HB 1195

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 1195 (Delegate Bromwell)
Ways and Means

Homeowners' Property Tax Credits - Senior Citizen Homeowners

This bill alters the Homeowners' Tax Credit Program to provide a tax credit against State and local property taxes to qualified homeowners ages 65 and over. The tax credit equals the greater of the homeowners' tax credit as calculated under current law or the amount by which the total real property tax for the year exceeds the total real property tax for the first year in which the homeowner or spouse became 65 or the home was no longer subject to any liens or mortgages.

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

Fiscal Summary

State Effect: State general fund expenditures would increase by approximately $36.0 million beginning in FY 2006. State special fund revenues would decrease by approximately $4.4 million beginning in FY 2006. The decrease in State special fund revenues could require either (1) an increase in the State property tax rate; or (2) a general fund appropriation, in order to cover debt service on the State's general obligation bonds. The impact in future years reflects assessment increases, annualization, and inflation.

($ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revenue	($4.4)	($5.7)	($7.1)	($8.5)	($10.0)
GF Expenditure	36.0	46.6	57.6	69.0	80.9
Net Effect	($40.4)	($52.3)	($64.7)	($77.6)	($91.0)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: In order to qualify for the tax credit, a homeowner must: (1) be a senior citizen or married to a senior citizen and file a joint Maryland income tax return; (2) have a combined income of $70,000 or less; and (3) have paid off any liens or mortgages against the house.

Current Law: The Homeowners' Tax Credit Program, or "Circuit Breaker," provides credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. The name "circuit breaker" derives from comparison of the tax relief to electrical circuit breakers – property tax circuit breakers protect homeowners against an overload of property taxes much like an electrical circuit breaker protects against an overload of electric current. Enacted in 1975, this program originally was limited to homeowners age 60 and older and disabled homeowners. The program was expanded to homeowners of all ages in 1978 and remains the major State-funded property tax relief program, as the State reimburses local governments for any revenue loss.

Background: According to the American Community Survey from the U.S. Census Bureau, there were 594,609 Marylanders over 65 in 2003. In 2003, the homeownership level was 69.4% in Maryland and 23.4% of households did not have a mortgage on their home. The survey indicates that there are 171,279 households which would qualify for this credit due to income level, no mortgage, and age of one spouse. There are an additional 91,219 households which would not qualify on the mortgage aspect.

Total State expenditures for the Homeowners' Tax Credit Program for fiscal 2004 were $40.5 million. The proposed fiscal 2006 budget includes $39.65 million in Homeowners' Tax Credits, with an average credit of $851. Since 1992, the counties and municipalities have had the authority to enact local supplements to the homeowners' circuit breaker credit (cost borne by the local governments). To date, only two counties, Montgomery and Anne Arundel, have exercised that authority.

State Fiscal Effect: This bill effectively freezes the property taxes of persons over 64 years of age who do not have a mortgage or lien on their property and who do not qualify for the Homeowners' Tax Credit program due to either their income level or their net worth. As a result, special fund revenues could decrease by approximately $4.4 million and general fund expenditures for local reimbursements would increase by approximately $35.5 million in fiscal 2006, based on the following:

- 130,000 households would receive the credit annually;
- the average assessment is $184,270 in fiscal 2005;
- assessment increase 4% annually; and
- the average assessment for homeowners at age 64 and over is $165,843.

Exhibit 1 shows the effect of the bill for fiscal 2006 through fiscal 2010.

Exhibit 1
Revenue Effect of HB 1195
Fiscal 2006 – 2010

	Annual Assessment	Credit per Household	State Revenue Decrease	State Expenditure Increase	Total Effect
FY 2006	$191,641	$25,798	$4,426,902	$35,499,063	$39,925,965
FY 2007	199,306	33,463	5,742,325	46,047,356	51,789,681
FY 2008	207,279	41,436	7,110,364	57,017,580	64,127,945
FY 2009	215,570	49,727	8,533,125	68,426,614	76,959,739
FY 2010	224,193	58,350	10,012,797	80,292,009	90,304,805

State general fund expenditures would increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax would have to be increased in order to meet debt service payments. Revenues and expenditures could vary depending on the actual assessed value of each eligible property.

Administrative Costs

Since having a lien on the property disqualifies individuals from this program, the State Department of Assessments and Taxation (SDAT) would have to do extensive title searches for all applicants to this program. An individual who takes out a second mortgage, home equity loan, or home equity line of credit would be disqualified from this program. Also, reverse mortgages are being heavily marketed to senior citizens and would disqualify individuals for this program. While SDAT has enough staff within the existing tax credit programs to process applications and do income tax verification for this new tax credit, SDAT would have to hire paralegals to do title work. These paralegals will be working in the courthouses looking up land records. They would be located throughout the State in the local assessment offices. The auditors would not only determine when applicants are disqualified from the program but also when they are eligible for the program again.

As a result, general fund expenditures could increase by an estimated $457,386 in fiscal 2006, which accounts for the bill's effective date and a 120-day start-up delay. This estimate reflects the cost of hiring 12 paralegals to audit the tax credit program proposed by the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$374,151
Additional Equipment	60,960
Operating Expenses	22,275
Total FY 2006 State Expenditures	**$457,386**

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Exhibit 2 shows the revenue and expenditure effect of the bill.

Exhibit 2
Effect of HB 1195

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
State Special Fund Revenue Decrease	($4,426,902)	($5,742,325)	($7,110,364)	($8,533,125)	($10,012,797)
General Fund Expenditure Local Reimbursement	35,499,063	46,047,356	57,017,580	68,426,614	80,292,009
Personnel and Operating Expenditures	457,386	544,799	578,453	614,801	654,101
Total	**($40,383,351)**	**($52,334,480)**	**($64,706,398)**	**($77,574,540)**	**($90,958,906)**

Additional Information

Prior Introductions: None.

Cross File: SB 181 (Senator Klausmeier, *et al.*) – Budget and Taxation.

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

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mll/hlb

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