# NORTH CAROLINA GENERAL ASSEMBLY

## 2025 Session

## Fiscal Analysis Memorandum

## CONFIDENTIAL

**Requestor:** Rep. Howard, Rep. Setzer, and Rep. N. Jackson
**Analyst(s):** Brent Lucas
**RE:** House Finance PCS to HB 118-Disabled Veterans Tax Relief Bill (v.2)

## SUMMARY TABLE

**FISCAL IMPACT OF PCS TO H.B. 118, V.2 ($ in millions)**

| | FY 2025-26 | FY 2026-27 | FY 2027-28 | FY 2028-29 | FY 2029-30 |
|---|---|---|---|---|---|
| **State Impact** | | | | | |
| General Fund Revenue | - | (4.5) | (4.6) | (4.7) | (4.8) |
| Less Expenditures | - | - | - | - | - |
| **General Fund Impact** | **-** | **(4.5)** | **(4.6)** | **(4.7)** | **(4.8)** |
| **NET STATE IMPACT** | **-** | **(4.5)** | **(4.6)** | **(4.7)** | **(4.8)** |
| **Local Impact** | | | | | |
| Local Revenue | - | (4.5) | (4.6) | (4.7) | (4.8) |
| Less Local Expenditures | - | - | - | - | - |
| **NET LOCAL IMPACT** | **-** | **($4.5)** | **($4.6)** | **($4.7)** | **($4.8)** |

## FISCAL IMPACT SUMMARY

Qualifying veterans in the State with a 100% total and permanent service-connected disability rating are eligible to have the first $45,000 of the appraised value of their home excluded from property tax. The bill would increase this exclusion by $16,000, to $61,000. Since property tax is paid only to local governments in North Carolina, this increase is estimated to reduce local government revenues by about $9 million per year beginning in FY 2026-27, absent a reimbursement or hold harmless mechanism. The bill provides for such a reimbursement mechanism—local governments would assume 50% of the decrease in property tax revenues associated with increasing the exclusion amount, and the State would reimburse them for the remaining 50% loss. With this adjustment, the bill is estimated to reduce local government revenues by about $4.5 million per year beginning in FY 2026-27 and to reduce State General Fund revenue by about $4.5 million in the same period.

## Fiscal Analysis

State law provides a property tax benefit for veterans with a 100% total and permanent service-connected disability rating. Qualifying veterans meeting the statutory requirements are currently eligible to have the first $45,000 in the appraised value of their primary residence excluded from property tax. The bill would increase this by $16,000, to $61,000.

Approximately $2.4 billion in residential property valuations were excluded from taxation due to the current disabled veteran exclusion in FY 2023-24. According to data from the U.S. Department of Veterans Affairs (V.A.), the number of 100% disabled veterans with a service-connected disability in North Carolina has increased sizably in recent years, from approximately 47,000 in 2020 to nearly 75,000 in 2023.

Estimated Total Reduction in Local Revenues. FRD used an average of the results of three methods to estimate the loss to local governments, absent a hold harmless or reimbursement provision (discussed later in this document).

- The first method used the estimated number of veterans currently receiving the exclusion in each respective county. FRD calculated the number of veterans receiving the current exclusion by dividing each county's current exclusion valuations by the current exclusion amount ($45,000). FRD then determined the tax due on the additional $16,000 exclusion for each local government using its respective local tax rates. Using this method, each eligible veteran is estimated to pay, on average, around $100 less in property tax under the PCS to H.B. 118. FRD then multiplied each local government's additional tax that would be foregone by its number of veterans currently receiving the exclusion. FRD then compared the amount local governments do not receive because of the current exclusion to the estimated loss under the bill. Each local government's total current tax foregone was then subtracted from its total tax foregone under the bill to obtain a net figure. Using this method, FRD estimates the bill would reduce local governments' revenues by approximately $8.8 million per year beginning in FY 2026-27.

- For the second method, FRD used V.A. data on the number of disabled veterans in each local government. V.A. data indicate there were approximately 75,000 veterans with a service-connected disability rating of 100% in 2023. According to the National Association of Realtors, approximately 77% of veterans own a home. FRD adjusted the number of 100% disabled veterans per local government given this homeownership rate and multiplied each one's estimated tax lost per veteran by both the current and proposed exclusions. After subtracting the current exclusion value from the proposed exclusion value, FRD estimates local government revenues would be reduced by approximately $8.8 million per year beginning in FY 2026-27 using this method.

- The third method is based on information from the N.C. Association of Assessing Officers (the Association) and the Department of Revenue (DOR). The Association surveyed county assessor's offices in late summer 2025 on the expected fiscal impact of the bill given the number of properties in their jurisdictions currently in the disabled veteran Homestead exclusion program. For the counties that did not reply to the survey, DOR imputed estimates by calculating the percentage of the respondents' additional revenue loss to total valuations in the exclusion program and using the median value. Next, DOR identified either the estimated loss the local government provided or the imputed value for those that did not respond to the survey. Finally, DOR applied an adjustment factor to account for cities and towns. Using this method, FRD estimates the bill would reduce local governments' revenues by about $9 million per year beginning in FY 2026-27.

Taken together, these methods suggest the bill would reduce local government revenues by an estimated $9 million in the first year of the bill's implementation, absent any type of reimbursement or hold harmless. All estimates are adjusted for anticipated changes in the values of existing homes and assume local tax rates remain the same.

Local Government Partial Reimbursement. As discussed earlier, FRD estimates the total fiscal impact to be about $9 million annually; local governments would absorb this entire reduction if not for a hold harmless or reimbursement mechanism in the bill.

The bill would require the State to reimburse local governments for 50% of their revenue loss due to the increased property tax exclusion amount. Also, the bill specifies that the source of funds for reimbursement would be from Article 4, Part 2, of Chapter 105 of the General Statutes, which is Individual Income Tax collections.[1] With the bill's reimbursement requirement—and local governments and the State each assuming 50% of the lost revenue amount—this means:

- The actual loss to local governments would be about $4.5 million annually beginning in FY 2026-27, and
- The State's General Fund would also be reduced by about $4.5 million annually beginning in FY 2026-27.

## TECHNICAL CONSIDERATIONS

N/A.

## DATA SOURCES

National Association of Realtors; N.C. Association of Assessing Officers; NC Department of Revenue; Moody's Analytics; U.S. Department of Veterans Affairs.

## FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.

[1] N.C.G.S. Chapter 105 Article 4, Part 2.