Economic Impact Statement

Montgomery County, Maryland

Bill 6-24 Property Tax Credit – Disabled Veterans

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 6-24 would have a positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By establishing a new property tax credit program for severely disabled, honorably discharged veterans of limited income, the Bill would reduce property tax liabilities for residents who otherwise would not receive the credit without the change in law. Holding all else equal, reduced property tax liabilities would reduce nondiscretionary household expenses, thereby increasing net household income for these recipients. In addition, based on OLO's review of impact evaluations on the economic impacts of property tax relief, the Bill may reduce mobility for certain disabled veterans and surviving spouses, which, in some cases, may prevent moves induced by mortgage foreclosure or property tax liens. Finally, because residents likely would use a portion of the property tax savings to spend on goods and services produced by County-based businesses, certain businesses' revenue and income would likely increase.

BACKGROUND AND PURPOSE OF BILL 6-24

Under Section 9-625 of the Tax-Property Article of the Maryland Code, Counties are authorized to establish a new property tax credit for severely disabled, honorably discharged veterans of limited income.[1]

The goal of Bill 6-24 is to "lighten the property tax burden" for disabled veterans and their families.[2] The Bill aims to do so by establishing the property tax credit for disabled veterans authorized under state law. If enacted, individuals who own homes would be eligible to receive a property tax credit if they are "an honorably discharged veteran who is at least 50 percent disabled, as certified by the U.S. Department of Veterans Affairs, and whose federal adjusted gross income does not exceed $100,000."[3] The amount of the credit would be:

- 50% of the County property tax imposed on the dwelling house if the disabled veteran's service-connected disability rating is at least 75% but not more than 99%; or
- 25% of the County property tax imposed on the dwelling house if the disabled veteran's service-connected disability rating is at least 50% but not more than 74%.[4]

The property tax credit would be granted each year the individual remains eligible. In addition, the Bill would require the County to grant the same credit amount to the surviving spouse of a deceased disabled veteran.[5]

The Council introduced Bill 6-24, Property Tax Credit – Disabled Veterans, on March 5, 2024.

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[1] Section 9-265 - Property Tax Credit for Disabled Veterans - Calculation - Application - Surviving Spouse, 9.

[2] "Councilmember Natali Fani-González to Introduce Bill to Reduce Property Taxes for Veterans with Severe Disabilities."

[3] "Introduction Staff Report for Bill 6-24."

[4] "Introduction Staff Report for Bill 6-24."

[5] "Introduction Staff Report for Bill 6-24."

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Bill 6-24 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.[6]

Methodology and Information Sources

To assess Bill 6-24's economic impacts, this analysis draws on Economic Impact Statements for previous legislation on property tax credits and *impact evaluations* to identify empirically well-established effects of property tax credits on economic outcomes. Impact evaluations are a core tool of evidence-based policymaking. They strive to answer cause-and-effect questions regarding the impact of a policy or program on a specific outcome(s).[7,8] In particular, this analysis focuses on the following peer-reviewed articles that were identified on the Google Scholar database:

- Hanson, Andrew (2021), "Taxes and Economic Development: An Update on the State of the Economics Literature," *Economic Development Quarterly*
- Kim, Jinyhup, and Casey Dawkins (2021), "Aging, Property Taxes, and Housing Adjustments: Lessons From the Health and Retirement Study," *Housing Policy Debate*
- Mouiton, Waller, and Wentland (2018), "Who Benefits from Targeted Property Tax Relief?" *Journal of Policy Analysis and Management*
- Spreen and Keddington (2023), "Temporary Property Tax Relief and Residential Home Sales," *National Tax Journal*

In later sections of this analysis, OLO reviews these studies to draw evidence-based conclusions regarding the impacts of property tax credits on specific outcomes. These conclusions, along with findings from other sources cited in this report, are the primary basis on which OLO infers the economic impacts that Bill 6-24 would have on businesses, residents, and overall economic conditions in the County.

Scope of Analysis

The economic impacts of Bill 6-24 largely depend on its effects on the total number of residents eligible to receive the property tax credit and the total amount of credits disbursed on an annual basis. Importantly, the County would use tax revenue to fund the property tax credits. The internal transfer from the County to the recipients of the property tax credit would not entail a net increase in the amount of economic activity in the County. For this reason, the Bill's total economic impact would depend on: (a) the per year economic impacts to County residents and businesses from reduced property tax liabilities of future recipients; and (b) the per year economic opportunity cost of the forgone County revenues.

Because OLO does not know how the forgone property tax revenues would otherwise be used in the absence of enacting Bill 6-24, this analysis does not account for the economic impacts of alternative government spending with the forgone

[6] Montgomery County Code, Sec. 2-81B.

[7] Gertler et al., *Impact Evaluation in Practice, Second Edition*.

[8] Priority is given to studies that use quasi-experimental methods over non-experimental studies because the former are better able to identify the causal effects of a policy intervention from outcomes correlated with, but unrelated to, the intervention due to unmeasured confounding and other threats to causal inference.

revenue. The scope of this analysis, therefore, is limited to the economic impacts of the reduced property tax liabilities for residents who otherwise would not receive the property tax credit in the absence of the change in law.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 6-24 are the following:

- total number of property tax credit recipients;
- total property tax savings for recipients;
- residential property values; and
- residential mobility.

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Impact Evaluations

While rising home values increase property wealth, they typically induce higher property tax liabilities for homeowners. Higher property taxes can be especially challenging for homeowners who have low incomes, depend on retirement or disability payments, etc. Homeowners may respond to higher property tax burdens by down-sizing to a smaller home or becoming renters in their current jurisdiction or relocating to a lower-tax jurisdiction.[9] To reduce the burden of housing costs, many states and local governments have enacted targeted property tax relief programs to help the poor, seniors, disabled, or veterans.[10]

There is a large literature on the economic impacts of property tax exemptions. The existing literature has largely focused on programs targeting seniors which are "permanent" and "portable across properties in the state or locality."[11] These studies have consistently found these programs have had two impacts:[12]

(1) Reduce senior homeowner mobility: This impact is significant because it suggests property tax relief may reduce home sales that occur under duress, namely tax lien sales or mortgage foreclosures.

It is worth noting that Spreen and Keddington (2023) examine whether the findings regarding permanent senior property tax relief programs extend to the *temporary* senior property tax relief programs in Maryland counties, including Montgomery County, which began in 2017.[13] They found that "the balance of the empirical results suggest that temporary [senior] property tax relief did not significantly affect the home sales decisions of eligible homeowners during the benefit period."[14]

[9] Spreen and Keddington, "Temporary Property Tax Relief and Residential Home Sales"; Kim and Dawkins, "Aging, Property Taxes, and Housing Adjustments."
[10] Mouiton, Waller, and Wentland, "Who Benefits from Targeted Property Tax Relief?"
[11] Spreen and Keddington, "Temporary Property Tax Relief and Residential Home Sales."
[12] Spreen and Keddington; Hanson, "Taxes and Economic Development"; Kim and Dawkins, "Aging, Property Taxes, and Housing Adjustments."
[13] DeFazio and Roblin, "Senior Property Tax Credits."
[14] Spreen and Keddington, "Temporary Property Tax Relief and Residential Home Sales."

(2) **Increase property values:** This impact is significant because it suggests that property tax relief may result in property tax capitalization. This occurs when property tax relief raises demand for homeownership among the beneficiaries, thereby raising home prices. This outcome "arbitrarily benefits current homeowners at the time of the policy change, whether or not they are part of the targeted group."[15] In contrast, "the corresponding homeownership cost hikes may potentially offset some or all of the tax relief benefit among future homeowners in the targeted groups, who subsequently purchase homes at higher prices."[16]

In the only study (to our knowledge) that examines the impacts of a tax relief program targeting disabled veterans, Mouiton et al (2019) examine Virginia's property tax relief targeting disabled veterans. They found that "areas with high proportions of veterans experienced an 8.1 percent increase in property prices, while areas with relatively fewer veterans report no statistically significant effect." This finding suggests that the impact of property tax relief on property values may depend on how many homeowners are eligible to receive it in a local housing market.

Residents

OLO anticipates that Bill 6-24 would have a positive impact on certain residents in the County in terms of the Council's priority economic indicators.

The Bill primarily would impact honorably discharged veterans who the U.S. Department of Veterans Affairs deems at lease 50 percent disabled, has a gross income is $100,000 or less, and owns a home in the County. Importantly, the property tax credit is permanent. As stated above, it would be granted each year a recipient remains eligible and surviving spouses of a deceased disabled veterans would continue to receive the credit.

It would reduce property tax liabilities for certain disabled veterans and their surviving spouses who otherwise would not receive the credit without the change in law. Holding all else equal, reduced property tax liabilities would reduce nondiscretionary household expenses, thereby increasing net household income for these recipients.

Furthermore, based on impact evaluations on the effect of permanent senior property tax relief on residential mobility, the Bill may reduce mobility for certain disabled veterans and surviving spouses. In some cases, the Bill may reduce moves induced by mortgage foreclosure or property tax liens, which would prevent costs associated with unwanted moves for certain recipients of the credit.

The Bill's potential impact on property values in local housing markets in the County is unclear. As previously discussed, findings from the impact evaluations suggest property tax relief programs increase home prices, but this effect may depend on how many homeowners receive it in each local housing market.

OLO does not know many residents who would meet these eligibility requirements.

It is beyond the scope of this analysis to assess the concentration of disabled veterans who would be eligible to receive the credit in local housing markets in the County. But if the concentration is insufficient to affect property values in local housing markets, the income benefits to future recipients would **not** be offset by higher home prices.

Beyond these potential impacts, OLO does not expect the Bill to affect residents in terms of the Council's other priority indicators.

[15] Mouiton, Waller, and Wentland, "Who Benefits from Targeted Property Tax Relief?"
[16] Mouiton, Waller, and Wentland.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Bill 6-24 would have positive impacts on certain private organizations in the County in terms of the Council's priority economic indicators.

It is likely these residents would use a portion of the property tax savings to spend on goods and services produced by County-based businesses. Holding all else equal, these businesses would experience increased revenue and income. However, it is worth noting the Bill may negatively impact certain residential real-estate firms if it reduce home sales among residents, as previously discussed.

Beyond these potential impacts, OLO does not expect the Bill to affect private organizations in terms of the Council's other priority indicators.

Net Impact

The Office of Legislative Oversight (OLO) anticipates that Bill 6-24 would have a positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By establishing a new property tax credit program for severely disabled, honorably discharged veterans of limited income, the Bill would reduce property tax liabilities for residents who otherwise would not receive the credit without the change in law. Holding all else equal, reduced property tax liabilities would reduce nondiscretionary household expenses, thereby increasing net household income for these recipients. In addition, based on OLO's review of impact evaluations on the economic impacts of property tax relief, the Bill may reduce mobility for certain disabled veterans and surviving spouses, which, in some cases, may prevent moves induced by mortgage foreclosure or property tax liens. Finally, because residents likely would use a portion of the property tax savings to spend on goods and services produced by County-based businesses, certain businesses' revenue and income would likely increase.

DISCUSSION ITEMS

Not applicable

WORKS CITED

"Councilmember Natali Fani-González to Introduce Bill to Reduce Property Taxes for Veterans with Severe Disabilities," March 4, 2024.

DeFazio, Blaise, and Stephen Roblin. "Senior Property Tax Credits." Office of Legislative Oversight, Montgomery County Council, July 25, 2023.

Gertler, Paul J., Sebastian Martinez, Patrick Premand, Laura B. Rawlings, and Christel M. J. Vermeersch. *Impact Evaluation in Practice, Second Edition*. Washington, DC: Inter-American Development Bank and World Bank, 2016.

Hanson, Andrew. "Taxes and Economic Development: An Update on the State of the Economics Literature." *Economic Development Quarterly* 35, no. 3 (August 1, 2021): 232–53.

"Introduction Staff Report for Bill 6-24, Property Tax Credit - Disabled Veterans." Montgomery County Council, March 5, 2023.

Kim, Jinyhup, and Casey Dawkins. "Aging, Property Taxes, and Housing Adjustments: Lessons From the Health and Retirement Study." *Housing Policy Debate* 31, no. 6 (November 2, 2021): 947–66.

Montgomery County Code. Sec. 2-81B, Economic Impact Statements.

Mouiton, Jeremy G., Bennie D. Waller, and Scott A. Wentland. "Who Benefits from Targeted Property Tax Relief? Evidence from Virginia Elections." *Journal of Policy Analysis and Management* 37, no. 2 (April 1, 2018): 240–64.

Section 9-265 - Property Tax Credit for Disabled Veterans - Calculation - Application - Surviving Spouse, Maryland Code, Tax-Property § (2020).

Spreen, Thomas Luke, and Colton Keddington. "Temporary Property Tax Relief and Residential Home Sales." *National Tax Journal* 76, no. 3 (September 2023): 593–620.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration.

AUTHOR

Stephen Roblin (OLO) prepared this report.