

Department of Legislative Services  
 Maryland General Assembly  
 2018 Session

FISCAL AND POLICY NOTE  
 Third Reader - Revised

Senate Bill 599

(Senator Nathan-Pulliam, *et al.*)

Budget and Taxation

Ways and Means

**Baltimore County - Property Tax - Credit for Individuals at Least 70 Years Old**

This bill requires Baltimore County to grant a property tax credit to homeowners who are at least 70 years old and qualify to receive either the State homeowners’ property tax credit or the Baltimore County local homeowners’ property tax credit supplement, under specified circumstances. In order to receive this property tax credit, the homeowner may not receive any other property tax credit provided by Baltimore County. The amount of the property tax credit is equal to 50% of the amount of the combined tax credits received from the State homeowners’ property tax credit and the Baltimore County local homeowners’ property tax credit supplement. **The bill takes effect June 1, 2018, and applies to taxable years beginning after June 30, 2018.**

**Fiscal Summary**

**State Effect:** Special fund expenditures increase by \$85,200 in FY 2019 and by \$92,100 in FY 2023. Special fund revenues increase by a commensurate amount. Future years reflect annualization and inflation.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
SF Revenue	\$85,200	\$85,200	\$86,000	\$89,000	\$92,100
SF Expenditure	\$85,200	\$85,200	\$86,000	\$89,000	\$92,100
Net Effect	\$0	\$0	\$0	\$0	\$0

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

**Local Effect:** Baltimore County revenues decrease by approximately \$1.3 million annually beginning in FY 2019. County expenditures increase by \$85,200 in FY 2019 and by \$92,100 in FY 2023. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

## Analysis

**Bill Summary:** A homeowner is eligible for the tax credit proposed by the bill if (1) the homeowner, in the application for either the State homeowners' property tax credit or the Baltimore County homeowners' property tax credit supplement, demonstrates that at least one individual who owns and resides in the dwelling is at least 70 years old; (2) the homeowner has resided in the dwelling for the preceding 10 years; and (3) the combined income of the homeowner does not exceed 150% of the federal poverty level. In addition, the homeowner may not receive any other property tax credit provided by Baltimore County.

The State Department of Assessments and Taxation (SDAT) is responsible for the administrative duties that relate to the application and determination of eligibility for the property tax credit. Neither SDAT nor Baltimore County may require a homeowner to file a separate application in order to receive the property tax credit. Baltimore County must reimburse SDAT for the reasonable cost of administering the property tax credit. Baltimore County may provide, by law, for regulations and procedures for the application and uniform processing of requests for the tax credit.

**Current Law:** Baltimore County provides a local supplement to the State Homeowners' Property Tax Credit Program. The maximum assessment against which the county's existing supplemental 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.

**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.

Data collected by the Department of Legislative Services in 2016 indicates that Baltimore County granted 7,762 homeowners approximately \$1.2 million in local homeowners' property tax credits in fiscal 2016. In 2017, Baltimore County granted 7,586 homeowners approximately \$1.1 million in local homeowners' property tax credits.

### *Similar Property Tax Credits for Elderly Individuals*

Local governments are authorized to grant a property tax credit against the county or municipal property tax imposed on real property that is owned and used as the principal

residence of an individual who is at least 65 years old and of limited income. Local governments are authorized to provide for the amount and duration of the tax credit, additional eligibility criteria for the tax credit, regulations and procedures for the application and uniform processing of requests for the tax credit, and any other provisions necessary.

Data collected by the Department of Legislative Services during 2016 indicates the following counties have enacted the local property tax credit for individuals who are at least 65 years old and of limited income – Charles, Dorchester, Frederick, Howard, Montgomery, and Queen Anne’s. For fiscal 2016, 6,284 taxpayers claimed approximately \$2.0 million in county property tax credits as illustrated in **Exhibit 1**.

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**Exhibit 1**  
**Property Tax Credit for Senior Citizens of Limited Income**  
**Fiscal 2016**

<u>County</u>	<u>Number</u> <u>Claiming</u>	<u>Amount</u> <u>Claimed</u>
Charles	400	\$299,151
Dorchester	119	7,733
Frederick	2,222	605,478
Howard	735	500,657
Montgomery	2,808	605,832
Queen Anne’s	0	0
<b>Total</b>	<b>6,284</b>	<b>\$2,018,851</b>

Source: Department of Legislative Services

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**State Fiscal Effect:** SDAT 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 10 years or more. As a result, SDAT will need to hire one full-time tax credit employee to administer this program change in Baltimore County. In addition, SDAT advises that it will need to hire two contractual employees for the Baltimore County assessment office 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 the county assessment office 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, special fund expenditures increase by \$85,200 in fiscal 2019 and by \$92,100 in fiscal 2023 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 – Full Time	1
Positions – Contractual	2
Salary and Fringe Benefits – Full Time	\$40,798
Salaries and Fringe Benefits – Contractual	28,420
Other Operating Expenses	<u>15,964</u>
<b>Total FY 2019 State Expenditures</b>	<b>\$85,182</b>

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

Special fund revenues increase by \$85,200 in fiscal 2019 and by \$92,100 in fiscal 2023 from reimbursements from Baltimore County to administer the program.

**Local Revenues:** Baltimore County property tax revenues decrease by approximately \$1.3 million annually beginning in fiscal 2019. This estimate is based on the following facts and assumptions:

- 7,444 homeowners in Baltimore County received \$8.5 million in tax credits through the State Homeowners’ Property Tax Credit Program in fiscal 2017;
- 7,586 homeowners in Baltimore County received \$1.1 million in tax credits through the county supplemental Homeowners’ Property Tax Credit Program in fiscal 2017;
- 62% of current program recipients are age 70 and older;
- 50% of senior households have income at or below 150% of the federal poverty level;
- 90% of senior program recipients have resided in the dwelling for the preceding 10 years; and
- the amount of State and local homeowners’ property tax credits remains constant in future years.

The potential revenue decrease may be partially mitigated to the extent that homeowners are currently receiving other property tax credits from the county. However, the homeowner has the option to receive either the newly created property tax credit or the existing property tax credit that they currently receive from the county. It is assumed that the homeowner will choose the property tax credit that will provide them with the most benefit.

Data collected by the Department of Legislative Services in 2016 indicates that Baltimore County provided 8,095 taxpayers with \$3.4 million in statewide optional property tax credits. Of this amount, \$1.2 million was in local homeowners' property tax credits provided to 7,762 homeowners, as noted previously. An additional 13 taxpayers received \$1.3 million in property tax credits for high performance building. Baltimore County also provided 33 taxpayers with \$92,300 in county specific property tax credits.

**Local Expenditures:** Baltimore County expenditures increase by \$85,200 in fiscal 2019 and by \$92,100 in fiscal 2023 to reimburse SDAT for the staffing costs needed to administer the program.

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### **Additional Information**

**Prior Introductions:** SB 985 of 2017, a similar bill, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 1472, received an unfavorable report from the House Ways and Means Committee.

**Cross File:** HB 1669 (Delegate Jalisi) – Ways and Means.

**Information Source(s):** Baltimore County; 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. 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**.

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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.