

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 852 (Senator Forehand)  
Budget and Taxation

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**Homestead Property Tax Credit - Municipal Corporations - Authorization for  
Enhanced Credit**

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This bill authorizes municipal corporations to provide, by law, for an enhanced homestead property tax credit for purposes of the municipal property tax. The bill provides for the calculation of the tax credit and other specified requirements.

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

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**Fiscal Summary**

**State Effect:** Potential minimal increase in general fund expenditures for programming costs. These costs are assumed to be absorbable within existing agency resources.

**Local Effect:** Potential decrease in municipal property tax revenue beginning in FY 2008. However, the amount of any decrease cannot be reliably estimated and depends on each municipal homestead tax credit percentage, the assessed value of each affected property, and the amount of the enhanced credit.

**Small Business Effect:** None.

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**Analysis**

**Bill Summary:** The credit provided must be calculated by: (1) multiplying the prior year's taxable assessment by the homestead tax credit percentage; (2) subtracting from that amount an additional dollar value of assessment as authorized by the municipal

corporation; (3) subtracting that amount from the current year's assessment; and (4) if the difference calculated is a positive number, multiplying the difference by the applicable municipal property tax rate for the current year.

To calculate the enhanced homestead tax credit for purposes of the municipal property tax, a municipal corporation must specify a dollar amount of assessed value to be subtracted from the prior year's taxable assessment, as adjusted by the homestead tax credit percentage.

**Current Law:** The cap on property assessment increases is set at 10% for State property tax purposes. A county or municipal corporation can lower the cap percentage to 0% for local property tax purposes.

**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, 65 of the State's 156 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**

<b>County</b>	<b>Cap</b>	<b>County</b>	<b>Cap</b>	<b>County</b>	<b>Cap</b>
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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**State Fiscal Effect:** The State Department of Assessments and Taxation (SDAT) advises that it would incur three hours of increased programming time, at \$75 per hour, for each municipal corporation that enacts an enhanced homestead tax credit. As a result, general fund expenditures would increase by \$225 for each municipal corporation enacting an enhanced credit. It is assumed that these costs can be absorbed within existing agency resources.

**Local Fiscal Effect:** To the extent municipal corporations enact an enhanced homestead tax credit, property tax revenues could decrease beginning in fiscal 2008. However, the amount of any decrease cannot be reliably estimated and depends on each municipal homestead percentage, the assessed value of each affected property, and the amount of the enhanced credit that is calculated. As noted, there are 156 municipal corporations in Maryland; 65 have set homestead tax credit percentages below 10%.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1245 (Delegate Barve, *et al.*) – Ways and Means.

**Information Source(s):** State Department of Assessments and Taxation, Havre de Grace, Department of Legislative Services

**Fiscal Note History:** First Reader - February 27, 2006  
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