

Department of Legislative Services
 Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

Senate Bill 522

(Senator Rosapepe)

Budget and Taxation

Ways and Means

Homestead Tax Credit - Eligibility Verification - Application

This bill requires homeowners to file a specified application with the State Department of Assessments and Taxation (SDAT) to qualify for the homestead tax credit.

Fiscal Summary

State Effect: Special fund revenues could increase by a potentially significant amount beginning in FY 2009 to the extent properties currently receiving a homestead tax credit are determined to be ineligible for the tax credit. Any such increase cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead tax credits. General fund revenues and expenditures would increase by \$599,200 in FY 2008. Future years reflect annualization and inflation.

| (in dollars) | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|----------------|-----------|-----------|-----------|-----------|-----------|
| GF Revenue | \$599,200 | \$681,200 | \$703,500 | \$688,600 | \$713,600 |
| SF Revenue | 0 | - | - | - | - |
| GF Expenditure | 599,200 | 681,200 | 703,500 | 688,600 | 713,600 |
| Net Effect | \$0 | \$0 | \$0 | \$0 | \$0 |

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

Local Effect: Local property tax revenues could increase beginning in FY 2009 to the extent properties that are currently receiving a homestead tax credit are determined to be ineligible for the tax credit. However, the amount of any revenue increase cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead tax credits. County expenditures would increase by \$599,200 in FY 2008 and \$713,600 in FY 2012. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: SDAT is prohibited from authorizing the credit and the State, county, and municipal governments are prohibited from granting the credit unless the application is filed • within 180 days following the date the dwelling is transferred for consideration to new ownership, for a dwelling that is transferred to new ownership after December 31, 2007; or • on or before December 31, 2012, for a dwelling that was last transferred to new ownership on or before December 31, 2007. SDAT must provide homeowners the option of submitting the required application electronically on its website. The Comptroller is required to provide cooperation to SDAT in adopting an audit procedure and assistance in post-auditing applications.

County governments are required to reimburse SDAT for the cost of administering the homestead property tax credit application process in each fiscal year. The reimbursement for each county is prorated based on the number of improved residential properties eligible for the credit in the county compared to the total number of eligible properties statewide.

SDAT is required, in consultation with the Comptroller, to conduct two studies on the implementation of the homestead property tax credit application process, and report to the Senate Budget and Taxation Committee and the House Committee on Ways and Means by January 1, 2009, and again by January 1, 2010.

Current Law: The homestead tax credit is automatically granted to any property which is designated as homeowner occupied. There is no application process to verify whether the property is actually homeowner occupied.

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%.

The Homestead Tax Credit was enacted almost 30 years ago to mitigate the effects of rapidly rising property tax assessments on homeowners' property tax liability. The credit is limited to the homeowners' principal residence; under the law a taxpayer is not entitled to the homestead tax credit on any additional properties (*i.e.*, a rental property or vacation home) that he or she may own.

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.

Eligibility Verification

Despite limited restrictions on eligibility, State law does not provide for a method of accurately verifying eligibility for the credit. In fact, the homestead tax credit is one of the few Maryland tax credits for which recipients are not required to provide any

information to the administering agency that may be used to verify eligibility. The credit is granted based on information provided by the homeowner at the time of settlement.

Over the past decade there has been a significant increase in the number of properties receiving the credit and the average amount of each credit. In recent years, the increasing number of recipients and the inability to verify eligibility has prompted concern over potential abuses or fraud.

Currently, 48 states and the District of Columbia have some type of homestead property tax credit or exemption (as indicated in statute). These credits vary greatly by state and as a result are not necessarily comparable. However, a survey of state statutes indicates that 13 states and the District of Columbia do require some type of eligibility verification for the applicable state homestead tax credit or exemption, including a one-time annual application or some type of verification by the tax assessor.

State Revenues: State special fund revenues could increase by a potentially significant amount beginning in fiscal 2009 to the extent properties currently receiving a homestead tax credit are determined to be ineligible for the tax credit. The amount cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead tax credits. By way of illustration, if 2% of properties are erroneously receiving the credit and would no longer receive the credit, special fund revenues could increase by \$725,000 annually.

In addition, general fund revenues would increase by \$599,200 in fiscal 2008 and \$713,600 in fiscal 2012 from county reimbursements for administering the application process.

State Expenditures: SDAT indicates that over 1.3 million residential properties are expected to receive the homestead tax credit in fiscal 2008. All these properties would have to apply for the homestead tax credit over the next several assessment cycles. As a result, general fund expenditures for SDAT could increase by an estimated \$599,200 in fiscal 2008, which accounts for the bill's October 1, 2007 effective date. This estimate reflects the cost of hiring four administrative specialists, three office secretaries, and one administrator to mail, process, verify, and audit homestead tax credit applications. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses, including computer programming (CAMA mass appraisal system), web site upgrades, and increased correspondence and related postage. The information and assumptions used in calculating the estimate are stated below:

| | |
|---|------------------|
| Positions | 8 |
| Salaries and Fringe Benefits | \$265,261 |
| Communications, including postage | 138,750 |
| Contractual service – computer programming and web site upgrades | 148,495 |
| Other Operating Expenses | <u>46,680</u> |
| Total FY 2008 SDAT Expenditures | \$599,186 |

Future year expenditures reflect • full salaries with 4.5% annual increases and 3% employee turnover; and • 1% annual increases in ongoing operating expenses.

The Comptroller’s office anticipates being able to cooperate with SDAT, as required, with existing budgeted resources. However, the type of information requested by SDAT on the homestead tax credit application would determine the extent of the Comptroller being able to provide relevant and necessary information. This would in turn determine any potential increase in expenditures.

Local Revenues: Local property tax revenues could increase by a potentially significant amount beginning in fiscal 2009 to the extent properties that are currently receiving a homestead tax credit are determined to be ineligible for the credit. The amount of the credit cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead tax credits. By way of illustration, if 2% of properties are erroneously receiving the credit and would no longer receive the credit, total county revenues could increase by \$10.0 million annually.

Local Expenditures: County expenditures would increase by \$599,200 in fiscal 2008 and by \$713,600 in fiscal 2012 for reimbursements to SDAT for administering the homestead tax credit application process. **Exhibit 2** shows the estimated mandated payments for each county for fiscal 2008.

Exhibit 2
Mandated County Reimbursement Payments
Fiscal 2008

| County | Number of Eligible Properties | Percent of Eligible Properties | Reimbursement Payment |
|-----------------|--|---|----------------------------------|
| Allegany | 26,413 | 1.5% | \$8,900 |
| Anne Arundel | 166,956 | 9.4% | 56,254 |
| Baltimore City | 194,880 | 11.0% | 65,663 |
| Baltimore | 236,799 | 13.3% | 79,787 |
| Calvert | 31,063 | 1.7% | 10,466 |
| Caroline | 11,095 | 0.6% | 3,738 |
| Carroll | 53,606 | 3.0% | 18,062 |
| Cecil | 33,129 | 1.9% | 11,163 |
| Charles | 45,365 | 2.6% | 15,285 |
| Dorchester | 13,388 | 0.8% | 4,511 |
| Frederick | 73,491 | 4.1% | 24,762 |
| Garrett | 16,092 | 0.9% | 5,422 |
| Harford | 78,130 | 4.4% | 26,325 |
| Howard | 82,086 | 4.6% | 27,658 |
| Kent | 8,361 | 0.5% | 2,817 |
| Montgomery | 284,081 | 16.0% | 95,719 |
| Prince George's | 223,030 | 12.5% | 75,148 |
| Queen Anne's | 17,818 | 1.0% | 6,004 |
| St. Mary's | 31,272 | 1.8% | 10,537 |
| Somerset | 8,866 | 0.5% | 2,987 |
| Talbot | 15,494 | 0.9% | 5,221 |
| Washington | 44,075 | 2.5% | 14,851 |
| Wicomico | 31,182 | 1.8% | 10,507 |
| Worcester | 51,636 | 2.9% | 17,398 |
| Total | 1,778,308 | 100% | \$599,186 |

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

Additional Information

Prior Introductions: None.

Cross File: HB 436 (Delegate Kaiser, *et al.*) – Ways and Means.

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

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