

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

Senate Bill 363 (Senators Haines and Glassman)
 Budget and Taxation

Homestead Property Tax Credit - Applications - Use of Social Security Numbers

This bill prohibits the application form for the homestead property tax credit program, authorized by Chapters 564 and 565 of 2007, from requiring a homeowner to provide his or her Social Security number.

The bill takes effect June 1, 2009.

Fiscal Summary

State Effect: Special fund revenues decrease by a significant amount beginning in FY 2010 to the extent ineligible properties continue receiving a homestead tax credit. Based on current applications received, the revenue decrease is approximately \$665,500 in FY 2010 and FY 2011.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	(\$665,500)	(\$665,500)	--	--	--
Expenditure	0	0	0	0	0
Net Effect	(\$665,500)	(\$665,500)	\$0	\$0	\$0

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

Local Effect: Local property tax revenues decrease by a significant amount beginning in FY 2010 to the extent ineligible properties continue receiving a homestead tax credit. Based on current applications received, the revenue decrease is approximately \$9.0 million in FY 2010 and FY 2011.

Small Business Effect: None.

Analysis

Current Law: 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.

Background: 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. Homeowners are required 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 nonauthorized purposes (in this case it is needed to verify homestead eligibility), secure storage, and Internal Revenue Service (IRS) audit.

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.

Homestead Property Tax Credit Program

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.

State Revenues: SDAT advises the only way to accurately verify an applicant's eligibility for the credit is by matching his or her Social Security number with the address on the application. Therefore, prohibiting SDAT to request a Social Security number on the application could significantly, if not completely, decrease the effectiveness of the verification program.

As shown in **Exhibit 2**, audits of 320,888 applications received to date 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 for fiscal 2009. Assuming a commensurate level of disqualifications for fiscal 2010 and 2011 as applications are mailed out to the next two assessment groups, State property tax revenue may increase by \$665,500 for fiscal 2010 and 2011. The amount of revenue resulting from disqualifications is likely to decrease beginning in fiscal 2012, as (1) applications are due by December 31, 2012; and (2) it is assumed that most homeowners would have received at least one, if not more notification regarding the application requirement by this time.

Exhibit 1
Counties with Assessment Caps Below 10%

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

Exhibit 2
Homestead Property Tax Credit Applications
Calendar 2008

County	Approved	Pending	Denied	Total	Percent Denied
Allegany	3,298	573	73	3,944	1.9%
Anne Arundel	29,859	3,730	195	33,784	0.6%
Baltimore City	18,619	2,708	339	21,666	1.6%
Baltimore	41,152	5,625	262	47,039	0.6%
Calvert	4,967	884	31	5,882	0.5%
Caroline	1,473	160	17	1,650	1.0%
Carroll	9,454	1,493	31	10,978	0.3%
Cecil	3,927	762	39	4,728	0.8%
Charles	6,661	937	49	7,647	0.6%
Dorchester	1,371	179	33	1,583	2.1%
Frederick	10,623	2,441	51	13,115	0.4%
Garrett	1,633	397	60	2,090	2.9%
Harford	14,563	2,201	60	16,824	0.4%
Howard	11,776	5,002	63	16,841	0.4%
Kent	1,059	154	14	1,227	1.1%
Montgomery	48,884	8,226	191	57,301	0.3%
Prince George's	41,924	6,801	158	48,883	0.3%
Queen Anne's	1,712	347	17	2,076	0.8%
St. Mary's	5,598	1,301	38	6,937	0.5%
Somerset	668	147	14	829	1.7%
Talbot	1,208	484	18	1,710	1.1%
Washington	6,104	674	37	6,815	0.5%
Wicomico	3,563	552	32	4,147	0.8%
Worcester	2,468	607	117	3,192	3.7%
Total	272,564	46,385	1,939	320,888	0.6%

Local Revenues: Local property tax revenues will decrease by a potentially significant amount beginning in fiscal 2010 to the extent ineligible properties continue to receive a homestead tax credit. As noted, audits of applications received to date have resulted in the removal of 1,939 homestead tax credits. This has resulted in an increase of approximately \$9.0 million in local property tax revenue for fiscal 2009 as shown in **Exhibit 3**. Assuming a commensurate level of disqualifications for fiscal 2010 and 2011 as applications are mailed out to the next two assessment groups, county property tax revenue may increase by \$9.0 million for fiscal 2010 and 2011. The amount of revenue resulting from disqualifications is likely to decrease beginning in fiscal 2012, as (1) applications are due by December 31, 2012; and (2) it is assumed that most homeowners would have received at least one, if not more notification regarding the application requirement by this time.

Additional Information

Prior Introductions: SB 113 of 2008 received an unfavorable report by the Senate Budget and Taxation Committee. Its cross file, HB 791 had a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - February 23, 2009
mcp/hlb

Analysis by: Michael Sanelli

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

Exhibit 3

Residential Real Property Accounts in Which Homestead Tax Credit Eligibility Was Removed for July 1, 2008

<u>Jurisdiction</u>	<u>Number of Homestead Accounts</u>	<u>Increase in State Taxable Assessment</u>	<u>Increase in County Taxable Assessment</u>	<u>Additional State Taxes Received</u>	<u>Additional County Taxes Received</u>
Allegany	103	\$602,769	\$604,420	\$675.10	\$5,940.84
Anne Arundel	1,155	57,150,857	133,135,964	64,008.96	1,182,247.03
Baltimore City	259	5,804,943	9,227,367	6,501.54	209,276.68
Baltimore County	982	29,936,385	66,963,825	33,528.75	736,602.08
Calvert	246	12,773,989	12,776,091	14,306.87	113,962.73
Caroline	61	1,620,896	2,341,127	1,815.40	20,367.80
Carroll	235	7,306,660	11,897,728	8,183.46	124,688.19
Cecil	188	4,620,705	6,254,716	5,175.19	60,045.27
Charles	758	35,422,051	44,709,195	39,672.70	459,610.52
Dorchester	88	1,959,994	3,133,409	2,195.19	28,075.34
Frederick	589	21,371,554	36,732,356	23,824.14	343,814.85
Garrett	65	909,436	1,959,757	1,018.57	19,597.57
Harford	991	25,864,240	27,686,059	28,967.95	299,563.16
Howard	1,149	75,146,331	126,316,924	84,163.89	1,280,853.61
Kent	43	2,008,211	4,109,965	2,249.20	39,948.86
Montgomery	2,058	176,082,914	176,124,724	197,212.86	1,611,541.22
Prince George's	2,232	105,795,860	219,190,051	118,491.36	2,104,224.49
Queen Anne's	110	4,967,370	8,380,440	5,563.45	64,529.39
St. Mary's	213	9,117,811	15,625,837	10,211.95	133,913.42
Somerset	24	557,926	557,926	624.88	5,244.50
Talbot	69	5,857,271	18,173,066	6,560.14	81,597.07
Washington	27	683,536	1,020,144	765.56	9,670.97
Wicomico	110	1,770,700	1,772,619	1,983.18	16,804.43
Worcester	132	6,938,536	12,015,725	7,771.60	84,110.08
Total	11,887	\$594,270,942	\$940,710,417	\$665,471.89	\$9,036,230.10