

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 508

(Senators Brinkley and Mooney)

Budget and Taxation

Ways and Means

Frederick County - Property Tax - Homestead Tax Credit Percentage

This bill prohibits the maximum homestead tax credit percentage in Frederick County from exceeding 5% for any taxable year.

The bill takes effect October 1, 2005 and applies to all taxable years beginning after June 30, 2006.

Fiscal Summary

State Effect: None.

Local Effect: Frederick County and municipal revenues could decrease by approximately \$8.8 million in FY 2007 and by approximately \$39.6 million in FY 2010. Local expenditures would not be affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: Frederick County's homestead tax credit percentage is 10%, however, two municipal corporations – Frederick City (5%) and Mount Airy (0%) – have homestead tax credit percentages below 10%.

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 annual

assessment increases that exceed a specified percentage or “cap” in any given year. The credit applies only to the principal residence of the property owner and the credit does not apply if, during the previous tax year, the ownership of the property changed, the property was rezoned at the request of the homeowner, or the use of the property substantially changed. Home purchasers are disqualified from the credit for one full tax year after purchasing the property, but become eligible for the homestead credit for subsequent taxable years. In effect, the Homestead Property Tax Credit Program limits the annual assessment increase to a fixed percentage as long as a homeowner stays in the same home. The cost of the credit against the local property taxes is borne by the local governments.

The homestead credit was originally enacted in 1977 with an assessment growth cap of 15%. Since fiscal 1992, the limit has been set at 10% for State property tax purposes, with local governments authorized to reduce the percentage to not less than 0% for local property tax purposes. For fiscal 2005, 10 counties have set a homestead cap below 10%. **Exhibit 1** shows the counties with a reduced homestead cap.

Local Fiscal Effect: Reducing the maximum homestead tax credit percentage in Frederick County to 5% would result in a significant decrease in county and municipal revenue. **Exhibit 2** shows the current county and municipal homestead tax credit percentages as well as the county and municipal property tax rates. **Exhibit 3** shows the estimated loss in assessable base and the corresponding revenue decrease associated with reducing the homestead tax credit percentage. To the extent that the county and/or municipal corporations increase tax rates to compensate for the reduction in the homestead tax credit percentage, the revenue losses would be mitigated.

Exhibit 1
Counties with a Reduced Homestead Tax Credit Percentage

<u>County</u>	<u>Current Cap</u>	<u>County</u>	<u>Current Cap</u>
Anne Arundel	2%	Kent	5%
Baltimore City	4%	Prince George’s	2%
Baltimore	4%	St. Mary’s	5%
Garrett	5%	Talbot	0%
Howard	5%	Worcester	5%

Exhibit 2
Current Homestead Tax Credit Percentages and Property Tax Rates

	<u>Current Cap</u>	<u>Tax Rate</u>		<u>Current Cap</u>	<u>Tax Rate</u>
Frederick County	10%	1.0000			
Brunswick	10%	0.4880	Myersville	10%	0.2740
Burkittsville	10%	0.1400	New Market	10%	0.1200
Emmitsburg	10%	0.3600	Rosemont	10%	0.0400
Frederick City	5%	0.6900	Thurmont	10%	0.2730
Middletown	10%	0.2320	Walkersville	10%	0.1760
Mt. Airy	0%	0.1930	Woodsboro	10%	0.1520

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 11, 2005
n/hlb

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Exhibit 3
Estimated Assessable Base Loss and Corresponding Revenue Loss Resulting from Capping the Homestead Tax
Credit Percentage at 105%
(\$ in Thousands)

	<u>FY 2007</u>		<u>FY 2008</u>		<u>FY 2009</u>		<u>FY 2010</u>	
	<u>Lost Base</u>	<u>Revenue Decrease</u>	<u>Lost Base</u>	<u>Revenue Decrease</u>	<u>Lost Base</u>	<u>Revenue Decrease</u>	<u>Lost Base</u>	<u>Revenue Decrease</u>
Frederick County	-\$866,424.7	-\$8,664.2	-\$1,732,849.4	-\$17,328.5	-\$2,599,274.1	-\$25,992.7	-\$3,898,911.2	-\$38,989.1
Brunswick	-10,360.2	-50.6	-20,720.3	-101.1	-31,080.5	-151.7	-46,620.7	-227.5
Burkittsville	-241.1	-0.3	-482.2	-0.7	-723.3	-1.0	-1,084.9	-1.5
Emmitsburg	-230.6	-0.8	-461.1	-1.7	-691.7	-2.5	-1,037.5	-3.7
Frederick City	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Middletown	-7,299.4	-16.9	-14,598.7	-33.9	-21,898.1	-50.8	-32,847.1	-76.2
Mt. Airy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Myersville	-1,642.1	-4.5	-3,284.1	-9.0	-4,926.2	-13.5	-7,389.3	-20.2
New Market	-1,316.4	-1.6	-2,632.9	-3.2	-3,949.3	-4.7	-5,923.9	-7.1
Rosemont	-1,657.6	-0.7	-3,315.3	-1.3	-4,972.9	-2.0	-7,459.4	-3.0
Thurmont	-5,178.8	-14.1	-10,357.6	-28.3	-15,536.4	-42.4	-23,304.6	-63.6
Walkersville	-27,760.4	-48.9	-55,520.9	-97.7	-83,281.3	-146.6	-124,921.9	-219.9
Woodsboro	-5,037.0	-7.7	-10,073.9	-15.3	-15,110.9	-23.0	-22,666.3	-34.5
Total	-\$927,148.2	-\$8,810.3	-\$1,854,296.4	-\$17,620.6	-\$2,781,444.5	-\$26,430.9	-\$4,172,166.8	-\$39,646.4