

Department of Legislative Services
 Maryland General Assembly
 1999 Session

FISCAL NOTE
Revised

Senate Bill 86 (Senator Conway)

Budget and Taxation

Neighborhood Preservation and Stabilization Tax Credits

This bill extends the qualifying period for participation in the Neighborhood Preservation and Stabilization Act demonstration project. Under current law, individuals who purchase a personal residence in designated neighborhoods are eligible for property and income tax credits if the properties were purchased between July 1, 1996 and June 30, 1999. The bill extends that qualifying period, by two years, to June 30, 2001. In addition, the bill expands the geographic area that qualifies for the credit. The bill also applies the credit retroactively to purchases made from July 1, 1996 through June 1, 1999 and specifies a deadline of December 1, 1999 for claiming the credit. For homes purchased after June 1, 1999, the credit may only be claimed at least six months after the transfer of title of the property.

The bill takes effect June 1, 1999.

Fiscal Summary

State Effect: General fund revenues would decrease by \$15,421 in FY 2001, increasing to \$37,178 in FY 2003. Future year revenue losses remain constant for the next three years and gradually taper off. Expenditures would not be affected.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	\$0	(\$15,421)	(\$27,884)	(\$37,178)	(\$37,178)
GF Expenditures	0	0	0	0	0
Net Effect	\$0	(\$15,421)	(\$27,884)	(\$37,178)	(\$37,178)

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

Local Effect: Baltimore City would lose property tax revenues estimated at \$6,417 in FY 2001 while Baltimore County would lose an estimated \$9,004. Expenditures would not be affected.

Small Business Effect: None.

Fiscal Analysis

Background: Under the Neighborhood Preservation and Stabilization Act of 1996 (Chapter 590), eligible property owners are allowed a credit against the amount of their property tax that is 80% of the property taxes paid in each of the first five years of ownership, declining by 10% a year until the 11th year when the credit expires. The cost of the credit is shared equally between the State and local government, with one-half applied against the State income tax and the other half applied against local property taxes. The State income tax credit is refundable. Baltimore City and Baltimore County have each designated one neighborhood to participate in the demonstration project.

The table below shows the State and local revenue loss for the program between July 1, 1996 and June 30, 1998 if all applicants claim the credit.

Neighborhood Preservation and Stabilization Act Demonstration Program

	<u>Baltimore City</u>	<u>Baltimore County</u>
Total Number of Applicants	33	60
Average Home Assessment	\$14,850	\$28,760
Local Property Tax Rate per \$100 Assessment	5.82	2.855
Average Property Tax	\$864.27	\$818.52
Total Local Revenue Loss	\$11,408	\$19,646
Total State Revenue Loss*	\$11,408	\$19,646

* To date, not all applicants have claimed the State income tax credit

Source: State Department of Assessments and Taxation

Local Revenues: Under the program, the property tax credit may be claimed the taxable year after the residence is purchased. For instance, properties purchased in fiscal 2000 (the first year of the extension) would be eligible for the credit in fiscal 2001. Consequently, there is no effect on revenues in fiscal 2000. In addition, since the credit for property purchased from July 1996 through June 1, 1999 must be claimed by December 1999, the effect of those credits does not appear until fiscal 2001. Based on the experience of the program, it is estimated that revenues would decline for Baltimore City by \$6,417 in fiscal 2001, \$10,695 in fiscal 2002, and \$14,260 in fiscal 2003 through 2005. Revenues for Baltimore County are estimated to decline by \$9,004 in fiscal 2001, \$17,189 in fiscal 2002, and \$22,918 in fiscal 2003 through 2005.

The estimates assume:

- the expanded area includes 300 additional homes in Baltimore City and 200 additional homes in Baltimore County;
- there will be eight additional applicants in Baltimore City and ten additional applicants in Baltimore County as a result of the expanded area -- these credits will be claimed by December 1999;
- the number of new applicants during the two-year extended period is equivalent to current experience plus the additional applicants as a result of the geographic expansion, for a total of 41 in Baltimore City and 70 in Baltimore County;
- local tax rates do not change;
- average assessments over the relevant period are equivalent to current averages;
- all persons will claim the credit;
- both income and property tax credits are claimed in the same fiscal year; and
- half of the new purchasers will claim the credit in the first full taxable year while half will claim the credit in the subsequent taxable year because of the required six-month wait.

State Revenues: General fund revenues would decrease by an amount equivalent to the combined local revenue losses. In fiscal 2001, general fund revenues would decline by \$15,421.

Information Source(s): State Department of Assessments and Taxation, Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Housing and Community Development, Department of Legislative Services

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