

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

Senate Bill 1005 (Senator Muse)
 Budget and Taxation

Property Tax Credit - Individuals at Least 65 Years Old

This bill requires county and municipal governments to grant a property tax credit against the property tax imposed on real property that is the principal residence of an individual who is at least age 65. The amount of the credit is equal to 25% of the tax imposed for fiscal 2010, 40% for fiscal 2011, and 50% for fiscal 2012 and beyond.

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

Fiscal Summary

State Effect: General fund revenues may increase by \$7.5 million in FY 2010 and by \$11.9 million in FY 2014. Expenditures are not affected.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	\$7.5	\$12.5	\$12.7	\$12.3	\$11.9
Expenditure	0	0	0	0	0
Net Effect	\$7.5	\$12.5	\$12.7	\$12.3	\$11.9

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

Local Effect: County property tax revenues decrease by \$280.0 million in FY 2010 and by \$631.9 million in FY 2012. Municipal property tax revenues decrease by \$16.4 million in FY 2010 and by \$37.0 million in FY 2012. Local income tax revenues may increase by \$4.6 million in FY 2010 and by \$8.0 million in FY 2014. Local expenditures may increase by a minimal amount to administer the tax credit. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: Local governments are authorized to provide a property tax credit for the principal residence of an individual who is at least 70 years old and of limited income.

Background: The income levels for senior citizens are lower than for most other age groups in Maryland as shown in **Exhibit 1**. According to the U.S. Census Bureau, the median household income in Maryland totaled \$66,873 in 2007. For senior households (age 65 years and over), the median income in 2007 was only \$40,174.

Exhibit 1 Median Household Income by Age 2007

<u>Age of Householder</u>	<u>Percent of Total</u>	<u>Median Income</u>
Under 25 years	3.7%	\$35,246
25 to 44 years	37.5%	71,092
45 to 64 years	39.7%	82,090
65 years and over	19.1%	40,174
Total	100.0%	\$66,873

Existing State and Local Programs for Senior Homeowners

Chapter 455 of 2006 authorized Baltimore City, counties, and municipalities to grant a tax credit against the county or municipal property tax imposed on real property that is owned and used as the principal residence of an individual who is at least 70 years old and of limited income. Local jurisdictions are authorized to provide for the amount and duration of the tax credit, additional eligibility criteria for the tax credit, regulations and procedures for the application and uniform processing of requests for the tax credit, and any other provisions necessary.

Chapter 246 of 2005 authorized the Carroll County Commissioners to grant a property tax credit on real property used as a principal residence and owned by individuals who are at least 65 years old and of limited incomes. The county commissioners may establish eligibility criteria for the credit, the amount and duration of the tax credit, regulations and procedures, and any other provisions necessary to carry out the credit.

Chapter 195 of 2005 authorized St. Mary's County to grant a property tax credit against the county property tax for individuals who are at least 70 years old and of limited

income. The county may provide eligibility criteria for the credit, the amount and duration of the tax credit, regulations and procedures for the application and uniform processing of requests for the tax credit, and any other provision necessary to carry out the tax credit. The credit applies to tax years beginning July 1, 2005 through June 30, 2008.

The Homeowners' Property Tax Credit Program (Circuit Breaker) provides credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. The Homeowners' Property Tax Credit is a State-funded program, with the State reimbursing local governments for the cost of the credit against local property taxes. This program, initiated in 1975, was originally limited to homeowners age 60 and older and homeowners with disabilities, but was expanded to homeowners of all ages in 1978. The counties and municipalities are authorized to enact local supplements to the Homeowners' Property Tax Credit, with these jurisdictions bearing the cost of the supplemental credits. 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, as well as the City of Rockville, will also provide a local supplement.

State Fiscal Effect: The local property tax credit proposed by the bill will result in an increase in taxable income for those taxpayers who itemize their deductions on their federal income tax returns. Property taxes paid are deductible from the federal income tax to the extent the taxpayer itemizes deductions. This deduction flows through to the Maryland income tax return. To the extent that local property taxes are reduced due to the tax credit proposed by the bill, it in turn reduces the amount of itemized deductions on the federal income tax return that flow through to the Maryland income tax return, which then results in a higher Maryland taxable income.

Based on taxpayers who were at least 65 years old and who itemized deductions for tax year 2006, and on the amount of the local property tax credit resulting from the bill, it is estimated that general fund revenues will increase by approximately \$7.5 million in fiscal 2010 and by \$11.9 million in fiscal 2014. However, the actual amount of the general fund revenue increase depends on the amount of the local property tax credit, and the number of taxpayers who itemize deductions.

Local Fiscal Effect: The bill requires counties and municipalities to grant a property tax credit for homeowners who are at least 65 years old. As a result, county property tax revenues decrease by \$280.0 million in fiscal 2010 and by \$631.9 million in fiscal 2012 as shown in **Exhibit 2**. In addition, municipal revenues decrease by an estimated \$16.4 million in fiscal 2010 and by \$37.0 million in fiscal 2012. Counties may also incur some additional expenditures related to the administration of the credit. The estimated is based on the following:

- average assessment data for tax year beginning July 1, 2008;
- current local property tax rates;
- countywide homeownership rates in 2000 calculated by the U.S. Census Bureau;
- householders ages 65 and over; and
- municipal property tax revenue loss equals approximately 6.5% of the county revenue loss.

As noted, the local property tax credit will result in a higher Maryland taxable income. Based on the estimated increase in State income tax revenue, local income tax revenues will increase by approximately \$4.6 million in fiscal 2010 and by \$8.0 million in fiscal 2014, which serve to offset the loss associated with the property tax credit proposed by the bill to a small degree.

Additional Information

Prior Introductions: SB 736 of 2008 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): Dorchester County, Garrett County, Town of La Plata, State Department of Assessments and Taxation, Comptroller's Office, Maryland Association of Counties, Maryland Municipal League, Montgomery County, Department of Legislative Services

Fiscal Note History: First Reader - March 24, 2009
mam/hlb

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Exhibit 2
County Revenue Decrease – Property Tax Credit for Individuals Age 65 and Over
Fiscal 2010-2012

County	Average Assessment	Tax Rate	Tax	65 and over Residents	Home Ownership Rate	Homestead Cap	FY 2010 25% Tax Credit	FY 2011 40% Tax Credit	FY 2012 50% Tax Credit
Allegany	\$91,404	\$0.9829	\$898	9,118	70.2%	7.0%	\$(1,538,315)	\$(2,633,595)	\$(3,522,434)
Anne Arundel	381,086	0.8880	3,384	39,562	75.5%	2.0%	(25,775,103)	(42,064,968)	(53,632,834)
Baltimore City	135,657	2.2680	3,077	52,961	50.3%	4.0%	(21,309,863)	(35,459,611)	(46,097,495)
Baltimore	257,944	1.1000	2,837	79,311	67.6%	4.0%	(39,552,540)	(65,815,427)	(85,560,054)
Calvert	348,201	0.8920	3,106	6,080	85.2%	10.0%	(4,424,718)	(7,787,503)	(10,707,817)
Caroline	198,075	0.8700	1,723	2,943	74.1%	5.0%	(986,409)	(1,657,166)	(2,175,031)
Carroll	320,822	1.0480	3,362	13,819	82.0%	7.0%	(10,191,331)	(17,447,559)	(23,336,110)
Cecil	243,002	0.9600	2,333	7,733	75.0%	8.0%	(3,652,997)	(6,312,379)	(8,521,712)
Charles	314,877	1.0260	3,231	8,156	78.2%	7.0%	(5,511,638)	(9,435,924)	(12,620,548)
Dorchester	179,787	0.8960	1,611	3,945	70.1%	5.0%	(1,169,243)	(1,964,329)	(2,578,182)
Frederick	328,388	1.0640	3,494	15,771	75.9%	5.0%	(10,978,924)	(18,444,592)	(24,208,527)
Garrett	133,450	1.0000	1,334	3,444	77.9%	5.0%	(939,828)	(1,578,911)	(2,072,320)
Harford	268,904	1.0820	2,910	19,023	78.0%	9.0%	(11,764,364)	(20,517,050)	(27,954,481)
Howard	446,077	1.1495	5,128	17,590	73.8%	5.0%	(17,472,735)	(29,354,194)	(38,527,380)
Kent	246,878	0.9720	2,400	2,715	70.4%	5.0%	(1,204,118)	(2,022,918)	(2,655,079)
Montgomery	525,271	0.9150	4,806	79,233	68.7%	10.0%	(71,944,969)	(126,623,145)	(174,106,825)
Prince George's	292,894	1.3190	3,863	52,373	61.8%	5.0%	(32,822,894)	(55,142,461)	(72,374,481)
Queen Anne's	383,231	0.7700	2,951	4,264	83.4%	5.0%	(2,754,892)	(4,628,218)	(6,074,536)
St. Mary's	291,240	0.8570	2,496	6,754	71.8%	5.0%	(3,177,351)	(5,337,950)	(7,006,059)
Somerset	126,680	0.9200	1,165	2,424	69.6%	10.0%	(540,740)	(951,703)	(1,308,591)
Talbot	449,024	0.4490	2,016	5,719	71.6%	0.0%	(2,063,900)	(3,302,240)	(4,127,800)
Washington	219,902	0.9480	2,085	13,932	65.6%	5.0%	(5,001,355)	(8,402,277)	(11,027,989)
Wicomico	173,760	0.8140	1,414	8,723	66.5%	10.0%	(2,256,388)	(3,971,242)	(5,460,458)
Worcester	284,828	0.7000	1,994	7,673	75.0%	3.0%	(2,954,662)	(4,869,282)	(6,269,201)
Total	\$326,439			463,266	67.7%		\$(279,989,273)	\$(475,724,644)	\$(631,925,942)
Municipal Decrease						5.85%	\$(16,379,372)	\$(27,829,892)	\$(36,967,668)

