Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 961 (Senator Ferguson)
Budget and Taxation Rules and Executive Nominations

Baltimore City Residential Retention Act

This bill requires Baltimore City to provide a property tax credit for homeowners who move into another dwelling in Baltimore City and who had previously received the Homestead Property Tax Credit for a home in the city for the preceding five years. The bill also allows an additional credit amount if the new dwelling is located in specified low-income areas.

The bill takes effect June 1, 2014, and terminates June 30, 2024.

Fiscal Summary

State Effect: None.

Local Effect: Baltimore City property tax revenues decrease by up to $3.0 million annually in FY 2015 through 2019, resulting in a $15.0 million total revenue decrease over the 10-year term of the property tax credit program. Baltimore City expenditures are not affected. **This bill imposes a mandate on a unit of local government**.

Small Business Effect: None.

Analysis

Bill Summary: The tax credit is a fixed amount of $4,000 to be applied to the homeowner's property tax bill over a five-year period as follows: (1) $1,000 in the first year; (2) $900 in the second year; (3) $800 in the third year; (4) $700 in the fourth year; and (5) $600 in the fifth year. The Mayor and Baltimore City Council may increase the total amount provided by up to an additional $1,000 for a homeowner who purchases a dwelling located within a low- or moderate-income census tract, as designated from time to time by the U.S. Department of Housing and Urban Development and in which at least 51% of the persons living in the tract are in households earning 80% or less of the area median income. A homeowner residing within a low- or moderate-income census tract when the homeowner submits an application must remain eligible for the increased tax credit even if the census tract changes following the date of application and the homeowner would otherwise be ineligible for the increased credit during the five-year period. Baltimore City may not allocate more than $3.0 million for each year that applications for the tax credit are accepted to pay the total cost of the tax credits for the approved applicants during the year for the entire period during which the applicants will receive the tax credit and the cost of administering the tax credit by the Baltimore City Department of Finance.

A homeowner may not receive the tax credit or a portion of the tax credit, if, in any year, the application of the tax credit, or a portion of the tax credit, would reduce the homeowner's property tax liability below the homeowner's property tax liability for the dwelling previously occupied by the homeowner. In any year in which a homeowner receives a tax credit, the homeowner may not receive the local portion of the Homestead Property Tax Credit or any other property tax credit provided by Baltimore City. The tax credit may not be transferred to a person who purchases a dwelling from a homeowner who received the tax credit or a dwelling that is subsequently purchased by a homeowner who received the tax credit.

After the termination of the tax credit, a homeowner is entitled to the local portion of the Homestead Property Tax Credit, which must be calculated as if the homeowner had received the Homestead Property Tax Credit beginning in the second year the homeowner occupied the dwelling and based on the full assessed value of the dwelling in each year the homeowner received the tax credit.

The Baltimore City Finance Director must review and approve applications for the tax credit based on the date the application was received and the availability of the funds allocated for the tax credit. The Baltimore City Finance Department is authorized to adopt regulations as necessary to carry out the tax credit.

The Baltimore City Finance Department must evaluate the efficacy of the tax credit and submit a report of its findings and recommendations by December 31, 2018, and December 31, 2020, to the Mayor and Baltimore City Council, the Baltimore City House Delegation, the Baltimore City Senators, the Senate Budget and Taxation Committee, and the House Ways and Means Committee.

Current Law: Subject to submitting a specified application to the State Department of Assessments and Taxation (SDAT) and having the application approved, the department must authorize and the State, a county, or a municipality must grant a Homestead Property Tax Credit for a taxable year unless during the previous taxable year (1) the dwelling was transferred for consideration to new ownership; (2) the value of the dwelling was increased due to a change in the zoning classification of the dwelling initiated or requested by the homeowner or anyone having an interest in the property; (3) the use of the dwelling was changed substantially; or (4) the assessment of the dwelling was clearly erroneous due to an error in calculation or measurement of improvements on the real property.

In addition, in order to qualify for the property tax credit, a homeowner must actually reside in the dwelling by July 1 of the taxable year for which the property tax credit is to be allowed. A homeowner may claim a property tax credit for only one dwelling.

Background: 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%: 21 counties in fiscal 2013, 2014, and 2015. **Exhibit 1** lists county assessment caps for fiscal 2013 through 2015.

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 was 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 2013	FY 2014	FY 2015
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	4%	2%	2%
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	5%	5%	5%
Worcester	3%	3%	3%

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

Local Fiscal Effect: Baltimore City property tax revenues decrease by up to $3.0 million annually in fiscal 2015 through 2019 due to city residents receiving the property tax credit for a newly purchased dwelling within the city. Under current law, Homestead Property Tax Credits do not transfer from one dwelling to another. The amount of the revenue decrease depends on the number of Baltimore City residents who purchase new homes within the city each year and whether they received the Homestead Property Tax Credit for the preceding five years. However, the bill limits the tax credit amount a homeowner may receive to $4,000 over five years and also caps the amount that Baltimore City may allocate for the tax credit at $3.0 million per year in each year that applications are accepted. Baltimore City advises that it is not likely to approve applications beyond fiscal 2019, thereby, limiting total expenditures for the program to $15.0 million over the term of the property tax credit program. The intent of the bill is to allow Baltimore City to budget for the cost of the carryover credit based on the applications received in each of the years that applications are accepted.

The following information on the Homestead Property Tax Credit program for Baltimore City is provided as a point of reference:

- SDAT reports that in fiscal 2013 there were 2,270 residential real property transfers in Baltimore City by homeowners who were receiving a Homestead Property Tax Credit.

- The average city Homestead Property Tax Credit for these properties was $59,766.

- The Baltimore City real property tax rate is $2.248 per $100 of assessment.

- The Homestead Property Tax Credit cap is set at 4%.

Additional Information

Prior Introductions: None.

Cross File: HB 920 (Delegate McIntosh, *et al.*) – Ways and Means.

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

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