

Department of Legislative Services

Maryland General Assembly

2007 Session

FISCAL AND POLICY NOTE

House Bill 892

(Delegates Bates and Miller)

Ways and Means

Property Tax - Tax Credit for Replacement Home

This bill authorizes local governments to grant a property tax credit against the county or municipal property tax for a property that is purchased as a replacement dwelling. The credit lasts for five years and the amount of the credit may not exceed 100% of the property tax attributable to the eligible homestead assessment of the previous dwelling in the first taxable year. The amount of the credit is then reduced by 20% in each subsequent year over the five-year life of the credit. To the extent the replacement dwelling is valued at less than the former dwelling, the amount of the difference in assessed value is subtracted from the amount of the credit.

Local governments may provide for (1) the amount and duration of the credit; (2) additional eligibility criteria; (3) regulations and procedures for the application and uniform processing of the credit; and (4) any other provision necessary.

The bill takes effect June 1, 2007 and is applicable to taxable years beginning after June 30, 2007.

Fiscal Summary

State Effect: None.

Local Effect: Local government property tax revenues could decrease by a significant amount beginning in FY 2008 to the extent that property tax credits are granted for replacement homes. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: Local governments are not authorized to grant property tax credits for replacement dwellings. The homestead property tax credit is not granted for the first full year following the transfer of a dwelling to a new owner.

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.

Local Fiscal Effect: The bill could reduce local property tax revenues beginning in fiscal 2008 depending on the number of eligible replacement dwellings and the amount of the credit granted. The property tax credit granted to a replacement dwelling cannot exceed the amount of the homestead tax credit for the previous dwelling in the first year.

Exhibit 2 shows the effect of the bill in year one (100%) of the credit based on the number of residential homes sales in fiscal 2006, the average assessment and current county property tax rates for fiscal 2007. The amount of the revenue loss attributable for each eligible replacement home would decrease by 20% each year over the five-year life of the credit. In addition, the actual revenue decrease associated with the credit could be mitigated as it is likely that not all the home sales in each county would qualify for the credit.

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, Somerset County, Montgomery County, Prince George's County, Charles County, Baltimore County, Frederick County, Department of Legislative Services

Fiscal Note History: First Reader - March 9, 2007
mam/hlb

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Exhibit 2
Potential County Revenue Decrease Associated with Property Tax Credit
Year 1 of Credit

<u>County</u>	<u>Average Assessment</u>	<u>County Homestead</u>	<u>Residential Sales</u>	<u>County Property Tax Credit</u>
Allegany	\$74,093	\$465	656	(\$3,000)
Anne Arundel	283,418	78,717	10,002	(7,227,637)
Baltimore City	95,060	12,709	4,255	(1,237,261)
Baltimore	190,733	25,982	13,516	(3,862,922)
Calvert	255,178	19,581	1,227	(214,310)
Caroline	142,880	6,769	544	(32,038)
Carroll	23,987	22,976	2,654	(639,044)
Cecil	183,727	9,578	1,381	(126,983)
Charles	224,669	14,814	3,295	(500,803)
Dorchester	130,843	10,643	413	(39,384)
Frederick	245,156	29,751	4,830	(1,528,960)
Garrett	106,330	8,582	132	(11,329)
Harford	204,561	8,496	5,112	(469,951)
Howard	333,281	66,142	5,263	(3,966,632)
Kent	187,358	26,489	212	(54,584)
Montgomery	408,234	60,224	18,220	(10,051,049)
Prince George's	207,144	40,717	16,003	(8,594,545)
Queen Anne's	289,641	35,606	803	(228,733)
St. Mary's	208,274	20,805	1,536	(273,866)
Somerset	92,459	5,760	183	(9,908)
Talbot	334,617	119,744	593	(355,040)
Washington	157,294	5,681	1,944	(104,702)
Wicomico	132,996	3,800	1,231	(44,069)
Worcester	210,391	45,050	260	(81,992)
Total			94,265	(\$39,658,743)

It is estimated that the municipal property tax revenue decrease would be equivalent to approximately 5.85% of the county property tax revenue loss.
