Senior Homestead Exemption

A Primer

Gregory J. Sobetski
Senior Economist
Legislative Council Staff

Strategic Action Planning Group on Aging
DRCOG Offices, Denver, Colorado
July 9, 2018

Back in 2000…

- HCR 00-1002 – legislative referred measure
- Proponents:
  - Colorado Senior Lobby
  - AARP Colorado
  - other citizens
- Referendum A enacted at 2000 Election
  - 54.7 percent support
- Took effect in 2002

How it Works for Seniors

- Applies to seniors age 65+, or surviving spouses
- Property must be primary residence
- Continuously owned and occupied for at least 10 years

- 50 percent of first $200,000 exempt from property tax
  - e.g., for a $166,000 residence, taxed as if $83,000
  - e.g., for a $265,000 residence, taxed as if $165,000

- Property tax benefit depends on home value and local mill levy (averaged $499 in 2002; $545 in 2017)

How it Works for Governments

- Only local governments assess property tax
- Constitution requires state government to reimburse local governments for their revenue loss
- State General Fund expenditure for local government reimbursements in the fiscal year that taxes are paid

- Constitution allows state legislature to adjust $200,000 cap

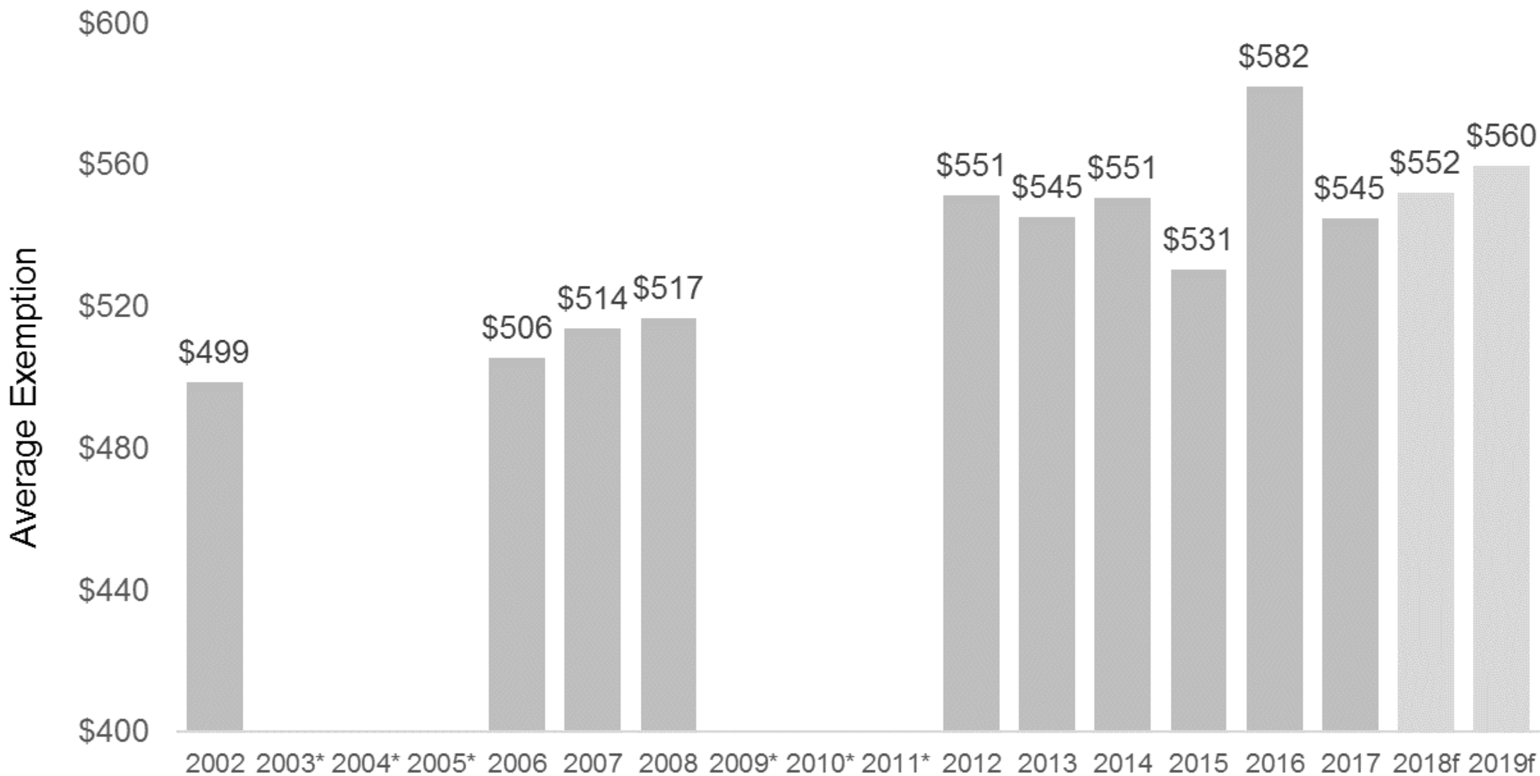
Arguments For (2000 Blue Book)

- Assists low-income seniors with rising tax burden
- Allows long-time senior residents to age in place
- Makes up for low levels of participation in the state property tax deferral program

Arguments Against (2000 Blue Book)

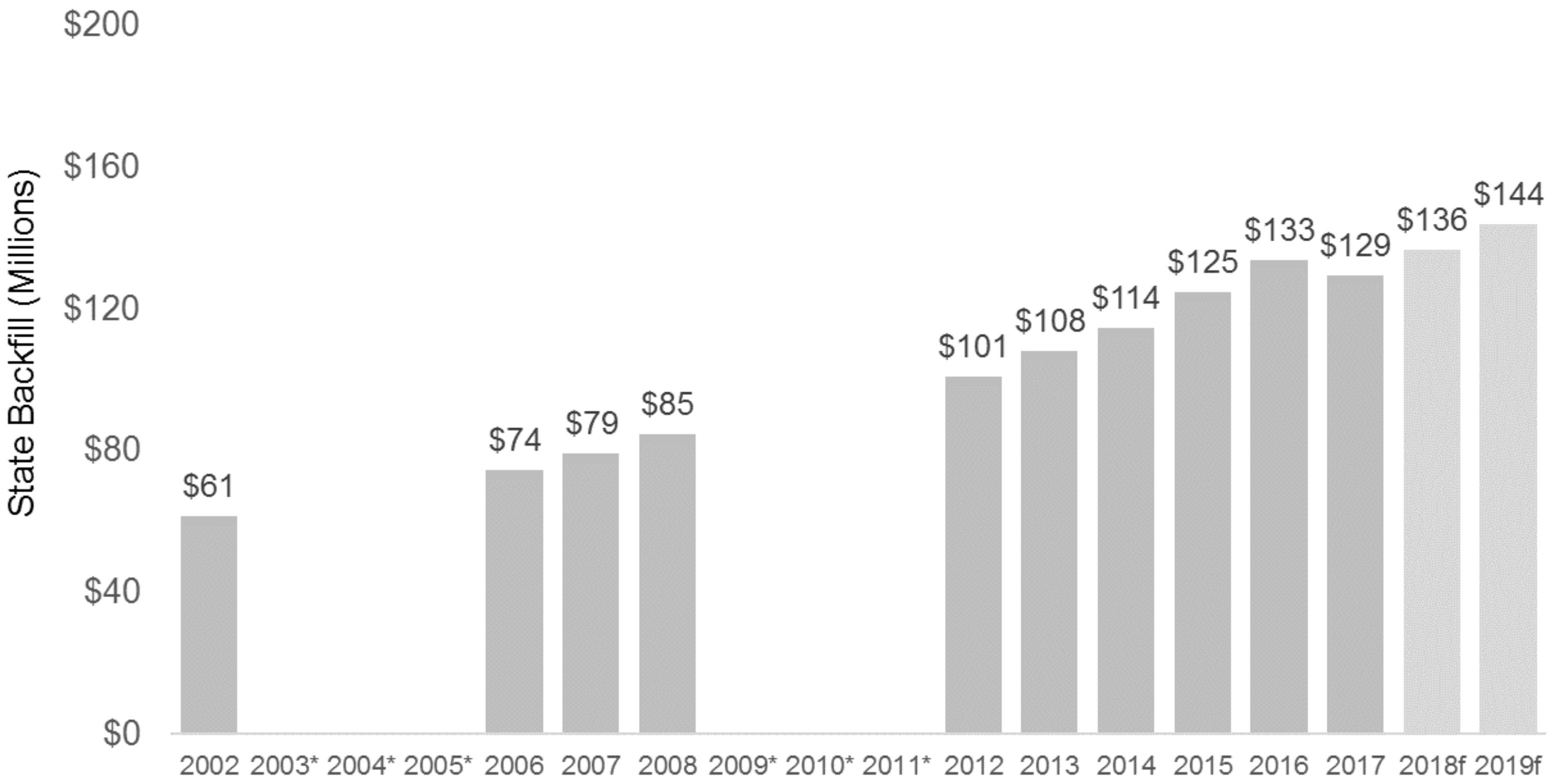
- Not means-tested; benefits seniors for whom tax is less burdensome
- Unnecessary given other tax benefits provided to seniors, including income tax deduction for retirement income and property tax deferral program
- Masks future costs of property tax increases, since these costs are passed through to the state

Home prices and mill levies have raised exemption values



Sources: Division of Property Taxation; Department of the Treasury; Legislative Council Staff
*Indicates years when the exemption cap was set to zero by the state legislature
"f" indicates forecast

…but state costs are mostly demographic-driven



Sources: Division of Property Taxation; Department of the Treasury; Legislative Council Staff
*Indicates years when the exemption cap was set to zero by the state legislature
"f" indicates forecast

Budgetary Consequences

- Reimbursements paid from the General Fund
- Commitment rises independent of economic conditions
- Legislature has eliminated benefit in years of budget shortfall

- Under Senate Bill 17-267, now a TABOR refund mechanism
  - May protect against cuts in TABOR years
  - May not protect against cuts in recession years

Some Parameters are Set in the Constitution

- Colo. Const., art. X, § 3 (1)(a): "Each property tax levy shall be uniform upon all real and personal property not exempt from taxation under this article[…]"
  - So neither the legislature nor local governments can create a new property tax expenditure
- These parameters are fixed in the constitution:
  - The age threshold (65 years)
  - The residency threshold (10 years)
- Imposing additional eligibility requirements without voter approval is constitutionally complicated, and may be unconstitutional

One parameter can be altered in statute

- The constitution allows the legislature to change the home value cap (currently $200,000)
  - The cap could be set at a level calculated to limit the cost of the exemption to some amount chosen by the legislature
- Some members have proposed setting the cap at $0 and providing alternative benefits to seniors
  - These benefits would not be direct property tax exemptions
  - They could be made available via the income tax form
  - They could be means-tested, or consider the percentage of income that a senior spends on property tax
  - They could be made available to seniors who do not own their homes

Questions?

Gregory J. Sobetski
Senior Economist • Legislative Council Staff
greg.sobetski@state.co.us • (303) 866-4105
www.leg.colorado.gov/lcs