HB 156

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 156 (Delegate Krebs, *et al.*)
Ways and Means

State Property Tax - Homeowner's Property Tax Assessment Cap Reduction

This bill reduces the percentage used to determine the Homestead Property Tax Credit for State property tax purposes from 10% to 5%, thereby limiting annual State property tax assessment increases, on owner-occupied residential properties to 5%.

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

Fiscal Summary

State Effect: Special fund revenues decrease by $37.1 million in FY 2011. This decrease may 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. Future year revenues reflect estimated assessments and the cap imposed by the bill.

($ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	$0	($37.1)	($41.1)	($41.2)	($41.2)
Expenditure	0	0	0	0	0
Net Effect	$.0	($37.1)	($41.1)	($41.2)	($41.2)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The cap on property assessment increases is set at 10% for State property tax purposes. A county or municipality can lower the cap percentage to 0% for local property tax purposes.

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 counties with assessment caps below 10% in at least one of the three years from fiscal 2008 through 2010. 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 were 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.

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%
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%
Prince George’s	4%	3%	5%
Queen Anne’s	5%	5%	5%
St. Mary’s	5%	5%	5%
Talbot	0%	0%	0%
Washington	5%	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, $1.3 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 Fiscal Effect: The bill lowers the State Homestead Tax Credit percentage from 10% to 5%. As discussed above, the Homestead Tax Credit caps property tax liability at 10% of the assessment increase. As a result of the bill, revenues decrease by approximately $37.1 million in fiscal 2011 for the Annuity Bond Fund and $41.2 million by fiscal 2014.

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.

Future year revenue losses increase as a result of the difference between estimated assessments and the 5% cap imposed by the bill. **Exhibit 2** outlines the impact on special fund revenues.

Exhibit 2
Impact on State Revenues
Capping the Homestead Property Tax Credit Percentage at 5%
($ in Millions)

	FY 2010	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Assessable Base Loss					
10% Homestead Cap	$71,082.0	$75,878.0	$82,415.1	$83,121.4	$83,629.3
5% Homestead Cap	n/a	109,044.1	119,079.7	119,924.5	120,429.6
State Tax Rate	$0.112	$0.112	$0.112	$0.112	$0.112
Revenue Decrease	**$0**	**($37.1)**	**($41.1)**	**($41.2)**	**($41.2)**

Note: Estimate assumes no change in current property tax rate.
Source: State Department of Assessments and Taxation; Department of Legislative Services

Additional Information

Prior Introductions: HB 189 of 2008 and HB 9 of 2007 received a hearing in the House Ways and Means Committee, but no further action was taken on either bill.

Cross File: SB 446 (Senator Pipkin) – Budget and Taxation.

Information Source(s): State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Department of Legislative Services

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