

# Changes in Homestead Exemptions by HB 120

House Bill 120 from the 2012 regular session of the Alabama Legislature was enacted to correct an issue raised in an attorney general's opinion that opened ad valorem tax exemptions to persons outside the original intent of the law; to bring some consistency to the confusing homestead exemptions; and to increase the income threshold for homestead exemption from local ad valorem taxes.

There has been considerable confusion and miscommunication about the changes made by the new law. Below is an overview of the act's provisions.

## PREVIOUS LAW

Homestead exemptions from both state and local ad valorem taxes were provided for those persons over age 65 and those disabled persons. The exemptions were income-based. The income limit for the state tax exemption was \$12,000 in net federal income and for local taxes the income limit was \$7,500 in net state income.

Adding to the confusion, the state homestead exemption was made available to those persons who were "retired" based on disability; while the local homestead exemption was available to any person who met the definition of "disabled", regardless of whether the person had been retired based on being determined to be disabled.

For decades the major homestead exemption from state and local ad valorem taxes for those over age 65 and those disabled persons was linked to the income limits explained above. An attorney general's opinion retained the income limit for those persons over age 65 but removed the limit on those who are disabled. This opinion was never challenged or tested in court and clearly the Alabama Legislature never intended for one of the exemptions to be income based and the other to be available to every property owner, regardless of income.

Because the income thresholds were different for state and local ad valorem taxes, there was consistently a great deal of confusion regarding the implementation and application of the exemptions. This new act sought to remove the confusion and to restore the income linkage for both the disabled and those over age 65.

## NEW LAW

The new law combined the state and local exemptions into one code section with the income limit becoming \$12,000 in net taxable income based on the federal tax return. This change means any disability or pension incomes that are exempt from federal taxes are, therefore, not included in the calculation to determine eligibility. Further, the exemption is based on net income which is determined after deductions are made as provided on the federal income forms.

The linkage to income level was restored for those persons who are disabled and the exemption for both state and local taxes was made available to those retired based on this disability.

The Department of Revenue was directed to adopt a form to be used to verify the conditions that give rise to a person being eligible for the exemption. But the act also provides that once a person qualifies for the exemption they simply utilize a mail-in form provided by the local taxing official.