Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

House Bill 366 (Delegate Krebs, *et al.*)
Ways and Means

State Property Tax - Homeowner's Property Tax Assessment Cap Reduction

This bill reduces the percentage used to determine the Homestead Property Tax Credit for State property tax purposes from 10% to 5%, thereby limiting annual State property tax assessment increases, on owner-occupied residential properties to 5%.

The bill takes effect October 1, 2010, and applies to all taxable years beginning after June 30, 2011.

Fiscal Summary

State Effect: Special fund revenues decrease by $2.6 million in FY 2012. This decrease may require either (1) an increase in the State property tax rate; or (2) a general fund appropriation to cover debt service on the State's general obligation bonds. Future year revenues reflect estimated assessments and the cap imposed by the bill.

($ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	$0	($2.6)	($11.2)	($5.6)	$0
Expenditure	0	0	0	0	0
Net Effect	$.0	($2.6)	($11.2)	($5.6)	$.0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The cap on property assessment increases is set at 10% for State property tax purposes. A county or municipality can lower the cap percentage to 0% for local property tax purposes.

Background: The Homestead Tax Credit Program (assessment caps) provides tax credits against State, county, and municipal real property taxes for owner-occupied residential properties for the amount of real property taxes resulting from an annual assessment increase that exceeds a certain percentage or "cap" in any given year. The State requires the cap on assessment increases to be set at 10% for State property tax purposes; however, local governments have the authority to lower the cap.

A majority of local subdivisions have assessment caps below 10%: 19 counties in fiscal 2009 and 20 counties in fiscal 2010 and fiscal 2011. **Exhibit 1** lists the assessment caps for each county. Due to the continuing changes in property assessments, two counties – Harford and Prince George's lowered their assessment cap for fiscal 2011.

The Homestead Tax Credit Program is administered as follows:

- Increases in property assessments are equally spread out over three years. For example, if a property's assessment increased by $120,000, from $300,000 to $420,000, the increase would be phased in through increments of $40,000 annually for the next three years.

- If the assessment cap were set at 10%, however, the amount of assessment subject to taxes would increase by only $30,000 in the first year, $33,000 in the following year, and $36,300 in the third year.

- Since the assessment cap was set lower than the actual market increase, the homeowner does not have to pay taxes on the property's full assessed value.

Exhibit 1
Homestead Assessment Caps for Maryland Counties

County	FY 2009	FY 2010	FY 2011
Allegany	10%	7%	7%
Anne Arundel	2%	2%	2%
Baltimore City	4%	4%	4%
Baltimore	4%	4%	4%
Calvert	10%	10%	10%
Caroline	5%	5%	5%
Carroll	7%	7%	7%
Cecil	8%	8%	8%
Charles	7%	7%	7%
Dorchester	5%	5%	5%
Frederick	5%	5%	5%
Garrett	5%	5%	5%
Harford	9%	9%	5%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George's	3%	5%	0%
Queen Anne's	5%	5%	5%
St. Mary's	5%	5%	5%
Somerset	10%	10%	10%
Talbot	0%	0%	0%
Washington	5%	5%	5%
Wicomico	10%	10%	10%
Worcester	3%	3%	3%

Source: State Department of Assessments and Taxation

State Fiscal Effect: The bill lowers the State Homestead Tax Credit percentage from 10% to 5%. As discussed above, the Homestead Tax Credit caps property tax liability at 10% of the assessment increase. As a result of the bill, revenues decrease by approximately $2.6 million in fiscal 2012 for the Annuity Bond Fund. Current estimates assume decreasing property tax assessments over the next couple of years followed by a period of level assessments. As a result, it is estimated that the gap between the estimated assessable base loss at a 10% homestead cap and a 5% homestead cap will close, so that by fiscal 2015, there will be no revenue loss associated with reducing the cap to 5%. However, to the extent that property assessments vary in future years from what is estimated in this fiscal note, the effect of a lower cap on State property tax revenues will vary accordingly.

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2011 State budget includes $833.4 million for general obligation debt service costs, all of which are special funds from the Annuity Bond Fund.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

Future year revenue losses increase as a result of the difference between estimated assessments with a 10% cap and the 5% cap imposed by the bill. **Exhibit 2** outlines the impact on special fund revenues.

Exhibit 2
Impact on State Revenues
Capping the Homestead Property Tax Credit Percentage at 5%
($ in Millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Assessable Base Loss					
10% Homestead Cap	$32,797.7	$28,687.4	$5,000.0	$0.0	$0.0
5% Homestead Cap	n/a	31,000.0	15,000.0	5,000.0	0.0
State Tax Rate	$0.112	$0.112	$0.112	$0.112	$0.112
Revenue Decrease	**$0**	**($2.6)**	**($11.2)**	**($5.6)**	**($0.0)**

Note: Estimate assumes no change in current property tax rate.
Source: State Department of Assessments and Taxation; Department of Legislative Services

Additional Information

Prior Introductions: HB 156 of 2009, HB 189 of 2008 and HB 9 of 2007 received a hearing in the House Ways and Means Committee, but no further action was taken on any of the bills. SB 446 of 2009 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Department of Legislative Services

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