SB 639

Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 639 (Senator Brooks)
Budget and Taxation

Property Tax Exemption - Disabled Veterans - Service Connected Disability

This bill expands the eligibility criteria of a property tax exemption for specified disabled veterans and surviving spouses of veterans to include veterans with at least an 80% service-connected disability. Under current law, veterans must have a 100% service-connected disability to be eligible for the property tax exemption. **The bill takes effect June 1, 2024, and applies to taxable years beginning after June 30, 2024.**

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2025. Under one set of assumptions, special fund revenues may decrease by approximately $2.2 million annually beginning in FY 2025. 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 (GO) bonds.

Local Effect: Local property tax revenues decrease by a significant amount beginning in FY 2025. Under one set of assumptions, local property tax revenues may decrease by approximately $23.2 million annually beginning in FY 2025. County expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

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. To qualify for the tax exemption, the disabled veteran must have a 100% service-connected disability rating. 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.

Fiscal Impact of Current Exemption

Approximately 24,500 property owners are currently eligible to receive the property tax exemption for being a disabled veteran, a surviving spouse, or a disabled active duty service member. Of this amount, approximately 23,200 property owners are disabled veterans. The exemption amount for these properties is projected to total $10.8 billion in fiscal 2025, with the associated State revenue loss totaling approximately $12.1 million. This estimate is based on a $0.112 State property tax rate. All State property tax revenue is credited to a special fund, the ABF, dedicated exclusively to paying the debt service on State GO bonds. Local governments generally have the authority to set their own property tax rates. Based on the average combined county-municipal property tax rate, the projected local revenue loss from the current exemption totals approximately $130 million.

State Fiscal Effect: ABF revenues will decrease by a significant amount beginning in fiscal 2025 as a result of expanding the eligibility for the property tax exemption to disabled veterans with a disability rating of at least 80%. The amount of the revenue decrease depends on the number of eligible disabled veterans and surviving spouses and the assessed value of each exempt property.

Based on one set of assumptions, special fund revenues may decrease by approximately $2.2 million annually beginning in fiscal 2025 as a result of the property tax exemption required by the bill. The estimate is based on the following:

- 324,200 veterans living in Maryland;
- 27.5% of veterans have a service-connected disability rating, with 12.7% having a disability rating of 70% or higher;
- 23,200 disabled veterans currently receive a property tax exemption;
- the average taxable assessment (after the homestead property tax credit) for residential property is $387,200 for local tax purposes; and
- 67.5% homeownership rate in Maryland.

Debt service payments on the State's GO bonds are paid from the ABF. 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 ABF 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 ABF revenues, or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the ABF does not have an adequate fund balance to cover the reduction in State property tax revenues.

Local Fiscal Effect: Based on the assumptions and data used above and using an average local property tax rate of $1.20 per $100 of assessment, local property tax revenues may decrease by approximately $23.2 million annually beginning in fiscal 2025. The impact on local revenues may vary depending on the actual number of property tax exemption recipients, where each recipient resides, and the assessed value of each property.

The following summary includes the projected fiscal estimates from three jurisdictions that provided information to the department.

Carroll County advises that 513 veterans currently receive the property tax exemption and estimates that an additional 500 veterans could receive the exemption under the bill thereby reducing county revenues by approximately $1.7 million annually.

Harford County reports that the county provides a property tax credit for veterans with at least a 50% service-connected disability rating; therefore, the bill will not have an impact on county revenues.

St. Mary's County advises that increasing the number of eligible veterans for the property tax exemption could reduce county revenues by approximately $3.1 million annually.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 148 and HB 224 of 2022; SB 258 and HB 591 of 2021.

Designated Cross File: HB 862 (Delegate Allen, *et al.*) - Ways and Means.

Information Source(s): Carroll, Harford, and St. Mary's counties; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - February 13, 2024
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