

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE
Revised

House Bill 391 (Delegate Leopold, *et al.*)
 Ways and Means

Property Tax - Homeowners' Property Tax Credit - Computation

This bill alters the calculation of total real property tax for the Homeowners' Property Tax Credit Program.

The bill takes effect July 1, 2004 and applies to all taxable years beginning after June 30, 2004.

Fiscal Summary

State Effect: General fund expenditures could increase by \$500,000 in FY 2005. Future year expenditures reflect higher State and local tax rates. No effect on revenues.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	500,000	505,000	510,100	515,200	520,300
Net Effect	(\$500,000)	(\$505,000)	(\$510,100)	(\$515,200)	(\$520,300)

Note :() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: If a property is currently receiving a Homestead Tax Credit, the amount of the Homestead Tax Credit is subtracted from the maximum assessment against which the Homeowners' Property Tax Credit may be granted. The current maximum

assessment against which the Homeowners' Property Tax Credit may be granted is \$150,000.

Background: The Homeowners' Property Tax Credit Program is one of the State's major property tax relief systems. The State Department of Assessments and Taxation (SDAT) processes all applications for the program. This program (which was called "circuit breaker" in its earliest days in 1975) uses a graduated formula to compare a property tax "limit" calculated for the individual homeowner's household income level to the person's actual property tax bill. Any homeowner who files by May 1 of each year is guaranteed to receive any credit due as a direct deduction from the July 1 tax bill.

In fiscal 2003, SDAT received 68,946 applications for the credit and issued actual tax credits to 52,583 applicants. The average credit received statewide was \$756. The total amount of tax credits reimbursed to local governments equaled \$39.6 million.

The proposed fiscal 2005 State budget assumes that \$37.7 million in credits will be issued, with the average credit received being \$784.

The department subtracted the Homestead Tax Credit from the total assessed value from 1977 until 1995 when a legislative auditor instructed SDAT to change the department's policy and to subtract the Homestead Tax Credit from the \$150,000 maximum assessment.

State Fiscal Effect: The bill changes the calculation of total real property tax for the Homeowners' Property Tax Credit so that the Homestead Tax Credit amount is subtracted from the total assessment.

If the bill had been in effect for fiscal 2003, SDAT estimates that 3,437 accounts statewide would have received \$489,581 in additional Homeowners' Property Tax Credits. As a result, between 3,000 and 3,500 real property accounts may receive additional Homeowner's Property Tax Credits, which could result in an expenditure increase of \$500,000 in fiscal 2005. In future years, expenditures could increase as a result of higher State and local tax rates.

The number of applicants in the Homeowners' Property Tax Credit Program has decreased in the last few years. For the past three years, SDAT has had over 2,100 prior year credit recipients sell their homes each year and not buy a replacement home in Maryland. To the extent that this trend continues, the revenue loss associated with the bill would be lessened.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2004
mh/hlb Revised - Clarification - February 25, 2004

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510