

**Department of Legislative Services**  
Maryland General Assembly  
2008 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 591

(Delegate Elmore)

Ways and Means

Budget and Taxation

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**Somerset County - Property Tax Credit for Assessment Increases**

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This bill authorizes Somerset County or a municipality in Somerset County to grant a property tax credit for real property that has an annual taxable assessment increase of at least 20% from the previous taxable year and that does not qualify for a homestead property tax credit. The property tax credit would limit the annual increase in property assessments to 20%. The county or municipal government may provide, by law, for the amount and duration of the tax credit, additional eligibility criteria for the tax credit, regulations and procedures for the application and uniform processing of the tax credit, and any other provision necessary to carry out the tax credit.

The bill takes effect June 1, 2008 and applies to all taxable years beginning after June 30, 2008. The bill terminates June 30, 2011.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Somerset County revenues could decrease by \$368,300 in FY 2009. Future year decreases would depend on the number of properties eligible for the credit and the taxable assessment. County expenditures would not be affected.

**Small Business Effect:** Minimal.

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## Analysis

**Current Law:** Somerset County is authorized to grant a property tax credit for real property owned by the Crisfield Heritage Foundation, Inc.

**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 cap.

A majority of local subdivisions have assessment caps below 10%: 15 counties in fiscal 2007; 18 counties in fiscal 2008; and 19 counties in fiscal 2009. **Exhibit 1** lists the counties with assessment caps below 10% in fiscal 2007 through 2009. Due to the continuing rise in property assessments, two counties (Harford and Prince George’s) lowered their assessment cap in fiscal 2009.

The Homestead Tax Credit Program is administered as follows:

- Increases in property assessments are equally spread out over three years. For example, if a property’s assessment increased by \$60,000, from \$80,000 to \$140,000, the increase would be phased in through increments of \$20,000 annually for the next three years.
- If the assessment cap were set at 10%, however, the amount of assessment subject to taxes would increase by only \$8,000 in the first year, \$8,800 in the following year, and \$9,680 in the third year.
- Since the assessment cap was set lower than the actual market increase, the homeowner does not have to pay taxes on the property’s full assessed value.

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**Exhibit 1**  
**Counties with Assessment Caps Below 10%**

<b>County</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
Anne Arundel	2%	2%	2%
Baltimore City	4%	4%	4%
Baltimore	4%	4%	4%
Caroline	10%	5%	5%
Carroll	7%	7%	7%
Cecil	8%	8%	8%
Charles	10%	7%	7%
Dorchester	5%	5%	5%
Frederick	5%	5%	5%
Garrett	5%	5%	5%
Harford	10%	10%	9%
Howard	5%	5%	5%
Kent	5%	5%	5%
Prince George's	3%	4%	3%
Queen Anne's	5%	5%	5%
St. Mary's	5%	5%	5%
Talbot	0%	0%	0%
Washington	10%	5%	5%
Worcester	3%	3%	3%

Source: State Department of Assessments and Taxation

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The Homestead Tax Credit Program has provided significant local property tax relief in recent years. This foregone revenue is estimated at \$1.0 billion in fiscal 2008, \$1.4 billion in fiscal 2009, and \$1.8 billion in fiscal 2010. While the State has set the assessment cap at 10%, a majority of jurisdictions have an assessment cap below 10%. The tax relief associated with an assessment cap below 10% is estimated at \$112.9 million in fiscal 2008, \$130.8 million in fiscal 2009, and \$278.1 million in fiscal 2010.

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 limitations. 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.

**Local Fiscal Effect:** The bill authorizes Somerset County and municipalities in the county to grant a property tax credit for real property that does not receive a homestead property tax credit and which has a taxable assessment increase of at least 20% from the previous taxable year. As a result, Somerset County revenues could decrease by approximately \$368,300 in fiscal 2009 due to the tax credit. The estimate is based on the following:

- There are 17,710 nonhomestead residential and commercial real property accounts in the county.
- 4,766 of these properties had an assessment increase of at least 20%.
- The increased assessment (20% or more) for these properties totaled \$39.2 million.
- The real property tax rate in Somerset County is \$0.94 per \$100 of assessment.

Future year decreases would depend on the number of properties eligible for the credit and the taxable assessment. **Exhibit 2** shows the assessable base and estimated amount of property tax relief provided by the homestead property tax credit for fiscal 2008 through 2010.

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**Exhibit 2**  
**Somerset County Assessable Base and Revenue Foregone Due to**  
**Homestead Tax Credits**  
**Fiscal 2008-2010**

	<u>Homestead Tax Cap</u>	<u>County Tax Rate</u>	<u>Assessable Base</u>	<u>Assessable Base Loss from Homestead Tax Credit</u>	<u>Percent of Base Loss</u>	<u>Revenue Foregone from Homestead Tax Credit</u>
2008	10%	\$0.940	\$1,326,300,000	\$69,419,634	5.2%	\$652,545
2009	10%	0.940	1,556,050,000	104,632,462	6.7%	983,545
2010	10%	0.940	1,780,550,000	139,297,573	7.8%	1,309,397

Source: State Department of Assessments and Taxation

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 468 (Senator Stoltzfus) – Budget and Taxation.

**Information Source(s):** Somerset County, Department of Legislative Services

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