Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 929 (Delegate Carr)
Ways and Means

Property Tax - Homeowners' Property Tax Credit - Definition of Gross Income

This bill alters the definition of gross income for purposes of qualifying for the Homeowners' Property Tax Credit Program. **The bill takes effect June 1, 2018, and applies to taxable years beginning after June 30, 2018**.

Fiscal Summary

State Effect: General fund expenditures increase by $117,400 in FY 2019 and by $153,400 in FY 2023. Future years reflect annualization and ongoing operating costs. General fund expenditures for the Homeowners' Property Tax Credit Program increase by a potentially significant amount beginning in FY 2019. Under one set of assumptions, expenditures may increase by $3.0 million in FY 2019. Revenues are not affected.

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. Local revenues are not affected.

Small Business Effect: None.

Analysis

Bill Summary: Gross income is defined as the lesser of (1) Maryland adjusted gross income as calculated in accordance with Title 10, Subtitle 2 of the Tax-General Article, including the value of any income received during periods of nonresidence not otherwise subject to the State income tax or (2) the sum of the following amounts for the calendar year that immediately precedes the taxable year: wages; net dividends and interest; any benefit under the Social Security Act or the Railroad Retirement Act; alimony; support money; net taxable income from a pension less specified subtractions; taxable earnings withdrawn from an annuity; unemployment insurance benefits; capital gains or losses; the net income received from a business, rental, or other endeavor; taxable earnings withdrawn from an individual retirement account; taxable earnings withdrawn from any qualified retirement savings plan; any rent on the dwelling, including the rent from a room or apartment; and other subtractions to income, including the value of any income received during periods of nonresidence not subject to the State income tax. Gross income does not include any income tax refund received from the State or federal government.

Current Law: Gross income is defined as the total income from all sources for the calendar year that immediately precedes the taxable year, whether or not the income is included in the definition of gross income for federal or State tax purposes. Gross income includes: any benefit under the Social Security Act or the Railroad Retirement Act; the aggregate of gifts over $300; alimony; support money; any nontaxable strike benefit; public assistance received in a cash grant; a pension; an annuity; any unemployment insurance benefit; any workers' compensation benefit; the net income received from a business, rental, or other endeavor; any withdrawal, payment, or distribution from an individual retirement account; any withdrawal, payment, or distribution from any qualified retirement savings plan; and any rent on the dwelling, including the rent from a room or apartment. Gross income does not include any income tax refund received from the State or federal government or any loss from business, rental, or other endeavor.

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 homeowners 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 Fiscal Effect: The State Department of Assessments and Taxation (SDAT) advises that altering the definition of gross income will likely lead to a significant increase in the number of applications for the homeowners' property tax credit. As a result, SDAT will need to hire three office services clerks to review and process the additional applications at a cost of $117,400 in fiscal 2019, which accounts for a 90-day start-up delay. This estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures increase by $153,400 in fiscal 2023, which reflects full salaries with annual increases and employee turnover and ongoing operating expenses.

In addition, to the extent that the new definition of gross income 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 the number of homeowners who become eligible for the program as a result of the new definition of gross income. The number of homeowners who may become eligible for the program cannot be reliably estimated at this time; however, SDAT indicates that the adjustments to the definition 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%.

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: HB 790 of 2017 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - February 16, 2018
mag/hlb

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Appendix – Homeowners’ Property Tax Credit Program

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.

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

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	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

Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. Maryland State Department of Assessment 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. 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**.

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

County	Number Claiming	Amount Claimed
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
Total	**19,627**	**$8,097,462**

Source: Department of Legislative Services

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.