

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 327 (Senator Della)
Budget and Taxation

Property Tax - Homeowners' Property Tax Credit - Computation

This bill alters the calculations pertaining to the determination of the Homeowners' Property Tax Credit. First, the bill raises the maximum assessment against which the Homeowners' Property Tax Credit may be granted from \$150,000 to \$250,000. Second, the bill alters the percentage of income calculation for the tax credit calculation.

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 \$8.8 million in FY 2006. Future years reflect 1% annual increases. No effect on revenues.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	8.8	8.9	9.0	9.1	9.2
Net Effect	(\$8.8)	(\$8.9)	(\$9.0)	(\$9.1)	(\$9.2)

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, 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 is added together and then subtracted from the amount of the property owner's tax bill to determine the amount of the tax credit.

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.

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: The bill raises the maximum assessment against which the Homeowners' Property Tax Credit may be granted from \$150,000 to \$250,000 and alters the calculation for determining the amount of the credit to 0% of the first and second \$4,000 of income, 3.5% of the third \$4,000 of income, 6.5% of the fourth \$4,000 of income, and 9% of all income over \$16,000.

It is estimated that the changes made to the calculation of the Homeowners' Property Tax Credit would affect 2,200 accounts by providing current recipients with a greater credit and by expanding the credit to some accounts that are not currently eligible for the credit. As a result, it is estimated that general fund expenditures would increase by

approximately \$8.8 million in fiscal 2006. It is assumed that expenditures would increase by approximately 1% annually.

Any increase in local tax rates would also increase the amount of Homeowners' Property Tax Credits paid.

Additional Information

Prior Introductions: A similar bill was introduced as HB 453 in the 2004 session. No action was taken by the Ways and Means Committee.

Cross File: None.

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

Fiscal Note History: First Reader - February 24, 2005
mp/hlb

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