

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

House Bill 1677

(Delegate Kaiser, *et al.*)

Ways and Means

Budget and Taxation

Homestead Property Tax Credit - Eligibility Verification

This bill requires a State resident, who is a homeowner eligible for the homestead property tax credit, to include the address of the property and the property identification number assigned by the State Department of Assessments and Taxation (SDAT) for the individual's principal residence on his/her Maryland income tax return. In order to qualify for the homestead property tax credit, a dwelling must be identified as the homeowner's principal residence on the homeowner's tax return except in instances when the homeowner is not required to file a Maryland income tax return. In these instances, the homeowner must file an application with SDAT accompanied by satisfactory proof of residence.

The bill takes effect October 1, 2006; however, the bill takes full effect for taxable years beginning on or after July 1, 2008. For the taxable year that begins July 1, 2007, SDAT would conduct a pilot program in two counties selected by SDAT to study the implementation of the legislation.

Fiscal Summary

State Effect: Special fund revenues could increase beginning in FY 2009 to the extent properties currently receiving a homestead property tax credit are determined to be ineligible for the tax credit. However, the amount of any special fund revenue increase cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead property tax credits. General fund expenditures would increase by \$32,900 in FY 2008.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	\$0	-	-	-	-
GF Expenditure	0	32,900	0	0	0
Net Effect	\$0	(\$32,900)	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local property tax revenues could increase beginning in FY 2009 to the extent properties that are currently receiving a homestead property tax credit are determined to be ineligible for the tax credit. However, the amount of any revenue increase cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead property tax credits. Potential redistribution of local income tax revenues.

Small Business Effect: None.

Analysis

Current Law: Residents, other than fiduciaries, who are required to file a Maryland income tax return, must include on the Maryland income tax return the name of the county and municipal corporation, if any, where the resident resides. For a personal representative, the income tax return must include the name of the county where the decedent was domiciled on the date of the decedent's death. Income tax returns filed by a fiduciary, other than a personal representative, must include the name of: (1) the county where the trust is principally administered; or (2) if the trust is not principally administered in the State, the county to which the trust is otherwise principally connected.

Background: The Homestead Property 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 Property 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 Property 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

County	Cap	County	Cap	County	Cap
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

State Revenues: State special fund revenues could increase beginning in fiscal 2009 to the extent properties currently receiving a homestead property tax credit are determined to be ineligible for the tax credit. However, the amount of any special fund revenue increase cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead property tax credits.

State Expenditures: The Comptroller would have to add new fields to both of the resident income tax forms (Forms 502 and 503) to capture the property tax identification number during processing; this would necessitate programming changes to the image and SMART processing systems. As a result, general fund expenditures would increase by \$32,850 in fiscal 2008. SDAT indicates that it could incur increased postage costs to notify homeowners of ineligibility. However, the amount of any increase depends on the number of ineligible homeowners; it is assumed to be absorbable within existing budget resources.

Local Fiscal Effect: Local property tax revenues could increase beginning in fiscal 2009 to the extent properties that are currently receiving a homestead property tax credit are determined to be ineligible for the tax credit. However, the amount of any local property

tax revenue increase cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead property tax credits. In addition, requiring the address of the resident's principle residence could result in a redistribution of local income tax revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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Analysis by: Michael Sanelli

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