HB 1523

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 1523 (Delegate Rudolph)
Ways and Means

Property Tax Exemption - Dwelling House of Disabled Veteran or Surviving Spouse - Repeal of Domicile Requirements

This bill repeals a requirement, with regards to a property tax exemption for the dwelling house of a disabled veteran or the surviving spouse of a specified veteran, that the veteran or the surviving spouse of the veteran must be domiciled in the State at the time of the veteran's death in order to be eligible for the property tax exemption.

The bill takes effect June 1, 2014, and applies to taxable years beginning after June 30, 2014.

Fiscal Summary

State Effect: Annuity Bond Fund revenues decrease by a potentially significant amount beginning in FY 2015 as a result of expanding the exemption for disabled veterans and surviving spouses. Under one set of assumptions, special fund revenues may decrease by approximately $196,300 annually beginning in FY 2015. 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.

Local Effect: Local property tax revenues decrease by a potentially significant amount beginning in FY 2015 as a result of expanding the exemption for disabled veterans and surviving spouses. Under one set of assumptions, local property tax revenues may decrease by approximately $1.8 million annually beginning in FY 2015. County expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: The real property owned by disabled veterans, as their legal residence, 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 Dependency and Indemnity Compensation from the U.S. Department of Veterans Affairs is eligible for a property tax exemption under specified circumstances.

In order to be eligible for the property tax exemption, the veteran or surviving spouse, must be domiciled in the State at the time of the veteran's death.

Background: The major exemptions from the local property tax are local, State, and federal government property; property of religious organizations; cemeteries and mausoleums; nonprofit hospitals; portions of continuing care facilities for the elderly; property of charitable, fraternal, and educational institutions; property used for national defense or military housing; property of national veterans' organizations; homes of disabled veterans and the blind (partial exemption), or a surviving spouse of either; property of historical societies and museums; property owned by certain taxpayers engaged in building, operating, and managing nonprofit multifamily units, subject to local government approval; and property owned by fire companies, rescue squads, community water corporations, and housing authorities.

Fiscal Impact of Existing Property Tax Exemptions for Disabled Veterans

For fiscal 2014, 6,214 property owners are receiving a property tax exemption for being a disabled veteran and the assessment for these properties is approximately $1.5 billion. In addition, there are 119 surviving spouses receiving an exemption; the assessment for these properties is approximately $33.0 million. The associated State revenue loss from these exemptions total approximately $1.75 million, based on a $0.112 State property tax rate. 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: Annuity Bond Fund revenue will decrease by a potentially significant amount beginning in fiscal 2015 as a result of expanding the exemption for disabled veterans and surviving spouses to those individuals who do not meet the current domicile requirements. The amount of the revenue decrease depends on the number of eligible disabled veterans and surviving spouses who are eligible for the exemption pursuant to the bill and the assessed value of each exempt property. Data on the number of disabled veterans and surviving spouses who do not currently meet the domicile requirements does not currently exist.

For illustrative purposes only, special fund revenues may decrease by approximately $196,300 annually beginning in fiscal 2015 as a result of the exemption provided by the bill, based on the following assumptions:

- The U.S. Census Bureau (American Community Survey) indicates that there are 11,009 veterans that have a 70% or higher service connected disability rating.
- The average taxable assessment (after the Homestead Property Tax Credit) for residential property is $214,700 in fiscal 2014.
- The homeownership rate in Maryland is 68.1%.

This example does not include any surviving spouses who may qualify for the exemption under the bill.

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 2015 State budget includes $1.0 billion for general obligation debt service costs, including $195.0 million in general funds, $826.7 million in special funds from the Annuity Bond Fund, $6.3 million in transfer tax revenues, and $11.5 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: As a point of reference, and for illustrative purposes only, based on the assumptions and data used above, as well as an average local property tax rate of $1.029 per $100 of assessment, local government revenues may decrease by approximately $1.8 million annually beginning in fiscal 2015. Revenues may vary depending on the actual number of additional exemption recipients, where each recipient resides, and the assessed value of each property. **Exhibit 1** shows the average fiscal 2014 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 2014

County	Average Taxable Assessment	Property Tax Rate
Allegany	$90,480	$0.9800
Anne Arundel	246,968	0.9500
Baltimore City	112,319	2.2480
Baltimore	206,760	1.1000
Calvert	263,971	0.8920
Caroline	158,684	0.9400
Carroll	303,942	1.0180
Cecil	212,968	0.9907
Charles	242,313	1.2050
Dorchester	186,138	0.9760
Frederick	268,992	1.0640
Garrett	121,468	0.9900
Harford	239,401	1.0420
Howard	352,116	1.1900
Kent	213,969	1.0220
Montgomery	317,740	1.0210
Prince George’s	214,616	1.3190
Queen Anne’s	336,629	0.8471
St. Mary’s	239,399	0.8570
Somerset	84,262	0.9150
Talbot	235,762	0.5120
Washington	162,093	0.9480
Wicomico	159,053	0.9086
Worcester	182,128	0.7700

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

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Harford, Montgomery, Talbot, and Wicomico counties; State Department of Assessments and Taxation; Department of Legislative Services

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