

Department of Legislative Services  
Maryland General Assembly  
2021 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 1234 (Delegate Feldmark)  
Ways and Means

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**Homeowners' Property Tax Credit – Eligibility and Automatic Renewal**

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This bill alters the definition of gross income for purposes of calculating the homeowners' property tax credit. The bill also establishes that a homeowner is presumed to be eligible to receive the property tax credit under specified circumstances. **The bill takes effect June 1, 2021, and applies to taxable years beginning after June 30, 2021.**

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**Fiscal Summary**

**State Effect:** General fund expenditures increase by a significant amount beginning in FY 2022. Based on preliminary estimates, the increase in State expenditures could exceed \$50 million annually. State revenues are not affected.

**Local Effect:** The overall effect on local government expenditures depends on the impact of the bill on State expenditures. Some homeowners may receive a reduced local supplement which will decrease local expenditures. However, to the extent that more homeowners become eligible for the homeowners' property tax credit, local governments that provide a supplement to the State homeowners' property tax credit will realize increased expenditures.

**Small Business Effect:** None.

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## Analysis

### Bill Summary:

#### *Definition of Gross Income*

The bill alters the definition of gross income for purposes of calculating the homeowners' property tax credit by basing the income amount on an individual's Maryland adjusted gross income (MAGI). MAGI is the taxpayer's federal adjusted gross income adjusted by Maryland addition and subtraction modifications.

Under current law, gross income includes (1) any benefit under the Social Security Act or the Railroad Retirement Act; (2) the aggregate of gifts over \$300; (3) alimony; (4) support money; (5) any nontaxable strike benefit; (6) public assistance received in a cash grant; (7) a pension; (8) an annuity; (9) any unemployment insurance benefit; (10) any workers' compensation benefit; (11) the net income received from a business, rental, or other endeavor; (12) any withdrawal, payment, or distribution from an individual retirement account; (13) any withdrawal, payment, or distribution from any qualified retirement savings plan; and (14) any rent on the dwelling, including the rent from a room or apartment. Gross income does not include (1) any income tax refund received from the State or federal government or (2) any loss from business, rental, or other endeavor.

#### *Presumption of Eligibility*

The bill establishes that a homeowner is presumed to be eligible for and granted the homeowners' property tax credit for the current year if (1) the homeowner submitted an application for and was granted the property tax credit for a preceding taxable year and (2) the State Department of Assessments and Taxation (SDAT), in consultation with the Comptroller, determines the homeowner remains eligible for the property tax credit based on any new information regarding the homeowner or information provided on the homeowner's most recently submitted application for the property tax credit.

A homeowner who is presumed to be eligible for and granted a property tax credit may not be required to submit a renewal application. A homeowner remains eligible for and must be granted the property tax credit for subsequent taxable years unless SDAT determines the homeowner is no longer eligible after receiving new information.

SDAT must mail notice to homeowners who have been granted the homeowners' property tax credit by August 1 each year. The notice must indicate the following: (1) the property tax credit is being renewed based on the most recent information available regarding the homeowner; (2) the information used by the department to make the determination; and (3) the homeowner should immediately notify the department of any changes in the

homeowner's information that may impact the homeowner's eligibility for the property tax credit. If SDAT determines that a homeowner is no longer eligible for the property tax credit, the department must notify the homeowner by mail by August 1 of the taxable year.

**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. Homeowners must apply to SDAT each year in order to be eligible for the property tax credit. The application is available on the department's website and current applications may be filed beginning February 1, 2021 through October 1, 2021. The fiscal 2022 State budget includes \$64.0 million in funding for the program. Approximately 45,000 individuals receive the property tax credit each year. SDAT reports that the average homeowners' property tax credit is approximately \$1,350.

**State Fiscal Effect:** General fund expenditures increase by a significant amount beginning in fiscal 2022 as a result of the changes proposed by the bill. The amount of the expenditure increase depends on several factors including the amount of taxable and nontaxable income reported by property tax credit recipients, the amount of the property tax credit currently received, and the number of homeowners who may become eligible for the program.

SDAT indicates that the majority of homeowners who currently receive the property tax credit report nontaxable income, which reduces the overall amount of the property tax credit provided to homeowners. By using MAGI, as required by the bill, the homeowner's nontaxable income would be excluded from the calculation, which will significantly increase the homeowners' property tax credit. A majority of property tax credit recipients report receiving Social Security income, which is estimated to total approximately \$19,400 per year for an average individual. If Social Security income is not included as part of the calculation, SDAT estimates that State general fund expenditures could increase by approximately \$50.0 million each year beginning in fiscal 2022.

SDAT notes that the automatic renewal of the homeowners' property tax credit, as required by the bill, will result in additional general fund expenditures for the program. The amount of the expenditure increase cannot be reliably estimated, but may be significant. The department estimates that there are between 75,000 and 140,000 homeowners who may be eligible for the program but have not applied.

**Local Fiscal Effect:** The overall impact on local government expenditures cannot be reliably estimated. In general, 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. However, to the extent that more homeowners become eligible for the Homeowners' Property Tax Credit Program, local governments that provide a supplement to the State homeowners' property tax credit will realize increased expenditures depending on the number of any new tax credit recipients there are each year.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Calvert and Prince George's counties; Comptroller's Office; Maryland State Treasurer's Office; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 1, 2021  
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