

**Department of Legislative Services**  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**

Senate Bill 752

(Senators Pipkin and Jacobs)

Budget and Taxation

Rules and Executive Nominations

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**Cecil County - Property Tax - Homestead Tax Credit Percentage**

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

The bill takes effect October 1, 2006 and applies to all taxable years beginning after June 30, 2007.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Cecil County and municipal property tax revenues could decrease by approximately \$2.1 million in FY 2008 and by approximately \$7.9 million in FY 2011. Local expenditures would not be affected. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Cecil County's homestead tax credit percentage is 8%; however, the homestead tax credit percentage for municipal tax purposes is 5% in the Town of Elkton and 10% in the Town of Port Deposit. The remaining six municipalities have the same homestead tax credit percentage as the county.

**Background:** The Homestead Tax Credit Program (assessment caps) provides tax credits against State, county, and municipal real property taxes for owner-occupied residential properties for the amount of real property taxes resulting from an annual assessment increase that exceeds a certain percentage or “cap” in any given year. The State requires the cap on assessment increases to be set at 10% for State property tax purposes; however, local governments have the authority to lower the rate. In fiscal 2007, 15 of the 24 local jurisdictions have assessment caps below 10% as illustrated in **Exhibit 1**. In addition, several municipalities have also lowered assessment caps below 10%.

The homestead tax credit program has provided significant local property tax relief in recent years. This foregone revenue for county governments is estimated at \$622.4 million in fiscal 2007 and \$902.2 million in fiscal 2008. While the State has set the assessment cap at 10%, many jurisdictions have an assessment cap below 10%. The tax relief associated with an assessment cap below 10% is estimated at \$97.1 million in fiscal 2007 and \$187.4 million in fiscal 2008. The extent to which the homestead tax credit program may actually restrict the ability of a local government to raise property tax revenues depends on the locality’s need for revenues from the property tax and other legal and practical limitations. For example, a county impacted by a charter-imposed property tax limitation measure would presumably reduce tax rates to offset the impact of rising assessments in the absence of the homestead credit.

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**Exhibit 1**  
**Counties with Assessment Caps Below 10% in Fiscal 2007**

<u>County</u>	<u>Cap</u>	<u>County</u>	<u>Cap</u>	<u>County</u>	<u>Cap</u>
Anne Arundel	2%	Dorchester	5%	Prince George’s	3%
Baltimore City	4%	Frederick	5%	Queen Anne’s	5%
Baltimore	4%	Garrett	5%	St. Mary’s	5%
Carroll	7%	Howard	5%	Talbot	0%
Cecil	8%	Kent	5%	Worcester	3%

Source: State Department of Assessments and Taxation

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**Local Fiscal Effect:** Reducing the maximum homestead tax credit percentage in Cecil County to 5% would result in a significant decrease in county and municipal property tax 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 revenue decrease associated with reducing the homestead tax credit percentage. To the extent that the county and/or municipalities increase tax rates to compensate for the reduction in the homestead tax credit percentage, the revenue losses would be mitigated.

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**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>
<b>Cecil County</b>	<b>8%</b>	<b>\$0.980</b>			
Cecilton	8%	0.240	North East	8%	0.480
Charlestown	8%	0.320	Perryville	8%	0.362
Chesapeake City	8%	0.462	Port Deposit	10%	0.551
Elkton	5%	0.544	Rising Sun	8%	0.360

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**Exhibit 3**  
**Revenue Loss Resulting from Capping the Homestead Tax Credit Percentage at 105%**

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
<b>Cecil County</b>	<b>(\$1,963,182)</b>	<b>(\$4,020,998)</b>	<b>(\$6,065,528)</b>	<b>(\$7,582,985)</b>
Cecilton	(1,421)	(2,658)	(3,747)	(4,493)
Charlestown	(9,407)	(19,910)	(30,908)	(39,392)
Chesapeake City	(3,083)	(5,514)	(7,472)	(8,741)
Elkton	0	0	0	0
North East	(19,886)	(41,993)	(65,023)	(82,716)
Perryville	(34,771)	(73,626)	(114,362)	(145,816)
Port Deposit	(8,028)	(16,983)	(26,237)	(33,294)
Rising Sun	(13,885)	(27,714)	(40,540)	(49,608)
<b>Total Local Decrease</b>	<b>(\$2,053,664)</b>	<b>(\$4,209,397)</b>	<b>(\$6,353,816)</b>	<b>(\$7,947,045)</b>

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1421 (Delegate Smigiel) – Ways and Means.

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

**Fiscal Note History:** First Reader - February 23, 2006  
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