HB 103

Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 103 (Delegate Brooks)
Ways and Means

Property Tax Credit for Disabled Veterans - Established

This bill requires the State, counties, and municipalities to grant a property tax credit for the property tax imposed on the dwelling house of a disabled veteran. The amount of the property tax credit is equal to the service-connected disability rating of the disabled veteran. The bill specifies application criteria that a disabled veteran must follow when applying for the property tax credit with the State Department of Assessments and Taxation (SDAT). **The bill takes effect June 1, 2022, and applies to taxable years beginning after June 30, 2022.**

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2023. Under one set of assumptions, special fund revenues may decrease by approximately $3.9 million annually beginning in FY 2023. 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 tax credits being granted and stable assessments. General fund expenditures may increase to the extent SDAT needs to hire additional personnel to administer the property tax credit.

Local Effect: Local property tax revenues decrease by a significant amount beginning in FY 2023. Under one set of assumptions, local property tax revenues may decrease by approximately $40.8 million annually beginning in FY 2023. **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

For fiscal 2022, 13,644 property owners are receiving 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 is approximately $4.9 billion. The average exemption is approximately $357,197, and the associated State revenue loss from these exemptions totals approximately $5.5 million, based on a $0.112 State property tax rate. All State property tax revenues are credited to a special fund, the ABF, 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. Based on the average combined county-municipal property tax rate, the projected local revenue loss from the current exemption could total approximately $50 million.

State Fiscal Effect: ABF revenues will decrease by a significant amount beginning in fiscal 2023 as a result of the property tax credit for disabled veterans. The amount of the revenue decrease depends on the number of eligible disabled veterans, each veteran's service-connected disability rating, and the assessed value of each residential property.

For illustrative purposes only, ABF revenues may decrease by approximately $3.9 million annually beginning in fiscal 2023 as a result of the property tax credit required by the bill. The estimate is based on the following:

- 372,500 veterans living in Maryland;
- 20% of veterans have a service-connected disability rating;
- 13,644 property owners receive a property tax exemption for being a disabled veteran, a surviving spouse, or a disabled active duty service member in fiscal 2022;

- under current law, a disabled veteran must have a 100% service-connected disability rating to receive a property tax exemption;
- 39,700 additional disabled veterans may become eligible to receive a property tax credit under the bill;
- property tax credit amount for each disabled veteran varies by the level of service-connected disability rating;
- the average taxable assessment (after the homestead property tax credit) for residential property is $227,870 for State tax purposes and $221,937 for county tax purposes; and
- 66.9% homeownership rate in Maryland.

Debt service payments on the State's general obligation 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.

SDAT advises that veterans are authorized to have their service-connected disability rating reevaluated by the U.S. Department of Veterans Affairs on an annual basis. As a result, the department may need to hire additional personnel to administer the property tax credit to account for changes in the tax credit amount granted to each veteran in any year.

Local Fiscal Effect: Based on the assumptions and data used above and an average local property tax rate of $1.195 per $100 of assessment, county property tax revenues may decrease by approximately $40.8 million annually beginning in fiscal 2023. The impact on local revenues may vary depending on the actual number of property tax credit recipients, where each recipient resides, and the assessed value of each property.

Additional Information

Prior Introductions: HB 1175 of 2021 received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: SB 85 (Senator Jackson) - Budget and Taxation.

Information Source(s): Anne Arundel, Harford, Prince George's, and Wicomico counties; City of College Park; Maryland Association of Counties; Maryland Municipal League; Maryland State Treasurer's Office; Department of Veterans Affairs; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - January 11, 2022
fnu2/hlb

Analysis by: Michael Sanelli

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