SB 310

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 310 (Senator Stone, *et al.*)
(By Request – Baltimore County Administration)

Budget and Taxation

Property Tax Credits - Natural Disaster Damage - Transferability

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This bill provides that property tax credits for dwellings that are repaired or reconstructed after being damaged or destroyed by a natural disaster may be transferred between: (1) husband and wife; (2) divorced individuals in accordance with an agreement filed in the divorce case; or (3) if there is no consideration to be paid in connection with the transfer, between: a parent and a child or stepchild; a parent and a daughter-in-law, son-in-law, stepdaughter-in-law, or stepson-in-law; a grandparent and grandchild or stepgrandchild; or siblings, half-siblings, or stepsiblings, in any combination.

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

Fiscal Summary

State Effect: Potential decrease in State property tax revenues resulting from homeowners being able to transfer specified property tax credits. The amount of any decrease depends on the number of transfers and the amount of the credit.

Local Effect: Potential decrease in local property tax revenues resulting from homeowners being able to transfer specified property tax credits. The amount of any decrease depends on the number of transfers and the amount of the credit.

Small Business Effect: None.

Analysis

Current Law: Property tax credits issued for dwellings that are repaired or reconstructed after being damaged or destroyed by a natural disaster may not be transferred between specified family members unless they had a legal interest in the property prior to the transfer. The Homestead Property Tax Credit may be transferred between family members in cases where the consideration is zero (*i.e.*, if a spouse is added to a deed).

Background: Chapters 536 and 616 of 2005 required local governments to provide property tax relief, in the form of two local tax credits, to homeowners whose homes were damaged or destroyed by a natural disaster and then subsequently repaired or reconstructed which resulted in an increased assessment over the assessment prior to the natural disaster. Chapters 536 and 616 also provided that a homeowner eligible for a local property tax credit is exempt from State property taxation to the same extent as the local credit. The credit may not be claimed for a dwelling for which repair or reconstruction is completed before September 18, 2003 or after December 31, 2006.

State Fiscal Effect: The State provides a property tax exemption in the amount of the local credit granted under Chapters 536 and 616. The bill allows the transfer of property tax credit between family members whether or not the family members had a legal interest in the property prior to the transfer.

Under current law, the credits may not be transferred, so in the event of a transfer of property, the grantee would not be eligible for the credits and therefore the State property tax exemption. However, because the amount of the State revenue decrease under Chapters 536 and 616 is foregone revenue, any revenue that could be recouped as a result of a property transfer would serve only to mitigate the reduction associated with the State exemption under the Acts (approximately $193,000). The bill, therefore, would continue the estimated revenue decrease associated with Chapters 536 and 616. It is not known how many times transfers may occur, and therefore any reduction in the amount of foregone revenue that might be recouped cannot be reliably estimated.

Local Fiscal Effect: Local governments are required to provide two property tax credits for a dwelling repaired or reconstructed due to damage incurred by a natural disaster under Chapters 536 and 616. The bill allows the transfer of property tax credit between family members whether or not the family members had a legal interest in the property prior to the transfer.

Under current law, the credits may not be transferred, so in the event of a transfer of property, the grantee would not be eligible for the credits. However, because the amount of the local revenue decrease under Chapters 536 and 616 is foregone revenue, any revenue that could be recouped as a result of a property transfer would serve only to mitigate the reduction associated with the local credits under the Acts (approximately $1.5 million). The bill, therefore, would continue the estimated revenue decrease associated with Chapters 536 and 616. It is not known how many times transfers may occur, and therefore any reduction in the amount of foregone revenue that might be recouped cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: HB 253 (Delegate Minnick) (By Request – Baltimore County Administration) – Ways and Means.

Information Source(s): State Department of Assessments and Taxation, Washington County, Montgomery County, Prince George's County, Kent County, Worcester County, Department of Legislative Services

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