

Department of Legislative Services

Maryland General Assembly

2026 Session

FISCAL AND POLICY NOTE

First Reader

House Bill 842

(Delegate Griffith, *et al.*)

Ways and Means

Property Tax Exemption - Property Acquired by Surviving Spouse of Service Member - Repeal of Time Limitation

This bill alters the eligibility criteria for a property tax exemption for disabled veterans and surviving spouses by repealing a requirement that a dwelling house of a surviving spouse of a service member who died in the line of duty be acquired within two years of the service member's death to qualify for a real property tax exemption. **The bill takes effect June 1, 2026, and applies to taxable years beginning after June 30, 2026.**

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues decrease beginning in FY 2027 depending on the number of surviving spouses that meet the updated eligibility requirements. Any ABF revenue 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 beginning in FY 2027 depending on the number of surviving spouses that meet the updated eligibility requirements. Local expenditures are not directly 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 (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 or a rating decision of the disabled veteran's disability from the VA that includes the effective date of the rating decision. 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.

The dwelling house of a surviving spouse is exempt from property tax if: (1) the dwelling house was owned by the service member at the time of the service member's death; (2) the dwelling house was acquired by the surviving spouse within two years of the service member's death, if the service member or the surviving spouse was domiciled in the State as of the date of the service member's death; or (3) the dwelling house was acquired after the surviving spouse qualified for exemption for a former dwelling house.

Fiscal Impact of Current Exemption

For fiscal 2026, 32,299 property owners are receiving a property tax exemption for being a disabled veteran (30,697), a surviving spouse (1,556), or a disabled active-duty service member (46), and the assessment for these properties is approximately \$15.3 billion. The

average exemption is \$400,315, and the associated State revenue loss from these exemptions totaled approximately \$17.2 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 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 could total approximately \$190 million.

State Fiscal Effect: ABF revenues will decrease beginning in fiscal 2027 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 meet the updated eligibility requirements and the assessed value of each residential property.

Impact on Debt Service Payments

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. The fiscal 2027 budget assumes \$1.3 billion in State property tax revenues to the ABF. In addition, \$177.7 million in general funds and \$0.8 million in federal funds are budgeted to the ABF, since the State property tax rate is not set high enough to cover the full cost of the debt service payments on the State's GO bonds.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the ABF revenues, or the State property tax rate would have to be increased to meet debt service payments.

Local Fiscal Effect: Local property tax revenues decrease beginning in fiscal 2027. The impact on local revenues may vary depending on the actual number of surviving spouses who qualify for the property tax exemption, where each recipient resides, and the assessed value of each property.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Maryland Association of Counties; State Department of Assessments and Taxation; Department of Legislative Services

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