# Department of Fiscal Services

Maryland General Assembly

## FISCAL NOTE
## Revised

Senate Bill 599 (Senator Hoffman, et al.)
Budget and Taxation — Referred to Ways and Means

### Neighborhood Preservation and Stabilization Act of 1996 - Demonstration Project

This enrolled bill creates demonstration projects for neighborhood preservation and stabilization in Baltimore City and Baltimore County.

This bill is effective June 1, 1996, and applies for income tax purposes to all tax years beginning after December 31, 1996.

## Fiscal Summary

**State Effect:** General fund revenues could decline by an estimated $46,800 in FY 1998. Out-year revenue losses reflect continuing purchases of eligible property. Expenditures could increase by $51,000 as discussed below.

| (in dollars) | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 |
|---|---|---|---|---|---|
| GF Revenues | ($46,800) | ($93,600) | ($140,400) | ($140,400) | ($140,400) |
| GF Expenditures | 51,000 | 0 | 0 | 0 | 0 |
| Net Effect | ($97,800) | ($93,600) | ($140,400) | ($140,400) | ($140,400) |

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

**Local Effect:** Baltimore City will lose property tax revenue estimated at $24,550 in FY 1998, and Baltimore County will lose an estimated $22,250. Expenditures would not be affected.

## Fiscal Analysis

**Bill Summary:** Property owners would qualify for tax credits under this bill if they purchase residential property in designated neighborhoods, as long as they did not own property in the designated neighborhoods 12 months immediately prior to the purchase. Credits are granted against both the property tax and State income tax for a portion of the property tax on eligible owner-occupied residential property. The credit equals 40% of the property tax due for each of the first five years after purchase, and declines by 5% annually until the tenth tax year after the property is purchased. After the tenth tax year, the credit expires. The income tax credit is equal to the property tax credit, and is refundable.

Properties are eligible if they are purchased between July 1, 1996 and June 30, 1999 in an area of Baltimore City or Baltimore County designated by the Mayor or County Executive for participation. The governing bodies must hold a public hearing before the final designation of the neighborhoods, and must notify each year those taxpayers who are eligible for the credit of the amount of the credit they will receive. The Mayor and County Executive must submit a report to the Budget and Taxation Committee and the Ways and Means Committee identifying the neighborhoods selected and the number of qualifying houses. The Comptroller shall report to the General Assembly on the effect on income tax revenue, and the Mayor and County Executive shall report on the effect on targeted neighborhoods by October 1, 1998.

These credits are not available if the property is purchased through a federal or State housing assistance program, unless the mortgage is guaranteed or insured through certain programs, or is intended to be purchased by certain public and quasi-public agencies.

**State Revenues:** General fund revenues will decline by an estimated $46,800 in fiscal 1998 due to the income tax credits, based on the following facts and assumptions:

- one neighborhood is designated in each jurisdiction;
- there are 1,000 homes in each designated neighborhood;
- 5% of the homes will be purchased in each year;
- the average home sale prices are $70,000 in the city and $130,000 in the county;
- the sale price in each neighborhood equals 75% of the average price in the respective jurisdiction; and
- the current tax rates of $5.85 and $2.855 will continue.

The property tax credit granted for each house in Baltimore City will be $491 (40% of the property taxes, estimated at $1,229). The credit for each house in Baltimore County will be $445 (40% of estimated property taxes of $1,113). The property tax credits granted for the 100 properties sold will total $46,800, which is also the amount of the income tax credits since the credits are refundable. Because the property tax credit will not be received until the year after the property is purchased, the income tax credit will not be granted until fiscal 1998. The revenue loss will increase by $46,800 in fiscal 1999, and by $46,800 again in fiscal 2000 for a revenue loss of $140,400. No new credits will be granted after this, so the revenue loss will continue at this level in fiscal 2001.

**State Expenditures:** The Comptroller advises that $51,000 of computer programming costs will be incurred in fiscal 1998. The Department of Fiscal Services advises that if other legislation is also passed changing the Maryland income tax calculation, economies of scale regarding computer programming changes could be realized. This could reduce computer programming costs associated with this bill and other income tax legislation.

**Local Revenues:** Following the above facts and assumptions, Baltimore City revenues will decline by an estimated $24,550 and Baltimore County revenues will decline by an estimated $22,250 in fiscal 1998. The revenue loss for fiscal 1999 will be twice these amounts, and for fiscal 2000 the revenue loss will be three times these amounts, or $73,650 and $66,750, respectively.

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**Information Source(s):** Department of Assessments and Taxation, Office of the Comptroller (Revenue Administration Division), Department of Fiscal Services

**Fiscal Note History:** First Reader - March 7, 1996
ncs Revised - Senate Third Reader - March 25, 1996
lc Revised - Enrolled Bill - May 9, 1996

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