Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 114 (Delegates Boschert and Love)
Ways and Means Budget and Taxation

Property Tax - Exemption - Surviving Spouse of a Veteran

This bill provides a property tax exemption for 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, if the veteran qualifies posthumously for 100% service connected disability. Surviving spouses who qualify for a property tax exemption based on receipt of Dependency and Indemnity Compensation as of June 1, 2006 have three years to apply for the exemption.

The bill takes effect June 1, 2006 and applies to all taxable years beginning after June 30, 2006.

Fiscal Summary

State Effect: Special fund revenues could decrease by a significant amount beginning in FY 2007 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 value of each property. The decrease in State special fund revenues could require either (1) an increase in the State property tax rate; or (2) a general fund appropriation, in order to cover debt service on the State's general obligation bonds.

Local Effect: Local government revenues could decrease by a significant amount beginning in FY 2007 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 value of each property.

Small Business Effect: None.

Analysis

Current Law: The real property of disabled veterans, the surviving spouse of a member of the military who died in the line of duty, and the surviving spouse of a disabled veteran is exempt from taxation, if specified requirements are met.

Background: A surviving spouse of a veteran is eligible for Dependency and Indemnity Compensation (DIC) if: (1) he or she 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) have had a child together, 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 2006 3,800 property owners are receiving a property tax exemption for being either a disabled veteran or the surviving spouse of a disable veteran; the total assessment for the these properties is approximately $691.1 million.

The State real property tax rate is $0.132 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 could decrease beginning in fiscal 2007 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. However, data is not available as to the number of surviving spouses who would meet the eligibility criteria specified by the bill.

Special fund revenues would decrease by approximately $272 for every exemption granted under the bill, based on the following:

- the average assessment for residential properties in Maryland is $206,000 in fiscal 2006; and
- the State property tax rate is $0.132 per $100 of assessment.

The Maryland Department of Veterans Affairs indicates that there are currently 5,500 surviving spouses of veterans who were receiving DIC benefits in Maryland. As a result, the maximum special fund revenue decrease resulting from the bill would be approximately $1.5 million annually. However, it is assumed that not all surviving spouses receiving DIC benefits would meet the eligibility requirements of the bill in order to qualify for the property tax exemption; therefore, the special fund revenue decrease would be lower than the estimated maximum.

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 2007 State budget allowance includes $656.2 million for the Annuity Bond Fund and assumes a $46.8 million ending fund balance that could be available in fiscal 2008. State general funds are not being appropriated to the Annuity Bond Fund in fiscal 2007.

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: Local government revenues could decrease beginning in fiscal 2007 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.

Local government revenues would decrease by approximately $2,062 for every exemption granted under the bill, based on the average home assessment data and an average local tax rate of $1.00 per $100 of assessment. As a result, the maximum local government revenue decrease resulting from the bill would be approximately $11.3 million. However, it is assumed that not all surviving spouses receiving DIC benefits would meet the eligibility requirements of the bill; therefore, the local government revenue decrease would be lower than the estimated maximum.

Additional Information

Prior Introductions: A similar bill was introduced as SB 624 in the 2004 session. It received an unfavorable report from the Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader - February 14, 2006
ncs/hlb

Analysis by: Michael Sanelli

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