

DEPARTMENT OF TAXATION

2022 Fiscal Impact Statement

1. **Patron** Richard H. Stuart

2. **Bill Number** SB 360

3. **Committee** Senate Finance and Appropriations

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** State Subsidy of Property Tax Exemptions
for Disabled Veterans and Surviving
Spouses

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would require the Commonwealth to subsidize local real estate tax relief for disabled veterans and their surviving spouses and surviving spouses of members of the United States Armed Forces killed in action when more than one percent of a locality's real estate tax base is lost due to such tax relief programs. The Commonwealth would subsidize only that portion of tax-exempt real estate that exceeds the one percent threshold.

The bill requires the Auditor of Public Accounts (the Auditor) to establish an application process whereby a locality would demonstrate that more than one percent of its real estate tax base was lost. The Auditor would certify to the Governor and the General Assembly those localities that would be eligible for a subsidy, and the Governor would include in the Budget Bill a proposed appropriation of the amount of the state subsidy to be provided to localities certified as eligible localities.

If enacted during the regular session of the 2022 General Assembly this bill would become effective for taxable years beginning on and after January 1, 2022

6. **Budget amendment necessary:** Yes.

7. **Fiscal Impact Estimates are:** Preliminary (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would reduce state funds and increase local revenues by approximately \$12.6 million annually, beginning in Fiscal Year 2023. The bill would require an annual

appropriation of state funds to localities when more than one percent of a locality's real estate tax base is lost due to local real estate tax relief programs for disabled veterans and their surviving spouses, and surviving spouses of members of the United States Armed Forces killed in action.

Based on Tax Year 2020 survey data from 95 counties and 38 independent cities, a total 112 localities provided such tax relief in an aggregate amount of approximately \$69 million. Of those localities that provided such relief, 19 report that more than one percent of their tax base is lost due to such programs. The aggregate amount of taxes exceeding the one percent threshold reported by localities for Tax Year 2020 was \$12.6 million. This amount could fluctuate depending on a variety of factors, including growth in property values and changes in property ownership by qualifying military veterans and surviving spouses.

9. Specific agency or political subdivisions affected:

Auditor of Public Accounts

Department of Taxation

Localities that lose more than one percent of their tax base due to certain tax relief

10. Technical amendment necessary: No

11. Other comments:

Exemption for Surviving Spouses of Disabled Veterans

Article X, § 6-A of the *Virginia Constitution* and the *Virginia Code* exempt from real property taxation the principal residence of a disabled veteran or the widow or widower of such a veteran. The exemption applies to tax years beginning on or after January 1, 2011, and requires 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.

The surviving spouse of a veteran is eligible for the exemption so long as the death of the veteran occurred on or after January 1, 2011, and the surviving spouse does not remarry.

Exemption for Surviving Spouses of Members of the Armed Forces Killed in Action

Article X, Section 6-A of the *Virginia Constitution* and the *Virginia Code* exempt, for years beginning on or after January 1, 2015, from taxation the real property of the surviving spouse (i) of any member of the armed forces of the United States who was killed in action as determined by the U.S. Department of Defense and (ii) who occupies the real property as his principal place of residence. The determination of "killed in action" includes a determination by the U.S. Department of Defense of "died of wounds received in action." If such member of the armed forces of the United States is killed in action after January 1, 2015, and the surviving spouse has a qualified principal residence on the date that such member of the armed forces is killed in action, then the exemption for the surviving spouse begins on the date that such member of the armed forces is killed in action.

The surviving spouse of a member of the armed forces killed in action qualifies for the exemption so long as the surviving spouse does not remarry.

Proposal

This bill would require the Commonwealth to subsidize local real estate tax relief for disabled veterans and their surviving spouses and surviving spouses of members of the United States Armed Forces killed in action when more than one percent of a locality's real estate tax base is lost due to such tax relief programs. The Commonwealth would subsidize only that portion of tax-exempt real estate that exceeds the one percent threshold.

The bill requires the Auditor of Public Accounts (the Auditor) to establish an application process whereby a locality would demonstrate that more than one percent of its real estate tax base was lost. The Auditor would certify to the Governor and the General Assembly those localities that would be eligible for a subsidy, and the Governor would include in the Budget Bill a proposed appropriation of the amount of the state subsidy to be provided to localities certified as eligible localities.

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Similar Legislation

House Bill 957 would provide that beginning with Taxable Year 2022, any locality may declare real property owned by a surviving spouse of a member of the armed forces of the United States who died in the line of duty with a line of duty determination from the U.S. Department of Defense, a separate class of property for local taxation of real property. This class of property could be taxed at a different rate than that imposed on the general class of real property, provided that the rate of tax is greater than zero and does not exceed the rate of tax on the general class of real property.

House Bill 1168 would provide that a person who is eligible for the real property tax exemption for certain disabled veterans and surviving spouses is entitled to a refund, retroactive to his date of eligibility, of taxes paid during the period of exemption, excluding interest or penalties.

cc : Secretary of Finance

Date: 1/23/2022 SK
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