HB 47

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 47 (Delegates Cluster and Boteler)
Ways and Means

Property Tax - Homeowners' Property Tax Credit - Income Limitations

This bill alters the calculation of the Homeowners' Property Tax Credit by excluding any benefit received under the Social Security Act or the Railroad Retirement Act from the calculation of gross income.

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 $22.9 million in FY 2007. Future years reflect assessment changes. Revenues are not affected.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	$0	$0	$0	$0	$0
GF Expenditure	22.9	23.1	23.4	23.6	23.8
Net Effect	($22.9)	($23.1)	($23.4)	($23.6)	($23.8)

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 will realize a reduction in expenditures for their programs as a result of the increased State credit.

Small Business Effect: None.

Analysis

Current Law: Under the Homeowners' Property Tax Credit Program, gross income is defined as the total income from all sources for the calendar year that immediately precedes the taxable year, whether or not the income is included in the definition of gross income for federal or State tax purposes.

Gross income includes: (1) any benefit under the Social Security Act or the Railroad Retirement Act; (2) aggregate of gifts over $300; (3) alimony; (4) support money; (5) any nontaxable strike benefit; (6) public assistance received in a cash grant; (7) a pension; (8) an annuity; (9) any unemployment insurance benefit; (10) any workers' compensation benefit; (11) the net income received from a business, rental, or other endeavor; and (12) any rent on the dwelling, including the rent from a room or apartment.

Gross income does not include: (1) any income tax refund received from the State or federal government; or (2) any loss from business, rental, or other endeavor.

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, not including 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 changes the definition of gross income for the purpose of calculating the Homeowners' Property Tax Credit by excluding Social Security and Railroad Retirement benefits from gross income. Currently, a majority of tax credit recipients receive Social Security or Railroad Retirement income, and in many cases this is the only income received. Including this income lowers the amount based on income that is subtracted from the homeowners' tax bill to determine the tax credit, thereby increasing the amount of the credit. For example, under the bill, tax credit recipients who receive less than $4,000 of income, other than Social Security or Railroad Retirement income would pay no tax on the first $150,000 of the value of property.

Based on current program participation data, SDAT estimates that 43,194 accounts (out of 46,270 current accounts) could receive approximately $22.9 million in increased benefit for fiscal 2007. As a result, general fund expenditures could increase by approximately $22.9 million in fiscal 2007 due to the change proposed in this bill. Future year expenditure increases reflect assessment changes.

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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