HB 791

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 791 (Delegate Stocksdale, *et al.*)
Ways and Means

Homestead Property Tax Credit - Applications - Use of Social Security Numbers

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This bill prohibits the application form for the homestead property tax credit program, authorized by Chapters 564 and 565 of 2007, from requiring a homeowner to provide his or her Social Security number.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: Special fund revenues could decrease by a potentially significant amount beginning in FY 2009 to the extent properties that would have been determined ineligible continue receiving a homestead tax credit. Any such decrease cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead tax credits.

Local Effect: Local property tax revenues could decrease by a potentially significant amount beginning in FY 2009 to the extent ineligible properties continue receiving a homestead tax credit. However, the amount of any revenue decrease cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead tax credits.

Small Business Effect: None.

Analysis

Current Law: Chapters 564 and 565 of 2007 require homeowners to file a specified application with the State Department of Assessments and Taxation (SDAT) to qualify for the homestead property tax credit.

Specifically, Chapters 564 and 565 prohibit SDAT from authorizing the credit and the State, county, and municipal governments are prohibited from granting the credit unless the application is filed • within 180 days following the date the dwelling is transferred for consideration to new ownership, for a dwelling that is transferred to new ownership after December 31, 2007; or • on or before December 31, 2012, for a dwelling that was last transferred to new ownership on or before December 31, 2007. SDAT must provide homeowners the option of submitting the required application electronically on its web site. The Comptroller is required to provide cooperation to SDAT in adopting an audit procedure and assistance in post-auditing applications.

Background: Beginning January 2008, the first homestead tax credit applications were sent out to Maryland homeowners with the annual assessment notices. This application requires homeowners to include their Social Security number on the application. As a governmental tax agency, SDAT has legal authority to possess federal tax information, including Social Security numbers for all Maryland residents. As a result of that legal status, SDAT has in its possession federal tax information and Social Security numbers for all Maryland residents. Also, while SDAT is legally entitled to possess this information, there are several safeguards in place to ensure that this information is used legally and properly and remains confidential. These safeguards include a prohibition against using a Social Security number for a purpose other than for that it is requested (in this case it is needed to verify homestead eligibility), secure storage and IRS audit.

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.

Exhibit 1
Counties with Assessment Caps Below 10%

County	FY 2007	FY 2008	FY 2009
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

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. **Exhibit 2** shows the estimated county property tax revenue foregone for fiscal 2008 through 2010 and the percent of the county assessable base that is not taxable due to the assessment caps.

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.

State Revenues: SDAT advises the only way to accurately verify an applicant's eligibility for the credit is by matching his or her Social Security number with the address on the application. Therefore, prohibiting SDAT to request a Social Security number on the application could significantly, if not completely, decrease the effectiveness of the verification program.

The Fiscal and Policy Notes for Chapters 564 and 565 indicated that State special fund revenues could increase by a potentially significant amount beginning in fiscal 2009 to the extent properties currently receiving a homestead tax credit are determined to be ineligible for the tax credit. By way of illustration, it was noted that if 2% of properties are erroneously receiving the credit and would no longer receive the credit, special fund revenues could increase by $725,000 annually. If applications cannot be accurately verified, it is likely to result in a continued decrease in special fund revenues due to ineligible properties continuing to receive the homestead property tax credit.

Local Revenues: Local property tax revenues could decrease by a potentially significant amount beginning in fiscal 2009 to the extent ineligible properties continue to receive a homestead tax credit. The amount of the credit cannot be reliably estimated and depends on the number of ineligible properties and the value of the homestead tax credits. By way of illustration, if 2% of properties are erroneously receiving the credit and would no longer receive it, total county revenues could increase by $10.0 million annually. If applications cannot be accurately verified, it is likely to result in a continued decrease in special fund revenues due to ineligible properties continuing to receive the homestead property tax credit.

Additional Information

Prior Introductions: None.

Cross File: SB 113 (Senator Haines, *et al.*) – Budget and Taxation.

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

Fiscal Note History: First Reader - February 12, 2008
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Exhibit 2

County Tax Relief Due to Homestead Tax Credits

	Fiscal 2008		Fiscal 2009		Fiscal 2010	
County	**Revenue Foregone**	**Percent of Base**	**Revenue Foregone**	**Percent of Base**	**Revenue Foregone**	**Percent of Base**
Allegany	$463,968	1.7%	$993,867	3.2%	$1,450,726	4.3%
Anne Arundel	158,348,338	25.8%	207,606,040	29.5%	264,374,187	35.4%
Baltimore City	73,041,158	12.1%	118,402,581	16.9%	168,976,821	21.9%
Baltimore	119,234,882	15.8%	171,935,860	19.8%	229,719,993	23.3%
Calvert	9,253,035	9.8%	13,529,968	12.4%	17,630,735	14.6%
Caroline	1,784,584	8.7%	3,206,427	14.8%	4,674,563	20.5%
Carroll	23,376,849	12.9%	34,248,954	16.9%	45,601,216	20.1%
Cecil	5,438,588	6.5%	8,528,343	8.9%	11,590,858	10.9%
Charles	16,334,503	10.6%	26,479,287	14.8%	37,003,906	18.1%
Dorchester	2,126,385	8.9%	3,458,005	12.5%	4,878,247	15.4%
Frederick	41,154,269	14.8%	57,227,698	17.2%	74,710,095	18.8%
Garrett	1,001,145	2.7%	1,626,776	3.9%	2,263,013	5.2%
Harford	13,863,345	5.9%	22,433,285	8.5%	30,534,302	10.4%
Howard	92,766,251	20.0%	120,279,329	24.9%	151,477,691	29.9%
Kent	2,479,809	10.2%	3,524,323	14.5%	4,658,930	19.0%
Montgomery	203,070,315	12.3%	222,698,567	12.9%	248,838,535	13.8%
Prince George’s	178,779,699	19.1%	268,420,468	24.2%	365,465,597	28.6%
Queen Anne’s	7,469,363	13.4%	10,708,219	18.9%	14,225,982	24.9%
St. Mary’s	10,017,885	12.3%	16,443,613	18.4%	23,217,635	23.8%
Somerset	652,545	5.2%	983,545	6.7%	1,309,397	7.8%
Talbot	9,330,019	25.0%	11,909,116	27.7%	14,959,826	31.6%
Washington	9,083,510	8.5%	16,714,485	14.0%	24,564,038	18.2%
Wicomico	1,933,914	3.8%	3,323,793	5.8%	4,642,952	7.4%
Worcester	7,418,342	6.3%	10,349,188	8.6%	13,510,656	10.8%
Statewide	**$988,422,698**	**14.9%**	**$1,355,031,737**	**18.0%**	**$1,760,279,900**	**21.2%**

Source: State Department of Assessments and Taxation