

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 1252
 Ways and Means

(Delegate Cardin, *et al.*)

Property Tax - Homeowner's Property Tax Credit

This bill makes several changes to the Homeowners' Property Tax Credit Program. It alters the definition of assets to exclude the cash value of any qualified retirement savings plan or Individual Retirement Account (IRA), alters the definition of gross income to include specified payments from IRAs and retirement savings plans, increases the maximum eligible assessment, alters the percentages of income used to calculate the credit, and imposes a combined income limit on recipients.

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

Fiscal Summary

State Effect: General fund expenditures could increase by approximately \$22.6 million in FY 2007. The proposed FY 2007 budget assumes \$12.6 million in general fund expenditures contingent on enactment of legislation to raise the maximum assessment and change the income exemption for the program. Future years reflect changes in assessments and program participation. Revenues are not affected.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	22.6	22.8	23.1	23.3	23.5
Net Effect	(\$22.6)	(\$22.8)	(\$23.1)	(\$23.3)	(\$23.5)

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

Local Effect: Local governments that have a homeowners' property tax credit supplement could realize a reduction in expenditures for their programs as a result of the increased State credit.

Small Business Effect: None.

Analysis

Bill Summary: Exhibit 1 shows the proposed changes to the Homeowners' Property Tax Credit Program compared to current law.

Exhibit 1 Comparison of Changes Proposed by HB 1252 to Current Law

	<u>Current Law</u>	<u>Proposed Changes</u>
Definition of Assets	N/A	Excludes the cash value of any qualified retirement savings plan or IRA
Definition of Gross Income	N/A	Includes any withdrawal, payment, or distribution from IRA or any qualified retirement savings plan
Maximum Assessment Allowed	\$150,000	\$300,000
Percentage of Income to Calculate Credit	<ul style="list-style-type: none">● 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● 9% of combined income over \$16,000	<ul style="list-style-type: none">● 0% of the first \$10,000 of combined income● 4.5% of the next \$2,000 of combined income● 6.5% of the next \$4,000 of combined income● 9% of combined income over \$16,000
Net Worth	\$200,000	\$300,000
Combined Income Limit	N/A	\$60,000

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, the following is added together and then subtracted from the amount of the property owner's tax bill 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. In order to be eligible for the homeowners' property tax credit, the combined net worth of a homeowner may not exceed \$200,000 in the calendar year preceding the year the taxpayer applies for 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. 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.

Chapter 588 of 2005 altered 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 rather than the \$150,000 maximum assessment specified under the credit. Chapter 588 also specified 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.

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. Prior to July 1, 2005, Montgomery and Anne Arundel counties were the only jurisdictions providing a local supplement; beginning July 1, 2005, Charles, Frederick, and Howard counties also provided a local supplement.

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. Beginning July 1, 2005, the City of Rockville began providing a local supplement.

In fiscal 2005, SDAT received 62,758 applications for the credit and issued actual tax credits to 48,601 applicants. The average credit received statewide was \$820. The total amount of tax credits reimbursed to local governments equaled \$39.85 million. In fiscal 2006, SDAT received 62,973 applications for the credit and issued actual tax credits to 46,189 applicants. The average credit received statewide was \$857. The total amount of tax credits reimbursed to local governments equaled \$39.6 million, plus a deficiency appropriation of \$2.1 million.

The Governor's proposed budget for fiscal 2007 includes \$52.6 in general fund expenditures for the Homeowners' Property Tax Credit Program, including \$12.6 million in expenditures that is contingent on the passage of legislation that alters the calculation of the credit by increasing the maximum assessment and changing the current income exemption.

State Fiscal Effect: The bill makes several significant changes to the Homeowners' Property Tax Credit Program. The bill would increase the number of homeowners eligible for the program as well as increase benefits for those who already receive credits. As a result, it is estimated that general fund expenditures for the tax credit program could increase by approximately \$22.6 million in fiscal 2007, based on the following facts and assumptions:

- General fund expenditures for the program totaled approximately \$41.7 million in fiscal 2006 (including a \$2.1 million deficiency appropriation); there were 46,189 recipients.
- Based on applications for the current credit approximately 3,362 new participants would receive the credit when the changes imposed by the bill are applied to current participation levels.
- The changes proposed by the bill would result in additional applications and an estimated 50% increase in participation and expenditures; this results in a total program increase of 5,045 participants.

Exhibit 2 shows the estimated general fund increase for the Homeowners' Property Tax Credit Program in fiscal 2007 associated with implementing the provisions of the bill, compared to current expenditures. The bill increases the average credit from \$857 to \$1,214 per recipient.

However, as noted, the proposed fiscal 2007 budget assumes \$12.6 million in general fund expenditures contingent on passage of legislation that alters the calculation of the credit by increasing the maximum assessment and changing the current income exemption. As a result, general fund expenditures resulting from the bill would increase by \$9.6 million over the amount budgeted in fiscal 2007.

Exhibit 2
Estimated Effect of HB 1252 on General Fund Expenditures
Fiscal 2007

<u>County</u>	<u>Current Accounts Receiving Credit</u>	<u>Current Amount of Credit</u>	<u>Estimated Accounts Receiving Credit</u>	<u>Additional Credit</u>	<u>Total GF Expenditure</u>
Allegany	1,105	\$583,408	1,147	\$189,216	\$772,624
Anne Arundel	3,849	2,695,550	4,569	2,623,572	5,319,122
Baltimore City	12,103	11,545,375	12,384	2,572,500	14,117,876
Baltimore	8,255	6,177,272	8,927	2,874,740	9,052,012
Calvert	461	384,004	493	238,056	622,060
Caroline	347	220,604	352	76,474	297,077
Carroll	1,645	1,547,660	1,774	856,623	2,404,283
Cecil	726	597,851	777	221,913	819,763
Charles	697	572,370	808	322,597	894,967
Dorchester	391	255,096	418	95,614	350,710
Frederick	2,023	2,249,951	2,182	1,212,555	3,462,506
Garrett	477	211,892	512	91,388	303,280
Harford	1,934	1,741,256	2,065	867,074	2,608,330
Howard	864	910,876	1,071	1,327,786	2,238,663
Kent	245	159,652	265	77,885	237,537
Montgomery	3,206	2,536,068	5,189	5,685,799	8,221,867
Prince George's	3,760	4,245,339	3,985	2,094,501	6,339,841
Queen Anne's	364	272,799	411	176,897	449,696
St. Mary's	646	474,219	706	276,446	750,664
Somerset	271	139,643	286	55,065	194,708
Talbot	148	76,330	157	45,535	121,865
Washington	1,596	1,306,167	1,635	348,815	1,654,983
Wicomico	712	462,990	727	134,002	596,992
Worcester	364	232,116	397	153,507	385,624
Total	46,189	\$39,598,488¹	51,234	\$22,618,560	\$62,217,048

¹Does not include the fiscal 2006 deficiency appropriation of \$2.1 million.

Source: State Department of Assessments and Taxation, Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

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

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