

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1172 (Delegate Kach)
 Ways and Means

Homestead Tax Credit - Applications

This bill requires the State Department of Assessments and Taxation to mail application forms for the homestead property tax credit, established by Chapters 564 and 565 of 2007, by specified dates. The bill also prohibits SDAT from mailing homestead property tax applications with property tax assessment notices or tax bills.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund expenditures could increase by \$478,900 in FY 2009. No effect on revenues.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	478,900	0	0	0	0
Net Effect	(\$478,900)	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: SDAT must mail an additional notice of the application requirement, a copy of the application form, and a reminder that unless the application is submitted the dwelling will not qualify for the homestead property tax credit for the taxable year

beginning July 1, 2013 in • December 2011 to any homeowner who receives the credit for the taxable year beginning July 1, 2011, but has not submitted an application for the credit as of July 1, 2011; and • December 2012 to any homeowner who receives the credit for the taxable year beginning July 1, 2012, but has not submitted an application for the credit as of July 1, 2012.

Current Law: Chapters 564 and 565 of 2007 require homeowners to file a specified application with 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 percentage 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 Fiscal Effect: The bill requires SDAT to mail a notification of the homestead property tax application process to homeowners in a notice separate from annual assessment notices. As a result, SDAT will incur an expenditure increase of \$478,900 in fiscal 2009. This includes the cost of printing and postage associated with mailing notifications to approximately 949,700 homeowners. Approximately 500,000 homeowners have been notified as of January 2008. In addition, SDAT advises that the additional notifications required in December 2011 and December 2012 are already planned to be mailed out by the department and thus would not result in any additional expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 26, 2008
mll/hlb

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Exhibit 2
County Tax Relief Due to Homestead Tax Credits

County	Fiscal 2008		Fiscal 2009		Fiscal 2010	
	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