HB 354

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 354 (Chairman, Ways and Means Committee)
(By Request – Departmental – Assessments and Taxation)

Ways and Means Budget and Taxation

Property Tax - Credit for Repaired or Reconstructed Dwelling

This departmental bill makes changes to two local property tax credits and the corresponding State property tax exemptions applicable to properties damaged or destroyed by a natural disaster that were enacted by Chapters 536 and 616 of 2005.

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: Special fund revenues could decrease by approximately $21,300 annually for five years beginning in FY 2009. The decrease in State special fund revenues could require either (1) an increase in the State property tax rate; or (2) a general fund appropriation, in order to cover debt service on the State's general obligation bonds.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	$0	$0	($21,300)	($21,300)	($21,300)
Expenditure	$0	$0	$0	$0	$0
Net Effect	$0	$0	($21,300)	($21,300)	($21,300)

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

Local Effect: Local government revenues could decrease by approximately $161,200 annually for five years beginning in FY 2009.

Small Business Effect: The State Department of Assessments and Taxation (SDAT) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: Specifically, the bill:

- provides that the State property tax exemption granted under Chapters 536 and 616 is only applicable to the local five-year 100% property tax credit under the Acts; the bill repeals the State exemption that was applicable to the three-year credit 50% local property tax;
- repeals the mandatory three-year 50% local property tax credit;
- repeals the restriction that the credit may only be claimed for a dwelling repaired or reconstructed between September 18, 2003 and December 31, 2006; and
- provides that local governments are authorized to grant a three-year local option property tax credit to homeowners whose homes are damaged or destroyed due to a natural disaster and subsequently repaired or reconstructed; the amount of the credit is equal to 50% of property tax attributable to the increase in the assessed value of a dwelling over the prior assessment; the credit not be claimed for dwellings repaired or reconstructed before September 18, 2003.

Current Law/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. Eligible homeowners are also 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.

The amount of the credits allowed under Chapters 536 and 616 are equal to the following percentage of the property tax attributable to an increase in the assessment of the dwelling upon revaluation, including improvements, over the last assessment of the dwelling before repair or reconstruction:

Year Claiming Credit	**Amount of Credit on Increased Assessment**
First Credit	
First taxable year	100%
Second taxable year	100%
Third taxable year	100%
Fourth taxable year	100%
Fifth taxable year	100%

Year Claiming Credit	Amount of Credit on Increased Assessment
Second Credit	
Sixth taxable year	50%
Seventh taxable year	50%
Eighth taxable year	50%

The Attorney General has written that Chapters 536 and 616 are unconstitutional because there is not a uniform treatment of taxpayers because an inequity exists for more than five years due to the mandatory nature of the credit and therefore the State exemptions. An inequity may exist for up to five years without creating a uniformity problem.

This bill addresses the uniformity issue by changing the three-year credit to a local option and provides local governments to ability to consider additional eligibility criteria. The bill also limits State exemption to coincide with the five-year mandatory local credit.

Exhibit 1 shows the number of properties, by county, that were damaged by Hurricane Isabel in September 2003.

Exhibit 1
Number of Properties Damaged by Hurricane Isabel

County	Damaged Properties
Anne Arundel	127
Baltimore County	2,800
Calvert	137
Cecil	77
Dorchester	72
Kent	59
Queen Anne's	101
St. Mary's	112
Total	**3,485**

The State real property tax rate is $0.132 per $100 of assessed value. All State property tax revenues are credited to a special fund, the Annuity Bond Fund, dedicated exclusively to paying the debt service on State general obligation bonds. Local governments generally have the authority to set their own property tax rates.

State Fiscal Effect: Primarily, this bill would assist homeowners whose properties were damaged during Hurricane Isabel and who have had no choice but to build a better home, but will not have their home repaired or reconstructed by the December 31, 2006 cutoff under current law. (In order to meet insurance or building code requirements, many homeowners have had to raise their homes at least eight feet above the ground.)

If the property owner simply replaces the damaged structure with a similar one, SDAT would not change the assessment that the property was receiving prior to the storm. In instances where property owners made significant improvements, the property owners would still receive the homestead tax credit to the extent which they were previously eligible. Under the bill, property owners who are not able to repair or reconstruct their home before December 31, 2006 would be eligible to receive a 100% credit on the increased value due to the new construction for five years, pursuant to Chapters 536 and 616; to the extent local governments grant a 50% credit for three years, homeowners would also be eligible.

The credit is based on the difference between the previous assessment and the reassessment done for the new construction. The first five years, the tax credit equals 100% of the increased value. After the fifth year, the second credit becomes a local option credit equal to 50% of the increased value. To the extent that it is authorized by local governments, a homeowner may only receive this credit if the homeowner already received the five-year credit and this credit is limited to three years. To the extent that it is granted by local governments, it has the same requirements and restrictions as the five-year credit.

For the majority of properties which were damaged during Hurricane Isabel, the repairs will add less than $50,000 in assessed value. According to SDAT these property owners will not receive any assessment increase as new construction out of cycle. The repairs will be picked up during the regular reassessment of the property and will be a part of the phased-in assessment increase.

Pursuant to this legislation, State special fund revenues could decrease by $21,276, annually for five years beginning in fiscal 2009, based on the following:

- 3,485 properties were damaged by Hurricane Isabel;
- about 37% of the properties are substantially better than what existed prior to the storm;

- 10% of damaged properties will not be reconstructed or repaired before December 31, 2006; and
- the average assessment increase of those properties that are significantly improved is $125,000.

Exhibit 2 shows the potential estimated annual effect of the bill on special fund revenues for fiscal 2009 through 2011.

Exhibit 2
Estimate Annual Special Fund Revenue Decrease Resulting from HB 354
Fiscal 2009 – 2011

Total Damaged Properties	3,485
Properties Significantly Improved – 37%	1,289
Properties not Repaired by December 31, 2006	129
Average Assessment Increase	$125,000
Total Increased Base	$16,118,125
State Revenue Decrease	**($21,276)**
County Revenue Decrease	**($161,181)**

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

State general fund expenditures would increase in an amount equal to the decrease in the Annuity Bond Fund revenues in order to meet debt service payments. Revenues and expenditures could vary depending on the actual assessed value of each eligible property.

To the extent that other natural disasters occur in the future, revenues would decline accordingly.

Local Fiscal Effect: As shown in Exhibit 2, local government revenues could decrease by approximately $161,181 annually for five years beginning in fiscal 2009, assuming an average local rate of $1.00 per $100 of assessment. Revenues could vary depending on the actual assessed value of each property.

Revenues would decrease to the extent that counties grant the local option tax credit authorized by the bill.

Also, to the extent that there are other natural disasters in the future, revenues would decline accordingly.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/hlb

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