

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 717

(Senators Middleton and Miller)

Budget and Taxation

Ways and Means

Property Tax - Homeowners Property Tax Credit - Computation and Local Supplement

This bill alters the calculation of total real property tax for the Homeowners' Property Tax Credit Program by subtracting the homestead tax credit amount from the total assessment.

The bill also specifies additional eligibility criteria for the local supplement to the Homeowners' Property Tax Credit Program, by authorizing a local jurisdiction to alter the \$200,000 limitation on a homeowner's net worth for eligibility for a local supplement to the Homeowners' Property Tax Credit Program.

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 could increase by \$1.5 million in FY 2006. Future year expenditures reflect assessment 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	1.5	1.5	1.5	1.5	1.6
Net Effect	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.6)

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

Local Effect: None. The legislation is enabling and only adds eligibility that may be considered with regards to the local supplement to the Homeowners' Property Tax Credit Program. Currently, only Anne Arundel and Montgomery counties have a local supplement.

Small Business Effect: None.

Analysis

Current Law: If a property is currently receiving a homestead tax credit, the amount of the homestead tax credit is subtracted from the maximum assessment against which the Homeowners' Property Tax Credit may be granted. The current maximum assessment against which the Homeowners' Property Tax Credit may be granted is \$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.

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.

Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. The State Department of Assessments and Taxation (SDAT) administers a local supplement granted by a county, but the cost of a local supplement is borne by the local government. For purposes of the local supplement, the counties are authorized to alter the \$150,000 maximum on the assessed value taken into account in calculating the credit, as well as the percentages and income levels specified in the tax limit formula. The counties are also authorized to impose limitations on eligibility for a local supplement in addition to the requirements specified for the State credit. To date, only two counties have granted a local supplement, Anne Arundel County and Montgomery County.

Exhibit 1 provides information regarding the use in recent years of the State Homeowners' Property Tax Credit Program in Anne Arundel and Montgomery counties and the local supplements.

Exhibit 1
Local Supplement to Homeowners' Property Tax Credit Program – Recent History

<u>Year</u>		<u>Anne Arundel County</u>		<u>Montgomery County</u>	
		<u>State Credit</u>	<u>Local Supplement</u>	<u>State Credit</u>	<u>Local Supplement</u>
2002	Credits Issued	\$4,943	\$5,400	\$4,035	\$3,347
	Total Credit Amount	3,212,575	830,962	3,338,355	744,496
2003	Credits Issued	4,391	5,100	3,392	2,950
	Total Credit Amount	2,803,924	1,195,423	2,790,123	676,176
2004	Credits Issued	4,232	4,900	3,202	2,511
	Total Credit Amount	2,843,846	1,173,030	2,842,690	484,764

Note: State credit includes State, county, and municipal tax.

Source: State Department of Assessments and Taxation; Local Governments

Municipal corporations are also authorized to provide a local supplement to the Homeowners' Property Tax Credit Program. Under the enabling authority for municipal corporations, a local supplement is a percentage not to exceed 50% of the State credit. The municipal corporations are also authorized to impose additional limitations on eligibility for the local supplement. No municipal corporations currently granted a local supplement.

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 fiscal 2006 budget assumes that \$39.4 million in credits will be issued, with the average credit received being \$846.

State Fiscal Effect: The bill changes the calculation of total real property tax for the Homeowners' Property Tax Credit so that the homestead tax credit amount is subtracted from the total assessment. If the bill had been in effect for fiscal 2003, SDAT estimates that 3,484 accounts statewide would have received \$519,780 in additional Homeowners' Property Tax Credits; if it had been in effect for fiscal 2004, 6,455 accounts statewide

would have received approximately \$1.4 million in additional Homeowners' Property Tax Credits. Based on this information, general fund expenditures could increase by approximately \$1.5 million in fiscal 2006 due to the change proposed in this bill.

The number of applicants in the Homeowners' Property Tax Credit Program has decreased in the last few years. SDAT indicates that in fiscal 2003, 2,187 recipients of the tax credit transferred property. Of those homeowners, only 84 filed an application for the tax credit in fiscal 2004. To the extent that this trend continues, the revenue loss associated with the bill would be lessened.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Montgomery County, Prince George's County, Caroline County, Calvert County, Howard County, Baltimore City, Department of Legislative Services

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Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510