

New elderly property tax credit misses target beneficiaries

As the Legislature continues to debate tax changes, little attention has been paid to a new property tax credit provided in the so-called “tax omnibus bill,” Senate File 587, which recently passed the Iowa Senate. This new credit for lower income elderly homeowners has significant problems.

Iowa already has an **Elderly and Disabled Property Tax Credit** that has been functioning well for decades. It applies both to homeowners and to renters; for renters, 23 percent of rent is assumed to go for property taxes. The credit is equal to a portion of the first \$1,000 in property taxes paid, starting at 100 percent and declining to 25 percent as income increases. The credit phases out at about \$24,000 income. Both portions of the credit are entirely funded by the state.

An argument could be made for enhancing that credit in any number of ways. The maximum amount of taxes eligible for the credit could be increased to \$2,000, as one bill this session proposed. Most elderly taxpayers have taxes well over \$1,000. The portion of taxes refunded could be increased. The income ceiling could be raised. More fundamentally, the credit could be made available to the non-elderly; the Iowa code contains a very similar credit available to homeowners and renters age 23 or above, but it has never been funded.

All of these types of changes would build on an existing credit targeted at lower income homeowners and renters.

Instead, SF 587 creates a new credit that amounts to a freeze on property taxes for homeowners age 70 and above with income below 2.5 times the poverty level. The credit rebates each year 100 percent of the increase in the homeowner’s property taxes since the homeowner first became eligible for the credit and applied.

There are three problems with the approach in SF 587, besides the administrative complexity of adding an entirely new credit that must be integrated with existing ones.

First is both a fairness and accountability issue. The credit does not phase out with income; it is all or nothing. Homeowners turning 70 in 2022 with income of \$32,000, just below 2.5 times the poverty level, would have about a third of their property taxes covered by the credit by the time they were age 90.¹ Their neighbors with income just above the threshold would get no credit at all. This is unfair, and creates a strong incentive to under-report income for those near the threshold.

Second, this new credit comes entirely at the expense of local governments. The cost in lost property tax revenue is estimated at \$6.2 million in 2024, increasing by \$5 million to \$6 million every year thereafter, as more and more taxpayers accumulate increases in taxes over their starting year.²

Most importantly, the new credit applies only to homeowners. Renters are left out entirely. There are about 200,000 Iowans age 65 or older with income below 250 percent of the poverty level. About a quarter of them (27.5 percent) are renters.³ **And there is a stark racial divide.** The extreme inequality in wealth between

Black and White Americans is reflected here: An estimated 63 percent of low-income elderly Black lowans are renters, compared to 26.5 percent of low income elderly White lowans. As a result, this expanded property tax credit aimed at the low-income elderly leaves out over a quarter of White lowans, and nearly two-thirds of Black lowans.

If the Iowa Legislature is to enhance property tax rebates to those who can least afford to pay taxes, legislators should focus on all those whose taxes – or the share of rent going to taxes – is a high percentage of income. Age, homeownership and race should not be a factor in who gets assistance.

¹ This is based on the assumptions in the Fiscal Note for SF587: an average property tax payment of about \$2,500 for those eligible under this bill, with that amount increasing by 2 percent per year. Legislative Services Agency, Fiscal Note, SF 587 – Tax Omnibus, April 12, 2021. <https://www.legis.iowa.gov/docs/publications/FN/1218726.pdf>

² Ibid.

³ Estimates of the number of elderly lowans who rent or own a home are based on the U.S. Census, American Community Survey, five-year sample, 2015-2019. The census data was accessed through IPUMS USA, University of Minnesota, www.ipums.org. White and Black households included only those not of Hispanic origin. Estimates for the Hispanic population and for other racial groups were not significantly different from those for White, non-Hispanic households.