

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

Senate Bill 319 (Senator Exum)
 Budget and Taxation

Property Tax - Homeowners' Property Tax Credit

This bill makes two changes to the Homeowners' Property Tax Credit Program by altering the percentages of income used to calculate the credit and increasing the combined net worth of recipients.

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

Fiscal Summary

State Effect: General fund expenditures could increase by \$13.0 million in FY 2008. Future years reflect changes in assessments and program participation. Revenues are not affected.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	13.0	13.2	13.3	13.4	13.6
Net Effect	(\$13.0)	(\$13.2)	(\$13.3)	(\$13.4)	(\$13.6)

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 could realize a reduction in expenditures for their programs as a result of the increased State credit.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: Exhibit 1 shows the proposed changes to the Homeowners' Property Tax Credit Program compared to current law.

Exhibit 1 Comparison of Changes Proposed by SB 319

	<u>Current Law</u>	<u>Senate Bill 382</u>
Calculation Formula	<ul style="list-style-type: none"> • 0% of the first \$8,000 of combined income • 4% of the next \$4,000 of combined income • 6.5% of the next \$4,000 of combined income • 9% of combined income over \$16,000 	<ul style="list-style-type: none"> • No change • 2.5% of the next \$4,000 of combined income • 4.5% of the next \$4,000 of combined income • 6% of combined income over \$16,000
Combined Net Worth	\$200,000	\$300,000

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 2 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 2 Homeowners' Property Tax Credit Program Fiscal 2005-2008

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Credit Amount</u>
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 makes several significant changes to the Homeowners' Property Tax Credit Program. The bill increases the number of homeowners eligible for the program and increases benefits for those who already receive credits. As a result, general fund expenditures could increase by approximately \$13.0 million in fiscal 2008, based on the following facts and assumptions:

- Current general fund expenditures for the program are estimated at \$46.6 million in fiscal 2008; there are 47,566 recipients.
- The changes would result in additional applications for the credit and an estimated program increase of 6,362 participants.

Exhibit 3 shows the estimated general fund increase for the Homeowners' Property Tax Credit Program associated with implementing the provisions of the bill, compared to current expenditures. The bill increases the average credit from \$980 to \$1,106 per recipient.

Exhibit 3
Estimated Effect of SB 319 on General Fund Expenditures
Fiscal 2008

<u>County</u>	<u>Current Accounts Receivin g Credit</u>	<u>Current Amount of Credit</u>	<u>Estimated Accounts Receiving Credit</u>	<u>Additional Credit</u>	<u>Total GF Expenditure</u>
Allegany	1,202	\$692,329	1,312	\$155,696	\$848,025
Anne Arundel	3,888	3,148,604	4,599	1,091,570	4,240,174
Baltimore City	11,462	11,629,656	12,499	2,433,851	14,063,507
Baltimore	8,204	6,804,974	9,419	2,045,392	8,850,366
Calvert	511	528,697	624	160,969	689,666
Caroline	332	232,157	371	54,460	286,617
Carroll	1,932	2,127,041	2,235	708,937	2,835,978
Cecil	771	710,791	859	185,798	896,589
Charles	791	792,173	966	282,695	1,074,868
Dorchester	431	301,444	469	65,816	367,260
Frederick	2,141	2,613,168	2,332	711,246	3,324,414
Garrett	487	249,516	537	53,892	303,408
Harford	2,086	2,340,415	2,247	613,949	2,954,363
Howard	1,090	1,496,139	1,230	478,064	1,974,203
Kent	233	184,241	247	41,300	225,540
Montgomery	4,002	4,606,774	5,199	1,878,454	6,485,228
Prince George's	3,749	4,697,957	4,187	1,255,242	5,953,199
Queen Anne's	375	327,813	425	80,674	408,497
St. Mary's	673	575,617	743	135,942	711,559
Somerset	269	155,598	282	28,024	183,622
Talbot	143	81,321	162	17,453	98,774
Washington	1,673	1,523,356	1,826	369,957	1,893,313
Wicomico	734	521,331	786	115,711	637,042
Worcester	387	271,117	422	67,754	338,871
Total	47,566	\$46,612,231¹	53,928	\$13,032,743	\$59,645,074

¹Expenditures to date.

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

Additional Information

Prior Introductions: None.

Cross File: None.

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

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nas/hlb

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