

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 645 (Senator Rosapepe)
Budget and Taxation

Homestead Property Tax Credit - Principal Residency - Information from Motor Vehicle Administration and Counties

This bill requires the Motor Vehicle Administration (MVA) and each county to cooperate with the State Department of Assessments and Taxation (SDAT) by providing specified information relevant to establishing principal residency as it relates to determining eligibility for the homestead property tax credit.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: Special fund revenues may increase beginning in FY 2014 to the extent properties currently receiving a homestead property tax credit are determined to be ineligible for the tax credit. Any such increase cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead property tax credits. MVA can absorb any additional expenditures for computer programming with existing budgeted resources.

Local Effect: Local property tax revenues may increase beginning in FY 2014 to the extent properties that are currently receiving a homestead property tax credit are determined to be ineligible for the tax credit. Local expenditures may increase to the extent that local governments are required to compile and maintain a database for abandoned property and residential rental licenses or permits.

Small Business Effect: None.

Analysis

Bill Summary: MVA is required to provide SDAT with information relevant to establishing principal residency, including electronic records that reflect the change of address of a licensed driver or the terminating of a driver's license. County governments are required to provide SDAT with information relevant to establishing principal residency, including electronic records related to abandoned property and residential rental licenses or permits.

Current Law: Chapters 564 and 565 of 2007 (SB 522/HB 436) required homeowners to file a specified application with SDAT to qualify for the homestead property tax credit. SDAT is prohibited from authorizing the credit and the State, county, and municipal governments are prohibited from granting the credit unless the application is filed (1) by July 1 of the first taxable year for which the property tax credit is to be allowed or (2) on or before December 31, 2012, for a dwelling that was last transferred to new ownership on or before December 31, 2007. SDAT was required to provide homeowners the option of submitting the required application electronically on its website. The Comptroller must cooperate with SDAT in adopting a procedure to audit the application and assist in a postaudit of each application.

Background:

Homestead Property Tax Credit Program

The Homestead Property 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 set their caps between 0% and 10%.

A majority of local subdivisions have assessment caps below 10%: 20 counties in fiscal 2012 and 21 counties in fiscal 2013 and 2014. **Exhibit 1** lists county assessment caps for fiscal 2012 through 2014. One county (Prince George's) lowered its assessment cap for fiscal 2014.

The Homestead Property 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 2012	FY 2013	FY 2014
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	5%	5%	5%
Cecil	8%	8%	8%
Charles	7%	7%	7%
Dorchester	5%	5%	5%
Frederick	5%	5%	5%
Garrett	5%	5%	5%
Harford	5%	5%	5%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George's	1%	4%	2%
Queen Anne's	0%	5%	5%
St. Mary's	5%	5%	5%
Somerset	10%	10%	10%
Talbot	0%	0%	0%
Washington	5%	5%	5%
Wicomico	10%	5%	5%
Worcester	3%	3%	3%

Source: State Department of Assessments and Taxation, Department of Legislative Services

Status of the Homestead Property Tax Credit Application Process

As noted, homeowners in Maryland had until December 31, 2012, to file an application for the homestead property tax credit. As of January 3, 2013, SDAT has received approximately 1.1 million homestead property tax credit applications. SDAT reports that in the past five years the department has mailed out two applications and instructions to every homeowner in the State; and, in August/September of 2012, it mailed an application and instructions to all homeowners in Group 1 who would be receiving their reassessment notices in January 2013. In addition, beginning in July 2012, the department began a major public information campaign using radio, television, major newspapers, local newspapers, and county finance offices to remind the public of the December 31, 2012 application filing deadline. Two county governments paid for special mailings to homeowners in their jurisdiction.

As a result of these efforts, SDAT reports that between September 1 and December 31, 2012, it received 175,000 tax credit applications. During that same time period, the department received as many as 200 phone calls per hour and answered over 13,000 emails from homeowners requesting tax credit information and applications.

State Fiscal Effect: State special fund revenues may increase beginning in fiscal 2014 to the extent properties currently receiving a homestead property tax credit are determined to be ineligible for the tax credit. The amount cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead property tax credits. **Exhibit 2** shows the estimated State property tax revenue (Annuity Bond Fund) increase for fiscal 2014 if one homeowner in each county becomes ineligible for the homestead property tax credit as a result of the bill.

Local Fiscal Effect: Local property tax revenues may increase beginning in fiscal 2014 to the extent properties that are currently receiving a homestead property tax credit are determined to be ineligible for the credit. The amount of the credit cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead property tax credits. **Exhibit 2** shows the estimated local property tax revenue increase for fiscal 2014 if one homeowner in each county becomes ineligible for the homestead property tax credit as a result of the bill.

Local expenditures may increase to the extent that local governments are required to compile and maintain a database for abandoned property and residential rental licenses or permits. For example, Charles and Frederick counties indicate that they do not maintain a database on electronic records related to abandoned property and residential rental licenses or permits.

Exhibit 2
Effect of One Ineligible New Homestead Property Tax Credit in Each County

County	Average Assessment	Number of Homestead Tax Credit Accounts	Average Homestead Property Tax Credit	State Revenue Increase	County Revenue Increase
Allegany	\$107,682	1,781	\$9,662	\$11	\$95
Anne Arundel	335,568	108,620	98,755	111	929
Baltimore City	145,440	81,025	38,596	43	875
Baltimore	234,855	108,704	29,928	34	329
Calvert	310,935	125	42,042	47	375
Caroline	187,197	1,772	21,824	24	194
Carroll	287,428	3,480	18,391	21	187
Cecil	220,873	291	18,914	21	187
Charles	252,599	1,167	20,684	23	232
Dorchester	173,996	2,166	26,391	30	258
Frederick	266,101	4,409	19,851	22	211
Garrett	152,669	3,834	22,997	26	228
Harford	258,845	1,256	15,597	17	163
Howard	389,704	34,600	33,263	37	396
Kent	268,340	2,734	54,060	61	552
Montgomery	448,814	3,407	36,031	40	361
Prince George's	216,100	97,668	29,695	33	392
Queen Anne's	353,718	4,948	42,917	48	364
St. Mary's	287,078	12,072	33,920	38	291
Somerset	122,187	229	16,472	18	146
Talbot	434,634	8,925	199,971	224	982
Washington	189,755	3,461	13,273	15	126
Wicomico	148,617	368	12,976	15	109
Worcester	229,073	8,104	38,419	43	296
Totals	\$250,925	495,146	\$37,276	\$42	\$345

Source: State Department of Assessments and Taxation; Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore, Charles, Frederick, and Montgomery counties; Maryland Association of Counties, Maryland Department of Transportation, State Department of Assessments and Taxation, Department of Legislative Services

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