

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 593

(Senator Zucker, *et al.*)

Budget and Taxation

Ways and Means

Property Tax - Homeowners' Property Tax Credit - Calculation and Refunds

This bill alters the definition of total real property tax for purposes of calculating the homeowners' property tax credit by specifying that the total real property tax does not include any adjustment for any other property tax credit against the property tax imposed on the dwelling. Homeowners must receive a refund of any property taxes paid in the prior three years that exceed the amount required under the revised calculation for the property tax credit program. The bill requires an annual appropriation in the State budget to repay the cost of refunds issued. **The bill takes effect June 1, 2021, and applies to tax credits for taxable years beginning after June 30, 2017.**

Fiscal Summary

State Effect: Special fund expenditures increase by approximately \$11.4 million in FY 2022. General fund expenditures increase by \$760,000 annually in FY 2023 through FY 2037. Special fund revenues increase by a commensurate amount in FY 2023 through FY 2037.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: For taxable years beginning after June 30, 2017, but before July 1, 2021, the State Department of Assessments and Taxation (SDAT) must determine whether a homeowner is owed additional homeowners' property tax credits as a result of the changes

made to the calculation of the homeowners' property tax credit by the bill and if so, the amount of the refund owed.

SDAT must notify the homeowner and the county within which the homeowner's dwelling is located of the amount of the refund. Upon certification by SDAT, the Comptroller must pay eligible homeowners the amount of the refund from the Local Reserve Account.

For fiscal 2023 through 2037, the Governor must include an appropriation to the Local Reserve Account in the annual budget bill in an amount equal to one-fifteenth of the total refunds paid for property tax refunds resulting from the bill during fiscal 2022.

Notwithstanding any other provision of law, for fiscal 2022, a refund paid to a homeowner in accordance with the provisions of the bill may not be included in the calculation of the homeowner's gross income for purposes of eligibility for the homeowners' property tax credit.

Current Law: 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 2022 State budget includes \$64.0 million in funding for the program.

State Fiscal Effect: The bill affects State revenues and expenditures, as discussed below.

Calculation of the Homeowners' Property Tax Credit

The bill alters the calculation of the Homeowners' Property Tax Credit Program by basing the credit on the amount of property taxes paid prior to any adjustments for other property tax credits.

Montgomery County grants a county property tax credit in the amount of \$692 to all owner-occupied properties in the county. Prior to fiscal 2020, SDAT deducted this county property tax credit from the total taxes when the department calculated the amount of the State homeowners' property tax credit and the county supplemental property tax credit. Beginning in fiscal 2020, SDAT began determining the amount of the homeowners' property tax credit before deducting any other credits received. The department advises that general fund expenditures included in the State budget has accounted for this revised calculation since fiscal 2020. As a result, the bill codifies SDAT's current practice regarding the calculation of the homeowners' property tax credit and has no effect of program expenditures going forward.

Refund of Property Taxes Paid

For fiscal 2018 through 2020 SDAT must provide a property tax refund to homeowners for property taxes paid by the homeowner as a result of the changes made to the calculation of the homeowners' property tax credit by the bill and if so, the amount of the refund owed. The refund must be paid by the Comptroller's Office from the Local Reserve Account. Based on an analysis of taxes paid by homeowners' property tax credit recipients in fiscal 2018 through 2019, SDAT estimates that refunds totaling approximately \$11.4 million (with a potential range of between \$9.6 million and \$13.2 million) will be paid to homeowners in fiscal 2022. The bill requires refunds to be paid from the Local Reserve Account; as a result, special fund expenditures increase by approximately \$11.4 million in fiscal 2022 (with a potential range of between \$9.6 million and \$13.2 million).

For fiscal 2023 through 2037, the Governor must include an appropriation in the State budget to the Local Reserve Account in an amount equal to one-fifteenth of the total property tax refunds paid resulting from the bill during fiscal 2022. Based on SDAT's estimate for refunds to be issued in fiscal 2022, general fund expenditures for repayment to the Local Reserve Account increase by approximately \$760,000 (with a potential range of between \$640,000 and \$880,000) annually in fiscal 2023 through 2037. Local Reserve Account revenues increase by a commensurate amount in those years.

Additional Information

Prior Introductions: A similar bill was introduced as HB 633 of 2017. The bill received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: HB 158 (Delegate Carr, *et al.*) - Ways and Means.

Information Source(s): Maryland Association of Counties; Comptroller's Office; Department of Budget and Management; State Department of Assessments and Taxation; Department of Legislative Services

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