Property Tax - Senior/Disabled/Veteran Exemptions and Deferrals

Overview – The Senior Citizen/Disabled/Veteran Property Tax Exemption program provided nearly 115,000 people with tax relief in 2007. On average, program participants saved $1,466 on their property tax bills.

Eligibility – Anyone at least 61 years of age or older, unable to work because of a physical disability, or a veteran with a 100 percent service connected disability and who meets the income and ownership requirements.

Income and Ownership Requirements - The maximum disposable income is *$35,000 per year* for the individual, spouse and any other owners that live in the home. The exemption is available for the principal home and up to one acre of land or five acres of land if required by local land use regulations. The home must be owned and occupied for at least six months each year unless:

- The home is temporarily unoccupied; or
- A person who is dependent on you for support lives in the home; or
- The home is rented out to pay for hospital, nursing home, boarding home or adult family home costs.

Disposable Income – To determine eligibility for the program, take the federal adjusted gross income (from your tax return) and **add the following income if not already included**: capital gains; deductions for loss; depreciation; pensions and annuities; military pay and benefits; veterans' benefits (except attendant-care, medical-aid payments and disability compensation); Social Security and federal railroad retirement benefits; dividends, and interest income.

The following items are ***not included*** when calculating disposable income:

- Payments for the cost of care for either spouse received in the home, nursing home, boarding home or adult-family home;
- Payments for prescription drugs;
- Medicare premiums. Supplemental Medicare insurance premiums (i.e. private insurance that augments Medicare benefits) are not eligible for deduction.

Property Tax Exemption - The home's assessed value is frozen as of January 1, 1995 or January 1 of the first year of application, whichever is later. The county continues to update the home's assessment, but the individual will only be billed for property taxes on the frozen value. The following relief is provided based on the disposable income:

- $30,001 to $35,000 – all excess levies are exempt
- $25,001 to $30,000 – all excess levies are exempt and regular levies on $50,000 or 35 percent of assessed value ($70,000 maximum), whichever is greater are exempt.
- $25,000 or less – all excess levies are exempt and regular levies on $60,000 or 60 percent of assessed value, whichever is greater are exempt.

Property Tax Deferral – Under the deferral program, the state pays all property taxes and special assessments on the taxpayer's behalf. The deferred amount, plus interest, becomes a lien on the property and must be repaid when the property changes ownership. The ownership requirements and income calculation process is the same as the exemption program, except taxes cannot be deferred if the person has a life estate, share in a cooperative housing unit, or a revocable trust. The owner must also maintain a current fire and casualty insurance policy.

The income cap for the deferral program is *$40,000* per year. The amount of equity in the home determines the maximum amount of property taxes and special assessments that can be deferred. A person may defer taxes in an amount up to 80 percent of the equity in the home.

Issues and Outlook – The retired person property tax exemption was approved as a constitutional amendment by voters in 1966. The Legislature later included physically disabled residents, and has authority to further change the qualifications for the program. The income thresholds to qualify for the exemption and deferral programs were last increased in 2004. This has eroded the effectiveness of the program, and more seniors are finding it difficult to take advantage of this tax relief. The last change to the program was in 2008 when veterans' disability compensation was exempted from income.

House Republicans have consistently supported and sponsored measures to increase the income thresholds to qualify for tax relief and exempt other sources of income (such as military pensions and health care insurance), as well as increase the income threshold yearly for inflation.

As with all property tax exemptions, any changes to the exemption program that expand the number of participants shifts the burden to other taxpayers. In 2007 more than $168 million of property taxes were shifted to other taxpayers through this exemption program.

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