

No. 743

October 9, 1963

## HOMESTEAD EXEMPTION FOR SENIOR CITIZENS

### Governor's Plan

As part of his tax reform program, the Governor proposes (H. B. 28) that a citizen who has attained the age of 65, or 62 if an unmarried woman, may defer the payment of property taxes and special assessments on a homestead in an amount not to exceed \$200 per year, if:

1. The owner is a citizen of the United States, has resided in Michigan for ten years or more, has owned the homestead for five years or more, and has a family income of \$2,000 or less.
2. The homestead must be a single family unit, owned and occupied solely as a residence, with not to exceed one acre of land when located within an incorporated city or village, or 40 acres outside such city or village. The homestead can not have a value in excess of \$5,000 state equalized (i.e., an average of \$10,000 true cash value).
3. The state would reimburse local governments for revenue lost under the plan. Deferred taxes and special assessments would be a lien against the homestead in favor of the state, collectible with interest (five percent), within the limit of the value of the homestead, at death or upon sale of the property.

If all of those eligible took advantage of the deferment, about \$6 million in general property taxes would be involved in the first year. The state would meet this cost in the first instance, but eventually would be reimbursed all or a major portion of the outlay. Thus, while tax relief is provided for those eligible, it is accomplished on a self-liquidating basis.

### Alternate Proposal

A second plan has been proposed by several senators (S. B. 1026) which provides that the homestead of any person 65 years of age or older shall be exempt from

---

#### BOARD OF DIRECTORS

---

MEYER L. PRENTIS, PRESIDENT  
WILLIAM R. CLARK, VICE PRESIDENT  
HARRY G. BOWLES  
ROBERT P. BRIGGS  
HAROLD W. H. BURROWS  
CLIFFORD C. CHRISTENSON

SIMON D. DEN UYL  
LESTER R. DOWNIE  
RICHARD C. GERSTENBERG  
TYRONE GILLESPIE  
JAMES B. GORDON  
MAX P. HEAVENRICH, JR.

JOSEPH L. HUDSON, JR.  
FREDERICK B. HUNT  
FRANK N. ISBEY  
JAMES A. KENNEDY  
DONALD F. KIGAR  
WILLIAM A. MAYBERRY

WILLIAM G. McCLINTOCK  
KENNETH S. REAMES  
THOMAS R. REID  
E. H. RYDHOLM  
ROBERT B. SEMPLE  
HOWARD J. STODDARD

ROBERT E. PICKUP, EXECUTIVE DIRECTOR

taxation to the amount of \$3,000 of local assessed value, unless the total state equalized value of the homestead exceeds \$7,500 (i.e., an average of \$15,000 true cash value).

The owner must have been a resident of the state for ten years. Income from all sources may not exceed \$3,000 per year. A homestead is defined as any dwelling owned and occupied solely as a home by the owner, including all contiguous unoccupied real property owned by the person.

The Research Council estimates that tax losses under this plan would be \$13 million in the first year. The plan is not self-liquidating and local taxing districts would presumably be required to absorb property tax losses incurred under the provisions of the bill.

### Deferral vs. Exemption

Those favoring tax deferral argue that this procedure helps those whom senior citizen tax forgiveness is designed to help without providing a windfall to the heirs at public expense. They also state that many more senior citizens could eventually be freed of tax payments, and in larger individual and aggregate amounts for any given outlay of governmental funds, through the revolving fund principle.

Those favoring the alternate route of outright exemption object to making the forgiven taxes a charge against the property. They believe that it should be given as a right so that a qualified person will not be deterred from taking advantage of the assistance. It is argued that such a lien tends to lock the individual into the property and reduces its value to the owner if sold. It is also stated that the heirs should inherit the full value of the homestead, unencumbered by deferred property taxes.

### Homestead Exemptions in the United States

Property tax exemptions are not new in the United States. The erosion of the property tax base through the exemption of various classes of property has been bemoaned for decades by state and local governments, tax officials, and even taxpayers. Nevertheless, the reduction in the property tax base has proceeded inexorably to a point where the general property tax may hardly be called general.

The senior citizen's homestead exemption is, however, rather new to the scene. Four states now have homestead exemptions designed specifically to aid elderly persons. Indiana exempts the property of senior citizens to an assessed value of \$1,000 pro-

viding the owner has a property assessment of less than \$5,000 and total income of less than \$2,250 a year. New Jersey exempts real property of persons 65 years or older up to \$800 in assessed value provided the total income of the taxpayer is less than \$5,000 a year. Massachusetts exempts up to \$2,000 of the value of the homestead of a widow or person over 70 years of age when the value of his real and personal property does not exceed \$8,000. Oregon has just enacted a homestead tax deferral for senior citizens. Under the Oregon law, property taxes will be deferred until the taxpayer's death or transfer of the property, if the taxpayer has annual income of less than \$2,500. The extent of tax deferral is on a sliding scale, depending on age, up to \$10,000 of true cash value at the age of 80.

### Rationale of Homestead Exemption

The basic reason for the development of the exemption of homesteads from property taxation has been the widely-held belief that home ownership should be encouraged and that homeowners pay more taxes than renters. In many states, these two premises, coupled with the political force of homeowner groups, have brought about homestead exemptions and the tax shift to other property. Those-advocating specific exemption of the property of senior citizens argue: 1) the retired person generally lives on a relatively fixed income (pension, annuities, etc.); 2) property taxes have been rising and have been taking a greater and greater share of senior citizens' annual income; 3) the benefits of property taxes are channeled mainly toward the younger families in the benefits of educational expenditures; and 4) the retired person should not be compelled to give up his home due to inability to pay property taxes.

Leaving aside the political questions involved, the homestead exemption for senior citizens presents various problems. Complete exemption of such property would result in a revenue loss of \$45 million in Michigan.

The pegging of the exemption to local assessed value would result in the exemption having greater or less value to the taxpayer, depending upon the level of assessment in the district in which the property is located. The administration of the exemption qualifications also presents problems. The accuracy of the person's statement as to his income and wealth must be determined. These provisions have been troublesome to administer under the Michigan veteran's exemption law and would be more difficult in the case of senior citizens since their incomes are often largely unearned or passive incomes and, therefore, difficult to check. In addition, local boards of review have at times "qualified" veterans by reducing their assessments so that the exemption would come into effect. Sentiment for action along this line might well be even stronger in the case of elderly persons.

Administration of homestead exemptions in the various states which have them has been fraught with difficulty. A recent speech by a member of the Louisiana Tax Commission points up the general difficulties encountered in “homestead” states where local assessors have deliberately under-assessed real property in order to qualify the property and its owner for the exemption.

Experience in Michigan and elsewhere indicates that it is extremely difficult to turn back once embarked on the homestead exemption route. As public expenditures rise and taxes go up, there always seems to be a marginal group priced out of the ability to pay their allotted taxes. Since the individual does not have a free choice relative to tax payments, the urge is to remove the liability completely which further diminishes the tax base. This increases the burden on remaining taxpayers and creates a new marginal group.