



# Homestead Tax Relief

## Executive Summary

Homestead tax relief reduces the financial burden associated with the property taxes paid on one's place of residence, but does not cover commercial, investment, vacation or vacant properties. In Missouri, a homestead property is defined as the primary dwelling or residence owned or rented by the claimant, including up to five acres of the land upon which it is built ([RSMo. 135.010](#)). Under current Missouri law, former prisoners of war are eligible for a full homestead tax exemption, and taxpayers whose household income is below a certain threshold (\$27,000-\$34,000) qualify for the Missouri Property Tax Credit.

## Highlights

- Most property taxes are assessed, levied and collected by counties ([RSMo. 137.035](#)) to fund a range of public goods and services (e.g., schools, infrastructure, public safety).
- **Homestead exemptions** exclude a specific dollar amount or percentage of property value when calculating the homestead property taxes. **Homestead tax credits** provide a discount or rebate to taxpayers based on the amount of property taxes due in a given year.
- More than half of states offer homestead tax exemptions or credits that are available to all homeowners, while most others offer homestead exemptions to specific populations, typically based on income, age, disability and/or veteran status.
- When individuals are required to apply for specific tax breaks, large portions of the eligible population typically do not receive the relief that they qualify for. These effects are strongest in low-income households and among minoritized individuals.

## Limitations

- There is wide variation in state homestead tax relief programs, including program eligibility, maximum benefits and accompanying mechanisms to increase local revenue. It is difficult to estimate how much additional homestead tax relief in Missouri would impact local revenue across the state.
- Estimating the impact of a new homestead property relief program is complicated by uneven uptake of homestead relief programs. In addition to statutory changes, policy implementation also depends on program awareness and accessibility of applications.

# Research Background

## Residential Property Taxes

With the exception of state collections for the [Blind Pension Fund](#), most property taxes in Missouri are assessed, levied and collected by counties in order to fund a range of local goods and services ([RSMo. 137.035](#)). While property taxes generate approximately one quarter of local revenue, certain services (e.g., schools, libraries, fire districts) are supported almost entirely by property tax revenue.<sup>1</sup> In 2019, residential property taxes were approximately 53.5% of the property tax base, followed by commercial property (22%), personal property (18%), centrally assessed property (5%), and agricultural property (1.5%).<sup>2</sup> Most states, including Missouri ([Mo. Const. Art. X, § 11b](#); [RSMo. 137.065](#)), have policies to limit property tax rates and nineteen states (e.g., IA, MI, MS, OK) currently limit the rate of growth of assessed property values.<sup>1</sup>

Compared to other types of taxes (e.g., income, sales), property taxes are often considered more salient because they are paid as a large sum once or twice a year.<sup>3</sup> Several factors influence an individual's willingness and/or ability to pay residential property taxes, including the intention to abandon properties, declining property values, and difficulty making payments.<sup>4</sup> Unpaid property taxes can lead to home foreclosure and may impact housing prices and local government funding.<sup>5,6</sup>

Homestead property tax relief lowers tax payments on owner-occupied homes, which can allow homeowners to avoid foreclosure in some cases. Property tax-related foreclosure tends to disproportionately affect low-income and non-white individuals, senior citizens and individuals with disabilities.<sup>7-9</sup> Residential property tax breaks may also impact the quality and availability of local services by reducing tax revenue unless they are offset by property tax increases for other property types (e.g., commercial, industrial, agricultural) or by increased state support for local services (e.g., education).<sup>6, 10-12</sup>

## Missouri Homestead Tax Credits & Exemptions

Forty-five states currently offer residential property tax relief to homeowners in the form of homestead property tax exemptions and/or tax credits.<sup>1</sup> Property tax *exemptions* exclude a specific dollar amount or percentage of property value when calculating the taxes owed on a property. Property tax *credits* provide a discount or rebate (depending on the state) to taxpayers based on the amount of property taxes due within a given year. In some states (e.g., AR, FL, IA, MN, OK, WI), homestead property tax relief applies to all taxpayers, while other states offer tax breaks based on age and/or disability (e.g., KY, NE, NC, TN) or income (e.g., MI, KS, MT).

Homestead Exemption for Prisoners of War (current): Article X, Section 3 of the Missouri Constitution exempts former POWs who are 100% disabled from taxes on all real property used as a homestead. However, to date, no one has been eligible to qualify for this exemption.

Missouri Property Tax Credit (current): Senior citizens and 100% disabled individuals in Missouri are eligible to apply for the [Missouri Property Tax Credit](#) if their total household income is below a certain threshold (\$27,000-\$34,000) that is dependent on marital status and whether the claimant rents or owns property. The tax credit value is calculated based on total household income and the amount of taxes owed on a homestead property or rent paid on a primary residence. The credit cannot exceed \$750 for renters and \$1,100 for homeowners. In FY20, total redemptions of this credit were valued at \$88.7 million.<sup>13</sup>

Missouri Homestead Preservation (HPC) Tax Credit (expired): In 2004, the Missouri General Assembly passed the Homestead Preservation Act ([SB 730](#)). Under the law, qualified senior citizens and disabled individuals could claim a tax credit if their homestead property taxes increased significantly (2.5% or higher in a non-reassessment year; 5% in a reassessment year). To qualify for the tax credit, individuals had to (a) own the homestead property, (b) have a federal adjusted gross income of under \$70,000 (adjusted yearly based on the consumer price index) and (c) have no outstanding payments on current and recent property taxes. This credit could not be claimed if the individual also applied for the Missouri Property Tax Credit in the same year. The HPC program was funded through 2008 and expired in August 2010.

For a broad overview of proposed property tax exemptions & credits during the 2021 regular legislative session, see the MOST Policy Initiative Science Note: [Missouri Tax Overview](#) (pg. 3).

### **Not all eligible taxpayers claim available homestead exemptions or credits.**

While homestead property tax exemptions and credits offer financial relief to taxpayers, a significant portion of taxpayers do not claim the tax relief that they qualify for. Because tax relief often must be applied for, the knowledge of available tax breaks and costs of applying (time, fees) can reduce utilization of these programs. Between 2012-2016, around 12% of eligible homeowners in Detroit successfully claimed [Michigan's Poverty Tax Exemption](#), which exempts low-income homeowners from some or all of their property tax obligations. Survey respondents indicated that limited awareness, application complexity, mobility restrictions and administrative transparency created barriers to claim the exemption.<sup>14</sup> Among reverse mortgage borrowers in Chicago, almost 40% of eligible taxpayers do not participate in [senior property tax relief programs](#), despite evidence that participation in these programs is associated with a 60% reduction in the probability of defaulting on property tax payments.<sup>15</sup> In Florida, approximately 9% of eligible homeowners (291,332 households) do not claim the [state's homestead exemption](#) that is available to all homeowners. Utilization rates are lower among low-income taxpayers and neighborhoods with higher proportions of Black and Hispanic individuals.<sup>16</sup>

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