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FISCAL AND POLICY NOTE
First Reader

House Bill 766
Ways and Means

(Delegate Kaiser, *et al.*)

Property Tax Credit - Disabled Military Personnel and Surviving Spouses

This bill alters the eligibility criteria of a local option property tax credit established for elderly individuals and veterans by extending eligibility to certain disabled military personnel under the age of 65. Eligible individuals include specified active duty or retired members of (1) the uniformed services of the United States as defined in 10 U.S.C. § 101; (2) the military reserves; or (3) the national guard. To qualify for the property tax credit, the individuals must have a service-connected disability as defined in a local law. In addition, a surviving spouse of these individuals who has not remarried also qualifies for the property tax credit. Local governments are authorized to establish the criteria that define a service-connected disability of an eligible individual. Under current law, veterans age 65 and over already qualify for the property tax credit. **The bill takes effect June 1, 2020, and applies to taxable years beginning after June 30, 2020.**

Fiscal Summary

State Effect: None.

Local Effect: County and municipal property tax revenues may decrease by a significant amount beginning in FY 2021 to the extent that local jurisdictions grant the property tax credit. Under one set of assumptions, local revenues could decrease by \$10.5 million annually. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: Chapter 498 of 2016 authorized local governments to grant, by law, a property tax credit for a dwelling owned by (1) an individual who is at least 65 years old and has lived in the same dwelling for at least the preceding 40 years or (2) a retired member of the U.S. Armed Forces who is at least 65 years old. The amount of the property tax credit may not exceed 20% of the county or municipal property tax imposed on the property and may be granted for up to 5 years.

Local governments may provide, by law, for (1) the maximum assessed value of a dwelling that is eligible for the tax credit; (2) additional eligibility criteria for the tax credit; (3) regulations and procedures for the application and uniform processing of requests for the tax credit; and (4) any other provision necessary to carry out the tax credit.

Chapter 184 of 2017 altered the eligibility criteria for the property tax credit by requiring that eligible individuals must be members of the uniformed services of the United States as defined by 10 U.S.C. Section 101, the military reserves, or the National Guard. Chapters 309 and 310 of 2018 altered the eligibility criteria once again by adding the surviving spouse of the retired service member as an eligible recipient of the property tax credit. However, to be eligible for the property tax credit, the surviving spouse cannot be remarried.

Chapter 36 of 2019 altered the eligibility for the property tax credit by requiring the surviving spouse to be at least 65 years old to be eligible for the property tax credit. In addition, Chapter 36 enabled a surviving spouse who is under age 65 to continue to receive the property tax credit if the surviving spouse qualified for and received the property tax credit before June 1, 2019.

Background: 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. In addition, Chapter 520 of 2019 provided a property tax exemption for the dwelling owned by a disabled active duty service member.

Fiscal Impact of Existing Property Tax Exemptions for Disabled Veterans

For fiscal 2020, 12,386 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 \$4.1 billion. The associated State revenue loss from these exemptions total approximately \$4.6 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. Based on the average combined county-municipal property tax rate, the projected local revenue loss from the current exemption could total approximately \$50 million.

Local Fiscal Effect: County and municipal property tax revenues may decrease beginning in fiscal 2021, to the extent that local jurisdictions grant the property tax credit. The revenue decrease will depend on the number of eligible homeowners, the value of residential property tax assessments, and local property tax rates.

Data from the U.S. Census Bureau indicates that there are 380,600 veterans living in Maryland, of which 57.2% are under the age of 65. Approximately, 18.6% of veterans have a service-connected disability rating, with 5% having a disability rating of 70% or higher. This percentage is lower for veterans under the age of 65. Census data indicates that approximately 12.7% of veterans under the age of 65 have a disability. This represents approximately 27,500 individuals. The disability for a portion of these individuals may not be service-connected. Based on a 67.5% homeownership rate, approximately 18,650 individuals could qualify for the property tax credit under the bill. Assuming that all local jurisdictions grant the property tax credit, local revenues could decrease by approximately \$10.5 million annually. This estimate is based on the following:

- 217,800 veterans under age 65 living in Maryland;
- 12.7% of veterans under age 65 are disabled;
- 67.5% homeownership rate in Maryland;
- 18,650 additional individuals may qualify for the property tax credit;
- \$221,937 average taxable assessment for residential property (after the homestead property tax credit);
- \$1.267 (per \$100 of assessment) average local property tax rate; and
- 20% property tax credit and \$562 average property tax credit amount.

Additional information on local property tax rates and revenues can be found in the [County Revenue Outlook report](#). A copy of the report is available on the Department of Legislative Services website.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 700 (Senator Waldstreicher, *et al.*) - Budget and Taxation.

Information Source(s): Kent; Montgomery; and Worcester counties; cities of Baltimore, and Westminster; Town of Leonardtown; State Department of Assessments and Taxation; Department of Legislative Services

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