

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 495 (Senator Haines, *et al.*)
Budget and Taxation

Homestead Property Tax Credit - Farm or Agricultural Use Land

This bill enables a homeowner to receive a homestead property tax credit for a second dwelling if it is located on a parcel of land to be actively used for farm or agricultural purposes and will be used as the principal residence of a family member or employee of the homeowner.

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

Fiscal Summary

State Effect: State special fund revenues would decrease beginning in FY 2009 to the extent that homeowners are eligible for a second homestead property tax credit. This decrease would require either (1) an increase in the State property tax rate; or (2) a general fund appropriation to cover debt service on the State's general obligation bonds.

Local Effect: Local government property tax revenues would decrease beginning in FY 2009 to the extent that homeowners are eligible for a second homestead property tax credit.

Small Business Effect: None.

Analysis

Bill Summary: The second dwelling must be • located on a parcel of land that is recognized by the State Department of Assessments and Taxation to be actively used for farm or agricultural purposes • used as the principal place of residence by a family

member or an employee of an individual who has a legal interest in the parcel of land that is recognized to be actively used for farm or agricultural purposes; • actually occupied or expected to be actually occupied by the family member or employee for more than 9 months of a 12-month period beginning with the date of finality for the taxable year for which the property tax credit is sought.

Current Law: An eligible dwelling for purposes of qualifying for a homestead property tax credit is defined as a house that is used as the principal residence of the homeowner and actually occupied or expected to be actually occupied by the homeowner for more than 6 months of a 12-month period beginning with the date of finality for the taxable year for which the homestead property tax credit is sought. It includes the lot or curtilage on which the house is erected.

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.

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.

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: State special fund revenues would decrease by an indeterminate amount beginning in fiscal 2009. The amount depends on the number of homeowners who meet the eligibility criteria and the assessed value of each second property.

The State property tax rate is \$0.112 per \$100 of assessment. As a result, State property taxes would decrease by \$1.12 for each \$1,000 decrease in assessed value of a property.

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2009 State budget allowance includes \$744.8 million for general obligation debt service costs, all of which are special funds from the Annuity Bond Fund.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

Local Fiscal Effect: There are 33,288 improved property tax accounts receiving an agricultural land use assessment. The assessed value of these properties totals \$10.6 billion, or approximately \$320,000 per account. The actual decrease in county property tax revenues, which cannot be reliably quantified at this time, depends on the number of homeowners who meet the eligibility criteria, the assessed value of each second property, and the county's homestead cap percentage. *For illustrative purposes only*, the potential revenue decrease for each qualifying homeowner could range from \$17 in Allegany County to almost \$600 in Talbot County as shown in **Exhibit 2**. This estimate is based on the following:

- the average increase in the full cash value of property reassessed for 2008 for each jurisdiction;
- current county assessment caps; and
- current county tax rates.

The potential revenue loss would be higher in years with strong assessment growth and lower in years with weak assessment growth.

Exhibit 3 shows the estimated county property tax revenue foregone for fiscal 2008 through 2010 and the percentage of the county assessable that is not taxable due to the assessment caps.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 28, 2008
mcp/hlb

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Exhibit 2
Potential Local Revenue Decrease – For Each Qualifying Homeowner

County	Full Cash Value Increase Before Cap (Over 3 Years)	Average Annual Increase	County Assessment Cap	Agricultural Improved Assessment	Agricultural Improved Accounts	Average Assessment Per Account	Property Tax Rate	Potential Revenue Loss Per Account
Allegany	34.5%	11.5%	10%	\$76,287,367	675	\$113,018	\$0.9829	\$16.66
Anne Arundel	34.9%	11.6%	2%	495,538,949	1,086	456,297	0.8910	390.30
Baltimore City	75.0%	25.0%	4%	0	0	0	2.2680	0.00
Baltimore	32.6%	10.9%	4%	944,714,702	2,449	385,755	1.1000	292.79
Calvert	38.3%	12.8%	10%	258,602,729	891	290,239	0.8920	72.49
Caroline	40.6%	13.5%	5%	320,588,737	1,409	227,529	0.8700	168.26
Carroll	37.4%	12.5%	7%	853,503,460	2,929	291,398	1.0480	167.96
Cecil	33.3%	11.1%	8%	470,337,063	1,419	331,457	0.9600	98.64
Charles	41.4%	13.8%	7%	391,736,216	1,379	284,073	1.0260	198.19
Dorchester	34.5%	11.5%	5%	258,780,934	1,034	250,272	0.8960	145.76
Frederick	27.4%	9.1%	5%	1,228,053,435	3,345	367,131	1.0640	160.16
Garrett	29.0%	9.7%	5%	155,175,338	1,529	101,488	1.0000	47.70
Harford	38.6%	12.9%	9%	684,068,501	2,208	309,814	1.0820	130.74
Howard	24.2%	8.1%	5%	426,291,809	782	545,130	1.1495	194.25
Kent	37.3%	12.4%	5%	314,359,118	826	380,580	0.9720	273.74
Montgomery	16.2%	5.4%	10%	620,502,178	1,182	524,960	0.9160	0.00
Prince George's	51.6%	17.2%	3%	21,292,554	792	26,885	1.3190	50.35
Queen Anne's	36.8%	12.3%	5%	648,295,705	1,304	497,159	0.7700	279.45
St. Mary's	49.0%	16.3%	5%	473,541,794	1,645	287,867	0.8570	278.77
Somerset	45.5%	15.2%	10%	125,498,443	767	163,622	0.9400	79.98
Talbot	42.7%	14.2%	0%	836,350,497	952	878,519	0.4750	592.56
Washington	40.2%	13.4%	5%	534,833,215	1,965	272,180	0.9480	216.74
Wicomico	40.6%	13.5%	10%	264,184,466	1,470	179,717	0.8810	55.42
Worcester	33.3%	11.1%	3%	239,774,752	1,250	191,820	0.7000	108.76
Total	33.2%	11.1%		\$10,642,311,962	33,288	\$319,704		

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

Exhibit 3
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