

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 853

(Senator Forehand)

Budget and Taxation

Ways and Means

Homeowners Property Tax Credit Program - Local Supplement - Municipal Corporation

This bill alters the calculation and eligibility criteria of the municipal supplement to the Homeowners' Property Tax Credit Program to make it consistent with the calculation and eligibility criteria authorized under the county supplement program. The bill alters the amount of credit that may be granted by repealing the limitation that a municipal supplement may not exceed 50% of the State Homeowners' Property Tax Credit.

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

Fiscal Summary

State Effect: None.

Local Effect: None. The legislation is enabling and only adds eligibility that may be considered with regards to the municipal supplement to the Homeowners' Property Tax Credit Program. Currently, only the City of Rockville has a municipal supplement.

Small Business Effect: None.

Analysis

Current Law: 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.

Background: 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.

As noted, six local governments (five counties and one municipality) have enacted local supplement programs. **Exhibit 1** shows the credit calculation and the amount of credits granted for tax year beginning July 1, 2005 for the City of Rockville.

Exhibit 1
Municipal Homeowners' Tax Credit Supplement Program

<u>Local Jurisdiction</u>	<u>Credit Calculation</u>	<u>Credits Granted – Fiscal 2006</u>
Rockville	<ul style="list-style-type: none">• credit equal to 35% of the State credit	<ul style="list-style-type: none">• \$67,712 in credits granted

Additional Information

Prior Introductions: None.

Cross File: HB 1262 (Delegate Barve, *et al.*) – Ways and Means.

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

Fiscal Note History: First Reader - February 27, 2006
ncs/hlb

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510