

Department of Legislative Services  
Maryland General Assembly  
2005 Session

FISCAL AND POLICY NOTE  
Revised

Senate Bill 973

(Senator Brinkley)

Budget and Taxation

Ways and Means

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

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This bill expands the homestead property tax credit that is provided to homeowners and specified agricultural limited liability companies (LLCs) to include agricultural limited liability partnerships (LLPs). The bill authorizes the State Department of Assessments and Taxation (SDAT) to accept applications for the homestead property tax credit from an LLP on or before September 30, 2005 for the taxable year beginning July 1, 2005.

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

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**Fiscal Summary**

**State Effect:** Special fund revenues could decrease to the extent that agricultural LLPs become eligible to the homestead property tax credit. The amount of any special fund revenue decrease depends on the number of agricultural eligible LLPs and the associated property assessment.

**Local Effect:** Local government revenues could decrease to the extent that agricultural LLPs become eligible to the homestead property tax credit. The amount of any revenue decrease depends on the number of agricultural eligible LLPs and the associated property assessment.

**Small Business Effect:** Minimal.

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## Analysis

**Current Law:** Chapter 501 of 2004 extended the homestead property tax credit and semiannual property tax payment schedule that is provided to homeowners to specified agricultural LLCs. Chapter 501 defined an agricultural LLC as a limited liability company that: (1) owns real property that includes land receiving an agricultural use assessment and includes land used as a home site 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.

The homestead property tax credit is only calculated against the dwelling which is the principal residence and the associated one acre home site.

**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.

The State real property tax rate is \$0.132 per \$100 of assessed value. All State property tax revenues are credited to a special fund, the Annuity Bond Fund, dedicated exclusively to paying the debt service on State general obligation bonds. Local governments generally have the authority to set their own property tax rates.

The State Department of Assessments and Taxation advises that it has accepted 32 agricultural LLCs into the program to receive the homestead property tax credit and semiannual tax billing.

**State Fiscal Effect:** The bill expands the eligibility for the homestead property tax credit and semiannual tax billing to agricultural LLPs if they meet the same criteria currently required for agricultural LLCs. This includes the following: (1) the farm must have been the principal residence of an active member of the LLP prior to the farm being titled to the LLP; (2) the person who places the property into the LLP must continue to reside in the property to continue to receive the homestead property tax credit; and (3) only one homestead property tax credit may be granted per LLP.

The potential credit amounts for any LLP accounts cannot be reliably estimated. The amount of any special fund revenue decrease depends on the number of agricultural eligible LLPs and the associated property assessment. However, to the extent that the bill encourages farmers to place their farms into LLPs, State special fund revenues would decrease accordingly.

**Local Fiscal Effect:** The potential credit amounts for any LLP accounts cannot be reliably estimated. The amount of any local government revenue decrease depends on the number of agricultural eligible LLPs and the associated property assessment. However, to the extent that the bill encourages farmers to place their farms into LLPs, local government revenues would decrease accordingly.

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### **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 22, 2005  
mp/hlb Revised - Senate Third Reader - April 8, 2005

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