The Feasibility of Replacing the Homeowners' Exemption With An Income Tax Credit

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Introduction

Introduction

The California Constitution grants a partial exemption from property taxes to persons who own a home and occupy it as their principal residence. The exemption applies to the first $7,000 of the property's assessed value. The Constitution also requires the state to reimburse local governments for the loss of property tax revenue resulting from the exemption. The amount of the General Fund reimbursement is approximately $338 million for 1986-87.

While this tax relief program is financed by the state, it is administered primarily by county governments. County assessor's offices are responsible for processing and verifying the homeowners' exemption claims. The state Board of Equalization (BOE) issues guidelines to ensure intracounty administrative uniformity, and makes a computerized check for multiple claims. The State Controller's Office (SCO) verifies and pays the county reimbursement claims.

Resolution Chapter 100, Statutes of 1984 (SCR 19), requires the Legislative Analyst to study the feasibility of transferring the administration of the homeowners' exemption to the state Franchise Tax Board. In effect, this would require the exemption to be converted into a refundable income tax credit, similar to the existing state renters' income tax credit. Thus, county governments would no longer administer the program, homeowners would pay a higher level of property taxes, and the state would provide a refundable income tax credit on the state income tax return. The question of feasibility depends, from a fiscal perspective, on whether it would be less costly for the state to administer the program in this fashion than it is for county governments to administer it now. Of course, other factors may have a bearing upon whether this change is desirable.

Chapter I of this report discusses the present administrative procedure, and our estimates of the cost incurred by county governments on a statewide basis. In Chapter II, we examine several alternative ways of implementing the transfer of administrative duties, and discuss the fiscal and other implications of the most feasible alternative in detail.

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Executive Summary

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The Homeowners' Property Tax Relief program is currently administered by the 58 county assessors in this state, with some assistance from other state and county offices. The program provides an exemption of up to $7,000 of assessed value, thereby directly reducing the amount of property taxes on an owner-occupied residence. Administrative activities involved in the program include the processing of claims for the exemption, verification of eligibility, posting the exemption on the tax roll and reflecting the exemption on the property tax bill. The state assists the counties to identify improper claims, and makes payments to the counties to reimburse them for their revenue losses. We estimate that county administrative costs for this program amounted to approximately $4.3 million in 1985-86. State administrative costs for the program were approximately $250,000 in 1985-86, but this amount primarily reflects a one-time cost for audit activities.

Transferring the administrative responsibility for this program to the Franchise Tax Board would require repeal of the homeowners' property tax exemption, and reestablishment of the program as a refundable tax credit under the Personal Income Tax Law. Counties would no longer process claims for the program, and homeowners would pay higher property taxes. However, the state income tax obligations of homeowners would be reduced because the tax credit would be applied against their income tax liabilities. State budget expenditures would decline because no subvention payments would be made, but state revenue collections would decline by the amount of the tax credits claimed.

We evaluated several alternative ways of implementing the homeowners' tax credit program in terms of their fiscal effects on the state and local governments. Our review indicates that the most feasible alternative is to allow the credit to be claimed on the same line of the income tax return that is now used for the renters' tax credit.

If the value of the income tax credit is set at the same amount as the statewide average value of the existing property tax exemption (i.e., $77) then the tax savings for homeowners generally would be unaffected by this change. However, most homeowners would also be able to claim *higher* property tax deductions (corresponding to the value of the former exemption) on their state income tax returns. This side effect would reduce state revenues by about $23 million a year. However, if the value of the credit were reduced to approximately $72, then the combination of the credit plus the income tax savings from the higher property tax deductions would equal the value of the existing exemption and avoid the state revenue loss mentioned above. Under these circumstances, the substitution of an income tax credit for the existing property tax exemption would result in annual net gains of about $11 million (state government would gain $4.9 million and local governments would gain $6.2 million).

The refundable portion of the homeowners' credit (about $16 million a year) would increase the amount of appropriations subject to the state's appropriations limit. Given the impending constraints of this limit on state expenditures, the state would have to reduce funding for other programs in order to accommodate the cost of this refundable credit.

Enactment of this proposal also would require county governments to transfer a small portion of their constitutional appropriations limits to the state, in order to provide the appropriations authority necessary to accommodate the state's increased administrative costs. This could result in some counties exceeding their appropriations limits authority. ❖

Chapter I

Chapter I
Administration of the Homeowners' Property Tax Exemption

This chapter examines the administrative process associated with the current homeowners' property tax exemption. We review the activities that are conducted by county and state officials in administering this program. We also present the results of our research concerning the level of expenditures required to support this process.

The Administrative Process

The *county assessor* bears the primary responsibility for administering the homeowners' property tax exemption. This is because the assessor is constitutionally responsible for the assessment of all property, and this duty requires that exemptions from the tax be properly enrolled. The process is initiated by the filing of a claim for the exemption by the homeowner. The assessor examines the claim and verifies that the information is correct. The extensiveness of this verification varies among counties, from a simple check of the social security number to a more labor-intensive verification of parcel ownership.

Once the assessor has determined that the property owner is qualified for the exemption, he or she forwards this information to the *county auditor*. The auditor enrolls the property tax assessment and exemption on the tax roll. The auditor forwards the roll to the *county tax collector* who issues bills for the property taxes due. While counties vary in their administrative practices, they are required by statute and state regulation to follow specific procedures in administering the exemption.

The *State Board of Equalization* (BOE) provides assistance and guidance in this process to the counties. It also assists in the verification of claims. Using a list of claimants furnished by each county, the BOE identifies homeowners who have filed for the exemption in more than one county. This information is passed back to the assessors for resolution and elimination of the invalid claims.

The *State Controller's Office* (SCO) disburses the state money to reimburse counties for their property tax revenue losses, and occasionally audits the county reimbursement claims to verify the reimbursement amounts.

In addition, the Franchise Tax Board (FTB) uses information generated by the homeowners' exemption claims procedure. While the FTB has no administrative responsibility for the homeowners' exemption program, it uses the data collected by the assessors to improve taxpayer compliance through its Renters' Credit and Real Estate Programs.

- *Renters' Credit Program.* Under this program, the FTB checks the social security numbers of persons who claim the renters' credit on their state income tax return against the social security numbers of taxpayers claiming the homeowners' exemption. Because one may not receive both a homeowners' exemption and the renters' credit, the FTB automatically disallows any renters' credit claimed by a taxpayer who received the homeowners' exemption in the same year.
- *Real Estate Program.* Under this program, which encourages compliance with income-reporting requirements, the FTB ascertains whether capital gains on sales of residential property are reported on income tax returns. The board does this by matching the social security numbers of homeowners' exemption claimants whose claims indicate an address change from the prior year. This social security number shown on the homeowners' exemption claim form is sent to the FTB along with parcel identification numbers each year by the county assessors. No other information on social security numbers is currently recorded by the counties when titles are transferred.

Administrative Costs of the Homeowners' Exemption Program

As noted earlier, both the counties and the state incur some expenses to administer the homeowners' property tax exemption program. County administrative costs are funded from county revenues, as is the case with county costs for property tax administration generally. In this section we present our estimates of county and state administrative costs.

County Administrative Costs. County budget documents do not identify costs for administrating the homeowners' property tax exemption. In order to obtain this information, we mailed a questionnaire to all 58 county assessors. Among other things, the questions in the survey cover topics relating to costs for personnel, mailing, and data processing.

Forty-six counties collectively representing 91.5 percent of the claims filed statewide responded to the survey. Our review of the data indicates that, in most cases, a county simply based its costs of processing the tax exemptions on an informal apportionment of the assessor's total costs. That is, the cost data are not based on detailed cost accounting studies, but rather on the assessor's judgment as to the proportion of overall costs which are attributable to the workload caused by the homeowners' exemption program. Using these data, and assuming that the experience of the nonresponsive counties was comparable, we extrapolated the reported costs to estimate total statewide costs. These estimates appear in Table 1.

Table 1
Estimated County Administrative Costs for the Homeowners' Exemption Program
(dollars in thousands)
1985-86

County Assessors' Offices:	
Personnel	$3,191
Printing	102
Mailing	230
Data Processing	384
Other	251
County Auditors' Offices	100
County Tax Collectors' Offices	50
Total	$4,308

As Table 1 shows, administering the exemption is a labor-intensive activity. Personnel costs represent about 74 percent of the total county administrative costs ($3.2 million), reflecting the time devoted to verifying claims and enrolling exemptions. Counties also incur significant computer costs ($384,000) to process the information. These computer costs relate primarily to developing the property tax roll and issuing property tax bills. Finally, the combined printing and mailing costs represent about 8 percent of the total county costs. The counties reported that they incur these costs to provide written information (claim affidavits and instructions) to the taxpayers.

Our review indicates that there are significant variations in the level of costs reported by the counties. Specifically, the larger counties consistently have a lower per-claim cost. Based on the reported levels of new claims, the reported data suggest that economies of scale are associated with costs for personnel, printing, and data processing. No economies appear in the mailing, primarily because mailing costs are fixed at a per-piece rate.

Based on informal discussions with county officials, we estimate that offices of county auditors and tax collectors incurred expenses of about $150,000 to administer the program in 1985-86.

Estimated State Costs. The SCO reports that it incurred costs of approximately $211,000 in 1985-86 to verify and audit county claims, and to make the subventions to the counties. However, approximately $208,000 of this amount represented the SCO's cost for its audit efforts, which are not incurred on an annual basis. It is unlikely that this program will be audited again within the next five years. The BOE indicates that it incurs $28,000 in annual costs to generate and forward the listings of multiple claims to each county. Thus, the state's administrative costs are generally minor. ❖

Chapter II

Chapter II
Evaluation of a Homeowners' Income Tax Credit

This section of the report considers the feasibility of replacing the existing homeowners' property tax exemption with a refundable income tax credit administered by the Franchise Tax Board (FTB). Although Senate Concurrent Resolution No. 19 directs this office to consider the transfer of the administrative responsibility for the homeowners' *property tax exemption* from local assessors to the FTB, we have concluded that such a transfer may be feasible only if the property tax exemption is converted to a personal income tax credit. Thus, we make no attempt to estimate the FTB's costs to administer the program in its current form.

In conducting our assessment, we examined several alternatives for implementation of a tax credit for homeowners. Following a review of these alternatives, we focus in this chapter on the fiscal effects of the alternative considered to be most feasible. We discuss its implications for changes in state and local costs, methods of mitigating its adverse fiscal impacts, its effects on taxpayers, and its effect on state and local appropriations limits.

Review of Alternatives

The alternatives we considered were selected on the basis of their potential for minimizing the FTB's overall cost of administering tax relief programs. The alternatives are:

- Administering the homeowners' credit as a separate tax credit program. Under this alternative, the homeowners' credit would be a set uniform amount, and claimed on the same line of the income tax return now used for claiming the renters' credit.
- Combining the homeowners' credit into the existing Renters' Credit Program. Under this alternative, the distinction between homeowners and renters would be eliminated, as they both would be provided the same level of benefits now provided to renters.
- Combining the homeowners' credit, the existing Senior Citizens' Renters' Tax Assistance and the existing Senior Citizens' Property Tax Assistance Programs into the existing Renters' Credit Program. Under this alternative, the senior citizens' benefits would be claimed on the income tax form in the same manner as the existing renters' credit, and those benefits would no longer vary with the income level of the recipient. The homeowners' credit could be administered

separately or combined with the renters' credit.

Our review of these alternatives indicates that a significant savings in overall administrative costs through the combination of existing programs is possible, but would require significant changes in these programs. For example, combining the homeowners' credit with the existing renters' credit would result in a dramatic change in the benefits provided to homeowners, if both types of credits were based on the marital status of the claimant. Single homeowners would receive the same $60 benefit as single renters, or approximately 20 percent less than the $77 average benefit now provided by the homeowners' property tax exemption. Meanwhile, married homeowners would receive the $137 benefit now provided for married renters filing joint returns, which amounts to an increase of over 75 percent. Because this alternative would increase the state's cost to provide the benefits, and dramatically alter the benefit structure, we conclude that it is not a viable alternative.

With respect to the alternative of consolidating the senior citizens' programs, the renters' credit and the homeowners' credit, we found that it would provide significant cost savings, but require a dramatic change in the benefits provided under the senior citizens' programs. This is because the existing senior citizens' programs provide for a *varying level of assistance,* based on the level of the participant's *household income.* Consolidation of the senior citizens' programs into the personal income tax filing process would require that: (1) the amount of the benefit be made uniform, and (2) eligibility be determined by *adjusted gross income* rather than the current *household income.* Our analysis indicates that attempting to fold the senior citizens' programs into the personal income tax filing process while retaining the variable benefit structure would increase the overall administrative cost of these programs.

Household income differs from adjusted gross income, the measure now reported on the personal income tax return, because it includes additional sources of income such as disability insurance payments and social security income, which are not taxed by the state. Folding these programs into the personal income tax filing process would also require that adjusted gross income be used instead of household income, in order to avoid increased administrative costs. To the extent that the maximum dollar income level was retained, but the measure of income was changed from household income to adjusted gross income, program eligibility would increase by approximately 815,000 persons. If each participant were granted the maximum benefit now available, state assistance costs would increase by over $100 million per year. Alternatively, if the maximum dollar income level were reduced, or a lower level of benefits were provided, costs could be controlled at their existing level. However, many of the existing program participants would receive a lower level of benefits than they do at present. Because this alternative requires either a large increase in General Fund expenditures, or a significant reduction in individual benefits, we considered it to be beyond the scope of this study.

The Separately Administered Homeowners' Credit

This alternative would replace the existing homeowners' property tax exemption with a new refundable personal income tax (PIT) credit. A refundable tax credit is applied first to any income taxes due, with the balance (if any) paid directly to the homeowner. For those taxpayers with no income tax liability, an income tax return would have to be filed in order for the credit to be received. The credit would be claimed on the same line as the existing renters' credit, but would be allowed in an amount comparable to the benefits provided by the existing property tax exemption.

It would be possible, in theory, to provide a credit which provided exactly the same dollar benefit as is now received under the homeowners' property tax program. This would require that each homeowner determine several facts, make a somewhat complicated calculation, and file this information with the personal income tax return. However, in most cases, the benefits provided by a uniform-value credit do not differ materially from the exact dollar benefit of the homeowners' property tax exemption. In addition, it would be significantly less costly to administer a uniform-value credit than a variable-amount credit. As a result, we conclude that the variable-credit option would be less feasible than a uniform credit.

The amount of the uniform credit could be computed each year by FTB, and set at an amount equal to the statewide average value of the homeowners' property tax exemption. In other words, FTB would multiply the statewide average property tax rate (reported annually by the BOE), by the amount of the homeowners' property tax exemption. For the 1986-87 fiscal year, this statewide average value is approximately $77.

Fiscal Effects of a Separately Administered Homeowners' Credit

A separately administered homeowners' credit would have a variety of fiscal effects, as shown in Table 2. These effects have been computed in terms of their magnitude *had the proposal been in effect for the 1986-87 fiscal year.*

Table 2

Summary of State and Local Fiscal Effects Resulting From a Separately Administered Homeowners' Credit

1986-87 Estimates

(dollars in millions)

Effects on Revenues:	*State*	*Local*
Elimination of Homeowners' Subvention	—	-$338.2
Increased Local Property Tax Payments	—	338.2
Increased Interest Income	$7.0	1.9
Reduced Income Tax Payments:		
Homeowners' Credit	-338.2	—
Increased Property Tax Deductions	-23.0	—
Subtotal, Revenue Effects	-$354.2	$1.9
Effects on Expenditures:		
Elimination of Homeowners' Subvention	-338.2	—
Administrative Cost Changes:		
Homeowners' Exemption	—	-4.3
Homeowners' Credit[a]	1.5	—
Real Estate Program	0.6	—
Subtotal, Expenditure Effects	-$336.1	-$4.3
Net Effect on Fiscal Position	-$18.1	$6.2

[a] *This cost would decline to $300,000 in subsequent years.*

Revenue Effects. Repeal of the homeowners' property tax exemption would result in higher property tax payments of $338.2 million in 1986-87. The change also would result in potential interest-income gains to local governments, due to differences between the timing of property tax receipts and the subvention payments. Under existing law, property tax payments are due in two equal installments (December and April). The state provides the reimbursement subvention, however, in four installments (15 percent on November 30 and May 31, and 35 percent on December 31 and April 30). Therefore, local agencies would receive some of their property tax revenue sooner than they would receive the subvention money under existing law. The receipt of the funds on an earlier basis provides potential interest revenue gains of about $1.9 million per year.

State income tax revenues lost due to the implementation of the homeowners' credit would have amounted to $338.2 million in 1986-87, on the basis of the uniform average credit—assuming that all eligible persons would have filed for the credit. This estimate also assumes that none of those persons eligible for the homeowners' credit would have claimed the higher-valued renters' credit instead.

Taxpayers who itemize their deductions on the personal income tax return may also deduct their property tax payments from their taxable income. As discussed earlier, homeowners would have paid more property taxes in 1986-87, which would have increased the amount of their allowable deduction. We estimated the fiscal effect of this additional deduction by estimating the percentage of homeowners who itemized their deductions, and their average marginal personal income tax rates. Assuming an average personal income tax rate of 8 percent for this group of itemizing homeowners, General Fund revenues would have been approximately $23 million lower in 1986-87.

The state would, in effect, pay the homeowners' credit after the April 15 income tax deadline. As a result, assuming that taxpayers do not reduce their withholding to account for the credit, most of the credit's revenue loss would have been realized after the date on which the reimbursement subvention would have been paid. To the extent that taxpayer's income tax withholding practices were not changed, the state's General Fund interest income would have been about $7 million higher in 1986-87.

Expenditure Effects. The elimination of the homeowners' exemption program would result in General Fund savings of $338.2 million in 1986-87, as the state would no longer provide reimbursement subventions to local governments. This alternative also eliminates all county administrative responsibilities, resulting in county savings of $4.3 million for 1986-87, based on the survey presented in Chapter I. Given the one-time nature of all but a minor portion of the state's costs, we assume no state administrative savings could be attributed to the elimination of the existing property tax exemption program.

General Fund administrative costs would increase for two reasons, however. If this program were begun in 1986-87, FTB estimates that it would require an additional 51 personnel-years, and incur costs of $1.5 million for net additional program costs. In subsequent years, the board would require only 15 personnel-years and $320,000 to accommodate its administrative responsibilities.

In addition, we assume that FTB would have incurred additional costs to collect the data required for its Real Estate program. As mentioned earlier, FTB now receives this information from county assessors. According to FTB, in order to maintain its existing enforcement program, legislation would have to be enacted to either require the recording of social security numbers when titles to property are transferred, or to authorize the FTB to request this information from the taxpayer directly. The board estimates that it would incur costs of $620,000 and 25 personnel-years to carry out the latter activity.

Summary of Fiscal Effects. These effects are summarized in Table 2. As the table shows, state General Fund revenues would have been an estimated $354 million lower, and General Fund expenditures $336 million lower, for a net fiscal effect of -$18.1 million, had this alternative been in effect for the 1986-87 fiscal year. Local agencies, including school districts, would share in an additional $1.9 million worth of interest income, while county governments would save the estimated $4.3 million administrative cost of the current exemption program.

As shown in Table 2, the primary reason for the adverse state General Fund impact is the fact that itemizing taxpayers would have increased property tax payments to deduct in computing their state income tax liability. The effect of the increased deductions is a personal income tax revenue loss of approximately $23 million. In effect, implementation of the separately administered homeowners' credit would increase the tax savings for this group of taxpayers by an average of approximately $6 million above the level provided by the current property tax exemption.

This revenue loss could be avoided in one of two ways. First, taxpayers claiming the itemized deduction for property tax payments could be prohibited from claiming the increased property tax deduction. This alternative would maintain the current level of benefits for all claimants, but would increase the complexity of filing the income tax return. Second, the value of the uniform homeowners' credit could be reduced for all taxpayers by an amount sufficient to offset all or a portion of the revenue loss. Under these circumstances, itemizing taxpayers would receive benefits slightly greater than they receive now, while benefits for nonitemizers would be reduced. We estimate that this alternative would result in a homeowners' credit of $72, or $5 less than the current statewide average benefit of the homeowners' property tax exemption program.

If either of these alternatives were adopted, the adverse state General Fund impact would be reversed, and the homeowners' credit would result in positive net fiscal impacts for both the state and the local governments. The net gains would be about $11 million per year (state government would gain $4.9 million and local governments would gain $6.2 million).

Impact on Taxpayers

This section considers the effects on individual taxpayers of switching to a homeowners' personal income tax credit. Specifically, we discuss changes in tax savings, interest income, and taxpayer activities associated with the credit.

Changes in Tax Savings. Regardless of the method chosen to mitigate the state's revenue loss, our analysis indicates that the credit alternative would not result in a dramatic loss of tax savings to any individual taxpayer. This can be demonstrated by an example involving a nonitemizing taxpayer whose home is located in a relatively-high tax rate area. Assuming a local tax rate of $1.25 per hundred dollars of assessed value (the highest average rate for any of the state's 58 counties), this taxpayer currently receives tax savings of $87.50 from the homeowners' property tax exemption. The homeowners' credit program would provide tax savings of at least $72, or $15.50 less than the existing program's benefits for this taxpayer. Most taxpayers, however, would receive a roughly equivalent level of tax savings.

Changes in Interest Income. Because homeowners would pay increased property taxes in December and April, but would have to wait until after April 15 to realize the benefits of the homeowners' credit, they would lose the use of the money for a period of time. To the extent that this money would otherwise have been deposited in an interest-bearing account, the taxpayer's interest income would be reduced. Indeed, it is this change in timing of the state's payments which would produce the additional state General Fund interest income discussed earlier. Assuming an interest rate of 6 percent, the interest loss for the average taxpayer would not exceed $4 per year.

Changes in Taxpayer Effort. Under current law, a taxpayer is required to file a claim for the homeowners' exemption only once, assuming no change in residence. This is because the exemption generally is retained by the assessor in the preparation of each subsequent tax roll, unless information is available to the assessor indicating that a change in ownership has occurred. The establishment of a homeowners' income tax credit, on the other hand, would require taxpayers to, in effect, file a *yearly* claim. For most taxpayers, this would not present any inconvenience, as the claim would be made on their personal income tax return. Many taxpayers, however, are not now required to file a personal income tax return with the state, because they have no personal income tax liability. These taxpayers—primarily retired persons with low levels of income—would find it necessary to file a state income tax return in order to continue receiving the benefits of the program. According to information provided by the FTB, the number of such taxpayers is in the range of 235,000 persons.

Impact on State and Local Appropriations Limits

Our review of the homeowners' credit as discussed in this report indicates that its features create potential problems with regard to the appropriations limits imposed on state and local governments by Article XIII B of the State Constitution. Article XIII B provides for a limit on the extent to which annual tax-supported state and local appropriations may increase, and requires that the individual limits of the state and local governments be adjusted to account for "transfers of financial responsibility." As of this writing, it appears that the state's appropriations limit will be a constraint to increased state expenditures in the 1987-88 fiscal year, and will continue to do so for the foreseeable future. Several county governments are reportedly in a similar position. This section reviews the features of the homeowners' credit for their appropriations limit implications.

Administrative Cost Changes. The transfer of administrative duties for the homeowners' exemption program appears to qualify as a "transfer of financial responsibility" under the terms of the measure. Accordingly, the appropriations limit of the state could be adjusted upward to provide appropriations authority to accommodate its increased administrative cost, while the county limits could be adjusted downward by a corresponding amount.

Revenue Effects. The changes in property tax payments, state subvention payments and state income tax collections would not qualify for limit adjustments. This is because the state would retain the "financial responsibility" for providing homeowner's property tax relief. These changes would have some impact on the amount of appropriations which are subject to the limit, however. With respect to local governments, the increased property tax payments would replace the existing state subvention payment, resulting in no net increase or decrease in the amount of their appropriations which are subject to the limit. In the case of the state government, the subvention payments to local governments are exempt from the state's appropriations limit, while the majority of the state's cost for the homeowners' credit would be accounted for as a revenue loss. Because this revenue loss would not be financed by an appropriation, it would not count against the state's limit.

Assuming that the personal income tax loss is eliminated by one of the alternatives discussed earlier, only the interest income increase would have any effect on the appropriations limit calculation. The increased revenue would increase the amount of "appropriations subject to limitation," as it would increase the amount of funds available for appropriation to the state's reserve fund. Alternatively, if the proposal could be made completely revenue-neutral, this problem could be eliminated.

Refundable Portion of Tax Credit. In those cases where the homeowners' credit was not used to reduce an outstanding tax liability, an appropriation would be required to fund it. Based on the assumption that 235,000 persons would file income tax returns for the sole purpose of claiming the refundable credit, an appropriation of approximately $16 million would be needed. Based on the advice of Legislative Counsel, our analysis indicates that this appropriation would count against the state's appropriations limit. Article XIII B does provide an exemption from the appropriations limit for appropriations used to pay for "refunds of taxes." Counsel, however, concludes that this provision applies at the state level only in those cases where a taxpayer has overpaid his/her *state* tax liability. Because the credit would provide a refund of local property taxes, the appropriation to finance its refundable portion would not qualify for the exemption. Assuming that the proposal is made revenue-neutral, this appropriation could be accommodated within the limit only by a reduction in another appropriation at the state level.

Conclusion

The establishment of a personal income tax credit for homeowners in lieu of the existing property tax exemption would generate savings in the administrative costs of this program. Further, it could be accomplished in such a manner that it would not reduce the level of resources available to the state and local governments. However, such a proposal would require that taxpayer benefits (including interest earnings) be reduced in many cases, and that certain taxpayer groups become participants in the annual personal income tax return filing process. Such a proposal also would require the state to "free-up" approximately $16 million of appropriations authority to fund refundable tax credits. This could be done only by reducing the level of support for other state programs or the state's Special Fund for Economic Uncertainties, given the impending constraints of the Article XIII B appropriations limit. ❖