

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

House Bill 681 (Delegate Carter)
 Ways and Means

Maryland Renters Tax Credit Program

This bill makes several changes to the calculation of the Maryland Renters’ Tax Credit Program.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund expenditures for the Renters’ Tax Credit Program increase by approximately \$5.2 million beginning in FY 2015. Future year estimates assume a 3% annual increase in program expenditures. Revenues are not affected.

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	5.2	5.2	5.4	5.5	5.7
Net Effect	(\$5.2)	(\$5.2)	(\$5.4)	(\$5.5)	(\$5.7)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Exhibit 1 shows the proposed changes to the Renters’ Tax Credit Program compared to current law.

Exhibit 1
Renters' Tax Credit Program
Comparison of Proposed Changes

	<u>Current Law</u>	<u>Proposal</u>
Assumed Real Property Tax	<ul style="list-style-type: none"> • 15% of the occupancy rent paid 	<ul style="list-style-type: none"> • 25% of the occupancy rent paid
Calculation Formula	<ul style="list-style-type: none"> • 0% of the 1st \$4,000 of combined income • 2.5% of the 2nd \$4,000 of combined income • 5.5% of the 3rd \$4,000 of combined income • 7.5% of the 4th \$4,000 of combined income • 9% of the combined income over \$16,000 	<ul style="list-style-type: none"> • 0% of the 1st \$8,000 of combined income • 2.5% of the 2nd \$8,000 of combined income • 5.5% of the 3rd \$8,000 of combined income • 7.5% of the 4th \$8,000 of combined income • 9% of the combined income over \$32,000
Maximum Renters' Tax Relief	\$750	\$1,500

In addition, the bill requires the State Department of Assessments and Taxation (SDAT) to establish a marketing campaign to promote the use of the Renters' Tax Credit Program. SDAT must report to the General Assembly on the promotion of the program.

Background: The Renters' Tax Credit Program provides relief for elderly or disabled renters from the burden attributable to State and local real property taxes. The concept behind the program is that renters indirectly pay property taxes as part of their rent and thus should have some protection, as do homeowners. It is not actually a tax credit, but rather makes payments directly to eligible renters to provide relief for the "assumed property tax" that renters indirectly pay as part of their rent.

Originally, the program was based on an "assumed property tax bill" equal to 10% of rent paid. Credits were substantially increased in 1981 to 15% of rent paid. As under the Homeowners' Property Tax Credit Program, qualification is based on a sliding scale of assumed property tax liability and income. If the portion of rent attributable to the assumed property taxes exceeds a fixed amount in relation to income, the renter can, under specified conditions, receive a maximum credit of \$750.

The formula to calculate the credit has been altered several times, increasing the credit by \$15 in 1982 and 1985, and again in 1989 by \$40. The maximum credit allowed was increased from \$450 to \$500 in 1985, to \$600 in 1989, and to \$750 in 2006. Finally, in 1992, the program was expanded to include certain renters under 60 years of age who live with a minor dependent. The State pays the amount directly to program recipients.

Exhibit 2 shows the number of individuals qualifying for the program and the total cost of the program since fiscal 2005, as referenced in the State budget.

Exhibit 2
Renters' Tax Credit Program
Fiscal 2005-2015

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Payment</u>
2005	11,111	\$3.3 million	\$294
2006	10,628	2.6 million	248
2007	10,491	2.5 million	235
2008	9,333	2.5 million	263
2009	9,511	2.2 million	234
2010	9,646	2.7 million	284
2011	8,388	2.4 million	291
2012	8,316	2.7 million	321
2013	8,249	2.4 million	294
2014 Estimate	8,300	2.4 million	289
2015 Estimate	8,549	2.4 million	281

Source: Department of Budget and Management

State Fiscal Effect: The bill alters the criteria used to calculate the Renters' Tax Credit Program, including the percentage of the occupancy rent paid (assumed property tax), the percentages used to calculate the tax credit, and the maximum tax credit available per individual. As a result, the legislation increases benefits for those renters who already receive credits as well as increases the number of renters eligible for the program. The bill also requires SDAT to establish a marketing campaign to promote the use of the tax credit. As a result, it is estimated that general fund expenditures for the tax credit

program could increase by approximately \$5.2 million, which includes \$100,000 for the marketing campaign, in fiscal 2015. The estimate is based on current credit recipients receiving, on average, a 196% increase in the amount of tax credit received and an estimated 10% increase in the number of new tax credit recipients. Future year estimates assume a 3% annual increase in program expenditures.

Additional Information

Prior Introductions: None.

Cross File: SB 354 (Senator Muse) - Budget and Taxation.

Information Source(s): Howard, Montgomery, and Prince George's counties; Comptroller's Office; State Department of Assessments and Taxation; Maryland Association of Counties; Department of Legislative Services

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