

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

House Bill 1517  
Ways and Means

(Delegate McHale, *et al.*) (By Request)

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**Baltimore City - Property Tax Credit for Qualified City Resident Homeowners -  
New Home Purchase**

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This bill authorizes Baltimore City to grant, by law, a property tax credit imposed on a newly purchased owner-occupied residence if the new owner is a “qualified city resident homeowner” (qualified for homestead tax credit in the city during the current tax year). The newly purchased residence must be of greater value than the former residence and the property tax credit may not exceed the amount of the homestead tax credit granted for the former residence. Baltimore City is authorized to provide, by law, for: (1) eligibility criteria; (2) the amount and duration of the credit; (3) regulations and procedures for the application and uniform processing of requests for the tax credit; and (4) any other provision necessary.

The bill takes effect June 1, 2006 and is applicable to taxable years beginning after June 30, 2006.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Under one set of assumptions, Baltimore City property tax revenues could decrease by approximately \$2.1 million in FY 2007 and \$6.0 million by FY 2011. Expenditures would not be affected.

**Small Business Effect:** None.

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## Analysis

**Current Law:** The homestead property tax credit applies only to the principal residence of a property owner, and the credit does not apply if, during the previous tax year, the ownership of the property changed, the property was rezoned at the request of the homeowner, or the use of the property substantially changed. Home purchasers are disqualified from the credit for one full tax year after purchasing the property, but become eligible for the homestead property tax credit for subsequent taxable years.

**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**.

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.

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**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:** The State Department of Assessments and Taxation indicates that for fiscal 2006, there are 126,397 owner-occupied properties in Baltimore City, of which 74,251 received a homestead property tax credit. The average homestead property tax credit for properties receiving the credit is \$15,039. The average net assessment of each property is \$76,211. **Exhibit 2** shows the number of owner-occupied residential home sales and the average median sale price in Baltimore City in fiscal 2003 through 2005.

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**Exhibit 2**  
**Owner-occupied Residential Home Sales in Baltimore City**  
**Fiscal 2003 – 2005**

<u>Fiscal Year</u>	<u>Number of Sales</u>	<u>Percent Change</u>	<u>Median Sale Price</u>	<u>Percent Change</u>
2003	3,998		\$87,000	
2004	4,269	6.8%	100,000	14.9%
2005	6,130	43.6%	123,500	23.5%

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*For illustrative purposes only*, Baltimore City property tax revenues could decrease by approximately \$2.1 million in fiscal 2007 as shown in **Exhibit 3**, based on the following facts and assumptions:

- sales of owner-occupied residential properties will increase by 25% annually;
- the median sale price for owner-occupied properties will increase by 19% annually;
- the amount of the homestead credit will increase by 4% annually;
- the Baltimore City property tax rate is \$2.308 per \$100 of assessment; and
- 40% of new home sales are by first-time home buyers who would not be eligible for the tax credit.

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**Exhibit 3**  
**Estimated Revenue Decrease Resulting from Property Tax Credit**

<u>Fiscal Year</u>	<u>Estimated Home Sales</u>	<u>Estimated Median Sale Price</u>	<u>Estimated Number Eligible</u>	<u>Estimated Homestead Tax Credit</u>	<u>Estimated Revenue Decrease</u>
FY 2007	9,607	\$175,539	5,764	\$15,641	\$2,080,705
FY 2008	12,026	209,280	7,216	16,266	2,708,938
FY 2009	15,055	249,506	9,033	16,917	3,526,856
FY 2010	18,847	297,465	11,308	17,594	4,591,730
FY 2011	23,593	354,641	14,156	18,297	5,978,125

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To the extent that fewer properties are eligible for the tax credit, or if property sales and sale prices do increase as much as estimated, the associated property tax revenue decrease would be lower than estimated.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

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