

Department of Legislative Services  
 Maryland General Assembly  
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1491 (Delegate McHale, *et al.*)  
 Ways and Means

**Homeowners' Property Tax Credit - Computation - Cost-of-Living Adjustment**

This bill alters the percentage of income computation for the Homeowners' Property Tax Credit so that the specified income amounts are increased annually for a cost-of-living adjustment determined by changes in the Consumer Price Index (CPI). The State Department of Assessments and Taxation (SDAT) is required to determine the annual cost-of-living adjustment percentage by October 1 each year based on the increase in a specified CPI from May of that year over the preceding May.

The bill takes effect July 1, 2004 and applies to all taxable years beginning after June 30, 2005.

**Fiscal Summary**

**State Effect:** General fund expenditures would increase by approximately \$10.9 million in FY 2006. Future year expenditures reflect projected bracket increases based on changes in the CPI. No effect on revenues.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	10.9	17.4	24.5	32.1
Net Effect	\$0	(\$10.9)	(\$17.4)	(\$24.5)	(\$32.1)

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

**Local Effect:** None. The Homeowners' Property Tax Credit is a State-funded property tax credit program.

**Small Business Effect:** None.

## Analysis

**Current Law:** The maximum assessment against which the Homeowners' Tax Credit may be granted is \$150,000. In order to determine the amount of the tax credit, the following is added together and then subtracted from the amount of the property owner's tax bill to determine the amount of the tax credit: 0% of the first \$4,000 of combined income, 1% of the second \$4,000 of combined income, 4.5% of the third \$4,000 of combined income, 6.5% of the fourth \$4,000 of combined income, and 9% of the combined income over \$16,000.

**Background:** The Homeowners' (Circuit Breaker) Tax Credit Program 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. Since 1992 the counties and municipalities have had the authority to enact local supplements to the homeowners' circuit breaker credit. The cost of such supplemental credits must be borne by the local governments. Montgomery and Anne Arundel counties currently have a local supplement. No municipalities currently have a local supplement.

The maximum assessment against which the Homeowners' Tax Credit may be calculated has not increased since July 1, 1990. (An adjustment was made in 2001 to reflect the change in the assessment of real property from 40% of full market value to 100% of full market value.) The income brackets were last changed in 1998.

In fiscal 2003, SDAT received 68,946 applications for the credit and issued actual tax credits to 52,583 applicants. The average credit received statewide was \$756. The total amount of tax credits reimbursed to local governments equaled \$39.6 million. The proposed fiscal 2005 State budget assumes that \$37.7 million in credits will be issued, with the average credit received being \$784.

**State Fiscal Effect:** It is estimated that the changes in the percentage of income calculation could increase general fund expenditures by approximately \$10.3 million in fiscal 2006. As the income brackets increase each year, general fund expenditures will increase accordingly. The estimate is based on an annual increase of 7% for the assessments and a 2.4% increase per year in the CPI. **Exhibit 1** shows the projected expenditure increase for fiscal 2006 through 2009.

---

**Exhibit 1**  
**Projected General Fund Expenditure Increase**  
**(\$ in millions)**

<b><u>FY 2006</u></b>	<b><u>FY 2007</u></b>	<b><u>FY 2008</u></b>	<b><u>FY 2009</u></b>
\$10.9	\$17.4	\$24.5	\$32.1

---

**Exhibit 2** shows the projected income brackets after being adjusted for increases in the CPI for fiscal 2006 through 2009.

---

**Exhibit 2**  
**Projected Income Percentage Brackets**

	<b>Amount of Combined Income Over</b>				
	<b><u>Current Law</u></b>	<b><u>Projected FY 2006</u></b>	<b><u>Projected FY 2007</u></b>	<b><u>Projected FY 2008</u></b>	<b><u>Projected FY 2009</u></b>
0% of 1 <sup>st</sup>	\$4,000	\$4,050	\$4,100	\$4,150	\$4,200
1% of 2 <sup>nd</sup>	4,000	4,100	4,200	4,300	4,450
4.5% of 3 <sup>rd</sup>	4,000	4,100	4,200	4,350	4,450
6.5% of 4 <sup>th</sup>	4,000	4,100	4,200	4,300	4,400
9% of combined income over	\$16,000	\$16,350	\$16,700	\$17,100	\$17,500

---

In order to illustrate the impact on general fund expenditures associated with the bill, **Exhibits 3 and 4** show the effect of the bill on a home in Baltimore City with an assessment of \$100,000 and a combined household income of \$30,000. In Exhibit 3 the amount of the homeowner's credit for fiscal 2006, which is not affected by the bill, is \$720. In Exhibit 4 the amount of the homeowner's tax credit for fiscal 2006 is \$739.50, an increase of \$19.50. As the combined income brackets increase with the CPI, the maximum allowable tax decreases, thereby increasing the amount of the credit.

---

**Exhibit 3**  
**Amount of Homeowner's Tax Credit**  
**Fiscal 2006**

Assessed Value of Home	\$100,000
Tax Imposed	\$2,460
<b><u>Percentage</u></b>	<b><u>Combined Income</u></b>
0% of 1 <sup>st</sup>	\$4,000
1% of 2 <sup>nd</sup>	4,000
4.5% of 3 <sup>rd</sup>	4,000
6.5% of 4 <sup>th</sup>	4,000
9% over	16,000
Maximum Allowable Tax	\$1,740
Homeowners Credit	\$720

---

---

**Exhibit 4**  
**Amount of Homeowner's Tax Credit**  
**Fiscal 2006**

Assessed Value of Home \$100,000  
Tax Imposed \$2,460

<u>Percentage</u>	<u>Combined Income</u>	<u>Tax</u>
0% of 1 <sup>st</sup>	4,050	\$0
1% of 2 <sup>nd</sup>	4,100	41
4.5% of 3 <sup>rd</sup>	4,100	185
6.5% of 4 <sup>th</sup>	4,100	267
9% over	\$16,350	1,229
	Maximum Allowable Tax	\$1,721
	Homeowners Credit	\$739.50

---

---

**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** State Department of Assessments and Taxation, Department of Legislative Services

**Fiscal Note History:** First Reader - March 15, 2004  
ncs/hlb

---

Analysis by: Michael Sanelli

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510