

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 839
Ways and Means

(Delegate Gilleland)

Budget and Taxation

Homeowners Property Tax Credit - Local Supplement - Notification of Changes

This bill requires counties, municipal corporations, and Baltimore City to notify specified legislative committees of changes made to local homeowners' property tax credit supplement programs if changes are made to the State Homeowners' Property Tax Credit Program by the General Assembly. The bill also alters the amount of credit that may be granted under a municipal supplement program by repealing the limitation that a municipal supplement may not exceed 50% of the State 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: None.

Local Effect: Any additional administrative costs are assumed to be minimal and absorbable within existing county and municipal resources.

Small Business Effect: None.

Analysis

Current Law: 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.

Background: 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, plus a deficiency appropriation of \$2.1 million.

As noted, six local governments (five counties and one municipality) have enacted local supplement programs. **Exhibit 1** shows the credit calculation and the amount for credits granted for tax year beginning July 1, 2005.

Exhibit 1
Local Homeowners' Tax Credit Supplement Programs

<u>Local Jurisdiction</u>	<u>Credit Calculation</u>	<u>Credits Granted – 7/01/05</u>
Anne Arundel County	<ul style="list-style-type: none"> • Credit calculated on the 1st \$200,000 of assessment <p>Income Brackets:</p> <ul style="list-style-type: none"> • 0% of the 1st \$8,000 • 2.5% of the next \$4,000 • 5% of the next \$4,000 • 8% of the next \$4,000 • 9% of any income over \$20,000. 	<ul style="list-style-type: none"> • 4,217 recipients • \$1,123,591 in credits.
Charles County	<ul style="list-style-type: none"> • Credit calculated on 1st \$300,000 of assessment with a income cap of \$50,000 <p>Income Brackets:</p> <ul style="list-style-type: none"> • 0% of the 1st \$5,000 • 1% of the 2nd \$5,000 • 2% of the 3rd \$5,000 • 3% of the 4th \$5,000 • 4% of the 5th \$5,000 • 5% of the 6th \$5,000 • 6% of the 7th \$5,000 • 7% of the 8th \$5,000 • 8% of the 9th \$5,000 • 9% of the 10th \$5,000 	<ul style="list-style-type: none"> • 768 recipients • \$374,579 in credits

Local Jurisdiction

Credit Calculation

Credits Granted – 7/01/05

Frederick County

- Credit calculated on the 1st \$300,000 of assessed value

- 941 recipients
- \$309,475 in credits

Income Brackets:

- 0% of the 1st \$9,000
- 5% of the next \$1,000
- 2.5% of the next \$2,000
- 5% of the next \$4,000
- 7.5% of the next \$28,000
- 10% of any income over \$44,000.

Howard County

- Credit calculated the 1st \$150,000 of assessment

- 517 recipients
- \$112,012 in credits

Income Brackets:

- 0% of the 1st \$8,000
- 1% of the next \$4,000
- 4.5% of the next \$4,000
- 6.5% of the next \$8,000
- 8.5% of the next \$8,000
- 9% of any income over \$40,000

Montgomery County

- Credit calculated on the 1st \$300,000 of assessment

- 4,914 recipients
- \$4,251,562 in credits

Income Brackets:

- 0% of the 1st \$15,000
- 2% of the next \$6,000
- 5% of the next \$7,000
- 6.5% of the next \$8,500
- 8% of any income over \$36,500

Rockville

credit equal to 35% of the State credit

- \$67,712 in credits granted

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, City of Bowie, Town of Elkton, Town of Thurmont, City of Takoma Park, City of Annapolis, Wicomico County, Allegany County, Montgomery County, Prince George's County, Talbot County, Baltimore City, Department of Legislative Services

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