HB 854

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 854 (Delegate Boteler, *et al.*)
Ways and Means

Property Tax - Homeowners' Property Tax Credit - Income Limitations

This bill alters the calculation of the Homeowners' Property Tax Credit by excluding any benefit received under the Social Security Act or the Railroad Retirement Act from the calculation of gross income.

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

Fiscal Summary

State Effect: General fund expenditures could increase $25.8 million in FY 2008 and $26.9 million by 2012. Future years reflect assessment changes. Revenues would not be affected.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	$0	$0	$0	$0	$0
GF Expenditure	25.8	26.1	26.3	26.6	26.9
Net Effect	($25.8)	($26.1)	($26.3)	($26.6)	($26.9)

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

Local Effect: Local governments that have a homeowners' property tax credit supplement will realize a reduction in expenditures for their programs as a result of the increased State credit.

Small Business Effect: None.

Analysis

Current Law: Under the Homeowners' Property Tax Credit Program, gross income is defined as the total income from all sources for the calendar year that immediately precedes the taxable year, whether or not the income is included in the definition of gross income for federal or State tax purposes.

Gross income includes • any benefit under the Social Security Act or the Railroad Retirement Act; • aggregate of gifts over $300; • alimony; • support money; • any nontaxable strike benefit; • public assistance received in a cash grant; • a pension; • an annuity; • any unemployment insurance benefit; • any workers' compensation benefit; • the net income received from a business, rental, or other endeavor; • any withdrawal, payment, or distribution from an individual retirement account; • any withdrawal, payment, or distribution from any qualified retirement savings plan; and • any rent on the dwelling, including the rent from a room or apartment.

Gross income does not include • any income tax refund received from the State or federal government; or • any loss from business, rental, or other endeavor.

Background: The Homeowners' Property Tax Credit Program (Circuit Breaker) is a State-funded program (*i.e.,* the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. **Exhibit 1** shows the number of individuals qualifying for the tax credit and the total cost of the program since fiscal 2005, as referenced in the State budget.

Exhibit 1
Homeowners' Property Tax Credit Program
Fiscal 2005-2008

Fiscal Year	Eligible Applications	State Funding	Average Credit Amount
2005 Actual	48,666	$39.5 million	$812
2006 Actual	46,628	41.7 million	893
2007 Budgeted	53,078	56.7 million	1,068
2008 Allowance	53,700	50.3 million	937

Source: *Maryland State Budget Document for Fiscal 2008, Volume 1*

Chapter 27 of 2006 made several significant changes to the Homeowners' Property Tax Credit Program: the maximum assessment against which the credit may be granted was increased to $300,000 from $150,000; and the percentages used to determine the amount of the tax credit were altered.

Chapter 588 of 2005 altered the calculation of total real property tax for the Homeowners' Property Tax Credit Program by subtracting the homestead tax credit amount from the total assessment rather than the maximum assessment specified under the credit. Chapter 588 also specified additional eligibility criteria for the local supplement to the Homeowners' Property Tax Credit Program, by authorizing a local jurisdiction to alter the $200,000 limitation on a homeowner's net worth for eligibility for a local supplement to the Homeowners' Property Tax Credit Program.

Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. The State Department of Assessments and Taxation (SDAT) administers a local supplement granted by a county, but the cost of a local supplement is borne by the local government. For purposes of the local supplement, the counties are authorized to alter the maximum on the assessed value taken into account in calculating the credit, as well as the percentages and income levels specified in the tax limit formula. The counties are also authorized to impose limitations on eligibility for a local supplement in addition to the requirements specified for the State credit. Prior to July 1, 2005, Montgomery and Anne Arundel counties were the only jurisdictions providing a local supplement; beginning July 1, 2005, Charles, Frederick, and Howard counties also provided a local supplement.

Municipalities are also authorized to provide a supplement to the Homeowners' Property Tax Credit Program. Under the enabling authority for municipal corporations, a municipal supplement is limited to 50% of the State credit.

Chapter 444 of 2006 altered the calculation and eligibility criteria of the municipal supplement to make it consistent with the current calculation and eligibility criteria authorized under the county supplement program. Chapter 444 also altered the amount of a supplemental municipal credit that may be granted by repealing the limitation that a municipal supplement may not exceed 50% of the State Homeowners' Property Tax Credit. Beginning July 1, 2005, the City of Rockville began providing a local supplement.

State Fiscal Effect: The bill changes the definition of gross income for the purpose of calculating the Homeowners' Property Tax Credit by excluding Social Security and Railroad Retirement benefits from gross income. Currently, a majority of tax credit recipients receive Social Security or Railroad Retirement income, and in many cases this is the only income received.

Based on current program participation data, SDAT estimates that 41,612 accounts (out of 47,566 current accounts) could receive $25.8 million in increased benefits for fiscal 2008. As a result, general fund expenditures could increase by approximately $25.8 million in fiscal 2008 due to the change proposed in this bill. Future year expenditure increases reflect assessment changes.

Additional Information

Prior Introductions: HB 47 of 2006, an identical bill, received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Department of Legislative Services

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

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