

LEGISLATIVE FISCAL ESTIMATE

SENATE, No. 1641

STATE OF NEW JERSEY

219th LEGISLATURE

DATED: OCTOBER 21, 2021

SUMMARY

Synopsis: Authorizes proportional property tax exemption for honorably discharged veterans having a service-connected disability.

Type of Impact: Loss of property tax revenues.

Agencies Affected: Local government units.

Office of Legislative Services Estimate

Fiscal Impact		<u>CY 2022</u>	<u>CY 2023</u>	<u>CY 2024</u>
Annual	Local	\$147.4 million to	\$150.0 million to	\$152.6 million to
Revenue	Loss	\$189.5 million	\$192.9 million	\$196.2 million

- The Office of Legislative Services (OLS) estimates that the expansion of eligibility for the disabled veterans’ property tax exemption proposed by the bill will result in property tax revenue losses to local units totaling \$147.4 million to \$189.5 million in calendar year 2022. Local units would lose an additional \$2.6 million to \$3.4 million in calendar year 2023 and a further \$2.6 million to \$3.3 million in calendar year 2024.
- Using data compiled by the United States Department of Veterans Affairs (VA), the OLS estimates that there will be approximately 48,000 veterans living in New Jersey with a disability rating of 10 percent to 90 percent in calendar year 2022. The OLS estimates that approximately 70 percent to 90 percent of that population (approximately 33,600 to 43,200 veterans) will file a claim for a proportional property tax exemption.
- Although the estimated Statewide revenue loss for calendar year 2022 represents about one-half of one percent of the Statewide property tax levy for 2020 (\$30.8 billion), the impact on the tax rates of individual local units will vary based on the number of disabled veterans and surviving spouses living in a municipality, the amount of proportional property tax exemptions granted within each taxing district, and the amount of property taxes levied on those homes. Local government units may compensate for their reduced tax base by increasing rates on the remaining property tax base.

BILL DESCRIPTION

The bill revises the current veterans' total property tax exemption, which is provided to totally disabled, honorably-discharged veterans who received a 100 percent disability rating because they incurred a service-related disability during their service in the United States Armed Forces. Under current law, veterans who do not receive a 100 percent disability rating, but who were partially disabled during their service, are not eligible to receive a proportional property tax exemption. The bill allows all honorably-discharged veterans who received a service-related permanent disability resulting from their service in the United States Armed Forces to receive a property tax exemption in the proportional amount of their service-related disability, as declared by the VA.

A veteran who is determined by the VA to have a 100 percent service-related disability would still receive a total property tax exemption under current law. However, a veteran who incurred a service-related, permanent disability and receives a disability rating of less than 100 percent, as determined by the VA, would be eligible under the bill for a partial property tax exemption. The amount of the exemption would be equal to their disability rating. For example, a veteran who receives a disability rating of 10 percent would be exempted from paying 10 percent of their total property tax bill for the current tax year.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that enactment of the bill would result in revenue losses to local government units (i.e., counties, municipalities, and school districts) of \$147.4 million to \$189.5 million in calendar year 2022, an additional \$2.6 million to \$3.4 million in calendar year 2023, and a further additional \$2.6 million to \$3.3 million in calendar year 2024. Local government units would experience revenue losses in the form of property taxes that are not paid by permanently disabled veterans and their surviving spouses who are granted a proportional property tax exemption. Local government units may compensate for their reduced tax base by increasing rates on the remaining property tax base.

The OLS has used data on the number of veterans who receive disability compensation in Federal Fiscal Year (FFY) 2015 through 2020 to project the number of New Jersey veterans who may be eligible for a proportional property tax exemption. Based on the VA data, there are approximately 4.4 million veterans nationwide who will have a disability rating of 10 percent to 90 percent in FFY 2022. Projections based on the VA data also indicate that New Jersey veterans will constitute 1.09 percent of that total, or about 48,000 veterans. If the bill is enacted into law, the OLS estimates that approximately 33,600 to 43,200 disabled veterans are property taxpayers and thus would be eligible to file a claim for a proportional property tax exemption.

Current law allows the surviving spouse of a 100 percent totally and permanently disabled veteran to file a claim for the full property tax exemption. The bill extends that right to the surviving spouse of disabled veteran who was eligible for a proportional property tax exemption. It is conceivable that local government units will sustain revenue losses over an extended period of time if a surviving spouse receives the proportional property tax exemption for several years

following the death of a partially disabled veteran. The OLS notes that the total cost of proportional property tax exemptions will rise if disability ratings are increased in future years.

The OLS used the VA data on the number of veterans receiving disability compensation and property tax data from the Division of Local Government Services (DLGS) in the Department of Community Affairs to estimate the total local revenue loss that may result from enactment of the bill. According to the DLGS, the average residential property tax bill has increased by 1.76 percent per year since 2015. By applying that rate of increase to the average residential property tax bill for 2020 (\$9,115), the OLS estimates that the average residential property tax bill in 2022 will be \$9,439. To estimate the total cost of providing proportional property tax exemptions to partially disabled veterans, the OLS multiplied the projected average residential property tax bill for 2022 (\$9,439) by each disability rating (i.e., 10 percent, 20 percent, etc.). The result of that calculation was multiplied by the number of veterans who fall within each disability rating category. The chart below shows the amount, by disability rating, of property taxes that would not be collected in 2022 if 70 percent to 90 percent of eligible veterans file a claim for a proportional property tax exemption.

Total Estimated Amount of Proportional Property Tax Exemptions in 2022
(Based on Estimated Average Residential Property Tax Bill of \$9,439)

Disability Rating	Estimated Number of Participating Veterans (70% of Population)	Estimated Number of Participating Veterans (90% of Population)	Total Cost of Exemptions at 70% Participation Rate	Total Cost of Exemptions at 90% Participation Rate
10%	7,157	9,202	\$6,755,669.36	\$8,685,860.61
20%	3,392	4,361	\$6,402,914.64	\$8,232,318.82
30%	3,060	3,934	\$8,664,495.68	\$11,140,065.88
40%	3,021	3,884	\$11,404,566.86	\$14,663,014.53
50%	2,402	3,088	\$11,336,361.69	\$14,575,322.17
60%	3,482	4,477	\$19,721,547.41	\$25,356,275.25
70%	3,879	4,987	\$25,626,413.75	\$32,948,246.25
80%	3,818	4,909	\$28,831,725.48	\$37,069,361.34
90%	3,374	4,377	\$28,658,976.70	\$36,847,255.75
Totals	33,584	43,179	\$147,402,671.57	\$189,517,720.59

Property tax data compiled by the DLGS indicate that for 2020, the property tax levy for school purposes accounted for about 53 percent of the total property tax levy while the county and municipal property tax levies account for 18 percent and 30 percent, respectively, of the total levy. Based on those proportions, school districts would lose approximately \$77.6 million to \$99.8 million, municipalities would lose approximately \$43.5 million to \$55.9 million, and counties would lose \$26.3 million to \$33.8 million. Although the estimated Statewide revenue loss for calendar year 2022 represents about one-half of one percent of the total property tax levy for 2020, the impact on the tax rates of individual local units will vary based on the number of disabled veterans and surviving spouses living in a municipality, the amount of the proportional property tax exemption, and the amount of property taxes levied on their homes.

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.).