HB 927

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 927 (Prince George's County Delegation)
Ways and Means

Prince George's County - Homestead Property Tax Credit Percentage
PG 422-15

This bill requires that the percentage used to determine the Homestead Property Tax Credit in Prince George's County be set at 10%, thereby limiting annual property tax assessment increases on owner-occupied residential properties in the county to 10%.

The bill takes effect June 1, 2015.

Fiscal Summary

State Effect: None.

Local Effect: Prince George's County property tax revenues increase by approximately $15.4 million in FY 2016 and $16.4 million in FY 2017. Future year revenues will increase depending on annual county property tax assessments. County expenditures are not directly affected. **This bill imposes a mandate on a unit of local government**.

Small Business Effect: None.

Analysis

Current Law: The cap on property assessment increases is set at 10% for State property tax purposes. A county or municipality can lower the cap percentage to 0% for local property tax purposes. In Prince George's County the assessment cap percentage is set at the lesser of the change in the consumer price index of all urban consumers or 5%; for fiscal 2015, the percentage is 2%.

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 lower the cap.

A majority of local subdivisions have assessment caps below 10%: 21 counties in fiscal 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 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
County Assessment Caps

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

The extent to which the Homestead Property Tax Credit Program may actually restrict the ability of a county to raise property tax revenues depends on the county's need for revenues from the property tax and other legal and practical limitations. For example, a county impacted by a charter-imposed property tax limitation measure would presumably reduce tax rates to offset the impact of rising assessments in the absence of the homestead credit.

Prince George's County is projected to forego approximately $26.9 million in property tax revenue as a result of the homestead assessment cap in fiscal 2015 and $32.2 million in fiscal 2016.

Local Fiscal Effect: The bill sets the Prince George's County Homestead Property Tax Credit percentage at 10%, which will cap property tax liability at 10% of the assessment increase, compared to 2% under the county's current cap. As a result, county property tax revenues increase by approximately $15.4 million in fiscal 2016 and $16.4 million in fiscal 2017. Future year revenues will increase depending on annual county property tax assessments.

As discussed, the Homestead Property Tax Credit Program limits the annual increase in taxable assessments for owner-occupied residential properties to 10% or less. During periods of increasing assessments, property tax revenues are more adversely affected as more homeowners receive larger homestead tax credits. This is particularly true in jurisdictions, such as Prince George's County, that have low homestead assessment caps.

During times of flat or decreasing assessments, jurisdictions with higher caps gain back assessable base that was lost to the homestead credit at a much faster rate than those jurisdictions with lower assessment caps. Therefore, increasing the county's assessment cap to 10% will accelerate the recapture of the homestead property tax credit if assessments begin to decline. As a point of reference, Montgomery County, which has a 10% assessment cap, lost 8.1% of its assessable base to the homestead credit in fiscal 2010; by fiscal 2015, the percentage of assessable base lost to the homestead credit was 0.1%.

More detailed information on the Homestead Property Tax Credit Program can be found in the *Overview of Maryland Local Governments* report. A copy of the report can be found on the Department of Legislative Services website.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 2, 2015
min/hlb

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