

**Department of Legislative Services**  
Maryland General Assembly  
2021 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

House Bill 1175  
Ways and Means

(Delegate Brooks)

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**Property Tax Credit for Disabled Veterans - Established**

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This bill requires the State, counties, and municipalities to grant a property tax credit for the property tax imposed on the dwelling house of a disabled veteran. The amount of the property tax credit is equal to the service-connected disability rating of the disabled veteran. The bill specifies application criteria that a disabled veteran must follow when applying for the property tax credit with the State Department of Assessments and Taxation. **The bill takes effect June 1, 2021, and applies to taxable years beginning after June 30, 2021.**

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**Fiscal Summary**

**State Effect:** Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2022. Under one set of assumptions, special fund revenues may decrease by approximately \$4.1 million annually beginning in FY 2022. 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. Future year revenues reflect a constant number of tax credits being granted and stable assessments.

**Local Effect:** Local property tax revenues decrease by a significant amount beginning in FY 2022. Under one set of assumptions, local property tax revenues may decrease by approximately \$43.2 million annually beginning in FY 2022. County expenditures are not affected. **The bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

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## 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 is eligible for a property tax exemption under specified circumstances.

### *Fiscal Impact of Current Exemption*

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 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.

**State Fiscal Effect:** ABF revenues will decrease by a significant amount beginning in fiscal 2022 as a result of the property tax credit for disabled veterans. The amount of the revenue decrease depends on the number of eligible disabled veterans, each veteran's service-connected disability rating, and the assessed value of each residential property.

For illustrative purposes only, ABF revenues may decrease by approximately \$4.1 million annually beginning in fiscal 2022 as a result of the property tax credit required by the bill. The estimate is based on the following:

- 372,500 veterans living in Maryland;
- 20% of veterans have a service-connected disability rating;
- 12,386 property owners received a property tax exemption for being a disabled veteran, a surviving spouse, or a disabled active duty service member in fiscal 2020;
- under current law, a disabled veteran must have a 100% service-connected disability rating to receive a property tax exemption;

- 38,500 additional disabled veterans may become eligible to receive a property tax credit under the bill;
- property tax credit amount for each disabled veteran varies by the level of service-connected disability rating;
- the average taxable assessment (after the homestead property tax credit) for residential property is \$227,870 for State tax purposes and \$221,937 for county tax purposes; and
- 67.5% 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 an average local property tax rate of \$1.198 per \$100 of assessment, county property revenues may decrease by approximately \$43.2 million annually beginning in fiscal 2022. The impact on local revenues may vary depending on the actual number of property tax credit recipients, where each recipient resides, and the assessed value of each property.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Baltimore, Charles, Frederick, and Montgomery counties; City of Havre de Grace; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 1, 2021  
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