

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 131
STATE OF NEW JERSEY
220th LEGISLATURE

DATED: JANUARY 28, 2022

SUMMARY

- Synopsis:** Makes total property tax exemption for 100% disabled veterans retroactive to effective date of determination of total disability; requires State to reimburse municipalities for reimbursement of property taxes paid to veteran.
- Type of Impact:** Annual State cost increases; annual local revenue increases.
- Agencies Affected:** Department of the Treasury and municipalities.

Office of Legislative Services Estimate

Fiscal Impact	<u>Fiscal Year 2022 & Thereafter</u>
State Cost Increase	Indeterminate
Local Revenue Increase	Indeterminate

- The Office of Legislative Services (OLS) concludes that the bill will result in an indeterminate increase in annual State costs. An estimate of the increase is not possible due to a lack of information regarding the total amount of property taxes that will be refunded by municipalities, and subsequently reimbursed by the State, in a given year to totally disabled veterans for taxes paid during the period that will be exempt retroactively from taxation under this bill.
- Annual State costs will increase by an indeterminate amount equal to 102 percent of the amount of property taxes that municipalities refund to totally disabled veterans as the bill requires the State to provide reimbursement for these refunds plus an additional two percent for the administrative costs incurred by a municipality.
- The additional two percent of total refunds paid by the State to a municipality to administer the refund represents a local revenue increase.

BILL DESCRIPTION

The bill provides that the existing property tax exemption extended to totally and permanently disabled veterans is to be retroactive to the effective date of the determination of the veteran's total

disability by the United States Department of Veterans Affairs (VA). Under current law, the exemption applies only from the time a proper claim for the exemption has been made to a municipality by a totally disabled veteran or surviving spouse. Municipalities, however, are authorized to backdate the exemption to the date of the VA determination. The bill requires that the municipality return all property taxes collected after the effective date of the VA determination of total disability. The State is required to reimburse municipalities for property taxes returned to a totally disabled veteran or surviving spouse plus two percent for administrative costs.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS concludes that the bill will result in an indeterminate increase in annual State costs to reimburse municipalities for 102 percent of the amount of property tax revenue the municipalities will forgo from the bill accelerating the effective date of the existing property tax exemption for totally and permanently disabled veterans. Municipalities, in turn, will experience an indeterminate annual net increase in their revenues equal to two percent of the amount of property tax revenue they will forgo from the accelerated effective date of the property tax exemption. An estimate of these increases is not possible due to a lack of information regarding the amount of property taxes that will be refunded by municipalities, and subsequently reimbursed by the State, in a given year to totally disabled veterans under this bill.

Current law permits a municipality, by resolution, to provide a refund for property taxes paid which would have been exempt had a proper claim for exemption been made or from the time of the veteran's actual disability or death. Although the resolution includes information on the amount of property taxes to be refunded, the number and amount of refunds are not compiled on a Statewide basis, hindering a full accounting of the potential value of the retroactive property tax exemption and the associated State cost and local government revenue increases.

According to the New Jersey Division of Taxation, approximately 14,000 disabled veterans and surviving spouses received the full property tax exemption in calendar year 2021. The OLS can use these data to illustrate, but not forecast, the potential fiscal impact of the bill. Under a hypothetical scenario in which five to ten percent of these veterans (700 to 1,400 taxpayers) are approved for the retroactive exemption and receive refunds, and the average refund is equal to six months to a year of property tax payments (estimated at \$4,672 to \$9,344 for calendar year 2022), the total State cost to provide reimbursements to municipalities, including the additional two percent required by the bill for administrative costs, would range from \$3.3 million to \$13.3 million annually. The additional two percent paid by the State to a municipality to administer the refund represents the local government net revenue increase under the bill.

The OLS notes that it can take months or even years for a veteran to receive a VA determination of total disability. During this time and until the municipality receives a proper claim for the exemption, a veteran or surviving spouse is required to pay property taxes. All else being equal, a longer determination period will increase the amount of property taxes refunded to a veteran and ultimately result in higher costs to the State to provide the reimbursement.

Section: Revenue, Finance, and Appropriations

*Analyst: Scott A. Brodsky
Principal Fiscal Analyst*

*Approved: Thomas Koenig
Legislative Budget and Finance Officer*

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).