SB 277

Department of Legislative Services

Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

Senate Bill 277 (Senator Astle)
Budget and Taxation Ways and Means

Homestead Tax Credit - Eligibility - Razed Property and Substantially Improved Property

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This bill provides that, if during the previous year a residential dwelling was razed for the purpose of replacing it with a new dwelling or was vacated by the homeowner for the purpose of making substantial improvements to the property, the full benefit of the homestead property tax credit received in the previous taxable year must be reflected in the taxable assessment of the total property for the current taxable year, regardless of the homeowner's actual occupancy of the dwelling.

The full benefit of the credit existing at the beginning of the tax year in which the razing or commencing of substantial improvements occurs may not be reduced, except under certain circumstances. The calculation of the credit associated with the first taxable assessment after the new improvements are added must include the revaluation, as provided under current law.

These provisions only apply to homeowners who have lived in the dwelling for at least the three prior taxable years and the dwelling was eligible for the homestead property tax credit in the previous taxable year.

The bill takes effect June 1, 2006 and applies to all taxable years beginning after June 30, 2003. For taxable years beginning after June 30, 2003, but before July 1, 2006, the State, counties and municipal corporations must provide refunds of any property tax that a homeowner paid in excess of the property properly imposed on the dwelling after reflecting the homestead property tax credit under the bill. A claim for a refund that is submitted on or before December 31, 2006 must be allowed notwithstanding the expiration of the statutory time period for filing refund claims.

Fiscal Summary

State Effect: Potential minimal decrease in State special fund revenues. The amount of any revenue decrease would depend on the number of incidents occurring in any given year. Any decrease in State special fund revenues could require either (1) an increase in the State property tax rate; or (2) a general fund appropriation, in order to cover debt service on the State's general obligation bonds.

Local Effect: Potential minimal decrease in local property tax revenues. The amount of any revenue decrease would depend on the number of incidents occurring in any given year.

Small Business Effect: None.

Analysis

Current Law: The homestead property tax credit program (assessment caps) provides tax credits against State, county, and municipal corporation 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 for local tax purposes. In fiscal 2007, 15 of the 24 local jurisdictions have assessment caps below 10% as illustrated in **Exhibit 1**. In addition, several municipalities have also lowered assessment caps below 10%.

Generally, a property owner is not eligible for a homestead property tax credit if the individual does not occupy the property as the principal residence for more than six months out of the year. However, a homeowner may still be eligible even if the homeowner does not reside in the dwelling for more than six months a year due to illness or need of special care and is otherwise eligible for the credit.

Chapter 43 of 2004 provided for the continuation of homestead property tax credits for property removed from the assessment rolls because of damage due to an accident or natural disaster. Under the Act, the credit continues for the current taxable year and two succeeding taxable years.

Background: 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 Fiscal Effect: The State Department of Assessments and Taxation (SDAT) indicates that this bill would affect very few properties annually. Accordingly, State special fund revenues should not be significantly affected.

Local Fiscal Effect: SDAT advises that there is a recent case in Anne Arundel County by which a residential property became disqualified for the homestead property tax credit due to the property being reclassified from improved to vacant to improved. A property owner in Anne Arundel County wanted to expand his/her home; however, the county would not issue a building permit due to the current condition of the home. The property owner was required to tear down the structure and build a new home. By tearing down the house, the property became reclassified as "vacant land" and became ineligible for the homestead property tax credit. This tax credit was a significant amount to the property owner because Anne Arundel County has a 2% assessment cap.

Since this bill will apply to only a few properties each year, local property tax revenues would not be significantly affected. As a point of reference, under current law, over $12.2 billion in county assessable base in Anne Arundel County will be lost due to the homestead property tax credit program in fiscal 2007. This represents approximately 21.1% of the county's total assessable base.

Additional Comments: Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2007 State budget allowance includes $656.2 million for the Annuity Bond Fund and assumes a $46.8 million ending fund balance that could be available in fiscal 2008. State general funds are not being appropriated to the Annuity Bond Fund in fiscal 2007.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

Additional Information

Prior Introductions: None.

Cross File: HB 275 (Delegate V. Clagett) – Ways and Means.

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

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