

Department of Legislative Services

Maryland General Assembly

2007 Session

FISCAL AND POLICY NOTE

Revised

Senate Bill 486

(Senator Hogan)

Budget and Taxation

Ways and Means

Property Tax Credit - Replacement Home Purchased After Acquisition of Dwelling for Public Use

This bill authorizes local governments to grant a property tax credit for a property that is purchased as a replacement for a principal residence which was acquired either through condemnation or negotiation under the threat of condemnation for public use by the State, a political subdivision or instrumentality of the State. The credit lasts for five years and may not exceed 100% of the property tax attributable to the eligible homestead assessment granted on the acquired dwelling in the first taxable year, and is then reduced by 20% in each subsequent year over the five-year life of the credit. The credit may not be granted if the property owner has been compensated for the increase in property taxes for the new dwelling.

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 minimal amount beginning in FY 2008 depending on the property tax credits granted for specified replacement homes in any given year.

Small Business Effect: None.

Analysis

Bill Summary: The new dwelling must be purchased by the end of the taxable year following the acquisition of the original dwelling. For the purposes of calculating the eligible homestead assessment amount, if the replacement dwelling is in the same jurisdiction, the credit equals the amount of eligible homestead of the original dwelling; however, if the property is in a different jurisdiction, the credit equals the amount of eligible homestead of the original dwelling for State purposes. If the new dwelling is valued less than the original dwelling, the credit is reduced in the first year by the difference in value.

Local governments are authorized to 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 requests for the credit; and (4) any other provision necessary to carry out the credit.

Current Law: No such tax credit exists. 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 corporation 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 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.

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

Local Fiscal Effect: Local property tax revenues could decrease beginning in fiscal 2008 depending on the number of eligible replacement dwellings and the amount of the credit. 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. The amount of the credit then decreases by 20% in each succeeding year over the five-year life of the tax credit.

Exhibit 2 shows the effect of the bill in year one of the credit (100%) if there was one eligible replacement home purchased in each county, based on 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.

Exhibit 2
Revenue Decrease Associated with Property Tax Credit for One Replacement Home
in Each County – Year 1 of Credit

<u>County</u>	<u>Average Assessment</u>	<u>County Homestead</u>	<u>County Property Tax Credit</u>
Allegany	\$74,093	\$465	(\$4.57)
Anne Arundel	283,418	78,717	(722.62)
Baltimore City	95,060	12,709	(290.78)
Baltimore	190,733	25,982	(285.80)
Calvert	255,178	19,581	(174.66)
Caroline	142,880	6,769	(58.89)
Carroll	239,945	22,976	(240.79)
Cecil	183,727	9,578	(91.95)
Charles	224,669	14,814	(151.99)
Dorchester	130,843	10,643	(95.36)
Frederick	245,156	29,751	(316.55)
Garrett	106,330	8,582	(85.82)
Harford	204,561	8,496	(91.93)
Howard	333,281	66,142	(753.68)
Kent	187,358	26,489	(257.47)
Montgomery	408,234	60,224	(551.65)
Prince George's	207,144	40,717	(537.06)
Queen Anne's	289,641	35,606	(284.85)
St. Mary's	208,274	20,805	(178.30)
Somerset	92,459	5,760	(54.14)
Talbot	334,617	119,744	(598.72)
Washington	157,294	5,681	(53.86)
Wicomico	132,996	3,800	(35.80)
Worcester	210,391	45,050	(315.35)
State Average	243,503	38,185	(259.69)
Total			(\$6,233.30)

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

Additional Information

Prior Introductions: None.

Cross File: HB 755 – (Delegate Ali, *et al.*) – Ways and Means.

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

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