

# Legislative Analysis



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## VETERANS HOMESTEAD INCOME TAX CREDIT

### House Bill 4252

**Sponsor: Rep. Gino Polidori**

**Committee: Military and Veterans Affairs and Homeland Security**

**Complete to 3-5-07**

### A SUMMARY OF HOUSE BILL 4252 AS INTRODUCED 2-13-07

Generally speaking, under the Income Tax Act (MCL 206.522), individuals may claim a credit against the tax equal to 60% of the amount of property taxes paid on their principal residence in excess of 3.5% of household income. (The homestead credit is limited to claimants with a household income of \$82,650, with the credit being phased-out for income above \$73,650.) However, a taxpayer who is an eligible serviceperson, eligible veteran, or eligible widow or widower of a veteran or serviceperson, may use an alternate calculation, whereby the homestead credit is equal to the amount of property taxes multiplied by the quotient of a "taxable value allowance" divided by the property's taxable value. The taxable value allowance (set in MCL 206.506) ranges from \$2,500 to \$4,500, depending on whether the claimant is a disabled veteran, the widow or widower of a veteran, or a veteran of certain wars, as shown in the chart below.

House Bill 4252 would increase the taxable value allowance of each category by \$2,000, as shown in the last column of the chart below.

War	Person	Service	Disability Percentage Requirement	Taxable Value Allowance
Indian, Mexican, Civil, Spanish-American.	Veteran, Widow, Widower	3 months/1 day with service-related disability	No Requirement	\$3,500
WWI, WWII, Korean	Widow/Widower of nondisabled veteran	3 months/1 day with service-related disability	No Requirement	\$2,500
All wars or presidential executive orders or proclamations	Pensioned veteran or widow or widower	Any	No Requirement	\$3,500
All wars or presidential executive orders or proclamations	Veteran with service-related disability or widow or widower	Any	10-50%	\$3,500
All wars or presidential executive orders or proclamations	Veteran with service-related disability or widow or widower	Any	60-80%	\$4,000
All wars or presidential executive orders or proclamations	Veteran with service-related disability or widow or widower	Any	90-100%	\$4,500
All wars or presidential executive orders or proclamations	Widow or widower of veteran dying in service	Any	No Requirement	\$4,500
Current Service	Serviceperson or widow or widower	Any	No Requirement	\$3,500

Like the general homestead credit, the veterans' credit is capped at \$1,200, is limited to claimants with a household income of \$82,650 or less, and is phased-out for claimants with household income above \$73,650. The household income limit is \$7,500 for active military, pensioned veterans or their surviving spouses, and the surviving spouse of a nondisabled or nonpensioned veteran of WW I, WW II, or the Korean War. A qualifying taxpayer is not prohibited from claiming the general homestead credit, but he or she may not claim both credits.

Essentially, the amount of the credit is the millage rate multiplied by the taxable value allowance. As such, increasing the taxable value allowance by \$2,000 for each category would save taxpayers (using the statewide average homestead millage rate of 38 mills) an average of \$76.

**FISCAL IMPACT:**

The bill would reduce income tax revenue (GF/GP) by approximately \$700,000 on an annual basis.

**BACKGROUND INFORMATION:**

According to the Department of Treasury's Bureau of Tax and Economic Policy, in tax year 2004 (the most recent year for which compiled data exists) there were 9,338 taxpayers claiming the veterans homestead credit, totaling \$1,183,036. The table below shows the number of credits, total amount and average credit for tax years 1994 through 2004.

<b>Year</b>	<b>Credits</b>	<b>Amount</b>	<b>Average</b>
1994	16,700	\$2,139,000	\$128.08
1995	16,957	\$2,163,862	\$127.61
1996	15,645	\$1,999,655	\$127.81
1997	15,086	\$1,894,860	\$125.60
1998	13,685	\$1,729,519	\$126.38
1999	12,749	\$1,629,734	\$127.83
2000	12,168	\$1,511,083	\$124.18
2001	11,406	\$1,407,102	\$123.37
2002	10,313	\$1,286,356	\$124.73
2003	9,994	\$1,221,855	\$122.26
2004	9,338	\$1,183,036	\$126.69

Source: Department of Treasury

The veterans homestead credit was first established with the enactment of Public Act 20 of 1973. Prior to that, the General Property Tax Act (MCL 211.7f and, previously, MCL 211.7) provided a property tax exemption. The current taxable value allowance amounts have been unchanged since the creation of the credit in 1973, and actually date back to Public Act 342 of 1968 as the amounts exempted from property taxation.

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