

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

**FISCAL AND POLICY NOTE**

Senate Bill 761 (Senator Stone)  
Budget and Taxation

**Homeowner's Property Tax Credit - Cost-of-Living Adjustment**

This bill alters the calculation of the Homeowners' Property Tax Credit by adjusting the maximum property assessment, combined income brackets, net worth, and combined income limits that are used in calculating the property tax credit by a cost-of-living adjustment. The State Department of Assessments and Taxation must determine the annual cost-of-living adjustment by October 1 each year based on the Consumer Price Index for All Urban Consumers in the Washington and Baltimore Region.

The bill takes effect July 1, 2008 and applies to all taxable years beginning after June 30, 2009.

**Fiscal Summary**

**State Effect:** General fund expenditures would increase by approximately \$6.8 million in FY 2010. Future year expenditures reflect assessment increases and projected changes in the CPI. Revenues would not be affected.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	0	6.8	8.5	10.7	13.1
Net Effect	\$0	(\$6.8)	(\$8.5)	(\$10.7)	(\$13.1)

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

**Local Effect:** None. The Homeowners' Property Tax Credit is a State-funded property tax credit program.

**Small Business Effect:** None.

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## Analysis

**Current Law:** The maximum assessment against which the Homeowners' Property Tax Credit may be granted is \$300,000. In order to determine the amount of the tax credit, the following are added together and then subtracted from the amount of the property owner's tax bill to determine the amount of the tax credit: 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, and 9% of the combined income over \$16,000. A homeowner's combined net worth may not exceed \$200,000 and combined income may not exceed \$60,000.

**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 1** 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.

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### Exhibit 1 Homeowners' Property Tax Credit Program Fiscal 2005-2009

<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	894
2007 Actual	48,290	45.6 million	944
2008 Budgeted	48,800	48.3 million	990
2009 Allowance	49,300	52.2 million	1,059

Source: Department of Budget and Management

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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 alters the calculation of the Homeowners' Property Tax Credit for each taxable year beginning in fiscal 2010 by indexing the maximum

assessment, the income bracket calculation, and net worth and combined gross income to changes in the CPI.

These changes could increase general fund expenditures by approximately \$6.8 million beginning in fiscal 2010 as shown in **Exhibit 2**. The estimate assumes an average annual increase of 7% for assessments and projected changes in the CPI. As the maximum assessment, income brackets, and gross income and combined net worth increase each year, general fund expenditures will increase accordingly.

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**Exhibit 2**  
**Projected Increase in Homeowners' Property Tax Credits Under Legislation**

<u>Fiscal Year</u>	<u>Current Law</u>	<u>Proposed Legislation</u>	<u>Difference</u>
2009	\$52,200,000	\$52,200,000	\$0
2010	55,854,000	62,640,000	6,786,000
2011	59,763,780	68,277,600	8,513,820
2012	63,947,245	74,627,417	10,680,172
2013	68,423,552	81,567,767	13,144,215

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1251 (Delegate Olszewski) – Ways and Means.

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

**Fiscal Note History:** First Reader - March 4, 2008  
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