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DATE: March 6, 1997

HOUSE OF REPRESENTATIVES
COMMITTEE ON
COMMUNITY AFFAIRS
BILL ANALYSIS & ECONOMIC IMPACT STATEMENT

BILL #: HB 371

RELATING TO: Ad Valorem Tax Exemptions

SPONSOR(S): Representative Stafford

STATUTE(S) AFFECTED: Sections 196.202 and 196.031, Florida Statutes

COMPANION BILL(S): SB 324 (i)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) COMMUNITY AFFAIRS 0 YEAS 6 NAYS
(2) FINANCE & TAXATION
(3)
(4)
(5)

I. <u>SUMMARY</u>:

This bill increases the property tax exemption to widows, widowers, blind persons, and persons who are totally and permanently disabled from $500 to $2,500.

It is estimated that the bill would result in a statewide ad valorem tax loss of $21.2 million. The ad valorem tax loss to counties and municipalities would be $19.3 million.

Pursuant to Article VII, section 18(b) of the Florida Constitution, since the bill reduces the ability of counties and municipalities to raise revenue by $19.3 million, a two-thirds vote of each house of the Legislature is required to pass the bill.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

The Florida Constitution authorizes local governments to levy ad valorem (property) taxes, and other taxes as described by general law. With respect to ad valorem taxes, each county and each municipality is limited to 10 mills each (each mill equals one, one-thousandth of a dollar). Each local government determines the rate at which it will tax and the assessed value of the property. The millage rate is then multiplied by the taxable (assessed) value to determine the amount of the property tax. Property values are assessed locally.

According to the Legislative Committee on Intergovernmental Relations, 14 counties are currently at the 10-mill cap and seven others are between 9 and 10 mills. All counties at the 10-mill cap each have a total population less than 50,000. In addition, one municipality is at the 10-mill cap with nine more approaching the 10-mill limit.

Article VII, section 3, subsection (b) of the Florida Constitution grants to every widow, widower, person who is blind, or person who is totally and permanently disabled an exemption **of not less than $500** which is to be fixed by general law. Section 196.202, F.S., implements the exemption in the amount of $500.

Article VII, section 6 of the State Constitution authorizes an exemption from ad valorem taxation for homestead property which taxpayers use as their permanent residence. Subsection (a) provides a basic $5,000 exemption to all qualified homeowners.

Subsection (b) prohibits the granting of more than one exemption to any one person or the granting of an exemption which is in excess of the total assessed value of the property.

Subsection (c) increases the exemption to $25,000 for school district levies for all qualified homestead owners and authorizes an increase of up to $10,000 for all other ad valorem tax levies if the homestead owner has attained age 65 or is totally and permanently disabled and not entitled to the exemption in subsection (d).

Subsection (d) increases the exemption to $25,000 for non-school district levies and provides that the increase is not applicable upon the effective date of any amendment to Article VII, section 4, of the Florida Constitution which would authorize the assessment of homestead property at a specified percentage of its just value. In addition, subsection (d) provides that the increased exemption does not apply in counties in which the tax roll has not been certified as being in compliance with Article VII, section 4, of the Florida Constitution.

Subsection (e) authorizes the Legislature to give ad valorem tax relief to renters.

Section 196.031, F.S., implements the homestead tax exemption. Subsection (1) provides for the basic $5,000 exemption and sets out the residency and ownership requirements.

Subsection (3) implements the constitutionally authorized increases in the exemption, including the increase to $25,000. In most cases, the increase to $25,000 eliminates the need for other lesser increases. However the increase to $25,000 for levies other than school district levies is not effective until the assessment roll has been approved by the executive director of the Department of Revenue. In cases where the assessment roll has not been approved, levies other than school district levies authorized for persons who are 65 and older or for persons who are totally and permanently disabled, the maximum combined exemption of $10,000 for exemptions granted under the Florida Constitution is still authorized.

Under section 196.101, F.S., persons who are defined as totally and permanently disabled who must use a wheelchair for mobility or who are legally blind are totally exempt from taxation if the prior year income of all persons residing in the homestead does not exceed $14,500.

B. EFFECT OF PROPOSED CHANGES:

This bill increases the property tax exemption to widows, widowers, blind persons, and persons who are totally and permanently disabled from $500 to $2,500.

In addition, provisions relating to homestead exemptions for persons totally and permanently disabled is amended to reduce the value from $9,500 to $7,500 to conform the statute to the $10,000 maximum exemption allowed by the Florida Constitution in circumstances where the assessment roll has not been approved by the Department of Revenue.

C. APPLICATION OF PRINCIPLES:

1. <u>Less Government:</u>

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No. The application process for the exemption would be the same. However, it might be necessary to change the forms required for the application process to reflect the new exemption amount.

(3) any entitlement to a government service or benefit?

No.

b. If an agency or program is eliminated or reduced:

Not Applicable (N/A)

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

Possibly. The total revenue loss statewide from this bill is estimated to be $21.2 million. Taxing entities are likely to shift the burden of this revenue loss to other taxpayers in order to recoup the lost taxes.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

No. The bill reduces total revenues, but does not reduce rates. Only those entitled to the exemption would receive a reduction in taxes.

d. Does the bill reduce total fees, both rates and revenues?

No.

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

No.

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

No.

4. Individual Freedom:

   a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

      Yes.

   b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

      No.

5. Family Empowerment:

   N/A

   a. If the bill purports to provide services to families or children:

      (1) Who evaluates the family's needs?

          N/A

      (2) Who makes the decisions?

          N/A

      (3) Are private alternatives permitted?

          N/A

      (4) Are families required to participate in a program?

          N/A

      (5) Are families penalized for not participating in a program?

          N/A

   b. Does the bill directly affect the legal rights and obligations between family members?

      N/A

   c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. SECTION-BY-SECTION ANALYSIS:

Section 1: Amends section 196.202, Florida Statutes, to increase from $500 to $2,500 the value of property exempt from taxation that is owned by widows, widowers, blind persons, and persons totally and permanently disabled.

Section 2: Amends paragraph (b) of subsection (3) of section 196.031, Florida Statutes, to reduce from $9,500 to $7,500 the homestead exemption from taxation for persons who are totally and permanently disabled to conform the statute to the $10,000 maximum exemption allowed by the Constitution in circumstances where the assessment roll has not been approved by the Department of Revenue.

Section 3: Provides that the act shall take effect January 1, 1998.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None.

2. Recurring Effects:

None.

3. Long Run Effects Other Than Normal Growth:

None.

4. Total Revenues and Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

   By increasing the dollar value of the exemption that is the subject of this bill, this bill may result in an increase in the number of persons filing for the exemption. To the extent that there is an increase in the number of persons filing for the exemption, there may be an increase in the number of applications that must be processed. This increase and its resulting fiscal impact cannot be precisely estimated at this time, but it is believed that the impact would be insignificant on a statewide basis.

2. Recurring Effects:

   According to information in the *1996 Florida Tax Handbook*, this bill is estimated to reduce taxable property value by $965.6 million in FY 1996-97. Based on a statewide aggregate average millage rate of 21.96, this represents a statewide ad valorem tax reduction of $21.2 million. For counties and municipalities, the ad valorem tax reduction would be $19.3 million.

3. Long Run Effects Other Than Normal Growth:

   None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   Local governments which are not levying their maximum millage rate may increase their levy and, thereby, increase the tax burden on all taxpayers who do not receive the exemption. Such taxpayers include other homestead property owners as well as owners of property held for pleasure or business. Local governments which cannot or do not increase their millage rates will be required to increase revenue through other means or reduce services.

2. Direct Private Sector Benefits:

   Widows, widowers, certain blind persons, and certain persons who are totally and permanently disabled will experience an additional reduction in property tax of about $43.92.

3. Effects on Competition, Private Enterprise and Employment Markets:

   None.

D. FISCAL COMMENTS:

Under section 196.101, F.S., persons who are defined as totally and permanently disabled who must use a wheelchair for mobility or who are legally blind are totally exempt from taxation if the prior year income of all persons residing in the homestead does not exceed $14,500. Given this, this bill only affects widows and widowers; blind persons with incomes over $14,500; and disabled persons with incomes over $14,500 who do not need the use of a wheelchair. In practical terms, this means this bill mostly benefits widows and widowers regardless of income. Of the $965.6 million in reduced taxable value, $782 million is attributable to property owned by widows and widowers.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to expend funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill will reduce the authority of counties and municipalities to raise revenue. It is estimated that the amount of the reduction will be $19.3 million in FY 1996-97. Therefore, the bill requires a two-thirds vote of each house for passage.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce state taxes shared with counties and municipalities.

V. COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

COMMITTEE ON COMMUNITY AFFAIRS:

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