

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 786 (Delegate McHale, *et al.*)
 Ways and Means

Homeowners' Property Tax Credit - Computation - Maximum Assessment

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

Fiscal Summary

State Effect: General fund expenditures would increase by approximately \$5.6 million annually beginning in FY 2006. Future year expenditures reflect 1% annual growth. No effect on revenues.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	5.6	5.7	5.7	5.8	5.9
Net Effect	(\$5.6)	(\$5.7)	(\$5.7)	(\$5.8)	(\$5.9)

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. Any homestead tax credit amount must be subtracted from the maximum assessment of \$150,000.

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' Property Tax Credit Program. 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, the State Department of Assessments and Taxation (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: Altering the calculation of the Homeowners' Property Tax Credit pursuant to the bill would affect 10,613 accounts. The bill would provide existing accounts with a greater Homeowners' Property Tax Credit and it would also expand the credit to some homeowners that are not currently eligible for the credit.

As a result, it is estimated that general fund expenditures could increase by approximately \$5.6 million in fiscal 2006. It is assumed that expenditures would increase by about 1% annually. Any increase in local tax rates would also increase the amount of Homeowners' Property 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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mam/hlb

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