Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 806 (Delegate Heller)
Ways and Means

Property Tax - Homestead Credit for Seniors with Two Homes

This bill extends the homestead property tax credit to the second home of a homeowner who is at least 65 years old; the second home is not rented to, or occupied by someone other than the owner, except for specified individuals on a short-term basis; and the second home is not used for the purposes of establishing residency in order to receive State, county, or municipal services. The bill specifies that the homestead tax credit percentage for the second home receiving the tax credit is 10% for State, county, and municipal property taxes.

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

Fiscal Summary

State Effect: State special fund revenues may decrease, perhaps significantly, beginning in FY 2010 to the extent that second homes owned by senior citizens are eligible for the homestead property tax credit. This decrease will 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.

Local Effect: Local government property tax revenues may decrease, perhaps significantly, beginning in FY 2010 to the extent that second homes owned by senior citizens are eligible for the homestead property tax credit. Expenditures are not affected.

Small Business Effect: None.

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	Fiscal 2008	Fiscal 2009	Fiscal 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: State special fund revenues may decrease by a significant amount beginning in fiscal 2010. The amount depends on the number of eligible (at least 65 years old) homeowners who own a second home, the assessed value of each second home, and annual assessment increases. The U.S. Census Bureau indicates that there are approximately 650,000 individuals in Maryland who are 65 years of age or older. In addition, there are approximately 175,000 households in which the head of household is at least 65 years old. The average homestead property tax credit for fiscal 2009 is $58,685 for State property tax purposes and $98,289 for county property tax purposes.

As a point of reference, **Exhibit 2** shows the effect on State and local property tax revenues of one homeowner in each county qualifying for an additional homestead property tax credit, based on average assessments, average homestead property tax credits, and tax rates for fiscal 2009.

Exhibit 2
Effect of One Eligible Homeowner Receiving Additional Homestead Property Tax Credit in Each County

County	Average Assessment	Average County Homestead Credit	County Tax Rate	County Revenue Loss
Allegany	$91,404	$11,895	$0.9829	($117)
Anne Arundel	381,086	174,682	0.8880	(1,551)
Baltimore City	135,657	59,438	2.2680	(1,348)
Baltimore	257,944	90,143	1.1000	(992)
Calvert	348,201	66,211	0.8920	(591)
Caroline	198,075	58,696	0.8700	(511)
Carroll	320,822	79,764	1.0480	(836)
Cecil	243,002	38,793	0.9600	(372)
Charles	314,877	69,660	1.0260	(715)
Dorchester	179,787	56,367	0.8960	(505)
Frederick	328,388	90,303	1.0640	(961)
Garrett	133,450	27,318	1.0000	(273)
Harford	268,904	34,064	1.0820	(369)
Howard	446,077	149,973	1.1495	(1,724)
Kent	246,878	82,897	0.9720	(806)
Montgomery	525,271	84,273	0.9150	(771)
Prince George’s	292,894	129,859	1.0140	(1,317)
Queen Anne’s	383,231	108,427	0.7700	(835)
St. Mary’s	291,240	95,738	0.8570	(820)
Somerset	126,680	27,626	0.9200	(254)
Talbot	449,024	278,062	0.4490	(1,249)
Washington	219,902	60,996	0.9480	(578)
Wicomico	173,760	25,566	0.8140	(208)
Worcester	284,828	105,681	0.7000	(740)
County	**$326,439**	**$98,289**		**($18,441)**
State Revenues				**($1,340)**

Local Fiscal Effect: County and municipal property tax revenues may decrease by a significant amount, beginning in fiscal 2010. The amount, which cannot be quantified at this time, depends on the number of eligible (at least 65 years old) homeowners who own a second home, the assessed value of each second home, annual assessment increases, and the local government's property tax rate. As shown in **Exhibit 3**, approximately 77% of residential property accounts receive a homestead tax credit. Pursuant to this legislation, a sizeable amount of additional properties would be eligible for a homestead tax credit. In addition, several counties with a significant number of vacation homes, most notably Worcester and Garrett counties, would be disproportionately impacted by the bill. Currently, only 28% of residential property accounts in Worcester County receive a homestead tax credit, whereas 50% of residential property accounts in Garrett County receive a homestead tax credit.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mcp/hlb

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Exhibit 3
Residential Accounts Receiving Homestead Tax Credit

County	Improved Residential Accounts[1]	Accounts Receiving Homestead Credit	Percent Receiving Homestead Credit
Allegany	25,622	12,236	47.8%
Anne Arundel	170,636	143,243	83.9%
Baltimore City	195,730	112,280	57.4%
Baltimore	237,993	207,923	87.4%
Calvert	30,706	24,002	78.2%
Caroline	9,959	8,394	84.3%
Carroll	51,494	47,574	92.4%
Cecil	32,241	24,044	74.6%
Charles	45,481	37,968	83.5%
Dorchester	12,812	8,396	65.5%
Frederick	72,270	63,052	87.2%
Garrett	14,976	7,567	50.5%
Harford	77,889	66,718	85.7%
Howard	83,536	73,686	88.2%
Kent	7,794	5,360	68.8%
Montgomery	289,367	227,847	78.7%
Prince George’s	228,653	188,030	82.2%
Queen Anne’s	16,938	14,105	83.3%
St. Mary’s	31,254	24,744	79.2%
Somerset	8,260	4,505	54.5%
Talbot	14,822	10,530	71.0%
Washington	43,163	35,088	81.3%
Wicomico	30,435	18,596	61.1%
Worcester	52,781	14,951	28.3%
Total	**1,784,812**	**1,380,839**	**77.4%**

[1]Includes improved residential, condominium, and townhouse classifications
Source: State Department of Assessments and Taxation