

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE

Senate Bill 962

(Senator Brinkley)

Budget and Taxation

Ways and Means

Agricultural Ownership Entities - Homestead Tax Credit

This bill expands the homestead property tax credit that is provided to homeowners and specified agricultural limited liability entities to include “agricultural ownership entities.” The State Department of Assessments and Taxation (SDAT) is authorized to accept applications for the homestead property tax credit from a shareholder in a family corporation or a partner in a general partnership who is eligible for the credit on or before September 30, 2007 for the taxable year beginning July 1, 2007.

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

Fiscal Summary

State Effect: Special fund revenues could decrease to the extent that agricultural ownership entities become eligible for the homestead property tax credit. The amount depends on the number of eligible agricultural ownership entities and the associated property assessment.

Local Effect: Local government revenues could decrease to the extent that agricultural ownership entities become eligible for the homestead property tax credit. The amount depends on the number of eligible agricultural ownership entities and the associated property assessment.

Small Business Effect: Potential meaningful. Eligible agricultural ownership entities could realize reduced property tax payments resulting from capped property assessments.

Analysis

Bill Summary: An agricultural ownership entity is defined as a family corporation, general partnership, limited liability company, or limited liability partnership that owns specified real property, including land receiving an agricultural use assessment and land used as a homesite.

A family corporation is defined as a corporation that does not have any stockholders other than the homeowner and the following members of the homeowner's family: a spouse or former spouse; a child or stepchild; a parent or stepparent; a brother or sister; a son-in-law, daughter-in-law, stepson-in-law, or stepdaughter-in-law; a grandchild or stepgrandchild; or a grandparent or stepgrandparent.

Current Law: Chapter 345 of 2005 expanded the homestead property tax credit that is provided to homeowners and specified agricultural limited liability companies (LLCs) to include agricultural limited liability partnerships (LLPs). Chapter 501 of 2004 extended the homestead property tax credit and semiannual property tax payment schedule that is provided to homeowners to specified agricultural LLCs. Chapter 501 defined an agricultural LLC as a limited liability company that (1) owns real property that includes land receiving an agricultural use assessment and includes land used as a home site that is part of the contiguous parcel receiving the agricultural land use assessment; (2) owns personal property used to operate the agricultural land; and (3) owns no other property.

The homestead property tax credit is only calculated against the dwelling which is the principal residence and the associated one-acre home site.

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 expands the eligibility for the homestead property tax credit to agricultural ownership entities if they meet the same criteria currently required for specified agricultural entities. This includes the following: (1) the farm must have been the principal residence of an active member of the ownership entity prior to the farm being titled to the entity; (2) the person who places the property into the ownership entity must continue to reside in the property to continue to receive the homestead property tax credit; and (3) only one homestead property tax credit may be granted per ownership entity.

The potential credit amounts for any ownership accounts cannot be reliably estimated. The amount of any special fund revenue decrease depends on the number of agricultural

eligible ownership entities and the associated property assessment. However, to the extent that the bill encourages farmers to place their farms into ownership entities, State special fund revenues would decrease accordingly.

As a point of reference, SDAT indicates that as of January 1, 2007 there were 29,488 properties receiving an agricultural land use assessment on which a dwelling is located; 1,990 are titled to an LLC, LLP, LLLP, corporation, or partnership.

Local Fiscal Effect: The potential credit amounts for any agricultural ownership entity accounts cannot be reliably estimated. The amount of any local government revenue decrease depends on the number of agricultural eligible ownership entities and the associated property assessment. However, to the extent that the bill encourages farmers to place their farms into ownership entities, local government revenues would decrease accordingly.

Additional Information

Prior Introductions: None.

Cross File: HB 1386 (Delegate Bartlett) – Ways and Means.

Information Source(s): State Department of Assessments and Taxation, Allegany County, Montgomery County, Prince George's County, Talbot County, Wicomico County, Baltimore City, Department of Legislative Services

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