



SF 485 – Military Service Property Tax Exemption (LSB1061SV)
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Fiscal Note Version – New

Description

Senate File 485 increases the value of the **Military Service Tax Exemption** from the current level of \$1,852 of property value for most veterans and their qualified survivors, to \$3,700. The change is effective beginning assessment year 2019 (FY 2021).

Background

Under current law, the Military Service Tax Exemption is equal to \$2,778 of property value for veterans of World War I (and qualified survivors), and \$1,852 for all other qualified situations. The vast majority of exemption situations qualify for the \$1,852 amount. The exemption reduces the amount of property value subject to property tax. At \$1,852 of value and at the statewide FY 2019 average Military Service Tax Exemption tax rate (\$35.02 per \$1,000 of taxable value), the average exemption reduces a veteran’s annual property tax payment by about \$65.

The State **reimburses** local governments for \$6.92 per \$1,000 of the revenue reduction associated with the Military Service Tax Exemption. Through the action of the State school aid formula, the State also reimburses school districts for \$5.40 per \$1,000. At the \$35.02 per \$1,000 statewide average residential property tax rate, this results in \$22.70 per \$1,000 in unreimbursed property tax impact. This impact results in reduced local government property tax revenue.

Assumptions

- The number of taxpayers claiming the Military Service Tax Exemption for FY 2019 is estimated at 142,654 and over the last six years, the number has been declining at an average rate of 5,177 per year. That level of decline is assumed for the next three fiscal years, so the assumed number of tax exemption claims projected for FY 2021 is 132,300.
- The average tax rate for property subject to the Military Service Tax Exemption for FY 2019 is calculated to be \$35.02 per \$1,000 of taxed value. That tax rate is assumed to remain constant.

Fiscal Impact

For almost all properties benefiting from the Military Service Tax Exemption, the impact of the Bill will be to double the current property tax reduction, beginning FY 2021 (taxes payable in the fall of 2020 and the spring of 2021). The FY 2021 impact on government finance is projected to be:

- State General Fund Military Service Tax Exemption appropriation increase = \$1.7 million
- State General Fund school aid appropriation increase = \$1.3 million
- Local government property tax revenue reduction = \$5.6 million

Going forward, the number of veterans is expected to decline modestly each year, and this will produce a declining fiscal impact on State appropriations and local revenue.

Sources

Department of Management property tax value and rate files
Legislative Services Agency analysis

/s/ Holly M. Lyons

March 7, 2019

The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
