

CREATE DISABLED VETERAN INCOME TAX CREDIT AND REPEAL PROPERTY TAX EXEMPTION

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House Bill 4986 (proposed H-1 substitute)
Sponsor: Rep. David C. Maturen
Committee: Tax Policy
Complete to 11-26-18

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

SUMMARY:

House Bill 4986 would amend the Income Tax Act to exempt a *disabled veteran* or a disabled veteran's widow or widower from four criteria regarding the homestead property tax credit (HPTC) and provide an income tax credit for a disabled veteran or disabled veteran's widow or widower in an amount equal to 100% of the individual's property taxes paid or 23% of gross rent paid.

Disabled veteran would be defined as a veteran who meets one of the following criteria:

- Has been determined by the United States Department of Veterans Affairs (VA) to be permanently and total disabled as a result of military service and entitled to veterans' benefits at the 100% rate.
- 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.
- Has been rated by the VA as individually unemployable.

The bill would also repeal section 7b of the General Property Tax Act (MCL 211.7b), effective December 31, 2018. Section 7b provides a property tax exemption for real property used and owned as a homestead by an honorably discharged disabled veteran or his or her unremarried surviving spouse (see Existing Property Tax Exemption, below).

Existing Property Tax Exemption

Under Section 7b of the General Property Tax Act, real property owned and used as a homestead by a disabled veteran who is a Michigan resident and who was discharged from the United States Armed Forces under honorable conditions is exempt from the collection of taxes under the act. To obtain the exemption, the property owner must annually file an affidavit showing requisite facts and a description of the real property with the supervisor or assessing officer.¹ The exemption is available to the surviving spouse of a disabled veteran, as long as the surviving spouse complies with the affidavit requirements and remains unmarried.

¹ For a model affidavit, see "State Tax Commission Affidavit for Disabled Veterans Exemption," Michigan Department of Treasury, Form 5107 (12-13):
https://www.michigan.gov/documents/treasury/5107STCAffidavit_441749_7.pdf

Proposed Homestead Property Tax Credit

Currently under the Income Tax Act, certain taxpayers are able to claim the homestead property tax credit (HPTC).² One eligibility criterion is that the taxable value of the taxpayer's homestead must be below \$135,000, through the 2021 tax year, after which the cap is adjusted for inflation. Under the bill, for tax years beginning after December 31, 2018, this taxable value cap would not apply to an owner who is a disabled veteran or a **widow or widower** of a disabled veteran.

Widow or widower is defined in the Income Tax Act as the unmarried surviving spouse of a veteran or serviceperson who receives a widow's or widower's pension from the VA. Widow or widower includes the unremarried surviving spouse of the person who previously qualified as a claimant.

One criterion of the current HPTC is that for tax years 2018 and thereafter, the credit is reduced by 10% for a taxpayer who exceeds the minimum total household resources amount of \$51,000, and by an additional 10% for each additional increment of \$1,000 in excess of the \$51,000 minimum (i.e., the credit is fully phased out and unavailable for a taxpayer with total household resources greater than \$60,001). For tax year 2021 and thereafter, these amounts are adjusted for inflation. Under the bill, for tax years beginning after December 31, 2018, this total household resource cap would not apply to a claimant who is a disabled veteran or a widow or widower of a disabled veteran.

One aspect of the current HPTC is that the total amount of the credit is limited in statute, set at \$1,500 for tax years 2018 and thereafter. Under the bill, for tax years beginning after December 31, 2018, this limit would not apply to a claimant who is a disabled veteran or a widow or widower of a disabled veteran.

Another aspect of the HPTC is that claimants (except senior citizens) receive a credit equal to 60% of the amount by which the property taxes paid exceed 3.2% of the taxpayer's total household resources, beginning with the 2018 tax year and each tax year thereafter. Under the bill, this calculation would not apply to a claimant who is a disabled veteran.

Under the bill, for tax years that begin after December 31, 2018, a claimant who is a disabled veteran or a widow or widower of a disabled veteran would be entitled to a credit against the income tax in an amount equal to 100% of the property taxes paid or 23% of the gross rent paid on the homestead for the tax year.

Finally, the disabled veteran or widow or widower could claim the HPTC on an existing tax credit claim form specified in the bill, unless the Department of Treasury created a separate form for disabled veterans.

MCL 206.506 et al.

² For more information on the HPTC, see "Homestead Property Tax Credit Information", Michigan Department of Treasury: http://www.michigan.gov/taxes/0,4676,7-238-43535_43538-155081--,00.html

FISCAL IMPACT:

As written, the bill would reduce income tax revenue by an estimated \$20.0 million to \$25.0 million on an annual basis. Because the reduction would come as an income tax credit, the general fund would absorb most, if not all, of the revenue loss.

Because the property would no longer be exempt from the property tax, local property tax revenues would increase by \$16.0 million to \$20.0 million, and revenue from the 6-mill state education tax (SET) would increase by \$4.0 million to \$5.0 million. All SET revenue accrues to the School Aid Fund.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.