

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 215

(The President, *et al.*) (By Request – Administration)

Budget and Taxation

Homeowners' Property Tax Credit - Calculation

This Administration bill makes several changes to the Homeowners' Property Tax Credit Program. It alters the definition of gross income to include specified payments from Individual Retirement Accounts (IRAs) and retirement savings plans, 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 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 \$16.7 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	16.7	16.9	17.0	17.2	17.4
Net Effect	(\$16.7)	(\$16.9)	(\$17.0)	(\$17.2)	(\$17.4)

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: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration’s assessment becomes available.

Analysis

Bill Summary: Exhibit 1 shows the proposed changes to the Homeowners’ Property Tax Credit compared to current law.

Exhibit 1 Comparison of Changes Proposed by SB 215 to Current Law

	<u>Current Law</u>	<u>Proposed Changes</u>
Definition of Gross Income	N/A	Includes any withdrawal, payment, or distribution from IRA or any qualified retirement savings plan
Maximum Assessment Allowed	\$150,000	\$300,000
Percentage of Income to Calculate Credit	<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 \$4,000 of combined income ● 0% 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 between \$16,000 and \$55,000
Combined Income Limit	N/A	\$55,000

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 includes \$52.6 in general fund expenditures for the Homeowners' Property Tax Credit Program, including \$12.6 million in expenditures that is 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 \$16.7 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 2,463 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 3,695 participants.

Exhibit 2 shows the estimated general fund increase for the Homeowners' Property Tax Credit Program in fiscal 2007 associated with implementing the provisions of the bill, compared to current expenditures. The bill increases the average credit from \$857 to \$1,129 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 \$4.1 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.

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 2
Estimated Effect of SB 215 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	\$583,406	1,110	\$67,152	\$650,560
Anne Arundel	3,849	2,695,550	4,382	2,086,385	4,781,934
Baltimore City	12,103	11,545,375	12,096	1,186,449	12,731,825
Baltimore	8,255	6,177,272	8,626	1,795,145	7,972,417
Calvert	461	384,004	487	183,113	567,117
Caroline	347	220,604	343	37,476	258,080
Carroll	1,645	1,547,660	1,752	637,391	2,185,051
Cecil	726	597,851	753	132,557	730,408
Charles	697	572,370	780	230,469	802,839
Dorchester	391	255,096	406	52,525	307,620
Frederick	2,023	2,249,951	2,149	936,627	3,186,578
Garrett	477	211,892	498	46,509	258,401
Harford	1,934	1,741,256	2,038	617,208	2,358,464
Howard	864	910,876	1,053	1,201,850	2,112,726
Kent	245	159,652	257	49,767	209,419
Montgomery	3,206	2,536,068	5,003	5,115,035	7,651,103
Prince George's	3,760	4,245,339	3,916	1,607,746	5,853,085
Queen Anne's	364	272,799	405	132,832	405,631
St. Mary's	646	474,219	693	202,266	676,485
Somerset	271	139,643	279	31,113	170,756
Talbot	148	76,330	156	30,716	107,046
Washington	1,596	1,306,167	1,608	155,872	1,462,040
Wicomico	712	462,990	715	55,053	518,043
Worcester	364	232,116	385	110,153	342,269
Total	46,189	\$39,598,488¹	49,884	\$16,701,409	\$56,299,897

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 SB 215 for Homeowners with Combined Income of \$28,000,
Using Average County Assessments

<u>County</u>	<u>Average Assessment</u> ¹	<u>Tax Rate</u> ²	<u>Total Taxes Owed</u>	<u>Amount of Credit</u>	<u>Maximum Income</u> ³
Allegany	\$69,713	\$1.1327	\$790	\$-	\$19,885
Anne Arundel	192,930	1.0630	2,051	531	33,898
Baltimore City	76,211	2.4400	1,860	340	31,773
Baltimore	154,691	1.2470	1,929	409	32,544
Calvert	212,323	1.0240	2,174	654	35,269
Caroline	120,956	1.0420	1,260	-	25,115
Carroll	199,393	1.1800	2,353	833	37,254
Cecil	158,572	1.1120	1,763	243	30,704
Charles	186,647	1.1580	2,161	641	35,126
Dorchester	111,338	1.0520	1,171	-	24,125
Frederick	200,013	1.1320	2,264	744	36,268
Garrett	90,639	1.1320	1,026	-	22,511
Harford	176,794	1.2140	2,146	626	34,959
Howard	246,976	1.3015	3,214	1,694	46,827
Kent	148,609	1.1240	1,670	150	29,671
Montgomery	310,396	1.0990	3,411	1,777	47,744
Prince George's	155,104	1.4510	2,251	731	36,117
Queen Anne's	236,643	1.0020	2,371	851	37,457
St. Mary's	174,293	1.0040	1,750	230	30,554
Somerset	77,934	1.1220	874	-	20,827
Talbot	203,184	0.6520	1,325	-	25,831
Washington	136,770	1.0800	1,477	-	27,524
Wicomico	117,610	1.1250	1,323	-	25,812
Worcester	153,840	0.8620	1,326	-	25,846

¹Average assessment for 2006 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.

Source: Department of Legislative Services

Exhibit 4
Estimated Effect of SB 215 for Homeowners with Combined Income of \$28,000
Using a Maximum Assessment of \$300,000

<u>County</u>	<u>Maximum Assessment</u> ¹	<u>Tax Rate</u> ²	<u>Total Taxes Owed</u>	<u>Amount of Credit</u>	<u>Maximum Income</u> ³
Allegany	\$300,000	\$1.1327	\$3,398	\$1,878	\$48,868
Anne Arundel	300,000	1.0630	3,189	1,669	46,544
Baltimore City	300,000	2.4400	7,320	5,800	55,000
Baltimore	300,000	1.2470	3,741	2,221	52,678
Calvert	300,000	1.0240	3,072	1,552	45,244
Caroline	300,000	1.0420	3,126	1,606	45,844
Carroll	300,000	1.1800	3,540	2,020	50,444
Cecil	300,000	1.1120	3,336	1,816	48,178
Charles	300,000	1.1580	3,474	1,954	49,711
Dorchester	300,000	1.0520	3,156	1,636	46,178
Frederick	300,000	1.1320	3,396	1,876	48,844
Garrett	300,000	1.1320	3,396	1,876	48,844
Harford	300,000	1.2140	3,642	2,122	51,578
Howard	300,000	1.3015	3,905	2,385	54,494
Kent	300,000	1.1240	3,372	1,852	48,578
Montgomery	300,000	1.0990	3,297	1,777	47,744
Prince George's	300,000	1.4510	4,353	2,833	55,000
Queen Anne's	300,000	1.0020	3,006	1,486	44,511
St. Mary's	300,000	1.0040	3,012	1,492	44,578
Somerset	300,000	1.1220	3,366	1,846	48,511
Talbot	300,000	0.6520	1,956	436	32,844
Washington	300,000	1.0800	3,240	1,720	47,111
Wicomico	300,000	1.1250	3,375	1,855	48,611
Worcester	300,000	0.8620	2,586	1,066	39,844

¹Maximum assessment per SB 215 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.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: HB 313 (The Speaker, *et al.*) (By Request – Administration) – Ways and Means.

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

Fiscal Note History: First Reader - February 7, 2006
ncs/hlb

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