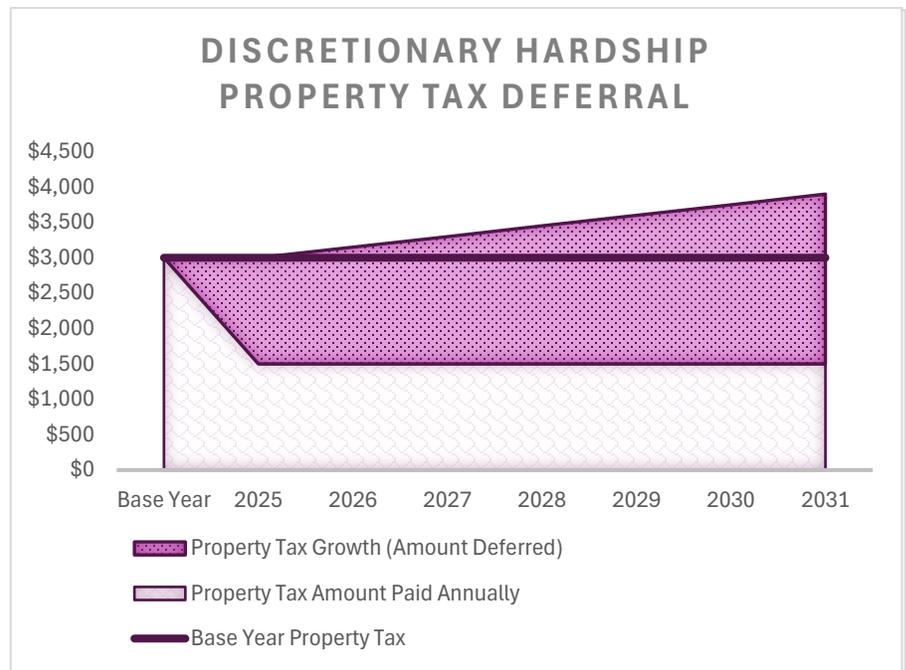
This program would freeze the amount of property tax paid annually at as little as 50% of the base year amount. Counties would have discretion in determining whether to offer this deferral to qualified homeowners who apply. The county would also have discretion in determining the percentage of base year tax to apply the deferral towards, within a range of 0%-50%.

To be a qualified homeowner, the taxpayer must:

- Have a household income of less than \$50,000
- Have household liquid resources of less than 20X the base year property tax amount
- Disclose all outstanding mortgages
- Not receive abatement or non-discretionary deferral

Characteristics of program:

- The homeowner's annual property tax bill is frozen at an amount that is no more than 50% of the amount the homeowner paid in taxes on the property in the year prior to enrolling in the program (base year)
- Each year, any increase in property taxes above the first-year amount is deferred and accrues 2% interest
- The deferred taxes, plus interest, are due at the time that the property is no longer the taxpayer's primary residence, except when the property is transferred to a surviving spouse or a special needs trust
- The deferred taxes, plus interest, are not due if the property is transferred to a trust and it remains the primary residence of the taxpayer.
- A lien is placed on the property until the deferred taxes are paid, the lien is subordinate to any mortgage
- The county will be required to put on the tax notice of each deferral recipient the amount of property tax deferred and interest accrued



Conclusion

This policy change would achieve the sponsor's goal of providing property tax relief to homeowners who are elderly or low income while ensuring that the costs of that relief are borne by those homeowners' or their estates in the future, instead of the other taxpayers within the taxing district.