Local Government Mandate Statement Kentucky Legislative Research Commission 2021 Regular Session

Part I: Measure Information

Bill Request #: 153								
Bill #: HB 14 HCS 1								
Document ID #: 3819								
Bill Subject/Title: AN ACT relating to property taxes for veteran service organizations.								
Sponsor: Representative Matthew R Koch								
Unit of Government: X City X County X Urban-County Unified Local X Charter County X Consolidated Local X Government								
Office(s) Impacted: Property Valuation Administrator								
Requirement: X Mandatory Optional								
Effect on Powers & Duties: Modifies ExistingX Adds New Eliminates Existing								

Part II: Bill Provisions and the Estimated Fiscal Impact Relating to Local Government

This bill creates a property tax exemption for property owned by veteran service organizations that are wholly dedicated to advocating on behalf of military veterans and providing charitable programs in honor and on behalf of military veterans.

The Kentucky Department of Veterans Affairs' website lists the following seven veteran service organizations as being located within Kentucky: Veterans of Foreign Wars, Vietnam Veterans of America, AMVETS, The American Legion, Disabled American Veterans, Paralyzed Veterans of America, and Marine Corps League Detachment 729.

Last year, the Kentucky Department of Veterans Affairs provided a list of the real property taxes paid by some of the veteran service organizations located in Kentucky. While the list did not include all of the veteran service organizations, it did provide the following data, along with an estimate that the total real property taxes paid by three of the organizations is approximately \$299,000 a year.

Veterans of Foreign Wars

90 posts located in Kentucky

70 of those posts own property

Total tax paid is approximately \$145,365 (100% reporting)

American Legion

127 posts located in Kentucky 79 of those posts own property

Total tax paid is approximately \$105,547 (90% reporting)

AMVETS

27 posts located in Kentucky
7 of those posts own property
Total tax paid is approximately \$23,847 (90% reporting)

\$25,000 in unreported

The \$299,000 estimate includes both state and local taxes. A majority of the taxes collected for real property are local taxes. The state tax rate for real property is 12.2 cents per \$100 in assessed valuation. Average local real property tax rates total \$1.33 per \$100 in assessed valuation. Therefore, of the \$299,000 estimate, approximately \$275,000 would be local revenues.

To qualify for the property tax exemption, over fifty percent of the veteran service organization's annual net income must be expended on behalf of military veterans and other charitable causes. Currently, the charitable activities of veteran service organizations are not tracked. Therefore, it is unknown how many of these organizations would qualify for the exemption, and **the fiscal impact on local revenues cannot be accurately determined.**

Property tax assessments are figured into the annual computation of property tax rates (performed as a result of "House Bill 44"). Local taxing jurisdictions are allowed to impose a compensating tax rate on real property, which is the rate that will generate approximately the same amount of revenue as was collected in the prior year. The effect of this rate calculation is that if the total assessment of taxable real property within a jurisdiction is reduced, a local taxing jurisdiction may impose a higher compensating tax rate, which would be applied to all taxable real property. Therefore, a locality could possibly mitigate a reduction in revenues by levying the compensating tax rate, effectively shifting the tax burden to other properties. The unintentional consequence of shifting the tax burden may result in an increase in tax collection issues, especially in counties that already have a struggling economy. An increase in unpaid tax bills will result in decreased revenues for local taxing jurisdictions.

This bill is expected to have a minimal impact on local expenditures, as a verification method will need to be developed and administered to confirm that over fifty percent of

the organization's annual net income is be expended on behalf of military veterans and other charitable causes.

Part III: Differences to Local Government Mandate Statement from Prior Versions

HB 14 HCS 1 excludes real property which is owned by a veteran service organization and occupied by another entity or person for compensation from the ad valorem tax exemption. Since this amendment is a clarification of the exemption and the fiscal impact on local revenues of the exemption cannot be accurately determined, the fiscal impact on local revenues from HB 14 HCS 1 also cannot be accurately determined.

This amendment is expected to have a minimal impact on local expenditures, as a verification method will need to be developed and administered to confirm that the veteran service organization does not allow another entity or person to occupy the real property for compensation.

Data Source(s):		LRC A&R	LRC Economi	sts; K	<u>entucky</u>	Department of	Veterans	<u>Affairs</u>
Preparer:	Cynthia	a Brown	Review	er:	KHC		Date:	2/3/21