Department of Legislative Services

Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 62 (Delegate Aumann)
Ways and Means

Property Tax Exemption - Surviving Spouse of a Veteran - Eligibility

This bill provides a property tax exemption for a home owned by the surviving spouse of a veteran who receives Dependency and Indemnity Compensation (DIC) from the U.S. Department of Veterans Affairs. Surviving spouses are required to apply for the exemption by providing certification from the U.S. Department of Veterans Affairs that DIC is being received.

The bill takes effect June 1, 2013, and applies to all taxable years beginning after June 30, 2013.

Fiscal Summary

State Effect: Annuity Bond Fund revenues decrease by $1.4 million annually beginning in FY 2014 as a result of the exemption provided by the bill. The amount of the decrease depends on the number of surviving spouses who meet the requirements of the bill and the value of each property. This decrease may require either (1) an increase in the State property tax rate or (2) a general fund appropriation to cover debt service on the State's general obligation bonds. Future year revenues reflect a constant number of exemptions being granted and stable assessments.

($ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
SF Revenue	($1.4)	($1.4)	($1.4)	($1.4)	($1.4)
Expenditure	0	0	0	0	0
Net Effect	($1.4)	($1.4)	($1.4)	($1.4)	($1.4)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local property tax revenues decrease by $12.4 million beginning in FY 2014. County expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: The real property owned by disabled veterans is exempt from taxation, if specified requirements are met. A disabled veteran is an individual who is honorably discharged or released under honorable circumstances from active service in any branch of the U.S. Armed Forces. Real property owned by the surviving spouse of a disabled veteran and the surviving spouse of an individual who died in the line of duty while in active military, naval, or air service of the United States is exempt from taxation. In addition, a home owned by the surviving spouse of a veteran of the U.S. Armed Forces who receives DIC from the U.S. Department of Veterans Affairs, if the veteran qualifies posthumously for 100% service connected disability is eligible for a property tax exemption under specified circumstances.

Background: Generally, a surviving spouse of a veteran is eligible for DIC if he or she (1) married the veteran before January 1, 1957; (2) was married to a service member who died on active duty; (3) married a veteran within 15 years of discharge from military service during which time the disease or injury which caused the veteran's death began was aggravated; (4) was married to the veteran for at least one year; or (5) has had a child and cohabitated with the veteran continuously until the veteran's death or, if separated, was not at fault in the separation and is not currently remarried.

For fiscal 2012, 5,874 property owners are receiving a property tax exemption for being either a disabled veteran or the surviving spouse of a disabled veteran; the assessment for these properties total approximately $1.4 billion.

The State real property tax rate is $0.112 per $100 of assessed value. All State property tax revenues are credited to a special fund, the Annuity Bond Fund, dedicated exclusively to paying the debt service on State general obligation bonds. Local governments generally have the authority to set their own property tax rates.

State Fiscal Effect: Special fund revenues will decrease by approximately $1.4 million annually beginning in fiscal 2014 as a result of the exemption provided by the bill. This estimate is based on the following:

- according to the Maryland Department of Veterans Affairs there are 5,721 surviving spouses receiving DIC benefits;
- the average taxable assessment (after Homestead Property Tax Credit) for residential property is $213,649 in fiscal 2013;

- the State property tax rate is $0.112 per $100 of assessment; and
- the number of eligible surviving spouses remains constant.

Revenues may vary depending on the actual assessed value of each property and where each surviving spouse resides.

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2014 State budget includes $983.6 million for general obligation debt service costs, including $101.0 million in general funds, $864.1 million in special funds from the Annuity Bond Fund, $6.1 million in transfer tax revenues, and $12.4 million in federal funds.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

Local Fiscal Effect: Based on the data used above, local government revenues will decrease by approximately $12.4 million annually beginning in fiscal 2014, assuming an average local property tax rate of $1.02 per $100 of assessment. Revenues may vary depending on the actual assessed value of each property and where each surviving spouse resides. **Exhibit 1** shows the average fiscal 2013 taxable residential assessment and property tax rate for each of the State's 24 jurisdictions.

Exhibit 1
Average Residential Assessments and Property Tax Rates
Fiscal 2013

County	Average Taxable Assessment	Property Tax Rate
Allegany	$98,020	$0.9810
Anne Arundel	236,813	0.9410
Baltimore City	106,844	2.2680
Baltimore	204,927	1.1000
Calvert	268,893	0.8920
Caroline	165,373	0.8900
Carroll	269,037	1.0180
Cecil	201,959	0.9907
Charles	231,915	1.1210
Dorchester	147,605	0.9760
Frederick	246,250	1.0640
Garrett	129,672	0.9900
Harford	243,248	1.0420
Howard	356,441	1.1900
Kent	214,280	1.0220
Montgomery	412,783	1.0030
Prince George's	186,405	1.3190
Queen Anne's	310,801	0.8471
St. Mary's	253,158	0.8570
Somerset	105,715	0.8837
Talbot	234,663	0.4910
Washington	176,482	0.9480
Wicomico	135,641	0.8404
Worcester	190,654	0.7700

Source: State Department of Assessments and Taxation; Department of Legislative Services

Additional Information

Prior Introductions: SB 624 of 2004 received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Montgomery County, State Department of Assessments and Taxation, Department of Veterans Affairs, Department of Legislative Services

Fiscal Note History: First Reader - February 4, 2013
ncs/hlb

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510