


MEMORANDUM
DISTRIBUTED BY EMAIL

DATE: November 3, 2023

SUBJECT: Application of Homestead Tax Exemption, Military Service Tax Exemption,
Homestead Tax Credit, and Disabled Veteran Tax Credit

TO: Local Auditors and Assessors

FROM: Julie G. Roisen, Division Administrator, Local Government Services Division 

I. Background

The Iowa Department of Revenue (“Department”) received a series of questions from local government officials regarding the application of the homestead tax exemption, the homestead tax credit, the disabled veteran tax credit, and the military service tax exemption.

The Director of Revenue has been vested with certain powers and duties, including the authority to exercise general supervision over all officers in the performance of their duties in all matters relating to assessments and taxation, to the end that all assessment of property and taxes levied on the property be made relatively just and uniform in substantial compliance with the law.¹ In light of that authority and the questions received by the Department, the Department has prepared this memorandum explaining the calculation and application of these exemptions and credits.

¹ Under Iowa Code section 421.17, the Director of Revenue has been vested with a number of powers and duties. The powers and duties under that section relevant to this memorandum include the following:

(1) To have and exercise general supervision over the administration of the assessment and tax laws of the state, over boards of supervisors and all other officers or boards in the performance of their official duties in all matters relating to assessments and taxation, to the end that all assessments of property and taxes levied on property be made relatively just and uniform in substantial compliance with the law.

(2) To supervise the activity of all assessors and boards of review in the state of Iowa; to cooperate with them in bringing about a uniform and legal assessment of property as prescribed by law.

...

(4) To confer with, advise, and direct boards of supervisors, boards of review, and others obligated by law to make levies and assessments, as to their duties under the laws.

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II. Issue Analysis

A. How is the Military Service Tax Exemption Calculated?

Short Answer

The military service tax exemption is calculated by subtracting the amount of the exemption from the taxable value of the applicable property, which is the value after the assessment limitation has been applied.

Calculation

Starting with assessment year 2023, the military service tax exemption has been increased to \$4,000 of taxable value. H.F. 718, 90th Gen. Assemb., Reg. Sess. (Iowa 2023).² The statute states “[t]he property, not to exceed four thousand dollars in taxable value...” is exempt from taxation. *Id.* The value is then excluded from the taxable value of the property.³

The question is whether the \$4,000 exemption is deducted from the value before or after the assessment limitation is applied. The statute uses “taxable value” when describing the amount exempt from taxation. *Id.* The Code chapter for the military service tax exemption does not include a definition of taxable value. See generally [Iowa Code ch. 426A](#) (2023). Taxable value is described in Iowa Code section 441.21 as the actual value multiplied by the assessment limitation percentage determined annually by the Department. [Iowa Code § 441.21\(9\)](#). Iowa Code section 441.21 states that “actual value,” “assessed value,” and “taxable value” shall have the same meanings as provided in that section when used in other sections of the Code related to assessment of property for taxation. *Id.* § 441.21(3). Using this definition of taxable value, the military service tax exemption should be calculated by taking the value after applying the assessment limitation and subtracting \$4,000. This conclusion is consistent with previous Department guidance and an Attorney General opinion. Policy Letter, Military Exemption, Dep’t of Revenue (Aug. 2, 1976)⁴; Op. Iowa Att’y Gen., 1965 WL 158599 (Iowa 1965).⁵

Funding

Starting in fiscal years beginning on or after July 1, 2024, this exemption is no longer funded by the state. H.F. 718, 90th Gen. Assemb., Reg. Sess. (Iowa 2023). The bill enacting the increased exemption changed the funding mechanism in Iowa Code sections 426A.1 and 426A.2 to eliminate the appropriation. *Id.* The bill also included a provision that Iowa Code section 25B.7(1), which requires state funding for property tax credits and exemptions enacted on or after January 1, 1997, and provides consequences for any lack of funding, does not apply to this exemption. *Id.* Lastly, the bill

² Available at <https://www.legis.iowa.gov/legislation/BillBook?ga=90&ba=hf%20718>.

³ One email asked whether the calculation is a \$4,000 reduction in value or the levy rate multiplied by \$4,000. The higher exemption amount does not change the calculation of the exemption: It is a \$4,000 reduction of taxable value.

⁴ Available at <https://itrl.idr.iowa.gov/Browse/OpenFile/261%7Cmilitary%7CAll%7Ctaxable%7CAll>.

⁵ Available at

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repealed paragraph “c” of Iowa Code section 25B.7(2), which explicitly mentioned the military service tax exemption as an exemption to be fully funded by the state.

B. How is the Homestead Tax Exemption Calculated?

Short Answer

The homestead tax exemption is calculated by subtracting the amount of the exemption from the taxable value of the homestead, which is the value after the assessment limitation has been applied.

Calculation

For assessment years starting on January 1, 2023 and after, claimants who are eligible for the homestead credit that are 65 years or older by January 1 of the assessment year are also eligible for a homestead tax exemption. H.F. 718, 90th Gen. Assemb., Reg. Sess. (Iowa 2023). The statute states “the following exemptions from taxation shall be allowed. . . the eligible homestead, not to exceed three thousand two hundred fifty dollars in taxable value.” *Id.*⁶ This language is similar to that used for the military service tax exemption described above with the addition of the limitation that the property in question be an eligible homestead. The reduction in value follows a similar logic to that of the military service tax exemption.

The Code chapter discussing the homestead tax exemption also does not provide a definition of “taxable value.” See generally [Iowa Code ch. 425](#). Turning to the definition provided in Iowa Code section 441.21, the reduction in value is subtracted from “taxable value” which means the value after the assessment limitation has been applied. See *id.* §§ 441.21(3), (9). This exemption only applies to the value of the property designated as a homestead under Iowa Code section 425.11.

Funding

This exemption is not funded by the state. H.F. 718, 90th Gen. Assemb., Reg. Sess. (Iowa 2023). The statute providing the exemption included a provision that Iowa Code section 25B.7(1), which requires state funding for property tax credits and exemptions enacted on or after January 1, 1997, does not apply to this exemption. *Id.* Lastly, the bill amends paragraph “a” of Iowa Code section 25B.7(2) to specifically exclude the homestead tax exemption statute.

C. How is the Homestead Tax Credit Calculated?

Short Answer

The homestead tax credit is calculated by multiplying the levy rate by the actual value below \$4,850 of the homestead. The actual value is the value before the assessment limitation has been applied. The credit is applied against the taxpayer’s property taxes and is limited to the actual amount of taxes payable by the taxpayer.

⁶ This exemption increases to \$6,500 in assessment year 2024 and each succeeding assessment year. H.F. 718, 90th Gen. Assemb., Reg. Sess. (Iowa 2023).

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Calculation

Owners of a homestead are allowed a credit against their property taxes if they apply and meet the requirements under Iowa Code section 425.2. [Iowa Code § 425.2](#). The credit is equal to the amount of “the actual levy on the first four thousand eight hundred fifty dollars of actual value for each homestead.” *Id.* [§ 425.1\(2\)](#). The actual levy refers to the rate of tax used to calculate the taxes for the homestead property as determined by the applicable taxing authorities under Iowa Code chapter 444. “Actual value” is not defined in Iowa Code chapter 425 but, as mentioned above, the definition provided for in Iowa Code section 441.21 applies. Iowa Code § 441.21(3). Actual value as used in Iowa Code section 441.21 refers to the market value of the property. *Id.* § 441.21(1)(b)(1). Actual value is the value before the assessment limitation has been applied. *See id.* § 441.21(9). Actual value is also the value before the homestead exemption or the military service tax exemption is applied because, as discussed above, those are subtracted from the taxable value.

The calculation of the credit is the actual value of the homestead, before any assessment limitation or exemptions, up to \$4,850, multiplied by the levy rate of the applicable taxing authorities for the homestead. *Id.* § 425.1(2). This calculation represents the “ceiling” of the credit. The credit cannot exceed the actual amount of taxes payable on the homestead. Iowa Code § 425.1(6). Additionally, even though the credit is calculated using the actual value, the credit only applies to the taxes levied which can only be determined after the application of assessment limitations and exemptions.

Funding

This credit is funded by the state pursuant to Iowa Code sections 25B.7 and 425.1. The appropriation for the credit fund is “an amount sufficient to implement [subchapter 1 of chapter 425.]” Iowa Code § 425.1(1)(a). Counties receive payments for the credit on November 15 and March 15 of each year. *Id.* § 425.1(3).

D. In What Order Should the Military Service Tax Exemption, the Homestead Tax Exemption, and the Homestead Tax Credit be Applied to Property During the Tax Calculation?

Short Answer

The military service tax exemption and the homestead tax exemption should be applied before the homestead tax credit during the tax calculation because they are reductions in taxable value and the credit is a reduction in taxes payable. Taxes payable are only determinable after exemptions have been applied. There is no explicit statutory authority dictating which exemption should apply first; however, it is the Department’s opinion that the homestead tax exemption should be applied before the military service tax exemption.

Analysis

While the homestead tax credit is *calculated* before assessment limitations and exemptions, the credit must be *applied* after assessment limitations and exemptions are applied. The homestead tax credit

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is a credit against the taxes due, which can only be determined once the assessment limitation and the exemptions have been applied, the taxable value determined, and the taxes levied. Additionally, if a taxpayer qualifies for both the military service tax exemption and the homestead tax credit, the military service tax exemption must be applied first. [Iowa Admin. Code rr. 701—110.1\(4\)“e”, 701—110.2\(3\)“a”](#); Policy Letter, Agricultural Land Tax Credit, Dep’t of Revenue (Oct. 5, 1977)⁷; see also *Ryan v. Iowa State Tax Commission*, 16 N.W.2d 215, 216–18 (Iowa 1944) (holding that the full military service tax exemption must be applied before application of the homestead tax credit). While there is no direct authority requiring the homestead tax exemption to be applied before the homestead tax credit, that order is necessary to be able to determine the taxes due.

The next question is if the military service exemption or the homestead tax exemption should be applied first. Both exemptions are for relatively low values. For most properties, both exemptions will be applied in their entirety without any issues. However, the order of application of the exemptions is important for low-value properties in which the amount of the two exemptions combined exceeds the total taxable value. There is no authority directly on point requiring the order of operations, but there are some considerations based on the limitations for each exemption that are helpful in determining which exemption should apply first.

The military service tax exemption can apply to any property owned by the claimant. [Iowa Code § 426A.11](#). However, if a claimant that qualifies for the military service tax exemption does not make a specific designation of property, the exemption applies to the homestead. *Id.* [§ 426A.13\(4\)](#). Additionally, the military service tax exemption can only be applied to property in one county. *Id.* The homestead tax exemption only applies to property designated as a homestead. H.F. 718, 90th Gen. Assemb., Reg. Sess. (Iowa 2023). Homesteads are limited to one-half acre in the city and forty acres outside of the city. Iowa Code §§ [425.11\(2\)](#); [561.2](#).

It is the Department’s opinion that the homestead tax exemption should be applied before the military service tax exemption because of the limitation on the application of the homestead exemption. That application results in the most benefit for the taxpayer. It is unlikely that the legislature intended an application of these exemptions in an order that would result in the taxpayer not realizing the full amount of both exemptions. Under this application, the homestead tax exemption would be used on the eligible homestead property and the military tax exemption would apply to any additional value, or could be applied to other property that is not considered a homestead.

E. In What Order Should the Homestead Tax Exemption and the Disabled Veteran Tax Credit be Applied to Property During the Tax Calculation?

Short Answer

The homestead tax exemption should be applied to the property before the disabled veteran tax credit during the tax calculation because the credit is a reduction in taxes payable on the homestead, which is only determinable after applicable exemptions have been applied.

⁷ Available at <https://itrl.idr.iowa.gov/Browse/OpenFile/229%7Chomestead%7CAI%7Cmilitary%7CAI>.

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Analysis

Iowa Code section 425.15 states “[i]f the owner of a homestead allowed a credit under this subchapter is [a disabled veteran], the credit allowed on the homestead from the homestead credit fund shall be the entire amount of the tax levied on the homestead...” [Iowa Code § 425.15\(1\)](#). The disabled veteran tax credit is an extension of the homestead tax credit, but the amount of the credit is the entire amount of the taxes levied on the homestead. Therefore, this credit is subject to the same restrictions and requirements of the homestead tax credit. This includes the restriction that the credit is applied after determination of taxes which is after the homestead tax exemption is applied.

Importantly, if a claimant elects to secure the disabled veteran tax credit, the claimant is not eligible for other property tax exemptions provided for veterans. *Id.* § 425.15(3). Therefore, a claimant receiving the disabled veteran tax credit could not successfully claim the military tax service exemption. If a claimant qualifies for the homestead exemption and the disabled veteran tax credit, the homestead tax exemption must be applied first in the tax calculation.

F. When the Disabled Veteran Tax Credit Applies, Can the Homestead Tax Exemption be Applied to Property That is Not Covered by the Disabled Veteran Tax Credit?

Short Answer

The homestead tax exemption and the disabled veteran tax credit can only be applied to property that is considered a homestead. Therefore, the homestead tax exemption cannot be applied to property that is not covered by the disabled veteran tax credit.

Analysis

The homestead tax credit, disabled veteran tax credit, and the homestead tax exemption apply only to property that is considered the homestead. Iowa Code §§ 425.1(2); 425.15(1); H.F. 718, 90th Gen. Assemb., Reg. Sess. (Iowa 2023). Homestead is defined in Iowa Code section 425.11. Iowa Code § 425.11(1)(d). Additionally, Iowa Code chapter 561 applies to the homestead tax exemption and disabled veteran credit to the extent it is not in conflict with the definitions in Iowa Code section 425.11(1). *Id.* § 425.11(2). Iowa Code section 561.2 limits the acreage of a homestead to one-half acre for homesteads within a city and forty acres for homesteads outside of a city. *Id.* § 561.2. This limitation does not conflict with any definition in Iowa Code section 425.11(1), so it applies to the property that can be considered a homestead for purposes of the homestead tax exemption and the disabled veteran tax credit.

The homestead tax credit, the homestead tax exemption, and the disabled veteran tax credit all apply to property that is considered a homestead. The homestead exemption and credits cannot be applied to property that is not considered an eligible homestead. Additionally, as discussed above, the homestead tax exemption must be applied to the homestead before the disabled veteran tax credit is applied to that same property, so there would be no mechanism to apply the homestead tax exemption to property in excess of the homestead.

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IV. Conclusion

County auditors should apply exemptions and credits as described in this memorandum. If there is a specific set of facts that is not contemplated by the analysis in this memorandum, auditors are encouraged to contact the Department with questions.

Please be advised that this memorandum is an informal opinion and is only applicable to the factual situation referenced and to the statutes in existence at the time of issuance. The Department could, in the future, take a position contrary to that stated in the memorandum. Any written advice or opinion rendered to members of the public by Department personnel that is not pursuant to a Petition for Declaratory Order under Iowa Administrative Code r. 701—7.24 is not binding upon the Department.