

Commission on Local Government

Estimate of Local Fiscal Impact

2015 General Assembly Session

Bill: HB1721

Patron: Ramadan

Date: 1/21/2015

In accordance with the provisions of §30-19.03 of the Code of Virginia, the staff of the Commission on Local Government offers the following analysis of the above-referenced legislation:

Bill Summary:

Exempts from taxation the principal residence of a surviving spouse of a member of the armed forces of the United States killed in action regardless of the value of the residence. Pursuant to subdivision (b) of Section 6-A of Article X of the Constitution of Virginia, which was adopted by the voters in 2014, the General Assembly enacted legislation exempting from taxation the principal residence of such surviving spouse, provided that the assessed value of the residence was not in excess of the averaged assessed value of dwellings in the county or city situated on property zoned as single family residential. The bill exempts the principal residence of any such surviving spouse regardless of assessed value. Subdivision (b) of Section 6-A of Article X provides that the exemption will cease if the surviving spouse remarries.

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**Executive Summary:**

HB 1721 seeks to exempt a surviving spouse of a member of the United States armed forces that was killed in action from taxation on a primary residence. This exemption is in place regardless of the assessed value of the primary residence. This exemption would cease if the surviving spouse were to remarry. HB 1721 also includes a clause that directs a locality to refund taxes on a surviving spouse's real property, subject to certain conditions.

The local fiscal impact of HB 1721 could range from \$500-100,000. Localities with higher concentrations of military families, such as the Hampton Roads region, are likely to be more exposed to a negative fiscal impact. Larger localities are also more susceptible to a fiscal impact because they are more likely to have a populace that includes surviving spouses.

Spouses of U.S. service men and women killed in action since the Iraq War began in 1990 are likely to comprise the majority of those eligible for the tax exemption under HB 1721. The Virginia Commissioners of Revenue has noted that Virginians killed in action since that time has totaled 419 as of December 2014. Virginia's localities would be expected to exempt that many spouses less any that have remarried.

Tax refunds under HB 1721 are expected to be negligible.

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**Local Analysis:**

**Locality:** City of Chesapeake

**Estimated Fiscal Impact:** \$100,000.00

We are not able to provide an estimate of the cost of this provision. However, the City also has grant exemptions worth \$995,236 to surviving spouses of armed services personnel who were killed in action. If the values of properties owned by surviving spouse is on average 10% greater than the citywide average residential assessment, the City would stand to lose nearly \$100,000. Further, the City will incur added programming costs to implement changes proposed by HB 1721.

**Locality:** City of Danville

**Estimated Fiscal Impact:** \$5,000.00

The Division Director for Real Estate estimates the impact of this bill to be less than \$5,000. This includes the initial set up of the new grouping code in the PCI system and additional staff time assisting with applications. The director was unable to provide an exact estimate due to the nature of the qualifying event, but feels that less than \$5,000 is a practical estimate.

**Locality:** City of Falls Church

**Estimated Fiscal Impact:** \$50,000.00

The City of Falls Church does not have records of surviving spouses of armed forces members killed in action. Through antidotal evidence it has found to have a few known eligible spouses. Because military activities are on-going, there is no way to estimate the number of military spouses in the future. Best estimates are that the current fiscal impact would be less than \$50,000 per year. It would be impossible to estimate future impacts. If the General Assembly seeks to provide tax relief for surviving spouses of armed forces killed in action, they should look first to granting relief under the state income tax rather than local real estate taxes.

**Locality:** City of Lynchburg

**Estimated Fiscal Impact:** \$10,000.00

The City of Lynchburg has not had any inquiries since the Constitutional amendment was passed in November. There may be one or two of these individuals in Lynchburg. At the most, the City has five at a cost of no more than \$10,000. The estimate is based upon each exemption worth \$2,000 based on a home valued at \$150,000.

**Locality:** City of Winchester

**Estimated Fiscal Impact:** \$500.00

There is limited exposure from HB 1721 to the City of Winchester.

**Locality:** Henrico County

**Estimated Fiscal Impact:** \$95,500.00

The estimated fiscal impact is based upon the estimated number of qualifying spouses and the utilization of the County's average assessed value.

**Locality:** Rappahannock County

**Estimated Fiscal Impact:** \$2,300.00

There is only one potentially qualifying person who would be covered by this provision in Rappahannock County.

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Locality: Richmond County

Estimated Fiscal Impact: \$1,000.00

It is unclear whether Richmond County would see a revenue reduction from HB 1721. It is not a populated county with a heavy concentration of military families such as Hampton Roads.

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**Locality:** Rockingham County

**Estimated Fiscal Impact:** \$1,000.00

This impact is difficult to calculate because it depends on the number, if any, of actual cases. If the Commonwealth desires to provide relief, it should provide that relief from a State tax.

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Locality: Spotsylvania County

Estimated Fiscal Impact: \$15,000.00

This estimated impact figure is a guess because data that would allow us to provide the true revenue impact of this bill is not available.

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**Professional Organization Analysis:**

**Organization:** VGFOA

HB 1721 may not have a large impact in parts of the State that do not have a significant number of surviving spouses; however, this could cause a hardship in areas of the State that have a significant number of surviving spouses. This may be more difficult for those localities to absorb after the decline in real estate values experienced during the recession.

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Organization: Virginia Commissioners of Revenue

The Virginia Commissioners of Revenue expect the impact to be very light, with some modest increase on localities with a higher number of veterans and military presence overall, given the relatively low count of living spouses to whom this would qualify.

WW II was over 70 years ago; Korea was over 60 years ago and Viet Nam was over 40 years ago. Given that these wars were so long ago, the number of surviving widows who did not re-marry would probably be relatively low as compared to the population of the Disabled Veterans. Due to the age of WW II and Korean War Widows, we would think that the number would be very low. In Viet Nam, there were approximately 60,000 KIAs. Many were very young and were probably unmarried, and many of the widows may have remarried since then, so this number may be low also. The focus would therefore be on the recent wars in Afghanistan and Iraq. The number that is discussed most for these recent wars is about 6,000 KIAs nationally, which would be reduced by the number of unmarried Service Members.

How many live in Virginia is another factor. December 2014 information on Virginians KIA, as compiled by the Library of Virginia (<http://www.lva.virginia.gov/public/guides/vmd/vmdintro.htm>), shows approximately 419 Virginians known to have been KIA since 1990 [16 in the Persian Gulf War, 185 in the Iraq War, and 218 in the War on Terrorism (including Afghanistan)].

Even with no limit on the value of the house exempted, and even though an exact number of non-remarried widows of KIA veterans living in Virginia cannot be exactly known, we estimate the impact to be minimal overall.

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