

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 9 (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 by subtracting the homestead tax credit amount from the total assessment.

The bill takes effect June 1, 2005 and applies to all taxable years beginning after June 30, 2005.

Fiscal Summary

State Effect: General fund expenditures could increase by \$1.5 million in FY 2006. Future year expenditures reflect assessment growth. No effect on revenues.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	1.5	1.5	1.5	1.5	1.6
Net Effect	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.6)

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 68,625 applications for the credit and issued actual tax credits to 52,262 applicants. The average credit received statewide was \$756. The total amount of tax credits reimbursed to local governments equaled \$39.5 million. In fiscal 2004, SDAT received 63,728 applications for the credit and issued actual tax credits to 49,840 applicants. The average credit received statewide was \$812. The total amount of tax credits reimbursed to local governments equaled \$40.5 million.

The proposed fiscal 2006 State budget assumes that \$39.7 million in credits will be issued, with the average credit received being \$851.

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 3,484 accounts statewide would have received \$519,780 in additional Homeowners' Property Tax Credits; if it had been in effect for fiscal 2004, 6,455 accounts statewide would have received approximately \$1.4 million in additional Homeowners' Property Tax Credits.

Based on this information, general fund expenditures could increase by approximately \$1.5 million in fiscal 2006 due to the change proposed in this bill.

The number of applicants in the Homeowners' Property Tax Credit Program has decreased in the last few years. SDAT indicates that in fiscal 2003, 2,187 recipients of the tax credit transferred property. Of those homeowners, only 84 filed an application for the tax credit in fiscal 2004. To the extent that this trend continues, the revenue loss associated with the bill would be lessened.

Additional Information

Prior Introductions: This bill was introduced as HB 391 in the 2004 session. No action was taken by the House Ways and Means Committee.

Cross File: None.

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

Fiscal Note History: First Reader - February 21, 2005
mp/hlb

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