HB 443

Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 443 (Delegate Valderrama)
Ways and Means

Property Tax - Exemption for Dwellings of Surviving Spouses of Disabled Veterans - Application

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This bill alters the application requirements for a specified property tax exemption for a dwelling house owned by the surviving spouse of a disabled veteran. Specifically, the bill authorizes the use of Dependency and Indemnity Compensation documentation from the U.S. Department of Veterans Affairs (VA) as a means of verifying the veteran's disability instead of a certification of disability from the VA. As a result, the bill increases the number of surviving spouses who are eligible for the property tax exemption. **The bill takes effect June 1, 2023, and applies to taxable years beginning after June 30, 2023.**

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2024. Under one set of assumptions, special fund revenues may decrease by approximately $1 million annually beginning in FY 2024. 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.

Local Effect: Local property tax revenues decrease by a significant amount beginning in FY 2024. Under one set of assumptions, local property tax revenues may decrease by approximately $10 million annually beginning in FY 2024. **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 VA is eligible for a property tax exemption under specified circumstances.

A disabled veteran or a surviving spouse of a disabled veteran must apply for a property tax exemption by providing to the Supervisor of Assessments (1) a copy of the disabled veteran's discharge certificate from active military, naval, or air service and (2) on the form provided by the department, a certification of the disabled veteran's disability from the VA. The disabled veteran's certificate of disability may not be inspected by individuals other than (1) the disabled veteran or (2) appropriate employees of the State, a county, or a municipality.

Chapters 195 and 196 of 2022 authorize an individual to submit an application to the State Department of Assessments and Taxation (SDAT) for a specified property tax exemption for disabled veterans and surviving spouses for a specific dwelling house the individual intends to purchase before purchasing the dwelling house. Following receipt of the application, SDAT must process the application and send the applicant a letter stating (1) that the application is preliminarily approved or preliminarily denied and (2) if the application is preliminarily approved, the amount of the tax exemption for the dwelling the individual intends to purchase. An individual who is issued a letter preliminarily approving the exemption must receive the exemption for the dwelling referenced in the letter after becoming the owner of the dwelling without having to file another application.

Fiscal Impact of Current Exemption

For fiscal 2022, 13,644 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 $4.9 billion. The average exemption totaled approximately $357,197, and the associated State revenue loss from these exemptions totaled 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.

Dependency and Indemnity Compensation

Dependency and Indemnity Compensation is a monthly benefit that is paid to eligible survivors of:

- service members who died while on active duty, active duty for training or inactive duty training; or
- veterans who died as a result of a service-connected injury or disease; or
- veterans who did not die as a result of a service-connected injury or disease, but were totally disabled by a service-connected disability (1) for at least 10 years before death; or (2) since their release from active duty and for at least five years before death; or (3) for at least one year before death, if they were a former prisoner of war and died after Sept. 30, 1999.

A surviving spouse is eligible for Dependency and Indemnity Compensation benefits if they are the surviving spouse who:

- married a service member who died on active duty, active duty for training or inactive duty training; or
- married the deceased veteran before Jan. 1, 1957; or
- married a veteran who died from a service-connected injury or disease, if the marriage began within 15 years of discharge; or
- married the deceased veteran for at least one year; or
- had a child with the veteran and cohabitated with the veteran until their death.

A surviving spouse who has remarried after the veteran's death may still be eligible for benefits under specified circumstances.

State Fiscal Effect: ABF revenues will decrease by a significant amount beginning in fiscal 2024 as a result of the expanded eligibility for the property tax exemption for surviving spouses. The amount of the revenue decrease depends on the number of eligible surviving spouses who receive Dependency and Indemnity Compensation benefits and who do not currently receive the property tax exemption and the assessed value of each residential property.

For illustrative purposes only, ABF revenues may decrease by approximately $1 million annually beginning in fiscal 2024 as a result of the property tax exemption required by the bill. The estimate is based on the following:

- 6,360 Dependency and Indemnity Compensation recipients in Maryland (2017);
- 1,219 surviving spouses receiving the current property tax exemption;
- the average taxable assessment for exemption recipients totals $320,912; 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.

Local Fiscal Effect: Based on the assumptions and data used above and using an average local property tax rate of $1.195 per $100 of assessment, county property tax revenues may decrease by approximately $10 million annually beginning in fiscal 2024. 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.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See HB 923 of 2022.

Designated Cross File: None.

Information Source(s): State Department of Assessments and Taxation; U.S. Department of Veterans Affairs; Department of Legislative Services

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