

Department of Legislative Services  
 Maryland General Assembly  
 2018 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 38 (Delegate Carr)  
 Ways and Means

Property Tax - Homeowners' Property Tax Credit - Definition of Total Real Property Tax

This bill alters the definition of “total real property tax” under the Homeowners’ Property Tax Credit Program by increasing the maximum assessment against which the homeowners’ property tax credit may be granted. The bill increases the maximum assessment by \$10,000 per year for each year the homeowner has owned and occupied the dwelling in excess of 20 years. **The bill takes effect June 1, 2018, and applies to taxable years beginning after June 30, 2018.**

Fiscal Summary

**State Effect:** General fund expenditures for the Homeowners’ Property Tax Credit Program increase by a significant amount beginning in FY 2019. General fund expenditures for staffing increase by \$1.8 million in FY 2019. Future years reflect annualization and inflation. Revenues are not affected.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	1,816,700	942,200	851,400	880,700	645,900
Net Effect	(\$1,816,700)	(\$942,200)	(\$851,400)	(\$880,700)	(\$645,900)

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Local government expenditures will be affected by the changes to the State program. Local expenditures to current recipients decrease as State credits increase while expenditures increase for new tax credit recipients.

**Small Business Effect:** None.

## Analysis

**Current Law/Background:** The Homeowners' Property Tax Credit Program is a State-funded program that provides credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. The fiscal 2019 State budget includes \$60.0 million in funding for the program. Approximately 52,000 individuals are expected to benefit from the program in fiscal 2019. **Appendix – Homeowners' Property Tax Credit Program** provides a brief description of the program and recent legislative changes.

### State Expenditures:

#### *Increased Program Costs*

To the extent that the new calculation for the maximum eligible assessment increases tax credit payments to recipients and/or increases the number of eligible tax credit recipients, general fund expenditures for the Homeowners' Property Tax Credit Program will increase by a potentially significant amount beginning in fiscal 2019. The amount of the increase depends on increased tax credits and/or the number of homeowners who become eligible for the program as a result of the new calculation for the maximum eligible assessment. The amount of this increase in program costs cannot be reliably estimated at this time; however, the State Department of Assessments and Taxation (SDAT) indicates that the adjustments to the calculation will lead to a significant increase in the number of tax applications filed, eligible applicants, and tax credits issued. *For illustrative purposes only*, general fund expenditures would increase by approximately \$3.0 million if program recipients increase by 5% and by \$6.0 million if program recipients increase by 10%.

#### *Administrative Expenditures*

SDAT advises that altering the calculation for maximum eligible assessment will likely lead to a significant increase in the number of applications for the homeowners' property tax credit. The department currently has 39 authorized positions working on the department's tax credit programs, which include the homeowners' property tax credit, renters' tax credit, urban enterprise zone tax credit, and the Base Realignment and Closure zone tax credit. SDAT reports that 29 employees work on the administration and processing of the homeowners' property tax credit. The proposed fiscal 2019 State budget includes \$2.8 million for the administration of the four tax credit programs.

The department also notes that it has no database to track the number of properties that have been owned and occupied by the same owner for 20 years or more. As a result, SDAT will need to hire two full-time supervisors and two full-time tax credit staff to administer this change. In addition, SDAT advises that it will need to hire two contractual employees

for each county assessment office (48 total) for eight months in the first year to research each application and determine the number of years homeowners have occupied the premises. This research would be maintained for future years, however the department would need to hire one contractual employee for each county assessment office (24 total) for six months in each subsequent year to perform research of new tax credit applications and review and maintain the existing database of applicants.

As a result, general fund expenditures increase by \$1.8 million in fiscal 2019 to carry out the provisions of the bill. This estimate accounts for a 90-day start-up delay and includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position(s) – Full Time	4
Position(s) – Contractual	48
Salaries and Fringe Benefits – Full Time	\$176,519
Salaries and Fringe Benefits – Contractual	1,364,177
Other Operating Expenses	<u>275,955</u>
<b>Total FY 2019 State Expenditures</b>	<b>\$1,816,651</b>

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

**Local Fiscal Effect:** Local government expenditures for local homeowners’ supplemental tax credits will be affected by the changes to the State tax credit program. However, the extent of the change to local programs cannot be reliably estimated. Current recipients of a local supplement will likely see a reduced local supplement tax credit which will reduce local expenditures. However, to the extent the changes lead to new State tax credit recipients, this may result in new recipients of local supplement credits, which will increase local expenditures.

The interaction between the various components of the homeowners’ property tax credit calculation (maximum eligible assessment, income, net worth, State and local property tax liabilities, as well as other tax credits) effectively results in a maximum tax credit that is available to each homeowner. Due to this maximum credit amount, the amount of the local tax credit supplement will usually decrease as the amount of the State tax credit increases, as the amount of the State tax credit is applied first.

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

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## Appendix – Homeowners’ Property Tax Credit Program

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**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. Total real property tax is the product of the sum of all property tax rates on real property, including special district tax rates, for the taxable year on a dwelling multiplied by the lesser of \$300,000 or the assessed value of the dwelling reduced by the amount of the homestead property tax credit.

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.

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.

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**Exhibit 1**  
**Homeowners' Property Tax Credit Program**  
**Fiscal 2005-2019**

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Credit Amount</u>
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	58.0 million	1,179
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	46,751	58.4 million	1,249
2017 Actual	45,964	54.2 million	1,301
2018 Estimated	49,599	60.0 million	1,210
2019 Estimated	52,079	60.0 million	1,152

Source: Department of Budget and Management

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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, as shown in **Exhibit 2**.

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**Exhibit 2**  
**Homeowners' Property Tax Credit Program – Local Supplement**  
**Fiscal 2016**

<b>County</b>	<b>Number Claiming</b>	<b>Amount Claimed</b>
Anne Arundel	3,521	\$1,142,096
Baltimore City	0	\$0
Baltimore	7,762	1,162,704
Calvert	0	0
Caroline	644	161,048
Carroll	n.a.	13,618
Charles	1,123	938,706
Frederick	0	0
Garrett	441	40,809
Harford	0	0
Howard	179	38,910
Kent	360	222,422
Montgomery	4,747	4,097,149
Washington	850	280,000
<b>Total</b>	<b>19,627</b>	<b>\$8,097,462</b>

Source: Department of Legislative Services

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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.