SB 132

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 132 (Senator Salling)
Budget and Taxation

Property Tax - Exemption for Disabled Veterans - Percentage of Disability

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This bill expands the eligibility criteria for 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, 2017, and applies to taxable years beginning after June 30, 2017.

Fiscal Summary

State Effect: Annuity Bond Fund revenues decrease by a potentially significant amount beginning in FY 2018 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 $800,000 annually beginning in FY 2018. 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. Future year revenues reflect a constant number of exemptions being granted and stable assessments.

Local Effect: Local property tax revenues decrease by a potentially significant amount beginning in FY 2018 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 $7.8 million annually beginning in FY 2018. 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.

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 2017, 7,393 property owners are receiving a property tax exemption for being a disabled veteran, and the assessment for these properties is approximately $2.0 billion. In addition, there are 446 surviving spouses receiving an exemption; the assessment for these properties is approximately $116.7 million. The associated State revenue loss from these exemptions totals approximately $2.3 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 2018 as a result of expanding the exemption for disabled veterans and surviving spouses. The amount of the revenue decrease depends on the number of eligible disabled veterans and surviving spouses, the amount of the serviced-connected disability, and the assessed value of each exempt property.

For illustrative purposes only, special fund revenues may decrease by approximately $800,000 annually beginning in fiscal 2018 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 15,263 civilian veterans in Maryland who have a 70% or higher service-connected disability rating.
- The average taxable assessment (after the homestead property tax credit) for residential property is $227,004 for State tax purposes and $205,295 for county tax purposes in fiscal 2016.
- The homeownership rate in Maryland is 66.8%.

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 2018 State budget includes $1.3 billion for general obligation debt service costs, including $263.0 million in general funds, $969.1 million in special funds from the Annuity Bond Fund, $6.7 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: 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 $7.8 million annually beginning in fiscal 2018. The impact on revenues may vary depending on the actual number of additional 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; U.S. Census Bureau; Department of Legislative Services

Fiscal Note History: First Reader - January 31, 2017
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