

Property Tax Relief for Older Adults in Missouri

Increasing housing values and associated property taxes can have a devastating impact on older adults in Missouri. In many cases, older people may end up being “priced-out” of the home they have lived in for decades and face being separated from their neighbors and the community in which they’ve raised their families. Property tax relief targeted toward both homeowners and renters (who may see higher rental rates tied to property tax increases) can give a much-needed break to older adults living on fixed incomes.

Yet property taxes are also an important source of revenue for local governments and are used to fund schools, fire departments, and senior services in communities across Missouri. While it is critically important to provide targeted property tax relief to help older adults remain in their homes and communities, it is equally important to do so in a way that protects a community’s ability to provide critical services for those same seniors and their families.

Fortunately, there are a variety of ways to deliver property tax relief to those who need it most, while avoiding unintended consequences like cuts to local services or increases in user fees and sales taxes.

This report offers five key recommendations to provide property tax relief to older adults in Missouri:

- ✓ **Improve Missouri’s existing “Circuit Breaker” Tax Credit for renters and owners by expanding eligibility and increasing the credit amount.** Missouri’s Circuit Breaker tax credit already provides targeted property tax relief to older adults across our state.

Strengthening and expanding the existing credit would help to provide much needed relief to older Missourians.

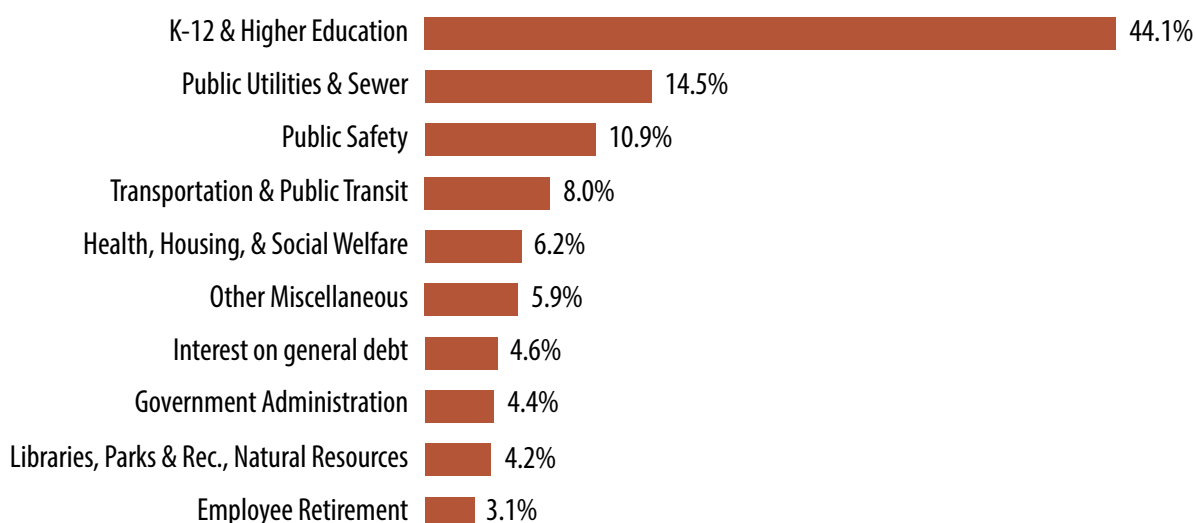
- ✓ **Supplement Missouri’s Circuit Breaker Tax Credit with a credit toward large increases in property taxes for low- and moderate-income homeowners.** Supplementing the existing property tax credit could help prevent displacement among homeowners by directly targeting households experiencing unexpected increases in property tax bills.
- ✓ **Use federal stimulus funds to provide one-time, direct relief to current Circuit Breaker recipients.** During the pandemic, housing insecurity has increased. The existing circuit breaker tax credit provides an efficient mechanism for providing property tax relief that helps keep older Missourians in their homes and communities.
- ✓ **Implement an income & age limited Homestead Exemption for Missouri homeowners.** A Homestead Exemption could be layered on top of Missouri’s existing Circuit Breaker tax credit to provide property tax relief to low-income homeowners whose income is too high to qualify for the Circuit Breaker tax credit.
- ✓ **Avoid broad-based property tax credits and caps.** Property tax relief targeted toward those most in need is more cost-effective than relief for all older homeowners, many of whom have little risk of housing insecurity. Moreover, unlike broad-based credits, a targeted approach avoids severe erosion of the services provided by local governments.

STRENGTHS & CHALLENGES OF THE PROPERTY TAX

Property taxes are the backbone of funding for critical local services and are a key source of funding supporting senior services in nearly half of Missouri's counties.

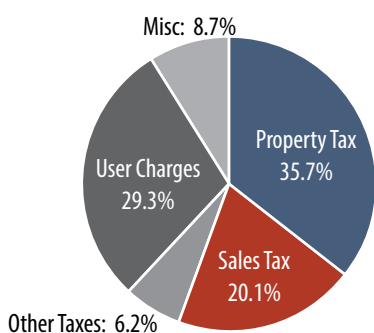
Local governments provide key critical services that support their local communities including schools, hospitals, police & fire departments, parks, libraries, transportation & public utility infrastructure. In Missouri, education, public utilities, and public safety alone account for nearly 70% of all local spending.

Local Government Spending in Missouri, 2019



Source: U.S. Census Bureau, 2019 Annual Surveys of State and Local Government Finances.

Revenue Raised by Local Governments in Missouri, 2019



Property taxes are an essential source of funding for these services provided in local communities. In Missouri, property taxes are the largest single source of revenue for local governments and account for over one-third of the revenue raised for local services.

Source: U.S. Census Bureau, 2019 Annual Surveys of State and Local Government Finances.

Further, 52 of Missouri’s counties (or nearly half) have a property tax levy to fund vital services designed to help older adults remain in their homes and communities. Over \$17.5 million is raised annually in Missouri through this property tax levy, which is used to provide home care, meals, transportation, respite care, and other services to Missourians over age 60 (See Appendix 1 for county level data on Senior Services Levy Fund annual revenues).

Property taxes are a less regressive source of funding than other local revenue streams, including sales tax and user charges.

Property taxes have several benefits as compared to other primary sources of local revenue. Both user charges (such as fees for water delivery or garbage collection) and sales taxes are much more regressive than property taxes, meaning they account for a much higher share of income in low-and-moderate income households than high-income households.¹ Thus, broad-based reductions in property taxes (which lead to large losses in revenue) not only risk cuts to critical public services relied upon by seniors and their families but could also inadvertently lead to increases in other (more regressive) forms of taxation.

Despite these strengths, property tax relief is needed, particularly for seniors who are on fixed incomes with little ability to adjust to rapidly rising property taxes.

One in four households headed by Missourians aged 65 and over experience housing insecurity, defined as households paying 30% or more of their income toward housing costs. This is especially true among renters, nearly half of whom experience housing insecurity. While housing insecurity is a significant problem for Missourians of all ages, households headed by older adults have higher rates of housing insecurity, likely because these households rely on fixed incomes and are less likely to be able to adjust their income to changing housing costs. This is especially problematic for those in gentrifying neighborhoods, who may be displaced due to the effects of rapidly increasing property taxes on homes they have owned or rented for decades.

Number and Share of Missourians Experiencing Housing Insecurity by Age, 2019

	Renters		Owners		Total	
	#	%	#	%	#	%
Householder < 65	263,192	39.2%	165,087	14.7%	428,279	23.9%
Householder 65+	65,522	47.7%	110,651	20.9%	176,173	26.4%
Total	328,714	40.7%	275,738	16.7%	604,452	24.6%

Source: U.S. Census Bureau. 2019 American Community Survey. Tables B25093: Age of householder by selected monthly owner costs as a percentage of household income in the past 12 months & B25072: Age of householder by gross rent as a percentage of household income in the past 12 months.

For many older adults, the high rates of housing insecurity are a barrier to aging in place. Growing evidence suggests that to make ends meet, older adults experiencing housing insecurity cut back on spending for other essential items including food and health care, which could contribute to premature institutionalization as their health deteriorates.² Further, older adults who cannot pay housing bills may be pushed into homelessness or institutionalized for primarily financial reasons – all outcomes that are not only undesirable for individuals but also end up being much more costly for the state in the long term. Thus, it is critical that any property tax relief programs are highly targeted and effective to ensure that those at highest risk of housing insecurity receive assistance without undermining local services that support these same older adults and their families.

RECOMMENDATIONS

Several effective and proven policies exist to provide targeted property tax relief to low-and moderate-income older adults. These policies, such as ‘circuit breaker’ tax credits and income-based homestead exemptions can help to keep older adults in their homes by offsetting property tax increases, make property taxes fairer, and give a much-needed break to those in the most need. At the same time, because these programs are highly targeted, they are cost-effective and do not put funding for other critical local services at risk.

Improve Missouri’s Existing “Circuit Breaker” Tax Credit By Expanding Eligibility and Increasing the Credit Amount

A “circuit breaker” tax credit provides property tax relief to low-income households that spend a high proportion of income on property taxes.³ As of 2019, 31 states (including Missouri) provided some type of a circuit breaker tax credit, 22 of which extended the credit to renters in recognition that property owners pass along the cost of property taxes to their tenants through rental rates.⁴

The Missouri Property Tax Credit is a “circuit breaker” tax credit that helps older Missourians and Missourians living with disabilities who have fixed incomes stay in their homes by offsetting costs related to property taxes. Both homeowners and renters are eligible for the credit, which is based on the amount of property tax or rent paid, respectively.

Missouri Circuit Breaker Property Tax Credit

Income Limits

- Renters - Single: \$27,500 or less; Married: \$29,500 or less
- Homeowners - Single: \$30,000 or less; Married: \$34,000 or less.

Eligibility

- Must be 65 years of age or older, a person 18-64 who is 100% disabled, or 60 and older and receiving surviving spouse social security benefits.
- If you rent from a facility that does not pay property taxes (such as a non-profit assisted living facility), you are not eligible for a Property Tax Credit.

Maximum Credit

- \$750 for renters and \$1,100 for owners. The actual credit is based on the amount of property tax or rent paid and total household income, taxable and nontaxable.

In tax year 2019, Missouri’s circuit breaker property tax credit helped offset property taxes for nearly 150,000 households containing older adults & Missourians living with disabilities.

- Over 80,000 claims (or over half) were filed by renters, while over 87,000 (or nearly 60%) qualified based on age.
- In 2019 the average credit was just \$572.

Though a modest amount, the “Circuit Breaker” credit helps older adults and Missourians living with disabilities remain living independently in their own homes and increases their ability to afford basic expenses.

Missouri “Circuit Breaker” Property Tax Credit Claims, 2019

2019 Property Tax Credit	Claims	Amount	Average Credit
Homeowners	69,616	\$40,099,375	\$576
People Living with Disability	13,847	\$8,333,874	\$602
Older Adults	55,769	\$31,765,501	\$570
Renters	80,325	\$46,059,553	\$573
People Living with Disability	48,758	\$29,377,568	\$603
Older Adults	31,567	\$16,681,985	\$528
Total	149,941	\$86,158,928	\$575

Source: Missouri Budget Project Analysis of Department of Revenue administrative data.

While Missouri’s Circuit Breaker is a lifeline for many older adults and people living with disabilities, only very low-income recipients (those with incomes below \$14,300) qualify for the maximum credit. The size of the tax credit phases out quickly so that those near the income eligibility cap receive credits of less than \$10 annually. Further, although property taxes increase annually, the size of Missouri’s circuit breaker credit is flat and is not tied to any annual increase.

Finally, Missouri’s income guidelines are not indexed against inflation, meaning that while average incomes increase over time, Missouri’s eligibility guidelines do not change. As a result, fewer people qualify for the credit over time and those that do are more likely to fall higher on the phase-out scale – meaning they qualify to receive a smaller credit.

Missouri can strengthen and improve its existing Circuit Breaker tax credit by increasing the size of credits available to current recipients and by expanding eligibility for the credit to more low-income Missourians.

Proposal A: Increase the number of Missourians receiving the Circuit Breaker tax credit by raising the maximum income limit and increase the size of the credit by modifying the phase-out increment to ensure recipients are reimbursed for a larger portion of their property taxes.

Proposal B: Index income limits and the maximum credit to inflation in order to ensure that the Circuit Breaker tax credit keeps pace with the rising cost of property taxes.

Estimated Cost of Improvements to Missouri’s Existing Circuit Breaker Tax Credit

	Income Bracket		Lowest 20%	Second 20%
	Average Income in Group		\$13,000	\$30,000
Proposed Legislative Change	Households Impacted	Cost Estimate	Average Tax Change for those w/Cut	
Proposal A: Increase Maximum Income Limit & Phase-out Increment	127,000	\$18 million	-\$110	-\$167
Proposal B: Index Income Limits & Max Credit to Inflation	124,000	\$21 million	-\$72	-\$209
Proposal A + B	159,000	\$42 million	-\$138	-\$337
See Appendix 2 for detail on assumed statutory changes; the cost and number impacted for implementing both proposals simultaneously is not a sum of the individual proposals due to overlap in statutory changes.				

Source: Institute on Taxation and Economic Policy, January 2022

Supplement Missouri’s Circuit Breaker Tax Credit With a Credit Targeting Large Increases in Property Taxes

In addition to improvements to Missouri’s existing Circuit Breaker tax credit, Missouri could supplement the existing circuit breaker with a program that targets large and rapid increases in property taxes. Low-income homeowners and homeowners of color are often the most at risk for these increases given that these homeowners are more likely to experience overassessment, are less likely to appeal an assessment, and are less likely to win when they do appeal.⁵ Moreover, homeowners in areas with sudden increases in property taxes - most commonly seen in rapidly gentrifying neighborhoods - are at an increased risk for displacement.⁶

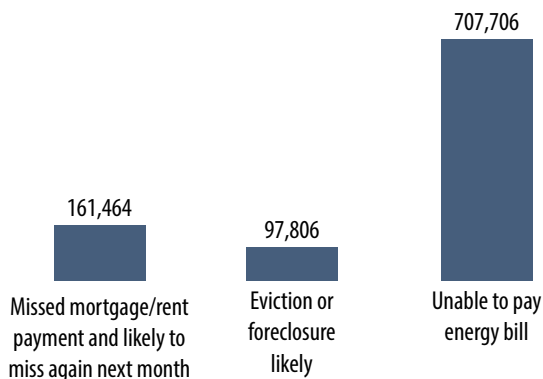
By directly targeting homeowners in Missouri who experience rapid and large increases in property taxes, more older adults in Missouri will have the opportunity to remain in their home and community.

Proposal: Supplement Missouri’s existing Circuit Breaker tax credit by implementing a tax credit targeted toward low and moderate income homeowners experiencing large year-over-year increases in property taxes.

Use Federal Stimulus Funds to Provide One-Time Direct Property Tax Relief to current Circuit Breaker Recipients

The COVID-19 pandemic has increased evictions and housing insecurity across our state. Nearly 1 in 5 Missourians report being unable to pay an energy bill in the past year and nearly 100,000 Missourians report that eviction or foreclosure in the next two months is very or somewhat likely.

Number of Missourians Experiencing Housing Insecurity During Pandemic, Dec. 2021



While long-term, sustainable improvements are critical, it is important to provide quick, temporary property tax relief in order to address housing insecurity exacerbated by the pandemic.

Federal fiscal relief provided to Missouri through the American Rescue Plan Act could be used to provide a one-time property tax relief payment to older adults who are eligible for the existing Circuit Breaker program.

Source: U.S. Census Bureau, Household Pulse Survey Interactive Tool, Week 40 (Dec. 1-13)

This state level payment would be easy to administer and would supplement existing housing relief provided through federal stimulus programs, helping to ensure that more older adults in Missouri can remain in their homes and communities throughout the pandemic.

Proposal: Provide one-time property tax relief payment to existing Circuit Breaker recipients using American Rescue Plan state fiscal recovery funds.

2019 Property Tax Credit Claims		Proposed Size of Payment	
		\$200	\$300
Homeowners	69,616	\$13,923,200	\$20,884,800
Renters	80,325	\$16,065,000	\$24,097,500
Total	149,941	\$29,988,200	\$44,982,300

Implement an Income & Age Limited Missouri Homestead Exemption

A homestead exemption reduces property taxes owed by exempting a certain amount of a home’s value from tax or by giving a partial credit against the property tax bill.⁷ These exemptions can be limited by both age and income, allowing these exemptions to be targeted to homeowners with the most need. The benefit to a Homestead Exemption is that, unlike a circuit breaker, these exemptions can be structured so that eligible homeowners automatically receive lower tax bills – instead of having to apply for reimbursement after the tax bill has already been paid. This is because homestead exemptions are generally structured as state appropriations that reimburse localities directly for revenue lost due to the property tax exemption.

Missouri briefly implemented a limited Homestead exemption in 2004 aimed at Missourians experiencing large increases in property tax assessments. **Missouri’s Homestead Preservation Credit Program (HPC)** was a tax credit for low-income seniors and people living with disabilities that provided a tax credit for recipients whose property taxes increased at least 2.5% in a non-reassessment year or at least five percent in a reassessment year. This program cost less than \$1.5 million annually but was allowed to expire in 2010. As such, Missouri currently offers no homestead exemption.

Missouri Homestead Preservation Act: Program History 2005-2009

Year	Recipients	Total Credit	Average Credit
2005	18,069	\$2,927,750	\$162.03
2006	4,826	\$1,031,017	\$213.64
2007	1,650	\$87,919	\$53.28
2008	10,992	\$2,450,012	\$222.89
2009	4,055	\$772,757	\$190.57
<i>Average</i>	<i>7,918.4</i>	<i>\$1,453,891</i>	<i>\$183.61</i>

Missouri can build upon the sunsetted HPC program by implementing an income-based Homestead Exemption available to low-income older homeowners. As was the case with the HPC Program, recipients would be ineligible to receive both the Homestead Exemption and Circuit Breaker credit; thus the Homestead Exemption would primarily benefit homeowners who fall just above Circuit Breaker income limits.

Proposal: Layer a Homestead Exemption on top of Missouri’s existing Circuit Breaker tax credit with reimbursement to localities provided through a state appropriation.

Nebraska currently offers a homestead exemption that provides a useful model for Missouri and that would have a wider reach than Missouri’s sunsetted HPC program.⁸

- The Nebraska Homestead exemption is available to low-income homeowners aged 65 or older as well as those living with disabilities.
- The credit phases down as income increases and is also limited by home value.
- Notably, the maximum home value to qualify and maximum exempt amount are based on a percentage of the median single-family home value in the county of residence, which accounts for large variations in housing markets from one part of the state to another.

Avoid Broad-based Property Tax Credits and Limits That Can Erode Local Revenue and Services Relied Upon by Seniors and Their Families

Property tax credits that provide broad-based relief to homeowners regardless of income are the least cost-effective option for property tax relief. These programs risk severely eroding the services provided by local governments, while spreading relief thinly across many households – many of which are at little to no risk for housing insecurity. Even programs that are limited by age risk providing tax relief to high-income or wealthy Missourians at the expense of low-income Missourians who rely on local services to remain in their homes.

Similarly, arbitrary limits on property taxes can erode revenue, while providing only limited relief to those who need it most. These limits can take many forms including rate limits (which set a cap on the property tax rates within local jurisdictions), assessment limits (which set a cap on annual growth in the assessed value of properties), and levy limits (which directly cap property tax collection).

Each of these limits, while well-intended, can lead to unintended consequences - including cuts in services following large losses in local revenue or increases in other, more regressive revenue sources (such as user charges) in order to fill gaps created by property tax caps. Further, caps on property taxes give localities less flexibility to respond to changing circumstances or local preferences.

CONCLUSION

Missouri already has many of the tools it needs to provide property tax relief to those who need it most, while avoiding the unintended consequences that poorly designed property tax relief can trigger, including cuts to local services that older adults rely upon to remain in the home and community in which they've raised their families.

Missouri should take advantage of existing mechanisms, such as the Circuit Breaker tax credit, to provide property tax relief to older Missourians. By strengthening and expanding the existing Circuit Breaker tax credit and layering additional relief on top of that credit in both the short and long term (such as one-time pandemic related relief and implementation of a Homestead Exemption targeting low-income older Missourians missed by the Circuit Breaker credit), Missouri can provide much needed property tax relief to older adults, while still protecting the critical supports provided to older adults by communities across our state.

Appendix 1:

Total Senior Service Levy Fund Revenue Collected by County, 2021

County	Revenue
Missouri	\$17,544,627
Andrew	\$84,211
Atchison	\$90,153
Barry	\$276,823
Bates	\$124,289
Benton	\$142,941
Butler	\$315,313
Caldwell	\$90,933
Camden	\$827,677
Cape Girardeau	\$713,958
Carter	\$41,795
Cedar	\$97,510
Chariton	\$128,834
Christian	\$714,608
Clark	\$64,019
Clay	\$2,310,729
Crawford	\$169,327
Dallas	\$99,400
Daviess	\$75,425
DeKalb	\$63,499
Dent	\$86,286
Gentry	\$53,744
Greene	\$2,700,386
Grundy	\$67,729
Harrison	\$65,960
Henry	\$183,417
Holt	\$72,288
Lawrence	\$257,586
Linn	\$87,312
Livingston	\$102,449
Mercer	\$38,410

Miller	\$227,678
Morgan	\$238,724
Nodaway	\$197,967
Oregon	\$51,616
Platte	\$1,452,710
Polk	\$183,163
Pulaski	\$243,323
Putnam	\$47,242
Ray	\$180,491
Reynolds	\$53,251
Ripley	\$51,959
Schuyler	\$60,549
Shannon	\$43,557
St. Francois	\$428,179
St. Louis City	\$2,302,167
Ste. Genevieve	\$262,510
Stone	\$359,220
Sullivan	\$53,645
Taney	\$574,139
Washington	\$136,746
Webster	\$231,365
Worth	\$17,415

Source: Office of the Missouri State Auditor

Appendix 2:

Proposal A: Increase “maximum upper limit” (phase-out end point) to \$43,000 and increase the \$300 phase-out increment to \$450

Proposal B: Index Income Ranges and Max Credit for Inflation to Match Income Tax Bracket Indexing

		Current Law		Proposal A		Proposal B		Proposals A + B	
		Owners	Renters	Owners	Renters	Owners	Renters	Owners	Renters
Minimum Base (phase-out start point)	In Statute:	\$14,300	\$14,300	\$14,300	\$14,300	\$14,300	\$14,300	\$14,300	\$14,300
	In 2022:	\$14,300	\$14,300	\$14,300	\$14,300	\$15,721	\$15,721	\$15,721	\$15,721
Maximum Upper Limit (phase-out end point)	In Statute:	\$30,000	\$27,500	\$43,000	\$43,000	\$30,000	\$27,500	\$43,000	\$43,000
	In 2022:	\$30,000	\$27,500	\$43,000	\$43,000	\$32,982	\$30,233	\$47,274	\$47,274
Maximum Credit & Maximum Property Tax or Equivalent for Calculation	In Statute:	\$1,100	\$750	\$1,100	\$750	\$1,100	\$750	\$1,100	\$750
	In 2022:	\$1,100	\$750	\$1,100	\$750	\$1,209	\$825	\$1,209	\$825
Percentage Increases 1/16% per \$x from 0-4%	In Statute:	\$300	\$300	\$450	\$450	\$300	\$300	\$450	\$450
	In 2022:	\$300	\$300	\$450	\$450	\$330	\$330	\$495	\$495
Changes from current law are highlighted									

Source: Institute on Taxation and Economic Policy, January 2022

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