

Legislative Analysis



VETERAN PROPERTY TAX BENEFIT

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House Bill 5169 as introduced
Sponsor: Rep. Earl Poleski
Committee: Tax Policy
Complete to 2-16-16

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

The bill would repeal Section 7b of the General Property Tax Act, which provides a tax exemption for the homestead of a disabled veteran who is a resident of the state and meets one of the following criteria: (a) has been determined by the U.S. Department of Veterans Affairs to be permanently and totally disabled as a result of military service and entitled to veterans' benefits at the 100% rate; (b) has a certificate from the VA certifying that he or she is receiving or has received pecuniary assistance due to disability for specially adapted housing; or (c) has been rated by the VA as individually unemployable. The bill amends the Income Tax Act, and the repealer can be found in Enacting Section 1 on the last page of the bill

At the same time, the bill would amend the homestead property tax credit within the Income Tax Act (MCL 206. 520) so that the current limits on total household resources and on the value of the residence would not apply to a veteran with a service-connected disability of 100% (or the surviving spouse of that veteran). Currently, a homestead property tax credit cannot be claimed if total household resources exceed \$50,000 (and are phased out beginning at \$41,000); and cannot be claimed if the taxable value on the property exceeds \$135,000 (theoretically about \$270,000 in market value). These limits would not apply under the bill, so that veterans with a service-connected disability of 100% would qualify for the homestead property tax credit regardless of household resources and value of the homestead, to the extent that their property taxes exceeded 3.5 percent of total household resources, up to \$1,200.

The homestead property tax credit, claimed with the state income tax return, allows some taxpayers to receive a refundable credit against the income tax, up to \$1,200, for property taxes paid in a tax year. The credit is computed for most filers based on the comparison between property taxes and total household resources. Renters can claim the credit with 20% of rent paid counting as property taxes. However, for a veteran with 100% service disability, the credit can also be claimed based on a formula using a "taxable value allowance" (TAV) of \$4,500. The percentage of property taxes refundable as a credit is determined by dividing \$4,500 by the taxable value of the homestead. A veteran could choose which of various calculations allowed in the act would produce the larger tax credit.

FISCAL IMPACT:

As written the bill would repeal the existing property tax exemption for veterans that are 100% disabled. Eliminating this provision would increase property tax revenue by an estimated \$16.0 million, of which about \$3.5 million would result from the 6-mill State

Education Tax that is dedicated to the School Aid Fund. The remaining \$12.5 million would accrue to various local taxing authorities.

The bill would also increase the number of homestead property tax credits claimed by veterans, and therefore reduce net income tax (and General Fund) revenue by an estimated \$6.0 million.

The \$10.0 million difference between the repealed property tax exemption and the increase in the homestead credit reflects the amount borne by veterans that had been claiming the property tax exemption. Based on the number of exemptions claimed, this averages out to about \$1,000 per veteran.

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