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Memorandum

To: Revenue and Transportation Interim Committee
 From: Larson Silbaugh, Tax Policy Analyst
 Date: August 2, 2010
 Subject: Fiscal Impact of LC4005

At its April meeting the Revenue and Transportation Committee requested that the Department estimate the fiscal impact of an increasing threshold circuit breaker. This memorandum is the response to that request. The draft bill LC4005 provides the parameters that were used for this analysis.

LC4005 replaces the 4 existing property tax assistance programs with a new credit claimed on the individual income tax form.

The fiscal impact of LC4005 on the state general fund is the increase in revenue from eliminating the existing programs and the reduced revenue from the new credit. Eliminating the existing programs would increase general fund revenue by \$10,690,546. The new credit for renters and homeowners would reduce general fund revenue by \$40,224,495. Overall, LC 4005 would decrease the general fund revenue by \$29,533,950 per year.

| | |
|-----------------------------|----------------------|
| General Fund Impact | |
| Eliminate Existing Programs | \$10,690,545 |
| New Credit | <u>-\$40,224,495</u> |
| Total | -\$29,533,950 |

The PTAP, DAV and EPTAP programs reduce taxable value which reduces the 95 mill general fund revenue, reduces the 6 mill university revenue and shifts taxes to other taxpayers in the local levy district. The elderly homeowner/renter credit is an income tax credit that reduces individual income tax revenue to the state general fund. The table below shows the impact on state revenues of eliminating the 4 existing programs.

| | University (6 mill) | General Fund (95 mill) | Shift in Local Taxes |
|---------------------------------|---------------------|------------------------|----------------------|
| DAV | \$33,086 | \$523,869 | \$2,661,718 |
| PTAP | \$13,767 | \$217,980 | \$1,073,865 |
| EPTAP | \$8,720 | \$138,071 | \$458,705 |
| Elderly Homeowner/Renter Credit | | \$9,810,626 | |
| Total | \$55,573 | \$10,690,546 | \$4,194,288 |

State general fund revenue would be increased by \$10,690,546 if the 4 existing programs were eliminated. State special university revenue would be increased by \$55,573.

Income and property taxes were matched from the property tax records and individual income tax returns using information from the \$400 property tax rebate. This information was used to estimate the impact the proposed credit would have on homeowners' income tax liability. It is estimated that the credit for homeowners would reduce general fund revenue by \$27,733,950. The credit amount for renters was calculated using the public use micro data sample from the American Community Survey. It is estimated that the credit for renters would decrease general fund revenue by \$12,490,545. Therefore, the proposed homeowner and renter credit would decrease general fund revenue by \$40,224,495.

| | |
|---------------|---------------------|
| Credit Amount | |
| Homeowners | \$27,733,950 |
| Renters | <u>\$12,490,545</u> |
| Total | \$40,224,495 |

This is a new program and may have some administrative cost increases and decreases involved for the Department of Revenue. Those administrative impacts will be calculated when/if this bill is introduced.