

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 269

(Senator Ellis)

Budget and Taxation

Ways and Means

Property Tax Exemption - Disabled Active Duty Service Members, Disabled Veterans, and Surviving Spouses - Refund

This bill requires the State, a county, or a municipality to provide a property tax refund to a disabled active duty service member, disabled veteran, or surviving spouse under specified circumstances. The State, a county, or a municipality must pay interest on the refund. **The bill takes effect June 1, 2021, and applies retroactively to taxable years beginning after June 30, 2018.**

Fiscal Summary

State Effect: Special fund expenditures increase beginning in FY 2022 to the extent State property tax refunds are issued. State revenues are not directly affected.

Local Effect: Local government expenditures increase beginning in FY 2022 to the extent property tax refunds are issued. Local revenues are not affected. **The bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: The bill allows disabled active duty service members and disabled veterans to apply for a refund of State, county, and municipal property taxes paid if the application is made within three calendar years of the individual becoming eligible for a property tax exemption for the dwelling house that the individual resides in. In addition, the bill allows a surviving spouse to apply for a State and municipal property tax refund;

the surviving spouse is already allowed under current law to apply for a county property tax refund.

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.

Chapter 520 of 2019 provided a property tax exemption for the dwelling owned by a disabled active duty service member. A disabled active duty service member must apply for the property tax exemption by providing to the Supervisor of Assessments a certification of the service member's disability from a physician licensed to practice medicine in the State or from the Veterans' Administration, on the form provided by the State Department of Assessments and Taxation. A disabled active duty service member is defined as an individual in active service of the military, naval, or air service as defined in 38 U.S.C. § 101 who has a service connected physical disability that is reasonably certain to continue for the life of the service member and was not caused or incurred by misconduct of the service member.

Local Refund Provisions for Disabled Veterans

The Maryland Association of Counties advises that the following counties have established refund provisions applicable to disabled veterans, as shown in **Exhibit 1**.

Exhibit 1
County Refund Provisions for Disabled Veterans

<u>County</u>	<u>Refund Provision</u>
Anne Arundel	Grants a refund of county property taxes paid by a disabled veteran or surviving spouse in the taxable years in which an exemption was authorized but not granted. A refund may not be made for a year or portion of a year that is more than five years preceding the date of application for the refund.
Baltimore	Provides that a disabled veteran or surviving spouse of a disabled veteran may be eligible for a refund of taxes paid for up to three years prior to receiving the exemption.
Calvert	Grants a real property tax refund upon the county portion of the real property tax paid upon the principal residence of a qualifying disabled veteran through the date that the Veterans Administration makes the determination of their disability.
Cecil	Enacted legislation granting refunds to veterans or surviving spouses for up to three years prior to receiving the exemption.
Montgomery	Grants a refund of county property taxes paid by a disabled veteran or surviving spouse in the taxable years in which an exemption was authorized but not granted. A refund may not be made for a year or portion of a year that is more than five years preceding the date of application for the refund.
Prince George's	Provides a refund for the period that the eligible taxpayer was eligible for the benefit (limited to current period plus three years).
Queen Anne's	Grants a refund of county and municipal property taxes paid by a disabled veteran or surviving spouse in the taxable years in which an exemption was authorized but not granted. A refund may not be authorized for any taxes paid more than three years prior to the date of refund.

Source: Maryland Association of Counties

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 totaled 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.

State Fiscal Effect: In some instances, there is a delay in the time a veteran applies to the federal government for disability benefits and when a State and local property tax exemption is granted due to the time it takes to process claims at the federal level. As a result, the individual has to pay State and local property taxes while the application is processed and approved. The bill allows these individuals to receive a refund for any property taxes paid for up to three years from when the disability claim was filed.

State special fund expenditures increase beginning in fiscal 2022 to the extent State property tax refunds are issued. The amount of the expenditure increase depends on the number of eligible individuals who apply for a refund of State property taxes in any year and the assessed value of each exempt property.

As a point of reference, a refund issued for State property taxes paid would total approximately \$370, based on the real property assessments of individuals who received a property tax exemption in fiscal 2020. Therefore, if 50 refunds were issued each year, expenditures will increase by \$18,500 annually beginning in fiscal 2022.

Local Fiscal Effect: County and municipal expenditures increase beginning in fiscal 2022 to the extent property tax refunds are issued. The amount of the expenditure increase depends on the number of eligible individuals who apply for a refund of county and municipal property taxes in any year and the assessed value of each exempt property. As noted in Exhibit 1, several counties already provide property tax refunds to disabled veterans and their surviving spouses.

As a point of reference, a refund issued for county property taxes paid would be approximately \$3,500, on average, based on the real property assessments of individuals who received a property tax exemption and county property tax rates for fiscal 2021. Therefore, if 50 refunds were issued each year, total county expenditures would increase by \$175,000 annually beginning in fiscal 2022.

Additional Information

Prior Introductions: SB 109 of 2020 received a favorable with amendments report from the Senate Budget and Taxation Committee and passed the Senate. The bill was referred to the House Ways and Means Committee, but no further action was taken.

Designated Cross File: HB 1311 (Delegate Mangione) - Ways and Means.

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

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