

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1058
Ways and Means

(Delegate Carr, *et al.*)

Homestead Tax Credit - Adjacent Lots

This bill enables an unimproved lot to qualify for a homestead property tax credit if • it is adjacent to a lot with a house that already qualifies for the credit; and • the property is owned by the same person.

The bill applies to taxable years beginning after June 30, 2009.

Fiscal Summary

State Effect: State special fund revenues could decrease, perhaps significantly, beginning in FY 2010 to the extent that vacant lots are eligible for the 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 could decrease, perhaps significantly, beginning in FY 2010 to the extent that vacant lots are eligible for the homestead property tax credit. Expenditures would not be affected.

Small Business Effect: None.

Analysis

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 could decrease by a significant amount beginning in fiscal 2010. The amount depends on the extent to which adjacent vacant lots are determined to be eligible for the homestead property tax credit and the assessed value of each vacant lot. As a point of reference, **Exhibit 2** shows the number of vacant residential properties in each county and the corresponding assessed value.

Exhibit 2
Vacant Residential Properties
Fiscal 2008

County	Vacant Residential Accounts	Vacant Residential Assessment	Average Assessment
Allegany	8,404	\$104,383,696	\$12,421
Anne Arundel	17,898	1,240,378,510	69,303
Baltimore City	8,601	50,731,766	5,898
Baltimore	21,574	712,756,283	33,038
Calvert	7,535	381,980,014	50,694
Caroline	2,405	115,940,473	48,208
Carroll	4,670	311,194,713	66,637
Cecil	7,661	301,464,840	39,351
Charles	8,516	462,096,530	54,262
Dorchester	4,914	134,724,027	27,416
Frederick	6,730	632,559,354	93,991
Garrett	8,875	408,593,206	46,039
Harford	8,507	357,679,877	42,045
Howard	5,982	733,624,731	122,639
Kent	3,023	107,463,645	35,549
Montgomery	10,928	1,573,377,386	143,977
Prince George's	22,049	641,793,832	29,108
Queen Anne's	4,474	379,700,608	84,868
St. Mary's	8,699	356,081,693	40,934
Somerset	4,518	103,128,580	22,826
Talbot	2,117	270,598,225	127,822
Washington	5,214	274,301,643	52,609
Wicomico	6,806	186,403,059	27,388
Worcester	5,453	504,754,841	92,565
Total	195,553	\$10,345,711,532	\$52,905

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

The State property tax rate is \$0.112 per \$100 of assessment. As a result, State property tax revenues would decrease by \$1.12 for every \$1,000 reduction 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: County property tax revenues could decrease, perhaps significantly, beginning in fiscal 2010. The amount, which cannot be qualified at this time, depends on the number of homeowners who own an adjacent vacant lot, the assessed value of each vacant lot, and the county's homestead cap percentage. *For illustrative purposes only*, if 10% of the vacant lots are owned by eligible homeowners who currently qualify for a homestead property tax credit, local property tax revenues could decrease by \$623,000 annually as shown in **Exhibit 3**. This estimate is based on the following:

- estimated that 10% of the vacant lots are adjacent and owned by a homeowner who is currently eligible for a homestead property tax credit;
- the average increase in the full cash value of property reassessed for 2008 for each jurisdiction;
- current county assessment caps; and
- current county tax rate.

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

Exhibit 4 shows the estimated county property tax revenue foregone due to the existing homestead tax credit program for fiscal 2008 through 2010 and the percentage of the county assessable base 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, Carroll County, Cecil County, Harford County, Montgomery County, Prince George's County, Department of Legislative Services

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Exhibit 3
Potential Local Revenue Decrease
Assuming 10 % of Vacant Lots are Eligible for Homestead Property Tax Credit

County	Full Cash Value Increase Before Cap (Over 3 Years)	Average Annual Increase	County Assessment Cap	Vacant Residential Assessment	Property Tax Rate	Potential Revenue Loss
Allegany	34.5%	11.5%	10%	\$104,383,696	\$0.9829	\$2,000
Anne Arundel	34.9%	11.6%	2%	1,240,378,510	0.8910	106,000
Baltimore City	75.0%	25.0%	4%	50,731,766	2.2680	24,000
Baltimore	32.6%	10.9%	4%	712,756,283	1.1000	54,000
Calvert	38.3%	12.8%	10%	381,980,014	0.8920	10,000
Caroline	40.6%	13.5%	5%	115,940,473	0.8700	9,000
Carroll	37.4%	12.5%	7%	311,194,713	1.0480	18,000
Cecil	33.3%	11.1%	8%	301,464,840	0.9600	9,000
Charles	41.4%	13.8%	7%	462,096,530	1.0260	32,000
Dorchester	34.5%	11.5%	5%	134,724,027	0.8960	8,000
Frederick	27.4%	9.1%	5%	632,559,354	1.0640	28,000
Garrett	29.0%	9.7%	5%	408,593,206	1.0000	19,000
Harford	38.6%	12.9%	9%	357,679,877	1.0820	15,000
Howard	24.2%	8.1%	5%	733,624,731	1.1495	26,000
Kent	37.3%	12.4%	5%	107,463,645	0.9720	8,000
Montgomery	16.2%	5.4%	10%	1,573,377,386	0.9160	0
Prince George's	51.6%	17.2%	3%	641,793,832	1.3190	120,000
Queen Anne's	36.8%	12.3%	5%	379,700,608	0.7700	21,000
St. Mary's	49.0%	16.3%	5%	356,081,693	0.8570	34,000
Somerset	45.5%	15.2%	10%	103,128,580	0.9400	5,000
Talbot	42.7%	14.2%	0%	270,598,225	0.4750	18,000
Washington	40.2%	13.4%	5%	274,301,643	0.9480	22,000
Wicomico	40.6%	13.5%	10%	186,403,059	0.8810	6,000
Worcester	33.3%	11.1%	3%	504,754,841	0.7000	29,000
Total	33.2%	11.1%		\$10,345,711,532		\$623,000

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

Exhibit 4
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