HB 483

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 483 (Delegate Long, *et al.*)
Ways and Means

Property Tax - Homeowner's Tax Credit - Computation and Eligibility

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This bill alters the calculation and eligibility of the Homeowners' Property Tax Credit Program by (1) altering the percentages used to calculate the property tax credit and (2) increasing the combined gross income from $60,000 to $75,000 for homeowners eligible for the property tax credit.

The bill takes effect June 1, 2016, and applies to tax credits for taxable years beginning after June 30, 2016.

Fiscal Summary

State Effect: General fund expenditures increase by approximately $10.2 million beginning in FY 2017. If the number of program recipients increases by 5%, general fund expenditures will increase by an additional $4.0 million annually. Revenues are not affected.

Local Effect: County and municipal expenditures for the supplemental homeowners' property tax credits decrease by approximately $3.7 million annually beginning in FY 2017. Local revenues are not affected.

Small Business Effect: None.

Analysis

Bill Summary: The bill increases, from $60,000 to $75,000, the combined income of a homeowner to be eligible for the property tax credit. The bill alters the percentages applied to the combined income that are used to calculate the amount of the property tax credit as follows: (1) 0% of the first $10,000 of combined income; (2) 4% of the next $5,000 of combined income; (3) 6.5% of the next $5,000 of combined income; and (4) 9% of the combined income over $20,000.

Current Law: The maximum assessment against which the Homeowners' Property Tax Credit may be granted is $300,000. To be eligible for the tax credit, a homeowner's combined net worth may not exceed $200,000 and combined income may not exceed $60,000. The percentages applied to the combined income that are used to calculate the amount of the property tax credit are (1) 0% of the first $8,000 of combined income; (2) 4% of the next $4,000 of combined income; (3) 6.5% of the next $4,000 of combined income; and (4) 9% of the combined income over $16,000.

Background: The Homeowners' Property Tax Credit Program (Circuit Breaker) is a State-funded program (*i.e.*, the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. **Exhibit 1** shows the number of individuals qualifying for the tax credit and the total cost of the program since fiscal 2005, as referenced in the State budget.

Exhibit 1
Homeowners' Property Tax Credit Program
Fiscal 2005-2017

Fiscal Year	Eligible Applications	State Funding	Average Credit Amount
2005 Actual	48,666	$39.5 million	$812
2006 Actual	46,628	41.7 million	894
2007 Actual	48,290	45.6 million	944
2008 Actual	46,618	45.2 million	970
2009 Actual	47,781	50.3 million	1,053
2010 Actual	48,737	53.4 million	1,096
2011 Actual	49,224	55.8 million	1,134
2012 Actual	52,594	62.6 million	1,190
2013 Actual	53,196	62.6 million	1,177
2014 Actual	50,872	61.6 million	1,218
2015 Actual	48,713	59.5 million	1,221
2016 Estimated	53,800	61.6 million	1,171
2017 Estimated	55,855	63.3 million	1,205

Source: Department of Budget and Management

Chapter 27 of 2006 made several significant changes to the Homeowners' Property Tax Credit Program: the maximum assessment against which the credit may be granted was increased to $300,000 from $150,000, and the percentages used to determine the amount of the tax credit were altered.

Chapter 588 of 2005 altered the calculation of total real property tax for the Homeowners' Property Tax Credit Program by subtracting the homestead tax credit amount from the total assessment rather than the maximum assessment specified under the credit. Chapter 588 also specified additional eligibility criteria for the local supplement to the Homeowners' Property Tax Credit Program by authorizing a local jurisdiction to alter the $200,000 limitation on a homeowner's net worth for eligibility for a local supplement to the Homeowners' Property Tax Credit Program.

Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. The State Department of Assessments and Taxation (SDAT) administers a local supplement granted by a county, but the cost of a local supplement is borne by the local government. For purposes of the local supplement, the counties are authorized to alter the maximum on the assessed value taken into account in calculating the credit, as well as the percentages and income levels specified in the tax limit formula. The counties are also authorized to impose limitations on eligibility for a local supplement in addition to the requirements specified for the State credit. Thirteen counties – Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Charles, Frederick, Garrett, Harford, Howard, Kent, Montgomery, and Washington – have a local homeowners' property tax credit supplement program that is administered by SDAT.

Municipalities are also authorized to provide a supplement to the Homeowners' Property Tax Credit Program. Under the enabling authority for municipalities, a municipal supplement is limited to 50% of the State credit.

Chapter 444 of 2006 altered the calculation and eligibility criteria of the municipal supplement to make it consistent with the current calculation and eligibility criteria authorized under the county supplement program. Chapter 444 also altered the amount of a supplemental municipal credit that may be granted by repealing the limitation that a municipal supplement may not exceed 50% of the Homeowners' Property Tax Credit. SDAT administers municipal homeowners' property tax credit supplement programs in the cities of Gaithersburg, Rockville, Bowie, College Park, Greenbelt, Hyattsville, and Mount Rainier.

State Fiscal Effect: The bill alters the calculation and eligibility of the Homeowners' Property Tax Credit Program. As a result, general fund expenditures increase by at least $10.2 million beginning in fiscal 2017. This results in an average credit increase of

$178 for current recipients. Assuming an annual growth rate of 2.75%, expenditures will increase to approximately $11.4 million by fiscal 2021. This estimate is based on current program recipients compared to the new program parameters prescribed by the bill. The estimate does not include any increase in program recipients based on the bill's proposed changes to the tax credit program.

As a point of reference and *for illustrative purposes only*, if the proposed changes in the bill increase program recipients by 5%, general fund expenditures increase by an additional $4.0 million, which increases the cost of the bill to approximately $14.2 million beginning in fiscal 2017.

Local Fiscal Effect: County and municipal expenditures for the supplemental homeowners' property tax credit programs decrease by approximately $3.7 million annually beginning in fiscal 2017. Local expenditures for supplemental programs decrease as the amount of the State tax credit increases.

Additional Information

Prior Introductions: HB 1275 of 2015 was assigned to the House Rules and Executive Nominations Committee, but no further action was taken.

Cross File: None.

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

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