

DEPARTMENT OF TAXATION

2017 Fiscal Impact Statement

1. **Patron** Richard H. Stuart

3. **Committee** Senate Finance

4. **Title** Income Tax, Credit for Certain Disabled
Veterans and for Certain Surviving Spouses

2. **Bill Number** SB 1249

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would enact an annual refundable individual income tax credit in the amount of \$4,000 for an eligible individual. An "eligible individual" would be defined as (i) any disabled veteran who does not own his primary residence but is otherwise eligible for the disabled veterans real property tax exemption and who has never owned a residence that was eligible for such tax exemption; (ii) any surviving spouse of a disabled veteran who at the time of his death did not reside in a dwelling that qualified for the disabled veterans real property tax exemption; and (iii) any surviving spouse of a member of the armed services killed in action whose residence has never qualified for the real property exemption for surviving spouses of members of the armed forces killed in action. "Eligible individual" would be defined to exclude any surviving spouse who remarries or who acquires a residence that is eligible for the disabled veterans real property tax exemption or the real property exemption for surviving spouses of members of the armed forces killed in action.

This bill would be effective for taxable years beginning on and after January 1, 2017, but prior to January 1, 2022.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not “routine.” Additionally, the Department will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, the Department will identify the costs at that time.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2018.

This tax credit would be available to certain disabled veterans with a 100 percent service-connected, permanent, and total disability and their surviving spouses, as well as certain surviving spouses of members of the armed services killed in action. Based on data provided to the Department from the Virginia Department of Veterans Services, there were 17,775 Virginian veterans with a disability rating of 100 percent disabled in Federal Fiscal Year 2016. Based upon data from the U.S. Department of Defense, there were 5,389 hostile deaths of U.S. military service members during recent American military operations in the Middle East and Central Asia, 152 of which were Virginians.

This bill would limit the annual refundable credit to those taxpayers whose residence has never qualified for the real property exemption for disabled veterans and their surviving spouses or the real property exemption for surviving spouses of soldiers killed in action. Based upon home ownership data from the U.S. Census Bureau, it is estimated that approximately 6,300 Virginians who otherwise meet the requirements for the proposed credit did not own a home.

Providing this tax credit to these taxpayers could have a negative General Fund revenue impact of as much as \$38.6 million in Fiscal Year 2018, \$26.0 million in Fiscal Year 2019, \$26.3 million in Fiscal Year 2020; \$26.5 million in Fiscal Year 2021; and \$26.8 million in Fiscal Year 2022. However, the actual negative General Fund revenue impact may be lower due to a variety of unknown factors. This includes the fact that certain service members otherwise eligible for this tax credit may die without leaving behind a surviving spouse; the home ownership rate amount among taxpayers eligible for this credit may be different than the general U.S. population; and the surviving spouse otherwise eligible for this tax credit may remarry. Therefore, the negative General Fund revenue impact is unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes. In order to correct a typographic error in this bill, the Department suggests the following amendment:

Line 18, after in the amount of

Strike: \$4.000

Insert: \$4,000

11. Other comments:

Exemption for Surviving Spouses of Soldiers Killed in Action

Legislation enacted in the 2014 General Assembly Session, House Bill 46 (*Acts of Assembly* 2014, Chapters 757), provided the necessary statutory authorization required by Article X, § 6-A of the *Constitution of Virginia*, to exempt from taxation real property that is the principal residence of a surviving spouse of any member of the armed forces of the United States who was killed in action as determined by the Department of Defense. The constitutional amendment was adopted by voters and became effective January 1, 2015.

The real property tax exemption for surviving spouses of soldiers killed in action applies to the principal place of residence with an assessed value not exceeding the average assessed value of all dwellings located within the locality that are zoned as single family residential. For principal places of residence that are assessed at more than the average assessed value of all dwellings located within the locality that are zoned as single family residential, the exemption only applies to the portion of the assessed value of that does not exceed the average assessed value of all dwellings located within the locality that are zoned as single family residential. The exemption applies without any restriction on the surviving spouse moving to a different principal place of residence.

Exemption for Disabled Veterans

House Bill 1645 and Senate Bill 987 (*Acts of Assembly* 2011, Chapters 769 and 840) provided the necessary statutory authorization to exempt from taxation, for tax years beginning on or after January 1, 2011, real property that is the principal residence of a veteran (or widow or widower of a veteran) if the veteran has been determined by the United States Department of Veterans Affairs or its successor agency pursuant to federal law to have a 100 percent service-connected, permanent, and total disability. The surviving spouse of a veteran is eligible for the exemption, so long as the death of the veteran occurs on or after January 1, 2011, the surviving spouse does not remarry, and the surviving spouse continues to occupy the real property as his principal place of residence.

Qualifying Land and Real Property Improvements

For both the real property tax exemption for surviving spouses of soldiers killed in action and the real property tax exemption for disabled veterans, the land upon which the dwelling is situated, not to exceed one acre, is also exempt from taxation. However, if the locality provides for an exemption or deferral of real property taxes of more than one acre for the elderly and handicapped, the locality must also provide an exemption of the same number of acres for disabled veterans and surviving spouses and surviving spouses of soldiers killed in action. If the real property is jointly owned by one or more persons and not all persons qualify for the exemption, then the exemption shall be prorated based on the ownership interest of all joint owners.

Similarly, these real property tax exemptions apply to real property improvements made to the land surrounding the residences so long as the principal use of the improvement is to

house or cover motor vehicles or household goods and personal effects for other than a business purpose.

Proposed Legislation

This bill would enact an annual refundable individual income tax credit in the amount of \$4,000 for an eligible individual. An "eligible individual" would be defined as (i) any disabled veteran who does not own his primary residence but is otherwise eligible for the disabled veterans real property tax exemption and who has never owned a residence that was eligible for such tax exemption; (ii) any surviving spouse of a disabled veteran who at the time of his death did not reside in a dwelling that qualified for the disabled veterans real property tax exemption; and (iii) any surviving spouse of a member of the armed services killed in action whose residence has never qualified for the real property exemption for surviving spouses of members of the armed forces killed in action. "Eligible individual" would be defined to exclude any surviving spouse who remarries or who acquires a residence that is eligible for the disabled veterans real property tax exemption or the real property exemption for surviving spouses of members of the armed forces killed in action.

The real property exemption for disabled veterans and the real property exemption for surviving spouses of members of the armed forces killed in action are only available for a principal place of residence located in Virginia. Since this bill would only apply to individuals who do not own their primary residence but are otherwise eligible for one of these two real property tax exemption, an individual with an out-of-state primary residence would not qualify for this tax credit.

This bill would be effective for taxable years beginning on and after January 1, 2017, but prior to January 1, 2022.

Similar Bills

House Bill 2175 would establish an individual income tax subtraction for the annual retirement compensation received for service as a member of the U.S. Armed Forces or the Virginia National Guard by a veteran who has been rated by the U.S. Department of Veterans Affairs or its successor agency pursuant to federal law with a 100 percent service-connected disability.

cc : Secretary of Finance

Date: 1/26/2017 JJS
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