

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 644
Ways and Means

(Delegate D. Jones, *et al.*)

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

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, 2026, and applies to taxable years beginning after June 30, 2026.**

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2027. Under one set of assumptions, special fund revenues may decrease by approximately \$1.7 million annually beginning in FY 2027. 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 (GO) bonds.

Local Effect: Local property tax revenues decrease by a significant amount beginning in FY 2027. Under one set of assumptions, local property tax revenues may decrease by approximately \$20 million annually beginning in FY 2027. **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 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.

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.

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 5 years before death; or (3) for at least 1 year before death, if they were a former prisoner of war and died after September 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 1 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 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 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 \$1.7 million annually beginning in fiscal 2027 as a result of the property tax exemption required by the bill. The estimate is based on the following:

- 7,310 Dependency and Indemnity Compensation recipients in Maryland (2023);
- 1,556 surviving spouses receiving the current property tax exemption;
- the average taxable assessment for exemption recipients totals \$400,315; and
- 67.6% of properties in Maryland are owner-occupied.

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: Based on the assumptions and data used above and using an average local property tax rate of \$1.20 per \$100 of assessment, local property tax revenues may decrease by approximately \$20 million annually beginning in fiscal 2027. 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

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 443 of 2023.

Designated Cross File: None.

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

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