

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 812 (Delegate Hixson)
 Ways and Means

State Property Tax - Homestead Property Tax Assessment Cap Increase

This bill increases the percentage used to determine the Homestead Property Tax Credit for State property tax purposes from 10% to 15%, thereby raising the limit on annual assessment increases, for State property tax purposes, on owner-occupied residential properties to 15%, instead of 10%.

The bill takes effect October 1, 2007 and applies to all taxable years beginning after June 30, 2008.

Fiscal Summary

State Effect: Special fund revenues could increase \$16.4 million in FY 2009 and \$23.7 million by FY 2012. Future years reflect increasing assessments and the increased cap imposed by the bill. No effect on expenditures.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	\$0	\$16.4	\$21.7	\$23.0	\$23.7
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	\$16.4	\$21.7	\$23.0	\$23.7

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The cap on property assessment increases is set at 10% for State property tax purposes. A county or municipal corporation can lower the cap percentage to 0% for local property tax purposes.

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 2008, 18 of the 24 local jurisdictions will have assessment caps below 10% as illustrated in **Exhibit 1**. In addition, several municipalities have lowered assessment caps below 10%.

Exhibit 1
Counties with Assessment Caps Below 10% in Fiscal 2008

County	Cap	County	Cap	County	Cap
Anne Arundel	2%	Charles	7%	Prince George’s	4%
Baltimore City	4%	Dorchester	5%	Queen Anne’s	5%
Baltimore	4%	Frederick	5%	St. Mary’s	5%
Caroline	5%	Garrett	5%	Talbot	0%
Carroll	7%	Howard	5%	Washington	5%
Cecil	8%	Kent	5%	Worcester	3%

Source: State Department of Assessments and Taxation

The Homestead Tax Credit Program has provided significant State and local property tax relief in recent years. At the State level, the foregone revenue is estimated at \$38.1 million in fiscal 2007, \$67.7 million in fiscal 2008, and \$95.0 million in fiscal 2009. At the local level, the foregone revenue is estimated at \$601.3 million in fiscal 2007, \$994.0 million in fiscal 2008, and \$1.4 billion in fiscal 2009. The tax relief associated with an assessment cap below 10% is estimated at \$90.0 million in fiscal 2007, \$113.7 million in fiscal 2008, and \$241.1 million in fiscal 2009.

The extent to which the Homestead Tax Credit Program may actually restrict the ability of a county to raise property tax revenues depends on the county’s need for revenues

from the property tax and other legal and practical limitation. 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.

State Fiscal Effect: The bill raises the State Homestead Tax Credit percentage from 10% to 15%. As discussed above, the Homestead Tax Credit caps property tax liability at 10% of the assessment increase. As a result of the bill, revenues could increase by approximately \$16.4 million in fiscal 2009 for the Annuity Bond Fund and \$23.7 million by fiscal 2012.

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 2008 State budget allowance includes \$692.7 million for general obligation debt service costs, of which \$43.5 million are from the general fund and \$649.2 million are special funds from the Annuity Bond Fund

Future year revenues increase as a result of the difference between increasing assessments and the 15% cap imposed by the bill. **Exhibit 2** outlines the revenue effect of the bill on State special fund revenues.

Exhibit 2
Impact on State Revenues
Increasing the Homestead Property Tax Credit Percentage to 15%
(\$ in Millions)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Assessable Base Loss					
10% Cap	\$60,475.4	\$83,565.3	\$107,488.5	\$114,061.2	\$117,347.6
15% Cap	n/a	68,912.3	88,140.6	93,530.2	96,225.0
State Tax Rate	\$0.112	\$0.112	\$0.112	\$0.112	\$0.112
Revenue Increase	\$0	\$16.4	\$21.7	\$23.0	\$23.7

Note: Estimate assumes no change in current property tax rate.

Source: State Department of Assessments and Taxation; Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Department of Legislative Services

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ncs/hlb

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