

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 807 (Delegate Heller)
 Ways and Means

Homeowners' Property Tax Credit and Renters' Property Tax Credit Programs

This bill alters the calculation of the homeowners' property tax credit and the renters' property tax credit by (1) excluding from combined income the income of a person related to the homeowner or renter and who resides with the homeowner or renter for the primary purpose of providing medical assistance to the homeowner or renter; and (2) reducing gross income by any unreimbursed medical expenses for the purposes of calculating the amount of the homeowners' property tax credit or the renters' property tax credit.

The bill takes effect July 1, 2009; the provisions related to the renters' property tax credit apply to all taxable years beginning after December 31, 2008, and the provisions related to the homeowners' property tax credit apply to all taxable years beginning after June 30, 2009.

Fiscal Summary

State Effect: General fund expenditures increase by \$18.6 million in FY 2010. Future year expenditures reflect 2% annual program increases. Revenues are not affected.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	18.6	19.0	19.4	19.8	20.2
Net Effect	(\$18.6)	(\$19.0)	(\$19.4)	(\$19.8)	(\$20.2)

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

Local Effect: Local governments that have a homeowners' property tax credit supplement will realize a reduction in expenditures for their programs as a result of the increased State credit.

Small Business Effect: None.

Analysis

Current Law: The maximum assessment against which the homeowners' property tax credit may be granted is \$300,000. In order to be eligible for the homeowners' property tax credit, the combined net worth of a homeowner may not exceed \$200,000 in the calendar year preceding the year the taxpayer applies for the tax credit and income may not exceed \$60,000. The maximum tax credit allowed under the Renters' Property Tax Credit Program is \$750.

Background: The Homeowners' Property Tax Credit Program (Circuit Breaker) is a State-funded program (*i.e.*, the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. **Exhibit 1** shows the number of individuals qualifying for the tax credit and the total cost of the program since fiscal 2005, as referenced in the State budget.

Exhibit 1 Homeowners' Property Tax Credit Program Fiscal 2005-2010

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Credit Amount</u>
2005 Actual	48,666	\$39.5 million	\$812
2006 Actual	46,628	41.7 million	893
2007 Actual	48,290	45.6 million	944
2008 Actual	46,618	45.2 million	971
2009 Estimated	46,000	47.2 million	1,026
2010 Allowance	46,000	45.6 million	991

Source: *Maryland State Budget Document for Fiscal 2010, Volume 1*

Chapter 27 of 2006 made several significant changes to the Homeowners' Property Tax Credit Program: the maximum assessment against which the credit may be granted was increased to \$300,000 from \$150,000; and the percentages used to determine the amount of the tax credit were altered.

Chapter 588 of 2005 altered the calculation of total real property tax for the Homeowners' Property Tax Credit Program by subtracting the homestead tax credit amount from the total assessment rather than the maximum assessment specified under the credit. Chapter 588 also specified additional eligibility criteria for the local supplement to the Homeowners' Property Tax Credit Program, by authorizing a local jurisdiction to alter the \$200,000 limitation on a homeowner's net worth for eligibility for a local supplement to the Homeowners' Property Tax Credit Program.

Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. The State Department of Assessments and Taxation (SDAT) administers a local supplement granted by a county, but the cost of a local supplement is incurred by the local government. For purposes of the local supplement, the counties are authorized to alter the maximum on the assessed value taken into account in calculating the credit, as well as the percentages and income levels specified in the tax limit formula. The counties are also authorized to impose limitations on eligibility for a local supplement in addition to the requirements specified for the State credit. 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 also provided a local supplement.

Municipalities are also authorized to provide a supplement to the Homeowners' Property Tax Credit Program. Under the enabling authority for municipal corporations, a municipal supplement is limited to 50% of the State credit.

Chapter 444 of 2006 altered the calculation and eligibility criteria of the municipal supplement to make it consistent with the current calculation and eligibility criteria authorized under the county supplement program. Chapter 444 also altered the amount of a supplemental municipal credit that may be granted by repealing the limitation that a municipal supplement may not exceed 50% of the homeowners' property tax credit. Beginning July 1, 2005, the City of Rockville began providing a local supplement.

Renters' Property Tax Relief Program

The Renters' Property Tax Relief Program provides relief for elderly or disabled renters from the burden attributable to State and local real property taxes. The concept behind the program is that renters indirectly pay property taxes as part of their rent and thus should have some protection, as do homeowners. It is not actually a tax credit, but rather makes payments directly to eligible renters to provide relief for the "assumed property tax" that renters indirectly pay as part of their rent.

Originally, the program was based on an "assumed property tax bill" equal to 10% of rent paid. Credits were substantially increased in 1981 to 15% of rent paid. As under the homeowners' property tax credit, qualification is based on a sliding scale of assumed

property tax liability and income. If the portion of rent attributable to the assumed property taxes exceeds a fixed amount in relation to income, the renter can, under specified conditions, receive a credit of as much as \$750.

The formula to calculate the credit has been altered three times, increasing the credit by \$15 in 1982 and 1985, and again in 1989 by \$40. The maximum credit allowed was increased from \$450 to \$500 in 1985, to \$600 in 1989, and to \$750 in 2006. Finally, in 1992, the program was expanded to include certain renters under 60 years of age who live with a minor dependent. The State pays the amount directly to program recipients. The estimated State expenditure for fiscal 2010 is \$2.3 million.

State Fiscal Effect: General fund expenditures for the homeowners' tax credit program and the renters' tax credit program increase by \$18.6 million in fiscal 2010 due to the changes to each program proposed by the bill. The expenditure increase for each program is discussed below.

Homeowners' Property Tax Credit

General fund expenditures increase by \$17.1 million for the homeowners' property tax credit based on the following facts and assumptions:

- 2,756 caregiver homes received a homeowners' property tax credit in fiscal 2009; room and board for a caregiver is estimated at \$2,600.
- Caregiver homes will receive an additional \$234 in homeowners' property tax credit under the bill.
- The average amount of medical expenses that are included in federal income tax returns for individuals receiving the homeowners' property tax credit is \$4,910.
- The increased credit under the bill is \$442.
- 37,287 of homeowners' tax credit recipients in fiscal 2009 are at least 60 years old.

Renters' Property Tax Credit

General fund expenditures for the Renters' Property Tax Credit Program increase by \$1.5 million in fiscal 2010, based on the following facts and assumptions:

- 196 renters' tax credit recipients had a caregiver living with them in fiscal 2009; room and board for a caregiver is estimated at \$2,600.
- Caregiver homes will receive an additional \$143 in renters' property tax credit under the bill.
- The average amount of medical expenses that are included in federal income tax returns is \$4,910.

- The increased credit under the bill is \$209.
- 7,151 of renters' tax credit recipients in fiscal 2009 are at least 60 years old.

Future year expenditures assume a 2% annual increase. **Exhibit 2** shows the effect of each provision for fiscal 2010.

Exhibit 2
Effect of Changes Proposed by HB 807
Homeowners' and Renters' Property Tax Credit Programs
Fiscal 2010
(\$ in Millions)

	Expenditure Increase
Homeowners' Tax Credit	
Caregiver in Home	\$0.6
Medical Expenses Deduction	<u>16.5</u>
Subtotal	\$17.1
Renters' Tax Credit	
Caregiver in Home	\$0.03
Medical Expenses Deduction	<u>1.5</u>
Subtotal	\$1.52
Total State Expenditures	\$18.64

Additional Information

Prior Introductions: None.

Cross File: None.

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

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