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Veterans and Surviving Spouses Property Tax Credit

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Veterans and Surviving Spouses Property Tax Credit

The veterans and surviving spouses property tax credit (hereafter "veterans property tax credit") is available to eligible veterans and unremarried surviving spouses under the individual income tax. The credit is refundable, such that if the amount of the credit exceeds a claimant's tax liability, a check is issued to the claimant for the difference. Credit payments are made from a sum sufficient general purpose revenue (GPR) appropriation.

This paper provides information regarding: (a) eligibility criteria for the credit; (b) historical modifications to the credit and annual credit claims and expenditures; (c) distributional characteristics of credit claimants; and (d) policy considerations related to the credit.

Eligibility Requirements

The veterans property tax credit is equal to 100% of the real and personal property taxes paid on a principal residence located in Wisconsin by an eligible veteran or their spouse, or the unremarried surviving spouse of an eligible veteran.

Eligible Veterans. An eligible veteran is defined as a person who is verified by the Wisconsin Department of Veterans Affairs (WDVA) as satisfying all of the following criteria:

a. Served on active duty under honorable conditions in the U.S. armed forces;

b. Was a resident of Wisconsin at the time of entry into that service or had been a resident of Wisconsin for any consecutive five-year period after entry;

c. Is a resident of Wisconsin for purposes of receiving veterans benefits; and

d. Has a service-connected disability rating of 100% or a 100% disability rating equivalent based on individual unemployability (IU).

An IU determination enables a veteran with a service-connected disability rated at least 60% (or a combined rating of at least 70%) to receive compensation or benefits as if their disability rating were 100%. A veteran is eligible for IU status if their service-connected disability prevents them from maintaining substantially gainful employment, as determined by the U.S. Department of Veterans Affairs (USDVA).

In order to receive WDVA certification of credit eligibility, the veteran (or their eligible unremarried surviving spouse) is required to submit a request for certification and include as supporting documentation: (a) a certificate of release or discharge from active duty; (b) a certified death certificate (for unremarried surviving spouses if the veteran is deceased); (c) a certified marriage certificate (for unremarried surviving spouses if the veteran is deceased); (d) a basic service-connected disability rating notification letter from USDVA; and (e) an original copy of a WDVA veteran's residency affidavit used to establish Wisconsin residency. Once WDVA certification has been received, the eligible individual need not re-apply for certification in subsequent years.

Service-Connected Disability Rating. A veteran's service-connected disability rating is determined by USDVA, and ranges on a scale between 0% and 100%. The rating is primarily based on the veteran's medical information, such as a doctor's report or test results submitted to USDVA. If a veteran has more than one disability, each disability is aggregated in order of severity (pursuant to a USDVA-established method) to determine the veteran's disability rating. For example, a veteran rated 30% disabled for post-traumatic stress disorder, 20% disabled for diabetes, and 10% disabled for peripheral neuropathy would receive a combined disability rating of 50% under the USDVA method. [The individual disability percentages are not necessarily additive].

Eligible Unremarried Surviving Spouses. For purposes of the credit, an eligible unremarried surviving spouse means an unremarried surviving spouse of one of the following individuals who was a resident of Wisconsin at the time of entry into their respective service, or who had been a resident of Wisconsin for any consecutive 5-year period after entry into such service, as verified by WDVA:

a. Served on active duty in the U.S. armed forces, and who, while a resident of Wisconsin, died on active duty;

b. Served on active duty under honorable conditions in the U.S. armed forces, was a resident of Wisconsin at the time of their death, and who had either a service-connected disability rating of 100% or a 100% disability rating equivalent based on IU;

c. Served in the national guard or a reserve component of the U.S. armed forces and who, while a resident of Wisconsin, died in the line of duty while on active or inactive duty for training purposes; or

d. Served on active duty under honorable conditions in the U.S. armed forces, was a resident of Wisconsin at the time of their death, and following their death, their unremarried surviving spouse began to receive, and continues to receive, dependency and indemnity compensation from the federal government.

Property Taxes. For purposes of determining the credit amount, property taxes are defined as real and personal property taxes paid by a claimant (and the claimant's spouse if filing a married-joint return) on their principal dwelling located in Wisconsin during the taxable year for which the credit is claimed. Allowable property taxes do not include special assessments, delinquent interest, charges for service, or any property taxes paid which are properly includable as a trade or business expense under federal law. Allowable property taxes include monthly municipal permit fees paid on mobile or manufactured homes owned by the claimant.

In cases where a principal dwelling is owned by two or more persons or entities as joint tenants/tenants in common, or is owned by spouses as marital property, property taxes means that portion of property taxes paid which reflects the ownership percentage of the claimant (this limitation does not apply to claimants filing married-joint). For claimants filing married-separate, each spouse may claim the credit based on their respective ownership interest in the eligible veteran's principal dwelling.

If the principal dwelling is sold during the taxable year, the amount of property taxes apportioned to buyer and seller for purposes of the credit equals the allocation provided for in the closing agreement governing the sale of the dwelling. If no such provision is included in the closing agreement, property taxes are prorated between buyer and seller according to the number of months each party owned the dwelling during the year.

Allowance of Credit for Certain Renters. The statutes do not explicitly authorize that the credit may be claimed by a renter. However, under Department of Revenue (DOR) administrative practice, an eligible veteran or unremarried surviving spouse who is a renter may claim the credit if they meet all of the following conditions: (a) the rental unit is their principal dwelling; (b) the principal dwelling is located in Wisconsin; (c) they are required to pay the property taxes under a written agreement with their landlord; and (d) they remit property tax payments directly to the municipality. DOR requires that such renters include a copy of the landlord agreement and proof of payment to the municipality when claiming the credit on their income tax return.

Due Date for Filing Claims, Penalties, and Administration. Eligible claimants are generally required to file a claim for the credit within four years of the unextended due date of the individual income tax return to which the claim relates. For example, a claimant for a tax year 2022 credit (return due April 18, 2023) would be required to file a claim no later than April 18, 2027. However, if a veteran has submitted a disability verification claim to USDVA and the related decision is pending, the veteran can request an extension of time to file beyond April 18, 2027, until such time as the USDVA decision has been rendered and subsequent verification has been issued by WDVA.

When filing a claim, the individual is required to include a copy of their property tax bill and proof of payment made during the relevant tax year. The individual is also required to include the WDVA certification (described above) for the first year in which they claim the credit.

Current law provisions which apply to the individual income tax relating to the enforcement authority of DOR, and to assessments, refunds, appeals, collection, interest, and penalties, also apply to the veterans property tax credit.

An individual cannot claim the credit if they or their spouse also file a claim for the nonrefundable school property tax rent credit (PTRC), the farmland preservation credit (refundable), or the homestead credit (refundable) in the same tax year.

Program Development and Expenditure History

The veterans property tax credit was created under 2005 Act 25, the 2005-07 biennial budget act, and first applied beginning in tax year 2005. The credit was initially available to eligible disabled veterans who were at least age 65 (and their spouses if filing married-separate), and to unremarried surviving spouses of certain veterans who died while on active duty.

Eligibility for the credit was significantly expanded under 2007 Act 20, beginning in tax year 2009. The requirement that an eligible veteran had to have been a Wisconsin resident at the time of entry into active duty service was modified so as to also make eligible those veterans who lived in Wisconsin for any consecutive five-year period following their entry into active duty. Prior to Act 20, an eligible veteran must have attained the age of 65 in order to claim the credit (or in the case of an unremarried surviving spouse, their deceased spouse must have died while on active duty, or have been at least age 65 at the close of the year in which the death occurred). Act 20 removed these age requirements, such that any otherwise eligible veteran or unremarried surviving spouse could claim the credit regardless of age. Finally, Act 20 provided that veterans with a 100% disability rating equivalent based on their IU status could claim the credit.

Under 2013 Act 20, eligibility for the credit was further expanded to include unremarried surviving spouses of otherwise eligible veterans who receive dependency and indemnity compensation following the death of their spouse. This expansion of the credit took effect beginning in tax year 2014.

Table 1 displays historical claims data by tax year for the veterans property tax credit since the credit was created in tax year 2005 through tax year 2020. The data in the table are derived from aggregate individual income taxpayer statistics compiled by DOR. The significant expansion of eligibility for the credit under 2007 Act 20 is reflected in the considerable year-over-year increase in claimants and total credit claims in tax year 2009.

As displayed in Table 1, total claims have increased each year, and totaled $40.1 million in tax year 2020. Continual growth in program participation is a primary factor driving increased credit

Table 1: Historical Claims Data for the Veterans Property Tax Credit

Tax Year	Count of Claimants	Percent Change	Credit Amounts	Percent Change	Average
2005	301		$866,255		$2,878
2006	382	26.9%	1,138,738	31.5%	2,981
2007	458	19.9	1,345,822	18.2	2,938
2008	577	26.0	1,713,587	27.3	2,970
2009	3,665	535.2	10,921,315	537.3	2,980
2010	5,047	37.7	14,893,638	36.4	2,951
2011	5,892	16.7	17,257,777	15.9	2,929
2012	6,634	12.6	19,287,913	11.8	2,907
2013	7,129	7.5	21,017,003	9.0	2,948
2014	8,103	13.7	23,540,861	12.0	2,905
2015	8,730	7.7	25,322,908	7.6	2,901
2016	9,305	6.6	27,458,070	8.4	2,951
2017	10,036	7.9	30,045,149	9.4	2,994
2018	10,665	6.3	32,014,280	6.6	3,002
2019	11,404	6.9	35,819,255	11.9	3,141
2020	12,118	6.3	40,079,356	11.9	3,307

Source: Department of Revenue Aggregate Statistics

costs. Table 1 demonstrates that the count of claimants has grown by at least 6.3% each year since the credit's inception. This can occur as more otherwise eligible state resident veterans: (a) begin to satisfy the five-year state residency requirement; (b) experience increases in their service-connected disability rating to 100% (or the IU-equivalent); (c) become a homeowner with eligible property taxes; and/or (d) become aware of their eligibility for the credit.

More recently, the average credit amount has increased relative to prior years. In tax years 2019 and 2020, the average credit grew on an annual basis by 4.6% and 5.3%, respectively. There are several potential explanations for these increases. The growth could be partially attributable to the higher percentage growth in total property tax levies in 2019(20) and 2020(21) relative to levy growth in prior years. Further, if residential property value growth outpaces the value growth of commercial or other classes of property, the share of overall property taxes paid by residential taxpayers would increase. These factors can combine to create higher net property tax liabilities for claimants.

Table 2: Veterans Property Tax Credit Expenditures

Fiscal Year	Amount (Millions)	Percent Change
2011-12	$19.9	9.4%
2012-13	22.7	13.9
2013-14	23.2	2.3
2014-15	26.0	11.9
2015-16	28.5	9.6
2016-17	29.6	3.7
2017-18	32.5	10.0
2018-19	34.1	4.5
2019-20	38.2	12.2
2020-21	42.2	10.4
2021-22	46.1	9.2

Table 2 shows veterans property tax credit expenditures by fiscal year since 2011-12. Eligible credit claims are paid from a sum sufficient GPR appropriation. Total expenditures in Table 2 differ from the claim amounts shown in Table 1 because Table 1 reports tax year information, using annual, aggregate statistics data, and Table 2 shows expenditures by fiscal year. The credit amounts reported in Table 2 are higher because, in any fiscal year, claims may be filed for the current tax year, as well as for the four previous tax years.

Characteristics of Program Participants

Table 3 displays distributional information for veterans property tax credit claimants by Wisconsin adjusted gross income (AGI) for tax year 2020, based on DOR aggregate statistics data. As shown in Table 3, 67.1% of claimants in tax year 2020 had Wisconsin AGI of $30,000 or less. Individuals at or below $30,000 of income accounted for 59.9% of total credit claims in tax year 2020. For comparison, the 2020 median household income in Wisconsin was more than twice this income level ($63,293).

Claimants with Wisconsin AGI under $100,000 represented 94.7% of all credit claimants, and claimed 91.8% of total credits, in tax year 2020. In

Table 3: Distribution of Total Veterans Property Tax Credit Payments by Wisconsin AGI (Tax Year 2020)

Wisconsin Adjusted Gross Income	Count of Claimants	Percent of Claimants	Cumulative Percent of Claimants	Total Credits	Percent of Credits	Cumulative Percent of Credits	Average Credit
Under $5,000	4,541	37.5%	37.5%	$12,622,521	31.5%	31.5%	$2,780
5,000 to 10,000	980	8.1	45.6	2,969,029	7.4	38.9	3,030
10,000 to 15,000	701	5.8	51.3	2,271,103	5.7	44.6	3,240
15,000 to 20,000	686	5.7	57.0	2,195,098	5.5	50.0	3,200
20,000 to 25,000	618	5.1	62.1	2,016,517	5.0	55.1	3,263
25,000 to 30,000	604	5.0	67.1	1,949,093	4.9	59.9	3,227
30,000 to 40,000	948	7.8	74.9	3,326,091	8.3	68.2	3,509
40,000 to 50,000	730	6.0	80.9	2,690,291	6.7	75.0	3,685
50,000 to 60,000	519	4.3	85.2	2,002,004	5.0	79.9	3,857
60,000 to 70,000	419	3.5	88.7	1,708,974	4.3	84.2	4,079
70,000 to 80,000	318	2.6	91.3	1,280,391	3.2	87.4	4,026
80,000 to 90,000	221	1.8	93.1	909,484	2.3	89.7	4,115
90,000 to 100,000	191	1.6	94.7	836,272	2.1	91.8	4,378
100,000 to 150,000	430	3.5	98.3	2,103,446	5.2	97.0	4,892
150,000 to 200,000	129	1.1	99.3	685,416	1.7	98.7	5,313
200,000 and over	83	0.7	100.0	513,626	1.3	100.0	6,188
Total	12,118	100.0%		$40,079,356	100.0%		$3,307

Source: Department of Revenue Aggregate Statistics, Tax Year 2020

general, the average credit claimed in tax year 2020 increased with income. Claimants with Wisconsin AGI below $100,000 claimed a credit of $3,205 on average, and individuals with AGI above $100,000 claimed an average credit of $5,144.

Table 4 presents data on credit claimants and claim amounts by Wisconsin county for processing year 2020-21 (income tax returns processed from July 1, 2020, through June 30, 2021). Because the credit amount is not capped and is based on 100% of the claimant's real and personal property taxes, the average credit received will generally be higher in counties with greater property tax liabilities. The three counties with the highest average credits claimed in processing year 2020-21 were: (a) Dane ($5,524); (b) Kenosha ($4,185); and (c) Milwaukee ($4,163). The three counties with the lowest average claims were: (1) Sawyer ($1,566); (2) Iron ($1,625); and (3) Forest ($1,657).

The expenditure data in Table 4 differ from Table 2 because Table 4 is based on all returns processed between July 1, 2020, and June 30, 2021. This includes many returns filed for tax year 2020, but can also include extension returns filed for tax year 2019, as well as amended returns filed for preceding tax years. By contrast, Table 2 only includes data properly attributable to state fiscal year 2020-21.

Policy Considerations

There have been several legislative proposals to expand eligibility for the veterans property tax credit. What follows is a discussion on various policy considerations pertaining to the credit, and several potential options that would expand the credit, reduce the credit, or achieve some combination therein.

The concept of horizontal tax equity holds that tax policy should generally provide for the equal treatment of equals. In other words, individuals with comparable levels of income should generally be treated similarly for tax purposes. For example,

Table 4: Veterans Property Tax Credit Expenditures by County, Processing Year 2020-21

County	Claimants	Amount	Average
Adams	117	$236,680	$2,023
Ashland	53	117,459	2,216
Barron	152	400,910	2,638
Bayfield	76	160,441	2,111
Brown	468	1,648,516	3,522
Buffalo	36	98,983	2,750
Burnett	74	140,502	1,899
Calumet	95	349,628	3,680
Chippewa	161	438,502	2,724
Clark	92	220,080	2,392
Columbia	147	504,622	3,433
Crawford	40	93,724	2,343
Dane	553	3,054,548	5,524
Dodge	134	435,183	3,248
Door	74	220,630	2,981
Douglas	182	474,402	2,607
Dunn	100	322,161	3,222
Eau Claire	174	564,490	3,244
Florence	22	52,397	2,382
Fond du Lac	156	528,712	3,389
Forest	74	122,634	1,657
Grant	88	205,934	2,340
Green	86	298,518	3,471
Green Lake	42	99,533	2,370
Iowa	39	125,019	3,206
Iron	36	58,509	1,625
Jackson	108	264,290	2,447
Jefferson	158	571,635	3,618
Juneau	100	241,627	2,416
Kenosha	360	1,506,558	4,185
Kewaunee	72	235,841	3,276
La Crosse	247	925,394	3,747
Lafayette	36	96,508	2,681
Langlade	119	231,261	1,943
Lincoln	127	307,188	2,419
Manitowoc	198	535,673	2,705
Marathon	332	1,020,158	3,073
Marinette	232	412,000	1,776
Marquette	71	166,536	2,346
Menominee	*	*	*
Milwaukee	1,058	$4,404,770	$4,163
Monroe	254	773,844	3,047
Oconto	187	436,795	2,336
Oneida	191	369,736	1,936
Outagamie	303	997,852	3,293
Ozaukee	159	626,502	3,940
Pepin	21	40,679	1,937
Pierce	86	332,424	3,865
Polk	164	436,243	2,660
Portage	145	472,794	3,261
Price	70	147,535	2,108
Racine	399	1,545,444	3,873
Richland	44	112,314	2,553
Rock	282	1,014,176	3,596
Rusk	55	102,011	1,855
St. Croix	202	743,228	3,679
Sauk	222	764,684	3,445
Sawyer	67	104,904	1,566
Shawano	112	275,600	2,461
Sheboygan	146	455,367	3,119
Taylor	55	112,891	2,053
Trempealeau	75	226,863	3,025
Vernon	77	200,543	2,604
Vilas	105	204,953	1,952
Walworth	189	687,774	3,639
Washburn	101	194,706	1,928
Washington	266	914,640	3,438
Waukesha	621	2,447,277	3,941
Waupaca	152	436,951	2,875
Waushara	131	300,854	2,297
Winnebago	403	1,435,916	3,563
Wood	218	574,563	2,636
Unknown	147	397,093	2,701
Total	12,138	$39,779,312	$3,277

* Data suppressed to preserve taxpayer confidentiality.

Source: Department of Revenue Wisconsin Income per Return Report, Processing Year 2020-21

under current state law, an eligible disabled veteran with $40,000 of annual income who owns her own home would receive a refundable credit for the full amount of property taxes paid on that home. By contrast, the same disabled veteran under current law would receive a lower level of property tax relief if she instead rented an apartment (most likely through the nonrefundable PTRC [equal to 12% of rent-equivalent property taxes, up to a maximum credit of $300]). Moreover, the veterans property tax credit pays the full property tax bill of each eligible claimant, without regard to their economic circumstances. This differing tax treatment under current law of otherwise similarly situated individuals violates the concept of horizontal equity.

Offering the credit to all otherwise eligible renters was proposed in the Governor's 2021-23 biennial budget bill as a way to expand eligibility for the credit. As previously mentioned, the credit is currently only available to renters in limited circumstances. By contrast, other property tax relief programs offered as an individual income tax credit are available to all eligible renters under current law, such as the homestead credit and the PTRC. Extending the credit to eligible renters would improve the horizontal equity of the credit and provide economic relief to renters who, on average, have lower incomes than homeowners.

As shown in Tables 1 and 2, annual credit claimants and expenditures have grown each year since the credit's inception. In the five most recent tax years for which data are available, claimants and expenditures grew by an annual average of 6.8% and 9.6% respectively. If policymakers are concerned about the rising cost of the program, multiple parameters could be altered to control the cost of the credit.

One option would be to establish an income limitation to determine eligibility. Sound tax policy would suggest that such an income limit include a phase-out over a range of incomes in order to avoid a severe cliff effect. Such an effect is most severe when a tax benefit is fully disallowed as soon as income reaches a certain dollar amount, because this creates a significant and immediate increase in the marginal effective rate of tax paid by an individual with income slightly over the relevant threshold. Income phase-out thresholds are employed in several other state tax relief programs, such as the homestead credit and the earned income tax credit.

State expenditures could also be limited by imposing a cap on the amount of property taxes (or rent constituting property taxes) that may be claimed each year. Doing so would improve the horizontal equity of the credit, as each claimant would receive the same maximum allowable credit regardless of their income or property tax liability. This would also bring the veterans property tax credit more in line with other property tax relief initiatives under the individual income tax, such as the homestead credit and the PTRC, both of which are capped at a certain amount of property taxes or rent.

According to the 2019 American Community Survey published by the U.S. Census Bureau, the total veteran population in Wisconsin that year was 315,574. According to 2019 USDVA data prepared by the National Center for Veterans Analysis and Statistics, there were a total of 75,654 veterans in Wisconsin receiving disability compensation from USDVA that year (nearly 24% of all Wisconsin veterans). Of these: (a) 9,457 (12.5%) had a service-connected disability rating of 100%; (b) 16,254 (21.5%) had ratings between 70-90%; (c) 11,251 (14.9%) had ratings between 50-60%; and (d) the remaining 38,692 (51.1%) had ratings below 50%.

Policymakers have suggested expanding eligibility for the veterans property tax credit by extending the program to veterans with lower service-connected disability ratings. For example, 2021 Senate Bill 243 and Assembly Bill 245 included a provision that would have prorated the credit amount according to the claimant's disability rating (for example, an eligible claimant with a 70% disability rating would receive a credit equal to 70% of their property tax liability). Expanding the credit to eligible veterans and unremarried surviving spouses with disability ratings below 100% would significantly expand the cost of the credit.

Another proposed method to increase access to the credit is to remove the five-year residency requirement for claiming the credit, such that any otherwise eligible veteran could claim the credit immediately upon establishing Wisconsin residency. Such a policy could encourage veterans living in other states to move to Wisconsin in order to claim the credit. The 2019 USDVA data show that a total of 758,957 veterans receiving disability compensation lived outside Wisconsin and had a 100% service-connected disability rating. As an illustration, if 1% of these veterans moved to Wisconsin (and satisfied the credit's other eligibility requirements upon establishing state residency) the estimated number of eligible veterans would increase by approximately 80% relative to current law.

From the standpoint of state programs providing property tax relief, the veterans property tax credit program provides property tax relief solely to residential property owners (and certain renters in limited cases), unlike other property tax relief programs paid directly or indirectly to municipalities. Since veterans property tax credits are paid directly to individuals and are not provided to all property owners, it is more difficult for local governments to increase spending to "capture" these credits. Taxpayers who receive these credits may offer less resistance to proposed property tax increases. Local government spending increases approved through voter referendum would result in higher gross property tax levies, but only taxpayers that do not receive veterans property tax credits would pay higher net taxes.

The veterans property tax credit program cannot address other objectives frequently cited in property tax relief discussions. For example, it cannot reduce overall municipal tax rates or levies, or equalize tax bases among municipalities. If increased funding is distributed through the veterans property tax credit program rather than through credits to local governments, the net nonresidential property tax will increase, although this type of property may also need relief. Finally, since veterans property tax credits are not automatically applied to tax bills but must be claimed on an individual basis, some individuals who are eligible for these credits may not receive relief.

From a policy perspective, it is unclear why property tax relief via an individual income tax credit has been selected as the mechanism for providing economic assistance to disabled veterans and their unremarried surviving spouses. The credit provides an average benefit that is roughly equivalent to one month of USDVA basic monthly disability compensation payments for a veteran with a 100% disability rating, but is generally only available to property taxpayers who own their own home. Critics of tax credits in general may argue that they are flawed as a mechanism to provide economic support to a particular group. They might worry that the veterans property tax credit disguises what is functionally an economic assistance program for disabled veterans and unremarried surviving spouses as only a tax reduction. In their view, this practice can obfuscate the underlying goals of these support programs. In turn, this can complicate the ability of lawmakers and citizens to make informed decisions on the policy merits of such programs. If the Legislature desires to provide economic assistance to disabled veterans and unremarried surviving spouses independent of the tax code, it could opt to convert the current veterans property tax credit into a GPR-funded disabled veterans and surviving spouses grant program jointly administered by DOR and WDVA. Under such a grant program, policymakers could design eligibility requirements that precisely target the population of disabled veterans for which they desire to provide relief.