Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1109 (Delegate Mangione, *et al.*)
Ways and Means

Disabled Active Duty Service Members, Disabled Veterans, and Surviving Spouses - Exemption From Property Tax and Other Charges and Refunds

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This bill exempts a dwelling house owned by a disabled active duty service member, disabled veteran, or surviving spouse from specified governmental charges. The bill requires the State, a county, or a municipality to pay property tax refunds to a disabled active duty service member, disabled veteran, or surviving spouse under specified circumstances. The State, a county, or a municipality must pay interest on the refund under specified circumstances. **The bill takes effect June 1, 2020, and applies retroactively to taxable years beginning after June 30, 2015.**

Fiscal Summary

State Effect: Special fund expenditures increase beginning in FY 2021 to the extent State property tax refunds are issued. State revenues are not directly affected.

Local Effect: Local government expenditures increase beginning in FY 2021 to the extent property tax refunds are issued. Local government revenues decrease beginning in FY 2021 from exempt fees and charges. **The bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: The bill allows disabled active duty service members and disabled veterans to apply for a refund of State, county, and municipal property taxes paid if the application is made within five calendar years of the individual becoming eligible for a property tax exemption for the dwelling house that the individual resides in and exempts them from paying any governmental charges or fees that are assessed on their dwelling house.

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.

Chapter 520 of 2019 provided 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.

Background: In some instances, there is a lag time between the time a veteran applies to the federal government for disability benefits and when a State and local property tax exemption is granted due to the time it takes to process claims at the federal level. As a result, the individual has to pay State and local property taxes while the application is processed and approved. The bill allows these individuals to receive a refund for any property taxes paid for up to five years from when the disability claim was filed.

Fiscal Impact of Existing Property Tax Exemptions for Disabled Veterans

For fiscal 2020, 12,386 property owners received a property tax exemption for being a disabled veteran, a surviving spouse, or a disabled active duty service member, and the assessment for these properties was approximately $4.1 billion. The associated State revenue loss from these exemptions totaled approximately $4.6 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: State property tax refunds are issued from the Public Debt Fund; as a result, State special fund expenditures increase beginning in fiscal 2021 to the extent State property tax refunds are issued. The amount of the expenditure increase depends on the number of eligible individuals who apply for a refund of State property taxes in any year and the assessed value of each exempt property.

As a point of reference, a refund issued for State property taxes paid would total approximately $370, based on the real property assessments of individuals who received a property tax exemption in fiscal 2020. Therefore, if 50 refunds were issued each year, expenditures will increase by $18,500 annually beginning in fiscal 2021.

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.

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: County and municipal revenues and expenditures are affected beginning in fiscal 2021. County and municipal expenditures increase beginning in fiscal 2021 to the extent property tax refunds are issued. County and municipal revenues decrease beginning in fiscal 2021 as a result of the bill providing an exemption for any and all governmental fees and charges that applied to the dwelling house of a disabled active duty service member, disabled veteran, or surviving spouse.

Real Property Tax Exemption

County and municipal expenditures increase beginning in fiscal 2021 to the extent property tax refunds are issued. The amount of the expenditure increase depends on the number of eligible individuals who apply for a refund of county and municipal property taxes in any year and the assessed value of each exempt property.

As a point of reference, a refund issued for county property taxes paid would be approximately $3,500, on average, based on the real property assessments of individuals who received a property tax exemption and county property tax rates for fiscal 2020.

Therefore, if 50 refunds were issued each year, total county expenditures would increase by $175,000 annually beginning in fiscal 2021.

Exemption from Governmental Charges and Fees

The bill exempts any fees or charges that are directly related to the dwelling house of a disabled active duty service member, disabled veteran, or surviving spouse. As a result, local revenue for special uses will decrease beginning in fiscal 2021. The amount of the revenue decrease will vary by county and by the number of eligible individuals residing in each county.

Special taxing districts are defined geographic areas within which a special tax is imposed on property owners to fund infrastructure improvements or services. Most special taxing districts are created by local governments, but a small number of State-created special taxing districts also exist. A county or municipality must have enabling authority from the General Assembly to create a special taxing district.

The General Assembly has authorized counties and municipalities to create special taxing districts for many different purposes. These purposes include infrastructure improvements, commercial district management, road construction, water and sewer systems, drainage, erosion prevention and control, waterway improvement, street lighting, stormwater management, and more. The authority to create special taxing districts varies considerably among counties because some enabling statutes apply only to certain counties and not others. Municipalities have more limited authority to create special taxing districts than counties.

A comprehensive overview on special taxing districts in the State can be found in Chapter 6 of the *Guide to the Property Tax Structure in Maryland*.

It is assumed that it is the intent of the bill to exempt disabled active duty service members, disabled veterans, or surviving spouses from paying any of these special assessments that are imposed on a dwelling house to fund specified government services. As a result, revenues for special uses will decrease beginning in fiscal 2021, depending on the number of exemptions and the value of each special assessment.

The City of Bowie advises that it will incur increased expenditures to monitor and process claims for refunds and exemptions.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 109 (Senator Ellis) - Budget and Taxation.

Information Source(s): Montgomery and Worcester counties; Maryland Association of Counties; Maryland Municipal League; cities of Baltimore and Bowie; State Department of Assessments and Taxation; Department of Legislative Services

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