

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 925 (Senator Munson)  
Budget and Taxation

---

Washington County - Property Tax - Homestead Tax Credit Percentage

---

This bill prohibits the maximum homestead tax credit percentage for the county property tax in Washington County from exceeding 5% for any taxable year.

The bill takes effect October 1, 2006 and applies to all taxable years beginning after June 30, 2007.

---

Fiscal Summary

**State Effect:** None.

**Local Effect:** Washington County property tax revenues could decrease by approximately \$3.1 million in FY 2008 and by \$11.8 million in FY 2011. Assuming that the municipalities in the county remain linked to the county homestead percentage, municipal property tax revenues could decrease by approximately \$523,700 in FY 2008 and by \$1.8 million in FY 2011. Local expenditures would not be affected. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

---

Analysis

**Current Law:** Washington County's homestead tax credit percentage is 10%. All municipalities in the county also have homestead tax credit percentages of 10%.

**Background:** The Homestead Tax Credit Program (assessment caps) provides tax credits against State, county, and municipal real property taxes for owner-occupied residential properties for the amount of real property taxes resulting from an annual assessment increase that exceeds a certain percentage or “cap” in any given year. The State requires the cap on assessment increases to be set at 10% for State property tax purposes; however, local governments have the authority to lower the rate. In fiscal 2007, 15 of the 24 local jurisdictions have assessment caps below 10% as illustrated in **Exhibit 1**. In addition, 65 of the State’s 156 municipalities have also lowered assessment caps below 10%.

The Homestead Tax Credit Program has provided significant local property tax relief in recent years. This foregone revenue for county governments is estimated at \$622.4 million in fiscal 2007 and \$902.2 million in fiscal 2008. While the State has set the assessment cap at 10%, many jurisdictions have an assessment cap below 10%. The tax relief associated with an assessment cap below 10% is estimated at \$97.1 million in fiscal 2007 and \$187.4 million in fiscal 2008. The extent to which the Homestead Tax Credit Program may actually restrict the ability of a local government to raise property tax revenues depends on the locality’s need for revenues from the property tax and other legal and practical limitations. For example, a county impacted by a charter-imposed property tax limitation measure would presumably reduce tax rates to offset the impact of rising assessments in the absence of the homestead credit.

---

**Exhibit 1**  
**Counties with Assessment Caps Below 10% in Fiscal 2007**

<b>County</b>	<b>Cap</b>	<b>County</b>	<b>Cap</b>	<b>County</b>	<b>Cap</b>
Anne Arundel	2%	Dorchester	5%	Prince George’s	3%
Baltimore City	4%	Frederick	5%	Queen Anne’s	5%
Baltimore	4%	Garrett	5%	St. Mary’s	5%
Carroll	7%	Howard	5%	Talbot	0%
Cecil	8%	Kent	5%	Worcester	3%

Source: State Department of Assessments and Taxation

---

**Local Fiscal Effect:** Reducing the maximum homestead tax credit percentage in Washington County to 5% would result in a significant decrease in county property tax revenue. Also, because no municipal corporation in the county has ever set a homestead percentage independent of the county’s percentage, the bill could result in a municipal property tax revenue decrease because, based on past history, it is possible that the municipal corporations in the county could remain linked to the county homestead percentage.

**Exhibit 2** shows the current county and municipal homestead tax credit percentages as well as the county and municipal property tax rates. **Exhibit 3** shows the estimated revenue decrease associated with reducing the county homestead tax credit percentage. The exhibit shows the county property tax revenue decrease and the municipal property tax revenue decrease, assuming that the municipal corporations remain linked to the county homestead percentage. To the extent that the county increases tax rates to compensate for the reduction in the homestead tax credit percentage, or if municipal corporations adopt other homestead percentages or increase tax rates, the revenue losses would be mitigated.

---

**Exhibit 2**  
**Current Homestead Tax Credit Percentages and Property Tax Rates**

	<u>Current Cap</u>	<u>Tax Rate</u>		<u>Current Cap</u>	<u>Tax Rate</u>
<b>Washington</b>	<b>10%</b>	<b>0.948</b>			
Boonsboro	10	0.270	Keedysville	10%	0.180
Clear Spring	10	0.190	Sharpsburg	10	0.170
Funkstown	10	0.220	Smithsburg	10	0.280
Hagerstown	10	0.798	Williamsport	10	0.400
Hancock	10	0.395			

---

---

**Exhibit 3**  
**Revenue Loss Resulting from Capping the Homestead Tax Credit Percentage at 105%**

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
<b>Washington County</b>	(\$3,068,017)	(\$6,248,234)	(\$9,408,217)	(\$11,756,130)
<b>Municipal Corporation</b>				
Boonsboro	(\$16,200)	(\$29,739)	(\$41,080)	(\$48,663)
Clear Spring	(1,507)	(3,204)	(4,979)	(6,346)
Funkstown	(1,079)	(1,906)	(2,580)	(3,022)
Hagerstown	(460,784)	(895,177)	(1,283,306)	(1,551,600)
Hancock	(11,536)	(24,516)	(38,120)	(48,611)
Keedysville	(8,279)	(17,652)	(27,490)	(35,082)
Sharpsburg	(3,583)	(7,616)	(11,825)	(15,061)
Smithsburg	(5,778)	(10,554)	(14,755)	(17,649)
Williamsport	<u>(14,926)</u>	<u>(31,734)</u>	<u>(49,333)</u>	<u>(62,894)</u>
<b>Total Municipal</b>	<b>(\$523,673)</b>	<b>(\$1,022,098)</b>	<b>(\$1,473,468)</b>	<b>(\$1,788,928)</b>

---



---

**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1065 (Washington County Delegation) – Ways and Means.

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

**Fiscal Note History:** First Reader - February 28, 2006  
ncs/hlb

---

Analysis by: Michael Sanelli

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