

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1321

Bill Subtitle: TO INCREASE THE HOMESTEAD PROPERTY TAX CREDIT; AND TO REQUIRE A STUDY OF THE FUNDING OF THE HOMESTEAD PROPERTY TAX CREDIT AND A FORMULA FOR DETERMINING THE AMOUNT OF THE HOMESTEAD PROPERTY TAX CREDIT.

Basic Change :

Sponsors: Rep. Fite and Sen. B. Johnson

HB1321 would increase the Homestead Property Tax Credit from \$350 to \$375 effective for assessment years beginning on or after January 1, 2019. The Homestead Property Tax Credit reduces the amount of real property taxes due on a property owner's qualified homestead for each assessment year. To claim the credit, a property owner registers with the county assessor and provides proof of eligibility for the credit. Arkansas homeowners will receive the benefit of the increased tax credit when paying their real property taxes in 2020.

The bill also provides that the Senate and House Committees on Revenue and Taxation, meeting jointly, would conduct an interim study on the Homestead Property Tax Credit including consideration of a formula for calculating the annual amount of the credit and the procedures for administering the credit.

Revenue Impact :

CY 2020 Total Impact of Increased Tax Credits	-\$12.5M
CY 2021 Total Impact of Increased Tax Credits	-\$12.8M

[During 2018, a total of 716,525 property owners received tax credit benefits of \$229,904,000.84. The reimbursements to Arkansas counties for the tax credits allowed are funded through the one-half of one percent state sales tax deposited to the Property Tax Relief Trust Fund.]

Taxpayer Impact :

Homeowners that received the Homestead Property Tax Credit will receive a credit of \$375 against their real property tax liability.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

None.

Other Comments :

None.

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Legal Analysis :

HB1321 amends § 26-26-1118 to increase the Homestead Property Tax Credit from \$350 to \$375 for each year of assessment beginning on and after January 1, 2019. This credit reduces the amount of property taxes assessed on each homestead, though the assessment shall not be reduced below zero dollars (\$0).

The bill would also direct the Senate Committee on Revenue and Taxation to study a proposed formula for determining the amount of the Homestead Credit for future assessment years.

Under current law, there is a Homestead Credit against real property taxes that are collected by county collectors. Each county collector must annually certify to the Chief Fiscal Officer of the State ("CFO") the amount of property tax reduction that has been derived from the Homestead Property Tax Credit, and then the CFO must determine and certify to the Treasurer of State (the "Treasurer") the proportionate share of property tax credits from each county and the balance of the Fund. Once the Treasurer receives these amounts from the CFO, the Treasurer then must distribute in monthly installments from the Property Tax Relief Trust Fund (the "Fund") to each county treasurer the county's respective proportionate share of the amount of property tax reduction that resulted from the Homestead Credit.

The Fund consists of special revenues from seven state taxes under Arkansas law.

As part of the study, HB1321 would require the Director of the Department of Finance and Administration ("DFA") to notify the Executive Director of the Association of Arkansas Counties of this number of parcels of real property that each county assessor has certified as qualifying for the Homestead Credit.

HB1321 would further require the DFA to calculate a proposed Homestead Credit formula that the bill directs the Senate Committee on Revenue and Taxation to study. The formula would be calculated as follows: subtract \$40,000,000 from the anticipated balance of the Fund on December 31 of the corresponding calendar year and divide that amount from the number of homesteads certified to the DFA from county collectors; then round that number down to the nearest denomination of \$25, but not to exceed \$75; and then add that resulting amount to the previous Homestead Tax Credit. However, HB1321 directs that the resulting Homestead Credit under the proposal that the committee is to study shall not be less than \$300.

HB1321 would be effective for assessment years beginning on or after January 1, 2019.