

HOMESTEAD PROPERTY TAX CREDIT - BACKGROUND MEMORANDUM

House Bill No. 1206 provides for Legislative Council study of several topics, one of which is "homestead tax valuation for senior citizens." It appears the intention is to study homestead property tax credits allowed under North Dakota Century Code (NDCC) Section 57-02-08.1 (see attached appendix) for aged or disabled persons with limited income, state reimbursement of the homestead credit under NDCC Section 57-02-08.2 (see attached appendix), and the homestead credit for special assessments under Section 57-02-08.3 (see attached appendix).

HOMESTEAD PROPERTY TAX CREDIT

Since 1969, North Dakota law has provided a property tax reduction for persons 65 years of age or older with limited income. As created in 1969, the provision allowed a person 65 years of age or older with an income of \$3,000 or less per year from all sources to claim a 50 percent reduction in the assessment up to a maximum reduction of \$1,000 of assessed valuation on the person's homestead. This provision has been amended by 23 bills since 1969.

The income limitations in NDCC Section 57-02-08.1 have been increased by legislation approved in 1973, 1975, 1977, 1979, 1981, 1985, 1989, 1993, and 1999. Other significant changes to this section include a matching credit and refund for renters which was added in 1973, state reimbursement to political subdivisions of property tax revenue losses from the credit which was approved in 1973 and became effective in 1975, the credit was extended in 1975 to a person who is permanently and totally disabled, a deduction from income for medical expenses was allowed in 1977, the basis of the tax credit was changed from assessed valuation to taxable valuation and the amount of reductions allowed was proportionately decreased in 1983, an exclusion was added in 1983 to disallow the credit to a person whose assets exceed \$50,000 excluding the value of the homestead, federal rent subsidies were excluded from income and tax-exempt property was excluded from eligibility for the credit for renters in 1985, a \$6,000 limit was imposed on the credit allowed against special assessments in 1985, the credit was allowed to remain available upon absence of the person from the homestead for nursing home care or care in a similar facility in 1989, and permanent and total disability was defined in 1993.

Under the current provisions of NDCC Section 57-02-08.1, a person who is 65 years of age or older or who is permanently and totally disabled whose income is \$14,000 or less per year from all sources, including

the income of any dependent, is entitled to a reduction in taxable valuation of the person's homestead. The exemption continues to apply if the person does not reside in the homestead and the person's absence is due to confinement in a nursing home, hospital, or other care facility for as long as the portion of the homestead previously occupied by the person is not rented to another person. The reduction in taxable valuation varies depending upon income as follows:

Income	Maximum Reduction in Taxable Valuation	Maximum Percentage Reduction in Valuation
\$8,000 or less	\$2,000	100%
\$8,001 to \$9,500	\$1,600	80%
\$9,501 to \$11,000	\$1,200	60%
\$11,001 to \$12,500	\$800	40%
\$12,501 to \$14,000	\$400	20%
Over \$14,000	\$0	0%

A person claiming the homestead property tax credit exemption must sign a statement that the person is 65 years of age or older or is permanently and totally disabled, that the person's income does not exceed \$14,000 per annum, and that the value of the person's assets excluding the value of the person's homestead does not exceed \$50,000, including the value of any assets divested within the last three years.

An illustration of the effect of the homestead property tax credit may be useful in understanding how the credit applies. For the following examples, a home with a \$60,000 true and full value is assumed for each homeowner, and the 1999 statewide average mill rate of 394 mills is applied to the property:

	Annual Income	Taxable Valuation Reduction	Property Tax Obligation	Property Tax Savings
Homeowner A	\$7,500	\$2,000	\$276	\$788
Homeowner B	\$10,000	\$1,200	\$591	\$473
Homeowner C	\$13,500	\$400	\$906	\$158
Homeowner D	\$15,000	\$0	\$1,064	\$0

For homeowners in the following examples, the same assumptions are used except the true and full value of the home is reduced to \$30,000. In these examples, Homeowner E is eligible for complete elimination of the property's taxable valuation. Homeowners F and G are limited in the reduction they receive because the maximum percentage reduction in valuation applies to them rather than the maximum dollar amount reduction under NDCC Section 57-02-08.1.

	Annual Income	Taxable Valuation Reduction	Property Tax Obligation	Property Tax Savings
Homeowner E	\$7,500	\$1,350	\$0	\$532
Homeowner F	\$10,000	\$810	\$213	\$319
Homeowner G	\$13,500	\$270	\$426	\$106
Homeowner H	\$15,000	\$0	\$532	\$0

HOMESTEAD PROPERTY TAX CREDIT FOR RENTERS

Any person 65 years of age or older or permanently and totally disabled with an income of \$14,000 or less per year from all sources and who rents living quarters is eligible for a refund of a portion of the person's rent deemed to constitute payment of property taxes. Twenty percent of the person's annual rent, excluding federal rent subsidy and utilities, services, furniture, furnishings, or appliances furnished by the landlord under the rental agreement, is considered payment made for property taxes. This 20 percent of annual rent, to the extent it exceeds four percent of the annual income of the person, is refunded from the state general fund, but the refund may not exceed \$240. A husband and wife who are living together are entitled to only one rent refund. The refund is not available for living quarters, including a nursing home, that is exempt from property taxes.

STATE REIMBURSEMENT OF HOMESTEAD PROPERTY TAX CREDITS

Under NDCC Section 57-02-08.2, since 1975 the state has provided reimbursement to political subdivisions for property taxes lost as a result of the homestead property tax credit, and the state has also provided reimbursement to renters eligible for refunds under the homestead property tax credit. Each county

is required to certify to the Tax Commissioner the name and address of each person allowed the homestead property tax credit for the previous year, the amount of the exemption, and the total of tax mill rates against the property. The Tax Commissioner is required to certify to the State Treasurer for payment to each county the amount of property tax excused under the homestead property tax credit. Renters entitled to a refund must apply annually to the Tax Commissioner for refunds.

The following table shows appropriations made for state reimbursement to political subdivisions and payments to renters for the homestead property tax credit for each biennium since the state began providing reimbursement:

1975-77	\$3,286,014
1977-79	\$2,900,000
1979-81	\$3,550,000
1981-83	\$6,290,000
1983-85	\$5,341,000
1985-87	\$4,250,000 ¹
1987-89	\$4,706,000 ²
1989-91	\$5,000,000
1991-93	\$4,879,163
1993-95	\$5,375,000
1995-97	\$5,181,250
1997-99	\$4,790,813
1999-2001	\$4,540,813
2001-03	\$4,540,813

¹ After \$750,000 reduction by the 1987 Legislative Assembly.

² After \$456,000 deficiency appropriation added by the 1989 Legislative Assembly.

The following table shows the number of claimants, total payments, and average payments per claimant under the homestead property tax credit:

Tax Year	Qualifying Homeowners	Paid for Homeowners	Average Per Homeowner	Qualifying Renters	Paid to Renters	Average Per Renter	Total Payments
1975*	\$6,004	\$650,693	\$108	414	\$26,182	\$63	\$676,875
1976	\$6,738	\$691,592	\$103	508	\$37,367	\$74	\$728,959
1977*	\$9,663	\$1,351,324	\$140	1,325	\$143,352	\$108	\$1,494,676
1978	\$10,736	\$1,556,881	\$145	2,301	\$292,458	\$127	\$1,849,339
1979*	\$10,529	\$1,582,655	\$150	2,572	\$353,058	\$137	\$1,935,713
1980	\$10,633	\$1,881,602	\$177	2,594	\$365,696	\$141	\$2,247,298
1981*	\$10,158	\$1,970,208	\$194	2,635	\$387,906	\$147	\$2,358,114
1982	\$9,411	\$1,886,433	\$200	2,664	\$414,429	\$156	\$2,300,862
1983	\$8,820	\$1,841,081	\$209	3,133	\$516,244	\$165	\$2,357,325
1984	\$8,206	\$1,818,526	\$222	3,068	\$519,667	\$169	\$2,338,193
1985*	\$7,362	\$1,697,678	\$231	2,206	\$159,713	\$72	\$1,857,391
1986	\$7,567	\$1,987,970	\$263	1,994	\$161,905	\$81	\$2,149,875
1987	\$7,540	\$2,011,933	\$267	1,878	\$163,092	\$87	\$2,175,025
1988	\$7,546	\$2,142,139	\$284	1,881	\$163,357	\$87	\$2,305,496
1989	\$7,307	\$2,158,650	\$295	1,657	\$149,666	\$90	\$2,308,316
1990*	\$7,188	\$2,336,992	\$325	1,601	\$149,705	\$94	\$2,486,697
1991	\$7,029	\$2,230,637	\$317	1,582	\$151,600	\$96	\$2,382,237
1992	\$6,743	\$2,181,292	\$323	1,534	\$155,205	\$101	\$2,336,497
1993	\$6,576	\$2,184,714	\$332	1,563	\$166,739	\$107	\$2,351,453

Tax Year	Qualifying Homeowners	Paid for Homeowners	Average Per Homeowner	Qualifying Renters	Paid to Renters	Average Per Renter	Total Payments
1994	\$6,376	\$2,159,466	\$339	1,626	\$175,554	\$108	\$2,335,020
1995*	\$6,095	\$2,194,689	\$360	1,590	\$177,782	\$112	\$2,372,471
1996	\$5,680	\$2,072,141	\$365	1,499	\$166,841	\$111	\$2,238,982
1997	\$5,278	\$1,974,283	\$374	1,482	\$165,060	\$111	\$2,139,343
1998	\$4,943	\$1,852,124	\$375	1,454	\$173,370	\$119	\$2,025,494
1999	\$4,457	\$1,817,552	\$408	1,508	\$190,211	\$126	\$2,007,763

* Denotes years in which income limitations for credits were increased. The 1990 increase was approved in 1989 legislation, the 1995 increase was approved in 1993 legislation, and an increase for 2000 was approved in 1999 legislation.

HOMESTEAD CREDIT FOR SPECIAL ASSESSMENTS

Under NDCC Section 57-02-08.3, a person who is qualified for the homestead property tax credit may also elect to qualify for a homestead credit against special assessments. The credit is available only for annual installments of special assessments and must be claimed each year the applicant wants the credit. The total amount of credits allowed for any parcel of property may not exceed \$6,000, not including interest charged by the governing body levying the special assessment. The amounts claimed are to be reported by the county to the Tax Commissioner for payment to the special assessment district.

The amount of the homestead credit for special assessments, plus interest of nine percent per year, is a lien in favor of the state against the property upon which the special assessment credit is allowed. The lien is generally payable from the estate of the claimant, and title to the homestead may not be transferred without the lien being satisfied, unless in the case of a transfer between spouses because of the death of one of them, in which case the lien need not be satisfied until the property is again transferred.

STATISTICAL COMPARISONS

The following table compares 1983 through 1999 data on relative changes in the homestead property tax credit income limit and other statistical indicators that may be deemed comparable:

	Federal Poverty Guideline ¹	Homestead Credit Income Limit	Consumer Price Index Annual Increase	North Dakota Per Capita Personal Income	North Dakota Residential Property Taxes (in Millions)	Social Security Cost-of-Living Adjustment
1983	\$6,540	\$10,000	3.2%	\$11,386	\$73.9	3.5%
1984	\$6,720	\$10,000	4.3%	\$12,307	\$80.2	3.5%
1985	\$7,050	\$12,000	3.6%	\$12,811	\$86.5	3.1%
1986	\$7,240	\$12,000	1.9%	\$13,126	\$91.0	1.3%
1987	\$7,400	\$12,000	3.6%	\$13,565	\$94.6	4.2%
1988	\$7,730	\$12,000	4.1%	\$12,745	\$99.0	4.0%
1989	\$8,020	\$12,000	4.8%	\$14,357	\$105.8	4.7%
1990	\$8,420	\$13,000	5.4%	\$15,880	\$111.1	5.4%
1991	\$8,880	\$13,000	4.2%	\$16,270	\$116.3	3.7%
1992	\$9,190	\$13,000	3.0%	\$17,692	\$124.1	3.0%
1993	\$9,430	\$13,000	3.0%	\$17,830	\$131.4	2.6%
1994	\$9,840	\$13,000	2.6%	\$19,033	\$141.0	2.8%
1995	\$10,030	\$13,500	2.8%	\$19,084	\$152.2	2.6%
1996	\$10,360	\$13,500	2.9%	\$21,166	\$160.9	2.9%
1997	\$10,610	\$13,500	2.3%	\$20,798	\$170.7	2.1%
1998	\$10,850	\$13,500	1.6%	\$22,767	\$183.1	1.3%
1999	\$11,060	\$14,000 ²	2.2%	\$23,313	\$196.9	2.4%
Cumulative increase 1983-99	69.1%	40%	67.3%	104.8%	166.4%	68.5% ³

¹ United States Department of Health and Human Services poverty guidelines for a family of two with no children.

² The income limit changes in 1999 House Bill No. 1052 did not take effect until taxable year 2000, but the increased limit is shown for purposes of this table.

³ The cumulative increase in the Social Security cost-of-living adjustment is inexact because it is based only on the annual percentage adjustments, and federal law provides that when the increase is applied each year, the resulting amount is rounded to the next lower 10 cents.