Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 993 (Delegate Shank, *et al.*)
Ways and Means

Homestead Property Tax Credit for Living Units in Continuing Care Retirement Communities

This bill extends the homestead property tax credit to an independent living unit at a continuing care facility that is used as the principal residence of an occupant, whether or not the unit is actually occupied for more than six months of a year. For purposes of the homestead property tax credit, the owner of the continuing care facility is considered the homeowner.

The bill takes effect October 1, 2009, and applies to all taxable years beginning after June 30, 2010.

Fiscal Summary

State Effect: State special fund revenues decrease by $813,600 in FY 2011. Future year decreases assume 10% assessment increases based on the State's 10% homestead property tax credit percentage. 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.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	$0	($813,600)	($895,000)	($984,500)	($1,082,900)
Expenditure	0	0	0	0	0
Net Effect	$0	($813,600)	($895,000)	($984,500)	($1,082,900)

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

Local Effect: Local government property tax revenues decrease by $12.4 million in FY 2011. Future year revenue decreases are dependent on property tax assessments and each county's homestead property tax credit percentage. Expenditures are not affected.

Small Business Effect: Minimal.

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 on which the house is erected. A homeowner may only claim the homestead property tax credit for one dwelling.

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%: 18 counties in fiscal 2008, 19 counties in fiscal 2009, and 20 counties in fiscal 2010. **Exhibit 1** lists the assessment caps for each county. Due to the continuing changes in property assessments, one county (Allegany) lowered their assessment cap in fiscal 2010 and one county (Prince George's) increased their assessment cap in fiscal 2010.

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 $120,000, from $300,000 to $420,000, the increase would be phased in through increments of $40,000 annually for the next three years.
- If the assessment cap was set at 10%, however, the amount of assessment subject to taxes would increase by only $30,000 in the first year, $33,000 in the following year, and $36,300 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.

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, $1.3 billion in fiscal 2009, and $1.4 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, $121.8 million in fiscal 2009, and $126.2 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.

Exhibit 1
Homestead Tax Credit Program – Assessment Caps

County	FY 2008	FY 2009	FY 2010
Allegany	10%	10%	7%
Anne Arundel	2%	2%	2%
Baltimore City	4%	4%	4%
Baltimore	4%	4%	4%
Calvert	10%	10%	10%
Caroline	5%	5%	5%
Carroll	7%	7%	7%
Cecil	8%	8%	8%
Charles	7%	7%	7%
Dorchester	5%	5%	5%
Frederick	5%	5%	5%
Garrett	5%	5%	5%
Harford	10%	9%	9%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George's	4%	3%	5%
Queen Anne's	5%	5%	5%
St. Mary's	5%	5%	5%
Somerset	10%	10%	10%
Talbot	0%	0%	0%
Washington	5%	5%	5%
Wicomico	10%	10%	10%
Worcester	3%	3%	3%

Source: State Department of Assessments and Taxation

Application Process for Homestead Tax Credit Program

Homeowners are required to file a specified application with the State Department of Assessments and Taxation (SDAT) to qualify for the homestead property tax credit program. Homeowners must file an application within 180 days following the date the property transfers to a new owner. For property transfers that occurred prior to December 31, 2007, an application must be filed with SDAT by December 31, 2012.

The first 476,000 homestead tax credit applications were sent out to Maryland homeowners with the annual assessment notices in December 2007. An additional 28,819 were sent to new purchasers of residential property during calendar 2008. SDAT reports that 320,888 applications have been submitted and processed by the department to date. This includes 100,653 applications that were submitted electronically via the department's web site. SDAT reports that audits of these applications have resulted in the removal of 1,939 homestead tax credits. This has resulted in an increase of $665,500 in State property tax revenue and approximately $9.0 million in local property tax revenue in fiscal 2009.

Annuity Bond Fund

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 2010 State budget allowance includes $785.0 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.

State Fiscal Effect: There are 30 nonprofit continuing care retirement communities in the State, which are regulated by the Maryland Department of Aging. (There are also four for-profit continuing care retirement communities that would not be eligible for the homestead tax credit pursuant to the bill.) These communities consist of 11,303 living units. The bill extends the homestead property tax credit to these living units at continuing care retirement communities. As a result, State special fund revenues decrease by $813,600 in fiscal 2011. The estimate is based on the number of living units at nonprofit continuing care retirement communities and the average homestead property tax credit for State property tax purposes for fiscal 2009. Future year revenue decreases assume 10% assessment increases based on the State's 10% homestead property tax percentage. The State revenue decrease for fiscal 2011 is detailed in **Exhibit 2**.

Exhibit 2
State Property Tax Decrease
Continuing Care Retirement Communities
FY 2011

County	Number of Accounts	Average Homestead Credit	Tax Rate	Revenue Loss
Anne Arundel	243	$73,565	$0.112	($22,024)
Baltimore City	166	41,171	0.112	(8,420)
Baltimore	4,454	44,497	0.112	(244,170)
Calvert	300	66,398	0.112	(24,541)
Carroll	712	54,113	0.112	(47,467)
Frederick	382	52,544	0.112	(24,728)
Garrett	30	16,472	0.112	(609)
Howard	485	73,638	0.112	(44,000)
Kent	192	51,740	0.112	(12,239)
Montgomery	1,524	85,031	0.112	(159,651)
Prince George's	2,331	67,649	0.112	(194,274)
Talbot	124	91,776	0.112	(14,020)
Washington	360	39,417	0.112	(17,482)
Total	**11,303**			**($813,625)**

Local Fiscal Effect: County property tax revenues decrease by $12.4 million in fiscal 2011. The estimate is based on the number of living units in nonprofit continuing care retirement communities and the average homestead property tax credit for county property tax purposes for fiscal 2009. Future year revenue decreases are dependent on property tax assessments and each county's homestead property tax credit percentage. The county revenue decrease for fiscal 2011 is detailed in **Exhibit 3**.

Exhibit 3
County Property Tax Decrease
Continuing Care Retirement Communities
Fiscal 2011

County	Number of Accounts	Average Homestead Credit	Tax Rate	Revenue Loss
Anne Arundel	243	$174,682	$0.8880	($403,321)
Baltimore City	166	59,438	$2.2680	(232,728)
Baltimore	4,454	90,143	$1.1000	(4,593,125)
Calvert	300	66,211	$0.8920	(194,899)
Carroll	712	79,764	$1.0480	(636,842)
Frederick	382	90,303	$1.0640	(385,386)
Garrett	30	27,318	$1.0000	(8,605)
Howard	485	149,973	$1.1495	(877,916)
Kent	192	82,897	$0.9720	(162,441)
Montgomery	1,524	84,273	$0.9150	(1,292,699)
Prince George’s	2,331	129,859	$1.0140	(3,222,861)
Talbot	124	278,062	$0.4490	(154,814)
Washington	360	60,996	$0.9480	(218,576)
Total	**11,303**			**($12,384,213)**

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 10, 2009
ncs/hlb

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