

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 5

(The Speaker, *et al.*)

Ways and Means

Budget and Taxation

Property Tax - Homeowners' Property Tax Credit and Renters' Property Tax Relief

This bill makes several changes to the Homeowners' Property Tax Credit Program. It alters the definitions of assets and gross income, increases the maximum eligible assessment, alters the percentages of income used to calculate the credit, and imposes a combined income limit on recipients. The bill also increases the maximum tax credit allowed under the Renters' Property Tax Relief Program from \$600 to \$750.

The bill takes effect June 1, 2006; the changes to the Homeowners' Property Tax Credit Program are applicable to all taxable years beginning after June 30, 2006, and the changes to the Renters' Property Tax Relief Program are applicable to calendar years beginning after December 31, 2005.

Fiscal Summary

State Effect: General fund expenditures could increase by \$18.1 million in FY 2007 and by \$19.3 million by FY 2011. The FY 2007 budget assumes \$16.7 million in additional general fund credit expenditures. 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	18.1	18.4	18.7	19.0	19.3
Net Effect	(\$18.1)	(\$18.4)	(\$18.7)	(\$19.0)	(\$19.3)

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.

Exhibit 1 Comparison of Changes Proposed by HB 5

	<u>Current Law</u>	<u>House Bill 5</u>
Definition of Assets	N/A	Excludes the cash value of IRAs or qualified retirement savings plans
Definition of Gross Income	N/A	Includes any withdrawal, payment, or distribution from IRAs or qualified retirement savings plans
Maximum Assessment	\$150,000	\$300,000
Calculation Formula	<ul style="list-style-type: none">• 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• 9% of combined income over \$16,000	<ul style="list-style-type: none">• 0% of the first \$8,000 of combined income• 4% of the next \$4,000 of combined income• 6.5% of the next \$4,000 of combined income• 9% of combined income over \$16,000
Income Limitation	N/A	\$60,000
Maximum Renters Tax Relief	\$600	\$750
Fiscal 2007 Additional Expenditures	N/A	\$18.1 million

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. The maximum tax credit allowed under the Renters' Property Tax Relief Program is \$600.

Background:

Homeowners' Property Tax Credit Program

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 budget for fiscal 2007 assumes \$56.7 million in general fund expenditures for the Homeowners' Property Tax Credit Program, including \$16.7 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.

Renters' Property Tax Relief Program

The Renters' Property Tax Relief Program provides relief for elderly or disabled renters from the burden attributable to State and local real property taxes. The concept behind the program is that renters indirectly pay property taxes as part of their rent and thus should have some protection, as do homeowners. It is not actually a tax credit, but rather makes payments directly to eligible renters to provide relief for the "assumed property tax" that renters indirectly pay as part of their rent.

Originally, the program was based on an "assumed property tax bill" equal to 10% of rent paid. Credits were substantially increased in 1981 to 15% of rent paid. As under the Homeowners' Property Tax Credit, qualification is based on a sliding scale of assumed property tax liability and income. If the portion of rent attributable to the assumed property taxes exceeds a fixed amount in relation to income, the renter can, under specified conditions, receive a credit of as much as \$600.

The formula to calculate the credit has been altered three times, increasing the credit by \$15 in 1982 and 1985, and again in 1989 by \$40. The maximum credit allowed was increased from \$450 to \$500 in 1985 and to \$600 in 1989. Finally, in 1992, the program

was expanded to include certain renters under 60 years of age who live with a minor dependent. The State pays the amount directly to program recipients. The total State expenditure in fiscal 2005 was \$3.3 million.

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 \$17.9 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 2,628 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 increase of 1,400 participants; this results in a total program increase of 4,033 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 \$1,146 per recipient.

However, as noted, the fiscal 2007 budget assumes \$16.7 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 \$1.3 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 2007 average home assessment, after application of the homestead tax credit.

Exhibit 2
Estimated Effect of HB 5 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	1,119	\$91,201	\$674,608
Anne Arundel	3,849	2,695,550	4,425	2,199,824	4,895,374
Baltimore City	12,103	11,545,375	12,171	1,474,716	13,020,092
Baltimore	8,255	6,177,272	8,684	2,023,007	8,200,280
Calvert	461	384,004	490	194,501	578,505
Caroline	347	220,604	344	45,156	265,760
Carroll	1,645	1,547,660	1,759	684,416	2,232,076
Cecil	726	597,851	761	151,180	749,031
Charles	697	572,370	789	249,810	822,180
Dorchester	391	255,096	411	60,830	315,926
Frederick	2,023	2,249,951	2,167	1,002,060	3,252,012
Garrett	477	211,892	500	55,260	267,152
Harford	1,934	1,741,256	2,045	670,391	2,411,647
Howard	864	910,876	1,059	1,229,144	2,140,020
Kent	245	159,652	259	55,383	215,035
Montgomery	3,206	2,536,068	5,050	5,240,136	7,776,204
Prince George's	3,760	4,245,339	3,939	1,712,391	5,957,731
Queen Anne's	364	272,799	406	142,067	414,866
St. Mary's	646	474,219	694	217,491	691,710
Somerset	271	139,643	279	35,621	175,264
Talbot	148	76,330	157	33,570	109,900
Washington	1,596	1,306,167	1,614	195,986	1,502,154
Wicomico	712	462,990	715	70,805	533,795
Worcester	364	232,116	385	118,978	351,095
Total	46,189	\$39,598,488¹	50,222	\$17,953,924	\$57,552,412

¹Does not include the fiscal 2006 deficiency appropriation of \$2.1 million.

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

Exhibit 3
Estimated Effect of HB 5 for Homeowners with Combined Income of \$28,000
Using Average County Assessments

<u>County</u>	<u>Average Assessment¹</u>	<u>Tax Rate²</u>	<u>Total Taxes Owed</u>	<u>Amount of Credit</u>	<u>Maximum Income³</u>
Allegany	\$74,376	\$1.1327	\$842	\$-	\$20,694
Anne Arundel	201,540	1.0630	2,142	642	35,137
Baltimore City	80,911	2.4400	1,974	474	33,269
Baltimore	164,634	1.2470	2,053	553	34,144
Calvert	235,980	1.0240	2,416	916	38,183
Caroline	70,169	1.0420	731	-	19,457
Carroll	214,350	1.1800	2,529	1,029	39,437
Cecil	173,608	1.1120	1,931	431	32,784
Charles	222,148	1.1580	2,572	1,072	39,916
Dorchester	120,350	1.0520	1,266	-	25,401
Frederick	214,027	1.1320	2,423	923	38,253
Garrett	92,171	1.1320	1,043	-	22,926
Harford	195,112	1.2140	2,369	869	37,652
Howard	264,936	1.3015	3,448	1,948	49,646
Kent	164,325	1.1240	1,847	347	31,856
Montgomery	347,188	1.0990	3,816	1,797	47,967
Prince George's	163,966	1.4510	2,379	879	37,768
Queen Anne's	256,362	1.0020	2,569	1,069	39,875
St. Mary's	186,165	1.0040	1,869	369	32,101
Somerset	88,139	1.1220	989	-	22,321
Talbot	218,260	0.6520	1,423	-	27,145
Washington	151,392	1.0800	1,635	135	29,500
Wicomico	128,067	1.1250	1,441	-	27,342
Worcester	153,879	0.8620	1,326	-	26,072

¹Average assessment for 2007 after the application of the homestead property tax credit.

²Tax rate is for the current county rate and the current State tax rate.

³Maximum 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.

Exhibit 4 shows the estimated effect of the bill in each county for a homeowner with an annual income of \$28,000, using the maximum assessment of \$300,000, as proposed by the bill.

Exhibit 4
Estimated Effect of HB 5 for Homeowners with Combined Income of \$28,000
Using a Maximum Assessment of \$300,000

<u>County</u>	<u>Maximum Assessment¹</u>	<u>Tax Rate²</u>	<u>Total Taxes Owed</u>	<u>Amount of Credit</u>	<u>Maximum Income³</u>
Allegany	300,000	\$1.1327	\$3,398	\$1,898	\$49,090
Anne Arundel	300,000	1.0630	3,189	1,689	46,767
Baltimore City	300,000	2.4400	7,320	5,820	60,000
Baltimore	300,000	1.2470	3,741	2,241	52,900
Calvert	300,000	1.0240	3,072	1,572	45,467
Caroline	300,000	1.0420	3,126	1,626	46,067
Carroll	300,000	1.1800	3,540	2,040	50,667
Cecil	300,000	1.1120	3,336	1,836	48,400
Charles	300,000	1.1580	3,474	1,974	49,933
Dorchester	300,000	1.0520	3,156	1,656	46,400
Frederick	300,000	1.1320	3,396	1,896	49,067
Garrett	300,000	1.1320	3,396	1,896	49,067
Harford	300,000	1.2140	3,642	2,142	51,800
Howard	300,000	1.3015	3,905	2,405	54,717
Kent	300,000	1.1240	3,372	1,872	48,800
Montgomery	300,000	1.0990	3,297	1,797	47,967
Prince George's	300,000	1.4510	4,353	2,853	59,700
Queen Anne's	300,000	1.0020	3,006	1,506	44,733
St. Mary's	300,000	1.0040	3,012	1,512	44,800
Somerset	300,000	1.1220	3,366	1,866	48,733
Talbot	300,000	0.6520	1,956	456	33,067
Washington	300,000	1.0800	3,240	1,740	47,333
Wicomico	300,000	1.1250	3,375	1,875	48,833
Worcester	300,000	0.8620	2,586	1,086	40,067

¹Maximum assessment per HB 5 before the deduction of any credits.

²Tax rate is for the current county rate and the current State tax rate.

³Maximum 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.

The bill also increases the maximum renters' tax credit from \$600 to \$750. It is estimated that general fund expenditures would increase by approximately \$194,700 in fiscal 2007, as shown in **Exhibit 5**.

Exhibit 5
Proposed Changes to Renters Tax Credit Relief Program

	<u>Current Law</u>	<u>HB 5</u>	<u>Change</u>
Maximum Credit	\$600	\$750	\$150
Number of Recipients	10,629	10,629	0
Amount of Credit	2,872,02	3,066,778	194,676
Average Credit	270	289	19
Renters Receiving Increased Credit			1,778

Additional Information

Prior Introductions: None.

Cross File: SB 234 (Senator Della) – Budget and Taxation.

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

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