

Personal Property Tax Waivers for Disabled & Retired Veterans



Executive Summary

Residential property tax exemptions are commonly used to reduce the tax burden for specific populations, often based on age, disability, income and/or military service. Most states offer personal property tax exemptions to a subset of disabled and retired veterans, who often rely on a fixed income and tend to have higher age- and/or disability-related healthcare costs. Missouri currently provides full personal property tax exemptions for former prisoners of war who are 100% disabled. The fiscal impact of extending property tax benefits to more disabled and retired veterans in Missouri depends on several factors, including exemption criteria, participation rates and the geographic distribution of these veterans.

Highlights

- If every disabled and retired veteran in Missouri were exempt from personal property taxes, **up to 160,000 Missouri veterans might benefit** from the exemption.
- Most states provide some level of personal property tax relief for a subset of veterans, although the parameters vary widely. The **total fiscal burden of these programs varies based on who the policy targets** (e.g., level of disability, income, age) **and how much tax relief is provided** (e.g., full exemption, income-based, across-the-board limits).
- For individuals who have high property costs relative to their income and other expenditures, **tax breaks can more closely link costs to ability to pay**. Loss of local revenue from personal property taxes, however, **can decrease school and public safety spending unless accompanied by other local tax increases** (e.g., business property taxes).

Limitations

- It is difficult to accurately approximate the number of individuals impacted by this type of tax waiver. For example, there is likely overlap between veterans who are retired and disabled. Additionally, it is not clear what effect these benefits would have on disabled and/or retired veterans choosing to buy property in Missouri.
- It is not possible to directly match eligible individuals to their exact personal property tax rates, which makes it difficult to calculate the tax revenue shortfall of this program and how it might differentially affect specific regions of the state.

Research Background

Disabled & retired veterans in Missouri

According to the 2019 American Community Survey, veterans make up approximately 8% of Missouri's population.¹ Around one third of the over 380,000 veterans residing in Missouri are estimated to have some level of service-related disability.² As of September 2017, 9% of Missouri

This science note was prepared on 12/10/20 by MOST Policy Initiative, Inc. a nonprofit organization aimed to improve the health, sustainability, and economic growth of Missouri communities by providing objective, non-partisan information to Missouri's decisionmakers. For more information, contact Dr. Brittany Whitley, Education & Workforce Development Fellow – brittany@mostpolicyinitiative.org.

veterans were military retirees.³ Assuming no overlap between the retired and disabled veteran population in the state, around 160,000 individuals would be eligible for a personal property tax waiver that targets retired and disabled veterans. If the property tax exemption were dependent on a service-related disability rating of 50% or higher, the eligible population would be cut in half (~85,000). Currently, Missouri citizens who are former prisoners of war and who have a total (100%) service-related disability are fully exempt from owing any personal property taxes on their primary residence. Regardless of veteran status, senior citizens and 100% disabled individuals in Missouri are eligible to apply for the Missouri Property Tax Credit. The value of the tax credit is calculated based on income and the amount of taxes owed or rent paid, but cannot exceed \$750 for renters and \$1,100 for homeowners. In FY20, total redemptions of this credit were valued at \$88.7 million.⁴

Types of personal property tax waivers

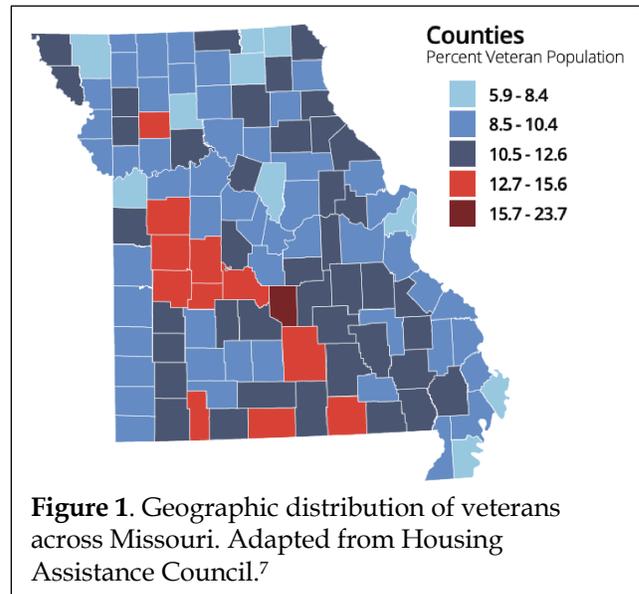
Every state except Delaware offers some level of personal property tax benefit to a population of veterans. Some states require wartime service to qualify (e.g., Indiana, Nebraska), while others have specifications based on age, type of injury (e.g., South Carolina, Tennessee), income (e.g., Montana, Nebraska), and specially adapted homes (e.g., New Hampshire, Rhode Island). Some states offer full exemptions, others offer exemptions up to a certain assessed property value, and others increase exemption amounts based on income or degree of disability. Policies also vary in whether they are available to surviving spouses, caretakers, or Gold Star families and if they are automatically applied or require application. Together, all of these factors will influence the number of people affected and the total fiscal impact of the policy.

So far, two joint resolutions regarding personal property taxes for a population of Missouri veterans have been pre-filed for 2021. [HJR 3](#) would extend a full tax exemption to all Missouri veterans with a 100% service-connected disability, similar to existing veterans' benefits in Ohio, Michigan & Wisconsin. Based on census estimates, fewer than 35,000 Missouri veterans currently fall into this category. [HJR 10](#) creates a schedule of exemptions based on disability ratings, similar to veterans' exemptions in Illinois. Around 14,500 Missouri veterans who are assigned VA disability ratings between 30-49% would have \$2,500 of the total assessed property valuation exempt from taxation. The exemption amount increases to \$5000 for the almost 12,000 Missouri veterans with disability ratings between 50-69% percent. Finally, full exemption would be provided for the approximately 35,000 veterans with disability ratings between 70-100%.

Fiscal impact of personal property tax waivers for disabled and retired veteran

Localities depend on property taxes to fund important public goods and services (e.g., schools, infrastructure, public safety). In Missouri, for example, the majority of public education funding comes from local tax revenue. However, targeted personal property tax relief is considered a beneficial tool to reduce payment defaults, especially for low-income individuals whose property taxes often significantly outweigh their income.⁵ Research suggests that the ratio of property taxes to income is highly predictive of default and can impact property values of nearby properties.⁶

With a state population of around 4.7 million and state and local tax collection of around \$1039 per capita, lost revenue from the property taxes of fewer than 160,000 individuals may have a relatively small impact on the Missouri state budget. However, housing value trends in the counties with larger veteran populations (**Figure 1**)⁷ can significantly impact the magnitude of the fiscal impact. For example, property taxes in Pulaski County, which has the highest proportion of veterans, are slightly lower than the state average. It is not possible, however, to estimate how many qualifying veterans live in any specific region at this point.



Summary of HJR30 (2019) Fiscal Note

In 2019, the Office of Administration Division of Budget and Planning (B&P) estimated the fiscal impact of a real and personal property tax exemption for veterans with a combat-related disability rating of 80% or greater, up to an actual value of \$200,000 ([HJR 30](#)).⁸ B&P estimated that, based on the number of veterans who would no longer claim the Senior Property Tax Credit, General Revenue would increase by greater than \$1.2 million in the year after implementation. If every Missouri veteran were exempt from state and local property tax, collections were estimated to decrease by approximately \$475 million. County specific estimates were not available in most cases; however, St. Louis estimated a loss of \$3.5 million per year. B&P was unable to determine the impact of this exemption on contributions to the Blind Pension Fund and possible increases to small business property taxes that may be used to make up for local revenue losses.

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