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FISCAL AND POLICY NOTE
Revised

House Bill 128
Ways and Means

(Delegate M. Washington, *et al.*)

Budget and Taxation

Homestead Tax Credit - Eligibility Verification and Application

This emergency bill extends, from December 31, 2012, to December 30, 2013, the date by which homeowners must file a specified application for the Homestead Property Tax Credit with the State Department of Assessments and Taxation (SDAT). The bill also alters the date by which an application for the Homestead Property Tax Credit must be filed for a newly purchased home by requiring the application to be filed by May 1 preceding the first taxable year for which the property tax is allowed.

Fiscal Summary

State Effect: Annuity Bond Fund revenues decrease in FY 2014 due to homeowners receiving the Homestead Property Tax Credit who may have otherwise been ineligible under current law. The amount of the decrease depends on the number of homeowners retaining the credit for an additional year and the amount of the tax credit. 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 a constant number of exemptions being granted and stable assessments.

Local Effect: Local property tax revenues decrease in FY 2014 due to homeowners receiving the Homestead Property Tax Credit who may have otherwise been ineligible under current law. The amount of the decrease depends on the number of homeowners retaining the credit for an additional year and the amount of the tax credit.

Small Business Effect: None.

Analysis

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.

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.

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.

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

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: Annuity Bond Fund revenues will decrease in fiscal 2014 due to homeowners receiving the Homestead Property Tax Credit who may have otherwise been ineligible under current law. The amount of the decrease depends on the number of homeowners retaining the credit for an additional year and the amount of the tax credit. SDAT advises that it cannot reliably estimate the number of homeowners who did not file an application for the credit and, therefore, the number who may qualify for the credit under the bill, until it processes the 175,000 applications it received in the last four months of calendar 2012 which will likely be completed by the end of March 2013. The State property tax rate is \$0.112 per \$100 of assessment.

Exhibit 2 shows the estimated State property tax revenue (Annuity Bond Fund) decrease for fiscal 2014 if one homeowner in each county remains eligible for the Homestead Property Tax Credit as a result of the extension provided by the bill.

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 2014 State budget includes \$983.6 million for general obligation debt service costs, including \$101.0 million in general funds, \$864.1 million in special funds from the Annuity Bond Fund, \$6.1 million in transfer tax revenues, and \$12.4 million in federal funds.

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.

Local Fiscal Effect: Local property tax revenues decrease in fiscal 2014 due to homeowners receiving the Homestead Property Tax Credit who may have otherwise been ineligible under current law. The amount of the decrease depends on the number of homeowners retaining the credit for an additional year and the amount of the tax credit. Exhibit 2 shows the estimated local property tax revenue decrease for fiscal 2014 for one homeowner in each county who retains eligibility for the Homestead Property Tax Credit as a result of the extension provided by the bill.

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

County	Average Assessment	Number of Homestead Tax Credit Accounts	Average Homestead Property Tax Credit	State Revenue Decrease	County Revenue Decrease
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)
Total	\$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: SB 158 (Senator Conway, *et al.*) - Budget and Taxation.

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

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