HB 227

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 227 (Delegate Dumais)
Ways and Means Budget and Taxation

Homestead Tax Credit - Eligibility - Definition of Legal Interest

This bill alters the definition of "legal interest" for purposes of the Homestead Property Tax Credit to include an interest in a dwelling as a settlor, grantor, or beneficiary of a trust if (1) the settlor, grantor, or beneficiary of the trust does not pay rent or other remuneration to reside in the dwelling and (2) legal title to the dwelling is held in the name of the trust or in the names of the trustees for the trust.

The bill takes effect June 1, 2014.

Fiscal Summary

State Effect: Annuity Bond Fund revenues decrease in FY 2015 due to settlors, grantors, and beneficiaries of trust receiving the Homestead Property Tax Credit who are otherwise ineligible under current law. The amount of the decrease depends on the number of additional individuals receiving the tax credit 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.

Local Effect: Local property tax revenues decrease in FY 2015 due to additional individuals receiving the Homestead Property Tax Credit who are otherwise ineligible under current law. The amount of the decrease depends on the number of additional individuals receiving the tax credit and the amount of the tax credit.

Small Business Effect: None.

Analysis

Current Law: For purposes of the Homestead Property Tax Credit, a homeowner is defined as an individual who has a legal interest in a dwelling or who is an active member of an agricultural ownership entity that has a legal interest in a dwelling. A legal interest is defined as interest in the dwelling (1) as a sole owner; (2) as a joint tenant; (3) as a tenant in common; (4) as a tenant by the entireties; (5) through membership in a cooperative; (6) under a specified land installment contract; or (7) as a holder of a life estate.

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 county governments have assessment caps below 10%. **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

State Fiscal Effect: Annuity Bond Fund revenues will decrease in fiscal 2015 due to any settlors, grantors, or beneficiaries of trust receiving the Homestead Property Tax Credit who would not have otherwise received the tax credit under current law. The amount of the decrease depends on the number of additional individuals receiving the tax credit and the amount of the tax credit. SDAT advises that it cannot reliably estimate the number of persons that this may apply to.

For illustrative purposes, the average homestead property tax credit for each residential property totals $48,000 resulting in a State revenue loss of $54 per eligible homeowner.

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 2015 State budget includes $1.0 billion for general obligation debt service costs, including $140.0 million in general funds, $881.7 million in special funds from the Annuity Bond Fund, $6.3 million in transfer tax revenues, and $11.5 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 2015 due to any settlors, grantors, or beneficiaries of trust receiving the Homestead Property Tax Credit who would not have otherwise received the tax credit under current law. The amount of the decrease depends on the number of additional individuals receiving the tax credit and the amount of the tax credit. **Exhibit 2** shows the estimated local property tax revenue decrease for fiscal 2015 if one settlor, grantor, or beneficiary of trust in each county qualifies to receive the Homestead Property Tax Credit as a result of 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	County Revenue Decrease
Allegany	$100,778	729	$10,298	($101)
Anne Arundel	342,207	91,740	95,239	(905)
Baltimore City	147,503	58,295	35,184	(791)
Baltimore	229,942	70,776	23,182	(255)
Calvert	300,658	36	36,687	(327)
Caroline	176,914	1,024	18,230	(171)
Carroll	312,909	2,362	8,967	(91)
Cecil	233,887	111	20,919	(207)
Charles	263,388	354	21,075	(254)
Dorchester	213,685	1,053	27,547	(269)
Frederick	280,802	3,741	11,810	(126)
Garrett	138,187	2,160	16,719	(166)
Harford	253,336	633	13,935	(145)
Howard	377,627	24,945	25,511	(304)
Kent	262,691	1,635	48,722	(498)
Montgomery	365,391	1,903	47,651	(487)
Prince George’s	241,284	77,906	26,668	(352)
Queen Anne’s	381,361	2,364	44,732	(379)
St. Mary’s	269,624	6,508	30,225	(259)
Somerset	101,023	73	16,761	(153)
Talbot	421,338	7,891	185,576	(950)
Washington	175,354	1,423	13,261	(126)
Wicomico	160,648	1,623	1,595	(14)
Worcester	218,300	4,939	36,172	(279)
Total	**$248,702**	**364,224**	**$47,932**	**($317)**

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

Additional Information

Prior Introductions: HB 965 of 2013 passed the House and received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: SB 572 (Senator King, *et. al*.) – Budget and Taxation.

Information Source(s): Baltimore City; Harford, Montgomery, and Wicomico counties; Maryland Association of Counties; State Department of Assessments and Taxation; Department of Legislative Services

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