

Department of Legislative Services

Maryland General Assembly

2007 Session

FISCAL AND POLICY NOTE

House Bill 9

(Delegate Krebs)

Ways and Means

State Property Tax - Homeowner's Property Tax Assessment Cap Reduction

This bill reduces the percentage used to determine the Homestead Property Tax Credit for State property tax purposes from 10% to 5%, thereby limiting annual assessment increases, for State property tax purposes, on owner-occupied residential properties to 5%, instead of 10%.

The bill takes effect October 1, 2007 and applies to all taxable years beginning after June 30, 2008.

Fiscal Summary

State Effect: Special fund revenues would decrease by approximately \$35.5 million in FY 2009 and \$46.4 million by FY 2012. This decrease would require either: (1) an increase in the State property tax rate; or (2) a general fund appropriation to cover debt service on the State's general obligation bonds. Out-years reflect increasing assessments and the cap imposed by the bill.

| (\$ in millions) | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|------------------|---------|----------|----------|----------|----------|
| SF Revenue | \$0 | (\$35.5) | (\$43.1) | (\$45.3) | (\$46.4) |
| Expenditure | \$0 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | \$0 | (\$35.5) | (\$43.1) | (\$45.3) | (\$46.4) |

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The cap on property assessment increases is set at 10% for State property tax purposes. A county or municipal corporation can lower the cap percentage to 0% for local property tax purposes.

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

State Fiscal Effect: The bill lowers the State Homestead Tax Credit percentage from 10% to 5%. As discussed above, the Homestead Tax Credit caps property tax liability at 10% of the assessment increase. As a result of the bill, revenues decrease approximately \$35.5 million in fiscal 2009 for the Annuity Bond Fund and \$46.4 million by fiscal 2012.

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2008 State budget allowance includes \$692.7 million for general obligation debt service costs, of which \$43.5 million are from the general fund and \$649.2 million are special funds from the Annuity Bond Fund

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

Future year revenue losses increase as a result of the difference between increasing assessments and the 5% cap imposed by the bill. **Exhibit 2** outlines the revenue effect of the bill on State special fund revenues.

Exhibit 2
Impact on State Revenues
Capping the Homestead Property Tax Credit Percentage at 5%
(\$ in Millions)

| | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2011</u> | <u>FY 2012</u> |
|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Assessable Base Loss | | | | | |
| 10% Homestead Cap | \$60,475.4 | \$84,796.5 | \$107,488.5 | \$114,061.2 | \$117,347.6 |
| 5% Homestead Cap | n/a | 116,461.8 | 145,961.4 | 154,506.0 | 158,778.3 |
| State Tax Rate | \$0.112 | \$0.112 | \$0.112 | \$0.112 | \$0.112 |
| Revenue Decrease | \$0 | (\$35.5) | (\$43.1) | (\$45.3) | (\$46.4) |

Note: Estimate assumes no change in current property tax rate.

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

Additional Information

Prior Introductions: Similar bills, HB 1175 of 2004 and HB 68 of 2006, received unfavorable reports from the House Ways and Means Committee. The bills also capped county and municipal homestead percentages.

Cross File: None.

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

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bfl/hlb

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