

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

May 25, 2011

TO: Honorable David Dewhurst, Lieutenant Governor, Senate

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

IN RE: SB516 by Patrick (Relating to the exemption from ad valorem taxation of all or part of the appraised value of the residence homestead of the surviving spouse of a 100 percent or totally disabled veteran.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB516, As Passed 2nd House: a negative impact of (\$1,100,000) 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 | (\$1,100,000) |
| 2014 | (\$2,416,000) |
| 2015 | (\$3,810,000) |
| 2016 | (\$5,296,000) |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/ (Cost) from <i>Foundation School Fund 193</i> | Probable Revenue Gain/(Loss) from <i>School Districts - Net Impact</i> | Probable Revenue Gain/(Loss) from <i>Counties</i> | Probable Revenue Gain/(Loss) from <i>Cities</i> |
|-------------|---|--|---|---|
| 2012 | \$0 | \$0 | \$0 | \$0 |
| 2013 | (\$1,100,000) | (\$385,000) | (\$428,000) | (\$478,000) |
| 2014 | (\$2,416,000) | (\$616,000) | (\$871,000) | (\$970,000) |
| 2015 | (\$3,810,000) | (\$881,000) | (\$1,341,000) | (\$1,492,000) |
| 2016 | (\$5,296,000) | (\$1,183,000) | (\$1,845,000) | (\$2,048,000) |

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding property taxation, to entitle the surviving spouse of a disabled veteran to a property tax exemption of the total appraised value of a surviving spouse's residence homestead.

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 when the veteran died, the property was the surviving spouse's homestead when the veteran died, the property remains the surviving spouse's homestead, and if the surviving spouse has not remarried since the death of the

disabled veteran.

If the surviving spouse subsequently qualifies a different property as a residence homestead and has not remarried, the surviving spouse would be entitled to a property tax exemption on that homestead of the same dollar amount received on the former homestead that qualified for the surviving spouse homestead exemption.

The surviving spouse must apply for an exemption granted under the new subsection each year the surviving spouse claims entitlement to the exemption.

A chief appraiser would be required to provide the surviving spouse a written certificate showing the exempt amount of the former homestead for use in determining the exempt amount of the subsequent homestead.

The bill also would modify exemption application procedures to include the proposed exemption for surviving spouses.

The bill could be interpreted to conflict with the accompanying constitutional amendment (SJR 21), 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 surviving spouse's tax liability would remain zero. In the resolution, the dollar value of the exemption 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 could be responsible for any tax due that is over the static amount.

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 surviving spouses of 100 percent disabled veterans who qualified for the 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 and marriages of surviving spouses.

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.

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