

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE

House Bill 397 (Delegates Otto and McDermott)
Ways and Means

Somerset County - Property Tax Credit for Assessment Increases - Extension

This bill extends the termination date from June 30, 2011, to June 30, 2014, of a local property tax credit for assessment increases in Somerset County.

The bill takes effect June 1, 2011.

Fiscal Summary

State Effect: None.

Local Effect: Somerset County property tax revenues may decrease by \$5,200 in FY 2012 and by \$1,300 in FY 2014. County expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: Chapter 280 of 2008 authorized Somerset County, or a municipality in the county, to grant a property tax credit for real property that has an annual taxable assessment increase of at least 20% from the previous taxable year and that does not qualify for a homestead property tax credit. The property tax credit would limit the annual increase in property assessments to 20%. The county or municipal government may provide, by law, for the amount and duration of the tax credit, additional eligibility criteria for the tax credit, regulations and procedures for the application and uniform processing of the tax credit, and any other provision necessary to carry out the tax credit.

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%: 20 counties in fiscal 2010, 2011, and 2012. **Exhibit 1** lists county assessment caps for fiscal 2010 through 2012. Due to the continuing changes in property assessments and/or other factors, two counties (Carroll and Queen Anne’s) lowered their assessment cap for fiscal 2012, and one county (Prince George’s) increased their assessment cap for 2012.

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.

The extent to which the Homestead Tax Credit Program may actually restrict the ability of a county to raise property tax revenues depends on the county’s need for revenues from the property tax and other legal and practical limitations. For example, a county impacted by a charter-imposed property tax limitation measure would presumably reduce tax rates to offset the impact of rising assessments in the absence of the homestead credit.

Exhibit 1
County Assessment Caps

| County | FY 2010 | FY 2011 | FY 2012 |
|-----------------|----------------|----------------|----------------|
| Allegany | 7% | 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% | 5% |
| Cecil | 8% | 8% | 8% |
| Charles | 7% | 7% | 7% |
| Dorchester | 5% | 5% | 5% |
| Frederick | 5% | 5% | 5% |
| Garrett | 5% | 5% | 5% |
| Harford | 9% | 5% | 5% |
| Howard | 5% | 5% | 5% |
| Kent | 5% | 5% | 5% |
| Montgomery | 10% | 10% | 10% |
| Prince George's | 5% | 0% | 1% |
| Queen Anne's | 5% | 5% | 0% |
| 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

Local Fiscal Effect: Somerset County granted \$10,300 in assessment-related tax credits in fiscal 2011 as shown in the following table. Most of these credits were for businesses in the Crisfield area of the county.

| <u>Fiscal Year</u> | <u>Number of Accounts</u> | <u>Credit Amount</u> |
|---------------------------|----------------------------------|-----------------------------|
| 2009 | 49 | \$7,428 |
| 2010 | 31 | 8,518 |
| 2011 | 22 | 10,300 |

The downturn in the real estate market has greatly impacted property assessments throughout Maryland in recent years, including assessments in Somerset County. Property assessments in Somerset County increased significantly in 2005 through 2008. The average three-year increase in the full cash value of property undergoing reassessment totaled 49.5% in 2005, 65.0% in 2006, 79.6% in 2007, and 45.5% in 2008. However, the continual rapid increase in property assessments halted in 2009, as property valuation declined reflecting the national credit crisis and deteriorating economic conditions. Properties reassessed for 2010 realized a decrease of 10.6%; for 2011 reassessments declined by 18.5%.

Due to the decline in property assessments and the current 10% homestead assessment cap, the fiscal impact on county revenues from extending the existing property tax credit through fiscal 2014 will be minimal. The projected county revenue decrease may total \$5,200 in fiscal 2012, \$2,600 in fiscal 2013, and \$1,300 in fiscal 2014.

Additional Information

Prior Introductions: None.

Cross File: SB 518 (Senator Mathias) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 18, 2011
ncs/hlb

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