HB 688

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 688 (Delegate Valentino-Smith, *et al.*)
Ways and Means

Homeowners' Property Tax Credit - Eligibility - Cost-of-Living Adjustment

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This bill alters the calculation of the Homeowners' Property Tax Credit Program by indexing the combined gross income eligibility component of the program to a cost-of-living adjustment beginning in fiscal 2019. The State Department of Assessments and Taxation (SDAT) must determine the annual cost-of-living adjustment by October 1 each year based on one-half of the increase of the Consumer Price Index (CPI) for All Urban Consumers in the Washington and Baltimore Region.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund expenditures increase by a significant amount beginning in FY 2019 depending on the number of new program recipients. Based on one set of assumptions, State expenditures could increase by approximately $720,000 in FY 2019 and $3.9 million in FY 2022. Revenues are not affected.

Local Effect: Local governments that have a homeowners' property tax credit supplement could realize a reduction in expenditures for their programs as a result of the increased State credit. Local revenues are not affected.

Small Business Effect: None.

Analysis

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 2005-2018

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 Actual	47,288	58.4 million	1,235
2017 Estimated	48,154	59.9 million	1,244
2018 Estimated	49,599	60.0 million	1,210

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. 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. Baltimore City and 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. Data collected by the Department of Legislative Services in 2016 indicates that these jurisdictions granted approximately 19,600 homeowners approximately $8.1 million in local property tax credits in fiscal 2016.

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: General fund expenditures for the Homeowners' Property Tax Credit Program increase by a significant amount beginning in fiscal 2019. The amount of the increase depends on the number of homeowners who become eligible for the program as a result of indexing the combined gross income eligibility component of the program to changes in the CPI. The number of homeowners who may become eligible for the program cannot be reliably estimated at this time.

The CPI is forecast to increase by approximately 2.5%, on average, annually through fiscal 2022. The bill indexes the combined gross income provision by one-half the increase in the CPI. Based on the current CPI forecast, the bill increase the combined gross income by approximately 1.25% from fiscal 2018 through fiscal 2022. If it is assumed that the number of new recipients corresponds to increases in the CPI, program recipients may increase by approximately 1.25% each year. A 1.25% increase in program recipients will result in a general fund expenditure increase of approximately $720,000 in fiscal 2019 and $3.9 million in fiscal 2022. However, to the extent the number of new program recipients does not correspond directly to the increases in the CPI, the additional general fund expenditures for the program will vary accordingly. For example, if program recipients increase by 2.5% each year, general fund expenditures increase by approximately $1.4 million in fiscal 2019 and $8.0 million in fiscal 2022; if program recipients increase by 5% each year, general fund expenditures increase by $3.0 million in fiscal 2019 and $16.6 million in fiscal 2022.

Additional Information

Prior Introductions: None.

Cross File: SB 407 (Senator Peters) - Budget and Taxation.

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

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