SB 156

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 156 (Senator Exum, *et al.*)
Budget and Taxation

Property Tax - Homeowners' Property Tax Credit

This bill makes several changes to the Homeowners' Property Tax Credit Program. It alters the maximum eligible assessment, alters the percentage 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 $58.6 million in FY 2007. The proposed FY 2007 budget assumes $12.6 million in general fund expenditures contingent on passage of legislation that raises the maximum assessment and changes the income exemption for the program. Future years reflect changes in assessments and program participation, as well as annualization and inflation. Revenues are not affected.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	$0	$0	$0	$0	$0
GF Expenditure	58.6	59.2	59.8	60.4	61.0
Net Effect	($58.6)	($59.2)	($59.8)	($60.4)	($61.0)

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 compared to current law.

Exhibit 1
Comparison of Changes Proposed by SB 156 to Current Law

	Current Law	Proposed Changes
Maximum Assessment Allowed	$150,000	$215,000
Percentage of Income to Calculate Credit	• 0% of the 1st $4,000 of combined income	• 0% of the 1st $4,000 of combined income
	• 1% of the 2nd $4,000 of combined income	• 0% of the 2nd $4,000 of combined income
	• 4.5% of the 3rd $4,000 of combined income	• 1.5% of the 3rd $4,000 of combined income
	• 6.5% of the 4th $4,000 of combined income	• 2.5% of the 4th $4,000 of combined income
	• 9% of combined income over $16,000	• 4.5% of combined income over $16,000
Net Worth	$200,000	$300,000

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 million 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 $58.5 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 8,281 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 16,562 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 $1,563 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 $45.5 million over the amount budgeted in fiscal 2007.

Exhibit 2
Estimated Effect of SB 156 on General Fund Expenditures
Fiscal 2007

County	Current Accounts Receiving Credit	Current Amount of Credit	Estimated Accounts Receiving Credit	Additional Credit	Total GF Expenditures
Allegany	1,105	$583,408	1,301	$582,778	$1,166,186
Anne Arundel	3,849	2,695,550	5,717	5,938,866	8,634,416
Baltimore City	12,103	11,545,375	14,227	9,989,639	21,535,015
Baltimore	8,255	6,177,272	10,883	8,956,672	15,133,944
Calvert	461	384,004	569	520,467	904,471
Caroline	347	220,604	413	216,535	437,138
Carroll	1,645	1,547,660	2,021	2,352,729	3,900,389
Cecil	726	597,851	918	699,433	1,297,283
Charles	697	572,370	1,435	1,225,718	1,798,089
Dorchester	391	255,096	473	238,167	493,263
Frederick	2,023	2,249,951	2,521	3,187,794	5,437,745
Garrett	477	211,892	597	226,186	438,078
Harford	1,934	1,741,256	2,358	2,444,373	4,185,629
Howard	864	910,876	1,272	2,204,953	3,115,829
Kent	245	159,652	311	202,031	361,683
Montgomery	3,206	2,536,068	7,990	10,200,646	12,736,714
Prince George’s	3,760	4,245,339	4,736	5,951,354	10,196,694
Queen Anne’s	364	272,799	492	400,118	672,918
St. Mary’s	646	474,219	824	636,223	1,110,442
Somerset	271	139,643	335	123,205	262,848
Talbot	148	76,330	182	83,996	160,326
Washington	1,596	1,306,167	1,876	1,286,987	2,593,154
Wicomico	712	462,990	822	454,393	917,383
Worcester	364	232,116	478	340,015	572,132
Total	**46,189**	**$39,598,488**	**62,751**	**$58,463,280**	**$98,061,768**

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

SDAT advises that the changes made by the bill to the Homeowners’ Tax Credit program could result in up to 21,000 new applications for the program. As a result, general fund expenditures could increase by an estimated $122,828 in fiscal 2007, which accounts for the bill’s June 1, 2006 effective date and a 90-day start-up delay. This estimate reflects the cost of hiring four office service clerks to process applications. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$116,608
Operating Expenses	6,220
Total FY 2007 State Expenditures	**$122,828**

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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