

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

**FISCAL AND POLICY NOTE**

Senate Bill 234 (Senator Della)  
 Budget and Taxation

**Property Tax - Homeowners' Property Tax Credit**

This bill makes several changes to the Homeowners' Property Tax Credit Program. It increases the maximum eligible assessment, alters the percentages of income used to calculate the credit, and increases the maximum combined net worth used to determine eligibility.

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 \$34.2 million in FY 2007. The proposed FY 2007 budget assumes \$12.6 million in general fund expenditures contingent on passage of specified legislation. 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	34.2	34.6	34.9	35.3	35.6
Net Effect	(\$34.2)	(\$34.6)	(\$34.9)	(\$35.3)	(\$35.6)

*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.

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### Exhibit 1 Comparison of Changes Proposed by SB 234 to Current Law

	<u>Current Law</u>	<u>Proposed Changes</u>
<b>Maximum Assessment</b>	\$150,000	\$250,000
<b>Percentage of Income to Calculate Credit</b>	<ul style="list-style-type: none"><li>• 0% of the 1st \$4,000 of combined income</li><li>• 1% of the 2nd \$4,000 of combined income</li><li>• 4.5% of the 3rd \$4,000 of combined income</li><li>• 6.5% of the 4th \$4,000 of combined income</li><li>• 9% of combined income over \$16,000</li></ul>	<ul style="list-style-type: none"><li>• 0% of the 1st \$10,000 of combined income</li><li>• 1% of the next \$4,000 of combined income</li><li>• 4.5% of the next \$4,000 of combined income</li><li>• 6.5% of the next \$4,000 of combined income</li><li>• 9% of combined income over \$22,000</li></ul>
<b>Net Worth</b>	\$200,000	\$300,000

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**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 assumes \$52.6 in general fund expenditures for the Homeowners' Property Tax Credit Program, including \$12.6 million in expenditures 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 \$34.2 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 4,700 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 7,056 participants.

**Exhibit 2** shows the estimated general fund increase for the Homeowners' Property Tax Credit Program associated with implementing the provisions of the bill, compared to current expenditures.

The bill increases the average credit from \$857 to \$1,387 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 \$21.6 million over the amount budgeted in fiscal 2007.

**Exhibits 3** and **4** illustrate the effect of the bill on hypothetical homeowners in each county. **Exhibit 3** shows the estimated effect of the bill in each county for a homeowner with an annual income of \$28,000, using the 2006 average home assessment.

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**Exhibit 2**  
**Estimated Effect of SB 234 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	1,201	\$412,820	\$996,227
Anne Arundel	3,849	2,695,550	4,842	3,715,547	6,411,097
Baltimore City	12,103	11,545,375	12,889	5,542,727	17,088,103
Baltimore	8,255	6,177,272	9,367	5,357,245	11,534,517
Calvert	461	384,004	502	334,804	718,808
Caroline	347	220,604	371	153,517	374,120
Carroll	1,645	1,547,660	1,812	1,363,059	2,910,719
Cecil	726	597,851	797	412,434	1,010,285
Charles	697	572,370	883	529,424	1,101,795
Dorchester	391	255,096	436	168,435	423,531
Frederick	2,023	2,249,951	2,232	1,764,818	4,014,769
Garrett	477	211,892	539	171,336	383,228
Harford	1,934	1,741,256	2,122	1,439,711	3,180,967
Howard	864	910,876	1,085	1,433,869	2,344,745
Kent	245	159,652	272	133,518	293,170
Montgomery	3,206	2,536,068	5,297	5,988,566	8,524,634
Prince George's	3,760	4,245,339	4,110	3,174,005	7,419,344
Queen Anne's	364	272,799	432	259,561	532,360
St. Mary's	646	474,219	729	416,005	890,223
Somerset	271	139,643	300	89,311	228,954
Talbot	148	76,330	162	67,017	143,346
Washington	1,596	1,306,167	1,698	780,617	2,086,785
Wicomico	712	462,990	760	288,396	751,386
Worcester	364	232,116	414	235,695	467,812
<b>Total</b>	<b>46,189</b>	<b>\$39,598,488<sup>1</sup></b>	<b>53,245</b>	<b>\$34,232,436</b>	<b>\$73,830,924</b>

<sup>1</sup>Does not include the fiscal 2006 deficiency appropriation of \$2.1 million.

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

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**Exhibit 3**  
**Estimated Effect of SB 234 for Homeowners with Combined Income of \$28,000**  
**Using Average County Assessments**

<u>County</u>	<u>Average Assessment</u> <sup>1</sup>	<u>Tax Rate</u> <sup>2</sup>	<u>Total Taxes Owed</u>	<u>Amount of Credit</u>	<u>Maximum Income</u> <sup>3</sup>
Allegany	\$69,713	\$1.1327	\$790	\$-	\$25,440
Anne Arundel	192,930	1.0630	2,051	1,031	39,454
Baltimore City	76,211	2.4400	1,860	840	37,328
Baltimore	154,691	1.2470	1,929	909	38,100
Calvert	212,323	1.0240	2,174	1,154	40,824
Caroline	120,956	1.0420	1,260	240	30,671
Carroll	199,393	1.1800	2,353	1,333	42,809
Cecil	158,572	1.1120	1,763	743	36,259
Charles	186,647	1.1580	2,161	1,141	40,682
Dorchester	111,338	1.0520	1,171	151	29,681
Frederick	200,013	1.1320	2,264	1,244	41,824
Garrett	90,639	1.1320	1,026	6	28,067
Harford	176,794	1.2140	2,146	1,126	40,514
Howard	246,976	1.3015	3,214	2,194	52,382
Kent	148,609	1.1240	1,670	650	35,226
Montgomery	310,396	1.0990	3,411	1,728	47,194
Prince George's	155,104	1.4510	2,251	1,231	41,673
Queen Anne's	236,643	1.0020	2,371	1,351	43,013
St. Mary's	174,293	1.0040	1,750	730	36,110
Somerset	77,934	1.1220	874	-	26,382
Talbot	203,184	0.6520	1,325	305	31,386
Washington	136,770	1.0800	1,477	457	33,079
Wicomico	117,610	1.1250	1,323	303	31,368
Worcester	153,840	0.8620	1,326	306	31,401

<sup>1</sup>Average assessment for 2006 before the deduction of any credits.

<sup>2</sup>Tax rate is for the current county rate and the current State tax rate.

<sup>3</sup>Maximum income is the maximum amount of income to qualify at the assessment level for this chart. Any homeowner with income in excess of this amount is ineligible for any property tax credit.

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**Exhibit 4** shows show the estimated effect of the bill in each county for a homeowner with an annual income of \$28,000, using the maximum assessment of \$250,000, as proposed by the bill.

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**Exhibit 4**  
**Estimated Effect of SB 234 for Homeowners with Combined Income of \$28,000**  
**Using a Maximum Assessment of \$250,000**

<u>County</u>	<u>Maximum Assessment</u> <sup>1</sup>	<u>Tax Rate</u> <sup>2</sup>	<u>Total Taxes Owed</u>	<u>Amount of Credit</u>	<u>Maximum Income</u> <sup>3</sup>
Allegany	\$250,000	\$1.1327	\$2,832	\$1,812	\$ 48,131
Anne Arundel	250,000	1.0630	2,658	1,638	46,194
Baltimore City	250,000	2.4400	6,100	5,080	84,444
Baltimore	250,000	1.2470	3,118	2,098	51,306
Calvert	250,000	1.0240	2,560	1,540	45,111
Caroline	250,000	1.0420	2,605	1,585	45,611
Carroll	250,000	1.1800	2,950	1,930	49,444
Cecil	250,000	1.1120	2,780	1,760	47,556
Charles	250,000	1.1580	2,895	1,875	48,833
Dorchester	250,000	1.0520	2,630	1,610	45,889
Frederick	250,000	1.1320	2,830	1,810	48,111
Garrett	250,000	1.1320	2,830	1,810	48,111
Harford	250,000	1.2140	3,035	2,015	50,389
Howard	250,000	1.3015	3,254	2,234	52,819
Kent	250,000	1.1240	2,810	1,790	47,889
Montgomery	250,000	1.0990	2,748	1,728	47,194
Prince George's	250,000	1.4510	3,628	2,608	56,972
Queen Anne's	250,000	1.0020	2,505	1,485	44,500
St. Mary's	250,000	1.0040	2,510	1,490	44,556
Somerset	250,000	1.1220	2,805	1,785	47,833
Talbot	250,000	0.6520	1,630	610	34,778
Washington	250,000	1.0800	2,700	1,680	46,667
Wicomico	250,000	1.1250	2,813	1,793	47,917
Worcester	250,000	0.8620	2,155	1,135	40,611

<sup>1</sup>Maximum assessment per SB 234 before the deduction of any credits.

<sup>2</sup>Tax rate is for the current county rate and the current State tax rate.

<sup>3</sup>Maximum income is the maximum amount of income to qualify at the assessment level for this chart. Any homeowner with income in excess of this amount is ineligible for any property tax credit.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 5 (The Speaker, *et al.*) – Ways and Means.

**Information Source(s):** State Department of Assessments and Taxation, Maryland Association of Counties, Department of Legislative Services

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