

DEPARTMENT OF TAXATION

2020 Fiscal Impact Statement

1. **Patron** Richard H. Stuart

2. **Bill Number** SB 143

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Local Real Property Tax: State Subsidy of
Property Tax Exemptions for Disabled
Veterans and Surviving Spouses of Service
Members

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would require the Commonwealth to reimburse eligible localities for a portion of their cost of providing property tax exemptions for disabled veterans and their surviving spouses and for surviving spouses of members of the armed forces killed in action for taxable years beginning on and after January 1, 2020.

Under current law, the principal residence of a disabled veteran or the surviving spouse of a disabled veteran or the surviving spouse of a member of the armed forces of the United States who was killed in action is exempt from local real property tax.

If enacted during the Regular Session of the 2020 General Assembly, this bill would become effective on July 1, 2020.

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

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

8. **Fiscal implications:**

Administrative Costs

The Department considers implementation of this bill as routine and does not require additional funding. This bill could result in administrative costs to qualifying localities, as such localities would need to apply annually for the subsidy.

Revenue Impact

This bill would result in a negative revenue impact to the Commonwealth and a corresponding positive impact on eligible localities. Information regarding the localities that would qualify for the subsidy and value of the real estate exemptions for 2020 and future years is not currently available. Typically, the Department does not obtain this information from localities until several months after the tax year ends. Based on historical

data reported by localities, the negative state revenue impact could exceed \$2 million and the specific localities qualifying for the proposed subsidy could vary annually.

9. Specific agency or political subdivisions affected:

Department of Taxation
Auditor of Public Accounts
Eligible localities

10. Technical amendment necessary: No

11. Other comments:

Real Property Taxation

Article X, Section 1 of the *Constitution of Virginia* mandates that all property shall be taxed unless specifically exempted. Real estate is segregated and made subject to local taxation only by Article X, Section 4 of the *Constitution of Virginia*. Article X, § 6-A of the *Constitution of Virginia* exempts the following from real property taxation:

- The principal residence of a disabled veteran or the widow or widower of such a veteran; and
- The principal residence of the surviving spouse of any member of the armed forces of the United States who was killed in action.

These exemptions apply to taxable years beginning on or after January 1, 2011, and require that 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; or that the service member was killed in action as determined by the United States Department of Defense.

Legislation enacted during the 2019 General Assembly Session provided the legislative implementation of a constitutional amendment that was adopted by the voters on November 6, 2018, which allows surviving spouses of disabled veterans to retain the exemption from real property taxes regardless of the fact that they have moved to a new principal residence. Before this amendment, otherwise eligible spouses would lose the exemption if they moved to a new principal residence.

Proposal

This bill would require the Commonwealth to reimburse eligible localities for providing property tax exemptions for disabled veterans and their surviving spouses and for surviving spouses of members of the armed forces killed in action for taxable years beginning on and after January 1, 2020. The subsidy would be based on the amount of real estate tax revenue foregone by an eligible locality for a taxable year as a result of such property tax exemptions. However, it would exclude the amount of foregone real estate tax revenue attributable to one percent of the locality's real estate that is tax exempt for the taxable year pursuant to such property tax exemptions.

Under this bill, an “eligible locality” would be a locality in which more than one percent of its taxable real estate is exempt from taxation for the taxable year pursuant to the property tax exemptions for disabled veterans and their surviving spouses, and surviving spouses of members of the armed forces killed in action. In order to qualify for a reimbursement, a locality would be required to apply for certification to the Auditor of Public Accounts (“APA”) providing documentation demonstrating that more than one percent of such locality's taxable real estate was exempt from taxation pursuant to such property tax exemptions. The subsidy would be paid over a 12-month period beginning in July 2020 and continuing for each taxable year for which the locality is eligible.

The APA would be required to publish an annual list of localities certified as eligible localities and the percentage of tax exempt real estate in such localities. The APA would be required to certify such information in writing to the Governor and to the Chairmen of the Senate Committee on Finance and Appropriations and the House Committee on Appropriations and would be required to certify the amount of the state subsidy to be provided to such localities.

If enacted during the Regular Session of the 2020 General Assembly, this bill would become effective on July 1, 2020.

cc: Secretary of Finance

Date: 1/17/2020 SK
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