



HF 163 – Disabled Veteran Homestead Tax Exemption (LSB1056HV)
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Fiscal Note Version – New

Description

[House File 163](#) expands eligibility criteria for the [Disabled Veteran Tax Credit](#). The eligibility expansion is phased in over a period of three assessment years. The change allows for a property tax credit that is equal to the disability rating of the qualified applicant. The phases are as follows:

- Assessment year (AY) 2023 (FY 2025) — Individuals with a disability rating of 70.0% or higher will qualify.
- AY 2024 (FY 2026) — Individuals with a disability rating of 40.0% or higher will qualify.
- AY 2025 (FY 2027) and after — Individuals with a disability rating of 10.0% or higher will qualify.

In all instances, the tax credit will equal the individual's disability rating multiplied by the tax due on the homestead. Qualified individuals may choose to benefit from the existing [Homestead Credit](#) and [Military Service Tax Exemption](#) if the property tax reduction under those programs offers a higher property tax reduction than the Disabled Veteran Tax Credit.

The changes are effective upon enactment and apply to assessment year 2023 and after.

Background

The Disabled Veteran Tax Credit is funded through the standing unlimited appropriation for the Homestead Tax Credit. Under current law, a qualified disabled veteran is allowed a property tax credit equal to 100.0% of the property tax due on a homestead. To qualify under existing law, the veteran must be one of the following:

- A veteran of any of the military forces of the U.S. who acquired the homestead under specified federal veteran assistance programs.
- A veteran (or former member of the National Guard of any state who meets specified service requirements) who has a permanent service-connected disability rating of 100.0%.
- A veteran (or former member of the National Guard of any state who meets specified service requirements) who has a permanent and total disability rating based on individual unemployability that is compensated at the 100.0% disability rate.
- A surviving spouse or dependent child who is receiving federal [Survivor's Dependency and Indemnity Compensation](#).

Assumptions

- The number of qualified veterans at each disability rating was provided by the U.S. Department of Veterans Affairs (VA). The numbers were adjusted by the Department of Revenue (Department) to account for veterans who are assumed to already qualify under existing law.
- The Department estimates that 76.0% of qualified veterans own homesteads. That percentage is assumed to be the same for all disability ratings. Based on the count of qualified veterans and the assumed home ownership rate, the number of veterans at each

disability rating category who will benefit from the expanded credit is listed in **Table 1**. The numbers are assumed to remain constant for the near future.

Table 1

Expanded Disabled Veteran Tax Credit			
Assumed Number of Qualified Veteran Homestead Owners			
<u>Disability Rating</u>	<u>Veteran Homeowners</u>	<u>Disability Rating</u>	<u>Veteran Homeowners</u>
90.0%	1,350	40.0%	2,710
80.0%	1,760	30.0%	2,620
70.0%	1,970	20.0%	3,070
60.0%	2,770	10.0%	7,990
50.0%	2,030		
		Total	<u>26,270</u>

- Based on Department records of current Disabled Veteran Tax Credit claims, the average disabled veteran home value was \$165,433 in AY 2020. The average home value for veterans made eligible under this Bill is assumed to be the same.
- The average home value is assumed to increase 2.9% each assessment year.
- The residential rollback equals 56.4919% for AY 2022 and is assumed to remain at that level for all future years.
- The statewide average residential property tax rate is \$33.65 per \$1,000 of taxed value for AY 2021 (FY 2023), and this rate is assumed to remain constant for future years.
- A veteran homestead owner who qualifies for the Disabled Veteran Tax Credit cannot also qualify for the Homestead Tax Credit or the Military Service Tax Exemption.
- The Homestead Tax Credit applies to the property tax due on \$4,850 of taxed value. At an average residential property tax rate of \$33.65 per \$1,000, the average tax credit is \$163. The credit is funded through a standing unlimited General Fund appropriation.
- For most qualified veterans, the Military Service Tax Exemption exempts \$1,852 of taxed value from property tax. The State General Fund partially reimburses local governments for the exemption. The Military Service Tax Credit covers \$6.92 of the property tax rate, while the school aid appropriation covers \$5.40. At the statewide average property tax rate of \$33.65, \$21.33 per \$1,000 of the exemption results in reduced local government revenue.
- The estimated cost of extending the Disabled Veteran Tax Credit to veterans with disability ratings below 100.0% is adjusted for the reduction in the Homestead Tax Credit and Military Service Tax Exemption.

Fiscal Impact

The expansion of the Disabled Veteran Tax Credit is projected to result in State General Fund appropriation net increases as shown in **Table 2**. For years beyond FY 2027, the estimate increases by 2.9% each year.

Table 2

Expansion of the Disabled Veteran Tax Credit			
Dollars in Millions			
	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Newly Qualified Homestead Owners	5,085	12,599	26,282
Disabled Veteran Tax Credit Increase	\$ 13.7	\$ 27.4	\$ 36.2
Reduction in Existing Property Tax Appropriations *	-0.9	-2.3	-4.9
State General Fund Appropriation Net Increase	\$ 12.8	\$ 25.1	\$ 31.3
Local Government Property Tax Revenue Increase	\$ 0.2	\$ 0.5	\$ 1.0

* Includes the Homestead Credit, Military Service Tax Credit, and State school aid.

In addition to the increase in State General Fund appropriations, the reduction in the use of the Military Service Tax Exemption is projected to increase local government property tax revenue statewide by the amounts listed in the final line of **Table 2**.

Sources

- Department of Revenue Disabled Veteran Tax Credit records
- U.S. Department of Veterans Affairs disability rating counts (January 2022)
- Residential rollback percentage for AY 2022 (FY 2024)
- Department of Management property tax rate and value files

/s/ Jennifer Acton

February 20, 2023

Doc ID 1368891

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.