

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 453 (Delegate Ramirez, *et al.*)
 Ways and Means

Property Tax - Homeowners' Property Tax Credit - Computation

This bill alters the calculations pertaining to the determination of the Homeowners' Property Tax Credit. First, the bill raises the maximum assessment against which the Homeowners' Tax Credit may be granted from \$150,000 to \$175,000. Second, the bill alters the percentage of income calculation for the tax credit calculation.

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

Fiscal Summary

State Effect: General fund expenditures would increase by approximately \$5.4 million annually beginning in FY 2005. No effect on revenues.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	5.4	5.4	5.4	5.4	5.4
Net Effect	(\$5.4)	(\$5.4)	(\$5.4)	(\$5.4)	(\$5.4)

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, 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 is added together and then subtracted from the amount of the property owner's tax bill to determine the amount of the tax credit.

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.

The maximum assessment against which the Homeowners' Tax Credit may be calculated has not increased since Chapters 8 and 9 of 1989 which took effect 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.) Chapters 8 and 9 of 1989 also changed the income brackets. The income brackets were last changed in 1998.

In fiscal 2003, the State Department of Assessments and Taxation 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: The bill raises the maximum assessment against which the Homeowners' Tax Credit may be granted from \$150,000 to \$175,000 and alters the calculation for determining the amount of the credit to 0% of the first and second \$4,000 of income, 3.5% of the third \$4,000 of income, 6.5% of the fourth \$4,000 of income, and 9% of all income over \$16,000.

If the method for calculating the credit proposed under the bill had been in effect for fiscal 2003, 51,309 applicants would have received an additional \$5.4 million in Homeowners' Tax Credits. This estimate includes an additional 1,300 homeowners who would not have qualified under current guidelines.

If the maximum assessment was raised to \$175,000 without any change to the income brackets, 14,584 accounts would have received an additional credit of approximately \$1.7 million.

It is estimated that the bill would result in an estimated 50,000 real property accounts receiving additional Homeowners' Property Tax Credits, which would result in an expenditure increase of approximately \$5.4 million annually beginning in fiscal 2005. Any increase in local tax rates would also increase the amount of Homeowners' Tax Credits paid.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mh/hlb

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