

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE  
Revised

Senate Bill 519

(Senator Haines, *et al.*)

Budget and Taxation

Rules and Executive Nominations

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Carroll County - Property Tax - Homestead Tax Credit Percentage

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This bill prohibits the maximum homestead tax credit percentage for county property tax purposes in Carroll County from exceeding 5% for any taxable year.

The bill takes effect October 1, 2006 and applies to all taxable years beginning after June 30, 2007.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Carroll County property tax revenues could decrease by approximately \$3.9 million in FY 2008 and by approximately \$13.5 million in FY 2011. Local expenditures would not be affected. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

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Analysis

**Current Law:** Carroll County's homestead tax credit percentage is 7%; however, the homestead tax credit percentage for municipal tax purposes is 0% in the town of Mount Airy and 10% in the town of Sykesville and the city of Taneytown. The remaining five municipalities have the same homestead tax credit percentage as the county.

**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**. In addition, 65 of the State’s 156 municipalities have also lowered assessment caps below 10%.

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

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**Local Fiscal Effect:** Reducing the maximum homestead tax credit percentage in Carroll County to 5% would result in a significant decrease in county property tax revenue. **Exhibit 2** shows the current county and municipal homestead tax credit percentages as well as the county and municipal property tax rates. **Exhibit 3** shows the estimated revenue decrease associated with reducing the homestead tax credit percentage. To the extent that the county increases tax rates to compensate for the reduction in the homestead tax credit percentage, the revenue losses would be mitigated.

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**Exhibit 2**  
**Current Homestead Tax Credit Percentages and Property Tax Rates**

	<u>Current Cap</u>	<u>Tax Rate</u>		<u>Current Cap</u>	<u>Tax Rate</u>
<b>Carroll County</b>	<b>7%</b>	<b>1.048</b>			
Hampstead	7%	0.200	Sykesville	10%	0.330
Manchester	7%	0.184	Taneytown	10%	0.320
Mount Airy	0%	0.188	Union Bridge	7%	0.300
New Windsor	7%	0.160	Westminster	7%	0.400

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**Exhibit 3**  
**Carroll County Revenue Loss**  
**Resulting from Capping the Homestead Tax Credit Percentage at 105%**

<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
(\$3,899,270)	(\$7,698,869)	(\$11,143,326)	(\$13,539,700)

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1146 (Carroll County Delegation) – Ways and Means.

**Information Source(s):** State Department of Assessments and Taxation, Carroll County, Department of Legislative Services.

**Fiscal Note History:** First Reader - February 23, 2006  
 ncs/hlb Revised - Senate Third Reader - April 4, 2006

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