LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

March 20, 2011

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

FROM: John S O'Brien, Director, Legislative Budget Board

IN RE: **SB357** by Van de Putte (Relating to an exemption from ad valorem taxation of the residence homestead of the surviving spouse of a 100 percent or totally disabled veteran or the principal residence of the surviving minor children of such a disabled veteran.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB357, As Introduced: a negative impact of ($1,240,000) through the biennium ending August 31, 2013.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	$0
2013	($1,240,000)
2014	($2,667,000)
2015	($4,120,000)
2016	($5,801,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *School Districts - Net Impact*	Probable Revenue Gain/(Loss) from *Counties*	Probable Revenue Gain/(Loss) from *Cities*
2012	$0	$0	$0	$0
2013	($1,240,000)	($433,000)	($482,000)	($539,000)
2014	($2,667,000)	($674,000)	($959,000)	($1,069,000)
2015	($4,120,000)	($943,000)	($1,447,000)	($1,610,000)
2016	($5,801,000)	($1,311,000)	($2,025,000)	($2,248,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding property taxation and exemptions, to add a new subsection to entitle the surviving spouse of a deceased disabled veteran to an exemption from taxation of the total appraised value of the residence homestead formerly owned by the deceased veteran.

The surviving spouse would be entitled to the exemption if the disabled veteran qualified for a residence homestead exemption for a 100 percent or totally disabled veteran, the residence homestead of the surviving spouse is the same property to which the disabled veteran's exemption applied upon the veteran's death, and the property remains the residence homestead of the surviving spouse. In addition, the surviving spouse must not have remarried since the death of the disabled veteran.

The bill also would add a new subsection to entitle the new owner of a deceased unmarried disabled veteran's former homestead in which surviving children of the veteran reside to an exemption from taxation of the total appraised value of the residence homestead formerly owned by the deceased veteran. The new owner of the disabled veteran's former homestead would be entitled to the exemption if the disabled veteran qualified for a residence homestead exemption for a 100 percent or totally disabled veteran died unmarried, the residence homestead of the new owner is the same property to which the disabled veteran's exemption applied upon the veteran's death, one or more of the disabled veteran's surviving children are unmarried and younger than 18 years of age, the property was the principal residence of one or more of these children when the disabled veteran died, and the property remains the principal residence of one or more of those children who are younger than 18 and unmarried.

The proposed new subsections could be interpreted to conflict with the accompanying constitutional amendment (SJR 14), which provides that the exemption is the amount of the exemption received by the deceased disabled veteran on the residence homestead. In this enabling legislation, the dollar amount exempted would vary depending on the appraised value, but the tax liability would remain zero. In the resolution, the dollar amount exempted would remain static at the amount of the exemption received by the deceased disabled veteran. If the value of the residence homestead increased, then the surviving spouse or the owner of the disabled veteran's former homestead that is the principal residence of the surviving children could be responsible for any tax due that is over the static amount.

The bill also would modify exemption application procedures to include the proposed exemption for surviving spouses and for owners of property that qualifies as the principal residence of the surviving minor children of a disabled veteran.

The bill would take effect January 1, 2012, contingent on the adoption of a constitutional amendment authorizing the exemption, and would apply only to a tax year beginning on or after January 1, 2012.

Methodology

The annual value loss from the proposed total exemption of the homesteads of bereaved spouses of 100 percent disabled veterans who qualified for a total exemption was estimated based on information from appraisal districts, publicly available mortality rates, and marriage rates. The number of 100 percent disabled veterans' homesteads was reduced by the percentage of unmarried 100 percent disabled veterans and multiplied by the appropriate mortality rate in each year of the projection period. This reduced number of homesteads was multiplied by the projected average taxable value of surviving spouses' homesteads to estimate a taxable value loss in each year. Each year's value loss was added to the losses in previous years and offset by the lapse of total exemptions caused by deaths, marriages, and relocations of bereaved spouses.

The estimated annual value loss from the proposed exemption of the homesteads of new owners of a deceased unmarried disabled veteran's former homestead in which minor surviving children of the veteran reside was based on information from appraisal districts, the Census Bureau and an estimated average maturation rate.

The applicable projected tax rates were applied to estimate the levy loss to cities and counties, and to estimate the initial school district loss. Because of the operation of the hold harmless provisions of HB 1, 79th Legislature, Third Called Session (2006), the school district cost related to the compressed rate is transferred to the state. The enrichment cost and a portion of the school district debt (facilities) cost are transferred to the state after a one-year lag because of the operation of the enrichment and facilities funding formulas. All costs were estimated over the five year projection period. The costs to the two new types of homestead exemption discussed above were added resulting in the costs shown in the fiscal impact table.

Local Government Impact

The estimated fiscal implication to units of local government is reflected in the table above.

Source Agencies: 304 Comptroller of Public Accounts
LBB Staff: JOB, KK, SD, SJS