

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 777

(Senator Waldstreicher, *et al.*)

Budget and Taxation

Ways and Means

Property Tax - Exemption for Dwelling House Owned by Disabled Active Duty
Service Member

This bill provides a property tax exemption for the dwelling owned by a specified disabled active duty service member. A disabled active duty service member must apply for the property tax exemption by providing to the Supervisor of Assessments a certification of the service member's disability from a physician licensed to practice medicine in the State or from the Veterans' Administration, on the form provided by the State Department of Assessments and Taxation.

A disabled active duty service member is defined as an individual in active service of the military, naval, or air service as defined in 38 U.S.C. § 101 who has a service connected physical disability that is reasonably certain to continue for the life of the service member and was not caused or incurred by misconduct of the service member. **The bill takes effect June 1, 2019, and applies to taxable years beginning after June 30, 2019.**

Fiscal Summary

State Effect: Annuity Bond Fund revenues decrease by a minimal amount beginning in FY 2020. Under one set of assumptions, special fund revenues may decrease by approximately \$25,000 annually.

Local Effect: Local property tax revenues decrease beginning in FY 2020. Under one set of assumptions, local property tax revenues may decrease by approximately \$259,000 annually. 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.

A comprehensive overview on exempt property in Maryland can be found in Chapter 3 of the [*Guide to the Property Tax Structure in Maryland*](#).

Background: For fiscal 2019, 9,904 property owners will receive a property tax exemption for being a disabled veteran; the assessment for these properties totals approximately \$3.1 billion. In addition, there are 753 surviving spouses receiving an exemption; the assessment for these properties totals approximately \$209.9 million. The associated State revenue loss from the property tax exemptions totals approximately \$3.5 million. This estimate is 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 minimal amount beginning in fiscal 2020 as a result of the property tax exemption for disabled active duty service members. The actual revenue decrease will depend on the number of eligible disabled active duty service members and the assessed value of each exempt property.

The Maryland Department of Veterans Affairs does not have specific data on the number of disabled active duty service members, but estimates that the total number is likely no more than a few hundred. Currently, there are a total of 29,308 active duty service members in the State. The department advises that if an active duty service member cannot perform his/her military duties because of a service connected injury then the individual goes before a Medical Evaluation Board (MEB) that will determine the individual's fitness for duty and the level of compensation (if any) the individual will receive based upon the percent of disability and the individual's time in service. The U.S. Veterans Administration also has a role in this process and can award a different disability rating based on the totality of a service member's injuries.

The MEB process takes approximately six to nine months depending on the installation. If the service member decides to appeal the ruling then it may take another six months. It is assumed that once the disabled active duty service member is discharged from active duty, the individual would become eligible for the exiting property tax exemption under current law.

For illustrative purposes only, special fund revenues may decrease by approximately \$25,000 annually beginning in fiscal 2020 as a result of the exemption provided by the bill. This estimate is based on the following assumptions:

- There are 29,308 active duty service members in Maryland.
- There are 250 disabled active duty service members in Maryland.
- The average taxable assessment (after the homestead property tax credit) for residential property is \$222,567 for State tax purposes and \$216,677 for county tax purposes in fiscal 2018.
- The homeownership rate for active duty service members is 38%.

Local Fiscal Effect: Based on the assumptions and data used above and an average local property tax rate of \$1.20 per \$100 of assessment, local government revenues may decrease by approximately \$259,000 annually beginning in fiscal 2020. The impact on revenues may vary depending on the actual number of exemption recipients, where each recipient resides, and the assessed value of each property.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation; Maryland Department of Veterans Affairs; Department of Legislative Services

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