TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 935 - SB 1244

March 30, 2023

SUMMARY OF BILL: Expands property tax relief for disabled veterans and their surviving spouses. Removes the $175,000 property value limit for determining the extent of any property tax relief payments for a veteran who has acquired a disability rating of 100 percent for a permanent and total service service-connected disability, including a disability resulting from serving as a prisoner of war.

Extends property tax relief to a veteran who has acquired a combined disability rating of 100 percent, rather than 100 percent permanent total disability as a result of serving as a prisoner of war.

FISCAL IMPACT:

Increase State Expenditures – $180,500/FY23-24
Exceeds $12,706,100/FY24-25 and Subsequent Years

Other Fiscal Impact – Due to the lack of data concerning percentages of disability for veterans, a precise impact to state expenditures cannot be reasonably determined. Additionally, the extent of any permissive impact on local government expenditures cannot reasonably be estimated.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-5-704:
    - There shall be paid from the state's General Fund to certain disabled veterans or their eligible surviving spouses the amount necessary to pay or reimburse such taxpayers for all or part of the local property taxes paid for a given tax year on a property that the disabled veteran owned and used as their residence;
    - Such reimbursement shall be paid on the first $175,000 of the full market value of such property; and
    - A disabled veteran means a person who has:
        - Acquired in connection with such service a disability from paraplegia or permanent paralysis of both legs and lower part of the body resulting from traumatic injury or disease to the spinal cord or brain, or from legal blindness, or from loss or loss of use of two or more limbs from any service-connected cause;

        - Acquired 100 percent permanent total disability, as determined by the United States Veterans' Administration, and such disability resulting from having served as a prisoner of war; or
        - Acquired service-connected permanent and total disability or disabilities, as determined by the United States Department of Veterans' Affairs.
- The proposed legislation would:
    - Remove the $175,000 value limit for property tax relief for veterans with a disability rating of 100 percent for a permanent and total service-connected disability, including for a disability resulting from serving as a prisoner of war, so that such veterans would receive the full amount of local property taxes paid on a property owned and used as their residence; and
    - Extend property tax relief to veterans with a combined 100 percent disability rating, rather than just to veterans with 100 percent permanent total disability that resulted from serving as prisoner of war.
- The proposed legislation takes effect July 1, 2023 and applies to tax years beginning on or after that date; therefore, the first tax year that will be impacted is 2024.
- Given that property tax notices will be sent to taxpayers in late 2024 and paid by February 2025, the first fiscal year impact will be FY24-25.
- Based on information provided by the Comptroller of the Treasury (COT),
    - The majority of existing disabled veteran tax relief recipients have a service-connected permanent and total disability, but the percentages of disability are not provided by the United States Department of Veterans Affairs (Veterans Affairs), and therefore, are unknown at this time;
    - It is expected that under the proposed legislation, most disabled veteran recipients would qualify to have their total tax amount paid or reimbursed;
    - In FY21-22, there were 33,187 claims paid to disabled veterans and surviving spouses. The total tax amount was $38,395,652 and the total relief amount was $25,689,533;
    - If the total tax amount had been paid for all disabled veterans and surviving spouses, the total expenditure would have been $12,706,119 ($38,395,652 tax amount - $25,689,533 relief amount); and
    - Therefore, it is estimated that, beginning in FY24-25, there will be a recurring state expenditure exceeding $12,706,119.
- Extending property tax relief to veterans with a combined 100 percent disability rating, rather than a 100 percent permanent total disability that resulted from serving as prisoner of war, is expected to increase the number of veterans eligible for property tax relief; this would result in a corresponding increase to state expenditures.
- It is also expected that the proposed legislation would result in certain veterans that currently receive property tax relief being disqualified due to having a service-connected permanent and total disability that is not rated at 100 percent; this would result in a corresponding decrease in state expenditures.
- Due to the lack of data provided by Veterans Affairs concerning percentages of disability, any increase or decrease to state expenditures cannot be reasonably estimated.
- According to the COT, the proposed legislation will require modifications to the state's tax relief system.

- The COT's Division of Technology Solutions estimates that the system modifications would require the division to extend the contracts of one quality assurance tester and two software developers for the duration of six months resulting in a one-time cost of $180,480 [(960 hours x $60 per hour x 1 quality assurance tester) + (960 hours x $64 per hour x 2 developers)] in FY23-24.
- Certain local governments have adopted various forms of local supplemental tax relief programs.
- Removing the property value limit for certain disabled veterans and surviving spouses as well as extending relief to an additional group of veterans could also result in an increase in local government expenditures for these programs.
- Additionally, if certain veterans become disqualified from the property tax relief program, this could result in a decrease in local expenditures for these programs.
- However, the timing and extent of any permissive increase or decrease in expenditures will vary based on the approach and criteria for such programs.
- Any fiscal impact to local expenditures cannot reasonably be determined.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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