HB 37

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 37 (Delegate Leopold)
Ways and Means

Property Tax - Homestead Property Tax Credit - Damaged Dwelling

This bill provides that a homeowner who does not actually live in a dwelling for more than six months of a 12-month period may continue to qualify for the Homestead Property Tax Credit for the current taxable year and two succeeding taxable years even if the dwelling has been removed from the assessment roll if the dwelling is damaged due to an accident or natural disaster.

The bill applies to any homeowner whose dwelling was damaged on or after September 18, 2003. The bill takes effect June 1, 2004 and applies to all taxable years beginning after June 30, 2003.

Fiscal Summary

State Effect: Potential significant decrease in State property tax revenues resulting from homeowners being able to remain eligible for Homestead Property Tax Credits when they might otherwise be ineligible. The amount of any revenue decrease would depend on the number of accidents or natural disasters in Maryland and the number of properties affected. The bill codifies current practice in the wake of Hurricane Isabel.

Local Effect: Potential significant decrease in local property tax revenues resulting from homeowners being able to remain eligible for Homestead Property Tax Credits when they might otherwise be ineligible. The amount of any revenue decrease would depend on the number of accidents or natural disasters in Maryland and the number of properties affected. The bill codifies current practice in the wake of Hurricane Isabel.

Small Business Effect: None.

Analysis

Current Law: 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.

Under the program a homeowner may still be eligible for the Homestead Property Tax Credit even if he or she does not reside in the dwelling for more than six months of a 12-month period due to illness or need of special care and is otherwise eligible for the credit.

State Fiscal Effect: The bill authorizes the Department of Assessments and Taxation (SDAT) to maintain Homestead Property Tax Credits on homeowner-occupied dwellings if the dwelling has been damaged or destroyed due to accident or natural disaster. As discussed above, current law requires that a dwelling be the principal residence of the property owner in order to receive the Homestead Property Tax Credit. However, if a dwelling is damaged due to natural disaster or accident, the property owner may not be able to reside in his or her residence. The bill permits the property owner to continue to receive the Homestead Property Tax Credit for the current tax year and the two subsequent tax years.

As a result, the owner would be able to repair or rebuild the residence and still utilize the Homestead Property Tax Credit to the same extent as before the accident or natural disaster. SDAT indicates that in the wake of Hurricane Isabel, it has maintained the Homestead Property Tax Credit on damaged or destroyed residences. As a result, the bill codifies current practice in the wake of Hurricane Isabel.

As of January 1, 2004, over 3,250 properties were damaged or destroyed as a result of Hurricane Isabel. The total adjustment to the assessable base has been in excess of $108.6 million. However, not all of these properties are owner-occupied dwellings.

It cannot be reliably estimated as to the number and value of properties which could qualify for a continued Homestead Property Tax Credit during repair or reconstruction in each year as it is not possible to predict the number of natural disasters or accidents that could occur in any given year.

Exhibit 1 details the number of abatements (property revenues from tax rolls) and the amount abated (value of property removed from rolls) resulting from Hurricane Isabel.

Exhibit 1
Tax Abatements Resulting from Hurricane Isabel

County	Number of Abatements	Abatement Amount
Anne Arundel	127	$9,045,875
Baltimore City	6	2,475,000
Baltimore	2,617	75,000,000
Calvert	136	4,597,538
Cecil	77	5,850,935
Dorchester	12	585,000
Harford	10	1,079,260
Kent	36	1,100,000
Queen Anne's	74	4,100,600
St. Mary's	112	4,733,652
Worcester	46	98,000

Source: Department of Assessments and Taxation

Local Fiscal Effect: The bill keeps homeowners from being disqualified for the Homestead Property Tax Credit if their home becomes uninhabitable due to accident or natural disaster. As a result, local governments would lose property tax revenue they would otherwise receive due to the disqualification. On the other hand, however, local governments would not have benefited from these increased assessments due to the removal of the Homestead Property Tax Credit if the property owner had not sustained a major property loss.

Local governments would receive additional revenues if the Homestead Property Tax Credits were removed from these properties because once the property is reconstructed, the base value for calculating the Homestead Property Tax Credit would have stepped up, if these properties are removed from eligibility for the credits.

This bill could also result in a negative assessment during the period of reconstruction, causing local governments to owe the property owner money, if the Homestead Property Tax Credit is in excess of the value of the land.

Additional Information

Prior Introductions: None.

Cross File: HB 216 (Chairman, Ways and Means Committee) (By Request – Departmental – Assessments and Taxation) – Ways and Means, is a substantially similar bill.

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

Fiscal Note History: First Reader - January 29, 2004
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