

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

**FISCAL AND POLICY NOTE**

Senate Bill 618 (Senator Jones, *et al.*)  
 Budget and Taxation

**Property Tax - Homeowners' Property Tax Credit and Renters' Property Tax Relief**

This bill makes several changes to the Homeowners' Property Tax Credit Program and Renters' Property Tax Relief Program.

The bill takes effect June 1, 2008; the changes to the Homeowners' Property Tax Credit Program are applicable to all taxable years beginning after June 30, 2008, and the changes to the Renters' Property Tax Relief Program are applicable to calendar years beginning after December 31, 2007.

**Fiscal Summary**

**State Effect:** General fund expenditures could increase by \$43.9 million in FY 2009. Future years reflect changes in assessments and program participation. Revenues are not affected.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	43.9	53.1	64.4	78.4	95.7
Net Effect	(\$43.9)	(\$53.1)	(\$64.4)	(\$78.4)	(\$95.7)

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

**Local Effect:** Local governments that have a homeowners' property tax credit supplement could realize a reduction in expenditures for their programs as a result of the increased State credit.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** Exhibits 1 and 2 show the proposed changes to the Homeowners' Property Tax Credit Program and Renters' Tax Relief Program compared to current law.

---

### Exhibit 1 Homeowners' Property Tax Credit Program Comparison of Proposed Changes

	<u>Current Law</u>	<u>Senate Bill 618</u>
<b>Calculation Formula</b>	<ul style="list-style-type: none"><li>• 0% of the 1st \$8,000 of combined income</li><li>• 4% of the next \$4,000 of combined income</li><li>• 6.5% of the next \$4,000 of combined income</li><li>• 9% of combined income over \$16,000</li></ul>	<ul style="list-style-type: none"><li>• 0% of the 1st \$8,000 of combined income</li><li>• 4% of the next \$4,000 of combined income</li><li>• 5% of combined income over \$12,000</li></ul>
<b>Credit Prohibition</b>	<ul style="list-style-type: none"><li>• Credit less than \$1.00</li></ul>	<ul style="list-style-type: none"><li>• Credit less than \$10.00</li></ul>

---

### Exhibit 2 Renters' Property Tax Relief Program Comparison of Proposed Changes

	<u>Current Law</u>	<u>Senate Bill 618</u>
<b>Eligibility Criteria</b>	<ul style="list-style-type: none"><li>• Gross income below federal poverty threshold</li><li>• 1 or more dependent children under 18 years old</li></ul>	<ul style="list-style-type: none"><li>• Gross income below 200% of federal poverty threshold</li><li>• No dependent children under 18 years old</li></ul>
<b>Calculation Formula</b>	<ul style="list-style-type: none"><li>• 0% of the 1st \$4,000 of combined income</li><li>• 2.5% of the 2nd \$4,000 of combined income</li><li>• 5.5% of the 3rd \$4,000 of combined income</li><li>• 7.5% of the 4th \$4,000 of combined income</li><li>• 9% of the combined income over \$16,000</li></ul>	<ul style="list-style-type: none"><li>• 0% of the 1st \$8,000 of combined income</li><li>• 4% of the next \$4,000 of combined income</li><li>• 5% of the combined income over \$12,000</li></ul>
<b>Maximum Renters Tax Relief</b>	\$750	\$1,500
<b>Credit Prohibition</b>	<ul style="list-style-type: none"><li>• Credit less than \$1.00</li></ul>	<ul style="list-style-type: none"><li>• Credit less than \$10.00</li></ul>

---

**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 3** 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.

---

**Exhibit 3**  
**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

---

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.

#### *Renters' Property Tax Relief Program*

The Renters' Property Tax Relief Program provides relief for elderly or disabled renters from the burden attributable to State and local real property taxes. The concept behind the program is that renters indirectly pay property taxes as part of their rent and thus should have some protection, as do homeowners. The program makes payments directly to eligible renters to provide relief for the "assumed property tax" that renters indirectly pay as part of their rent.

Originally, the program was based on an "assumed property tax bill" equal to 10% of rent paid. Payments were substantially increased in 1981 to 15% of rent paid. As under the Homeowners' Property Tax Credit, qualification is based on a sliding scale of assumed property tax liability and income. If the portion of rent attributable to the assumed property taxes exceeds a fixed amount in relation to income, the renter can, under specified conditions, receive a payment of as much as \$750.

Chapter 27 of 2006 increased the maximum payment allowed under the Renters' Property Tax Relief Program from \$600 to \$750. **Exhibit 4** shows the number of individuals qualifying for the program and the total cost of the program since fiscal 2005, as referenced in the State budget.

---

**Exhibit 4**  
**Renters' Property Tax Relief Program**  
**Fiscal 2005-2009**

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Payment</u>
2005 Actual	11,111	\$3.3 million	\$294
2006 Actual	10,628	2.6 million	248
2007 Actual	10,491	2.5 million	235
2008 Budgeted	10,300	3.0 million	291
2009 Allowance	10,125	2.6 million	257

Source: Department of Budget and Management

---

**State Fiscal Effect:** General fund expenditures could increase by \$43.9 million in fiscal 2009 as a result of the changes made to the Homeowners' Property Tax Credit Program and the Renters' Property Tax Relief Program.

*Homeowners' Property Tax Credit Program*

The bill alters the percentages used to calculate the tax credit provided by the Homeowners' Property Tax Credit Program and as a result increases the number of homeowners eligible for the program as well as increases benefits for those who already receive credits. As a result, it is estimated that general fund expenditures for the tax credit program could increase by approximately \$42.3 million in fiscal 2009, based on the following facts and assumptions.

- General fund expenditures for the program totaled approximately \$48.6 million in fiscal 2008; there were 49,463 recipients.
- Based on applications for the current credit, approximately 12,238 new participants would receive the credit when the changes imposed by the bill are applied to current participation levels. This results in total program participation of 61,701 homeowners.

The bill would have the effect of increasing the average credit from \$983 to \$1,474 per recipient. SDAT estimates that program participation could increase by approximately 20% annually.

*Renters' Property Tax Relief Program*

The bill also alters the eligibility criteria and increases the maximum payment from \$750 to \$1,500. It is estimated that general fund expenditures would increase by approximately \$1.6 million in fiscal 2009, as shown in **Exhibit 5**.

---

**Exhibit 5**  
**Proposed Changes to Renters' Property Tax Relief Program**

	<u>Current Law</u>	<u>SB 618</u>	<u>Change</u>
Maximum Payment	\$750	\$1,500	\$750
Number of Recipients	9,304	9,304	0
Amount of Payment	\$2,588,920	\$4,151,678	\$1,562,758
Average Payment	\$278	\$446	\$168
Renters Receiving Increased Payment			9,295

---

SDAT estimates that repealing the requirement that renters have at least one dependent living with them in order to claim the payment could increase program participation by 50% annually as it is believed that some college students who rent apartments could qualify for the program.

---

**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 - March 7, 2008  
mll/hlb

---

Analysis by: Michael Sanelli

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510