

**Department of Legislative Services**  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**

Senate Bill 308

(Senator Stone, *et al.*)

Budget and Taxation

**Property Tax - Homeowners' Property Tax Credit**

This bill increases, from \$150,000 to \$300,000, the maximum assessed value of a dwelling for purposes of calculating the Homeowners' Property Tax Credit.

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 \$9.3 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	9.3	9.4	9.5	9.5	9.6
Net Effect	(\$9.3)	(\$9.4)	(\$9.5)	(\$9.5)	(\$9.6)

*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:** 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, not including 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 increases 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 \$9.3 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; and
- approximately 14,860 existing credit applicants would receive a credit or current recipients would receive an increased credit when the changes imposed by the bill are applied to current application and participation levels.

**Exhibit 1** 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.

**Exhibit 1**  
**Estimated Effect of SB 308 on General Fund Expenditures**  
**Fiscal 2007**

<u>County</u>	<u>Current Accounts Receiving Credit</u>	<u>Current Amount of Credit</u>	<u>Estimated Accounts Receiving Credit</u>	<u>Additional Credit</u>	<u>Total GF Expenditures</u>
Allegany	1,105	\$583,408		\$2,435	\$585,842
Anne Arundel	3,849	2,695,550	2,350	1,227,292	3,922,842
Baltimore City	12,103	11,545,375	304	343,333	11,888,708
Baltimore	8,255	6,177,272	1,791	863,668	7,040,940
Calvert	461	384,004	216	103,599	487,603
Caroline	347	220,604	30	11,688	232,291
Carroll	1,645	1,547,660	813	357,371	1,905,031
Cecil	726	597,851	149	59,476	657,326
Charles	697	572,370	299	124,359	696,729
Dorchester	391	255,096	41	19,726	274,822
Frederick	2,023	2,249,951	961	547,057	2,797,008
Garrett	477	211,892	15	13,227	225,119
Harford	1,934	1,741,256	717	332,567	2,073,823
Howard	864	910,876	767	762,475	1,673,352
Kent	245	159,652	38	23,420	183,072
Montgomery	3,206	2,536,068	3,898	3,240,646	5,776,714
Prince George's	3,760	4,245,339	1,786	920,400	5,165,739
Queen Anne's	364	272,799	144	73,638	346,437
St. Mary's	646	474,219	206	109,225	583,443
Somerset	271	139,643	15	10,502	150,144
Talbot	148	76,330	36	14,761	91,091
Washington	1,596	1,306,167	142	40,614	1,346,781
Wicomico	712	462,990	28	9,294	472,284
Worcester	<u>364</u>	<u>232,116</u>	<u>106</u>	<u>57,595</u>	<u>289,712</u>
<b>Total</b>	<b>46,189</b>	<b>\$39,598,488</b>	<b>14,860</b>	<b>\$9,268,367</b>	<b>\$48,866,855</b>

**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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