

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**

House Bill 323 (Chairman, Ways and Means Committee)  
 (By Request – Departmental – Assessments and Taxation)  
 Ways and Means Budget and Taxation

**Homestead Tax Credit - Agricultural Limited Liability Company**

This departmental bill extends the Homestead Property Tax Credit and semiannual property tax payment schedule that is provided to homeowners to specified agricultural limited liability companies (LLCs). The bill also provides that the Department of Assessments and Taxation (SDAT) may accept applications for the Homestead Property Tax Credit prior to September 30, 2004 for the taxable year beginning July 1, 2004.

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

**Fiscal Summary**

**State Effect:** Special fund revenues would decrease by approximately \$6,600 in FY 2005. Future year decreases reflect growth in assessable base. Expenditures would not be affected.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revenue	(\$6,600)	(\$7,200)	(\$7,800)	(\$8,400)	(\$9,000)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$6,600)	(\$7,200)	(\$7,800)	(\$8,400)	(\$9,000)

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

**Local Effect:** Local government revenues would decrease by approximately \$53,000 annually beginning in FY 2005. Local expenditures would not be affected.

**Small Business Effect:** SDAT has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

## Analysis

**Bill Summary:** The bill defines an agricultural limited liability company as a limited liability company that: (1) owns real property that includes land receiving an agricultural use assessment and includes land used as a homesite that is part of the contiguous parcel receiving the agricultural land use assessment; (2) owns personal property used to operate the agricultural land; and (3) owns no other property.

**Current Law:** Agricultural LLCs are not eligible for the Homestead Property Tax Credit.

**Background:** The Homestead Property Tax Credit Program provides tax credits against State, county, and municipal corporation real property taxes for owner-occupied residential properties for the amount of real property taxes attributable to assessed values that exceed an annual assessment increase percentage or “cap” in any given year. The amount of the annual assessment cap is: (1) 10%, for purposes of the credit against State property taxes; (2) 10% or less, as set by each county, for purposes of the credit against county property taxes; and (3) 10% or less, as set by the municipal corporation (otherwise the county cap applies), for the municipal corporation property tax credit. The cost of the credits against the local property taxes is borne by the local government.

Property taxes for owner-occupied residential property are due under a semiannual schedule. The first installment is due on July 1 and may be paid without interest on or before September 30. The second installment is due on December 1 and may be paid without interest on or before December 31. Local governments may add a service fee to the second installment to pay for administrative costs. However, homeowners may elect to pay the full year’s property tax on or before September 30 to avoid the service charge or interest.

Property taxes for property other than owner-occupied residential property are due on July 1 and may be paid without interest on or before September 30.

**State Fiscal Effect:** Current law requires that property eligible for the Homestead Property Tax Credit be the principle residence of the taxpayer. As a result, Maryland farmers who have or will change the title of their property to an LLC in order to protect themselves from potential legal liabilities are no longer eligible for the credit. Under the bill these farmers would be eligible for the credit as long as their principle residence is still on the property.

SDAT indicates that there are approximately 375 real property accounts that are held by LLCs which could become eligible for the Homestead Property Tax Credit under the bill. The Homestead Property Tax Credit is only calculated against the dwelling which is the

principal residence and the associated one-acre homesite. **Exhibit 1** shows the estimated revenue loss for existing agriculture use properties owned by LLCs.

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**Exhibit 1**  
**Estimated Potential Revenue Loss from HB 323 for Fiscal 2005**

<u>County</u>	<u>Number of Farms</u>	<u>Local Revenue Decrease</u>	<u>State Revenue Decrease</u>
Allegany	2	\$102	\$18
Anne Arundel	12	3,828	346
Baltimore City	0	0	0
Baltimore	36	3,798	450
Calvert	10	815	133
Caroline	10	737	122
Carroll	27	2,738	359
Cecil	16	1,504	242
Charles	6	370	41
Dorchester	11	748	133
Frederick	38	3,330	459
Garrett	11	1,952	234
Harford	30	1,798	252
Howard	12	2,878	211
Kent	25	4,393	592
Montgomery	31	5,782	1,032
Prince George's	1	132	10
Queen Anne's	14	2,408	346
St. Mary's	7	459	96
Somerset	5	274	47
Talbot	27	12,316	1,091
Washington	23	783	134
Wicomico	7	431	66
Worcester	<u>10</u>	<u>1,492</u>	<u>228</u>
<b>Total</b>	<b>371</b>	<b>\$53,068</b>	<b>\$6,644</b>

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**Local Fiscal Effect:** Local government property tax revenues could decrease by approximately \$53,000 as outlined in Exhibit 1. In addition, eligibility for semiannual tax payments could delay some revenues for local governments.

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - January 30, 2004  
ncs/hlb

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