

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

Senate Bill 631 (Senator Haines)
 Budget and Taxation

Property Tax - Homeowner's Property Tax Credit - Computation

This bill alters the computation for the Homeowners' Property Tax Credit. The bill increases the maximum assessment against which the credit may be granted from \$150,000 to \$250,000 and requires that for taxable years beginning after July 30, 2006 the maximum assessment is to be increased by a cost-of-living adjustment determined by changes in the Consumer Price Index (CPI). The bill provides that any homestead tax credit amount be subtracted from the total assessment of the dwelling as opposed to the maximum assessment of \$150,000 as allowed under current law. The bill also alters the percentage of income so that the specified income amounts are increased annually (beginning after June 30, 2006) for a cost-of-living adjustment determined by changes in the 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, 2005 and applies to all taxable years beginning after June 30, 2006.

Fiscal Summary

State Effect: General fund expenditures would increase by approximately \$5.6 million in FY 2007. Future year expenditures reflect assessment increases and projected increases based on changes in the CPI. Revenues would not be affected.

| (\$ in millions) | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|------------------|---------|---------|---------|---------|---------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 0 | 5.6 | 6.1 | 6.6 | 7.1 |
| Net Effect | \$0 | (\$5.6) | (\$6.1) | (\$6.6) | (\$7.1) |

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' Property 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' Property Tax Credit Program (Circuit Breaker) 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' Property 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 68,625 applications for the credit and issued actual tax credits to 52,262 applicants. The average credit received statewide was \$756. The total amount of tax credits reimbursed to local governments equaled \$39.5 million. In fiscal 2004, SDAT received 63,728 applications for the credit and issued actual tax credits to 49,840 applicants. The average credit received statewide was \$812. The total amount of tax credits reimbursed to local governments equaled \$40.5 million.

The proposed fiscal 2006 budget assumes that \$39.7 million in credits will be issued, with the average credit received being \$851.

State Fiscal Effect: The bill alters the calculation of the Homeowners' Property Tax Credit for each taxable year beginning in fiscal 2007 by indexing the maximum assessment and the bracket calculation to changes in the CPI.

The bill's changes in the calculation of the Homeowners' Property Tax Credit could increase general fund expenditures by approximately \$5.6 million beginning in fiscal 2007. The estimate assumes an average annual increase of 7% for assessments and a 1.6% average increase per year in the CPI. As the maximum assessment and income brackets increase each year, general fund expenditures will increase accordingly.

Additional Information

Prior Introductions: None.

Cross File: HB 745 (Delegate Bates, *et al.*) – Ways and Means.

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

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