SB 337

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 337 (Senator Raskin)
Budget and Taxation

Homestead Property Tax Credit - Eligibility of Employees of the Federal Government Stationed in a Foreign Country

This bill enables homeowners employed by the federal government who are stationed in a foreign country to maintain the homestead property tax credit on their principal residence even if they do not live in the residence for more than six months of the year, provided they are otherwise eligible for the tax credit.

The bill takes effect June 1, 2009 and applies to all taxable years beginning after June 30, 2009. The bill also applies retroactively by reinstating the credit for eligible homeowners who were denied the credit in prior taxable years under circumstances set forth in the bill.

Fiscal Summary

State Effect: State property tax revenues decrease by approximately $30,400 beginning in FY 2010. Expenditures are not affected.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	($30,400)	($30,400)	($30,400)	($30,400)	($30,400)
Expenditure	0	0	0	0	0
Net Effect	($30,400)	($30,400)	($30,400)	($30,400)	($30,400)

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

Local Effect: County property tax revenues decrease by approximately $352,300 beginning in FY 2010. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: A homeowner must live in a dwelling for more than 6 months of a 12-month period to be eligible for the homestead property tax credit, except under certain conditions. A homeowner may still be eligible for the tax credit due to illness or need of special care. In addition, a homeowner may continue to qualify for the tax credit for the current taxable year and two succeeding taxable years if the dwelling is damaged due to an accident or natural disaster even if the dwelling has been removed from the assessment roll.

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
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

State Fiscal Effect: Extending the homestead property tax credit, to federal employees who are stationed in a foreign country and who are ineligible for the credit due to the residency requirement, may reduce State property tax revenue by approximately $30,400 beginning in fiscal 2010. This estimate is based on the 152 homestead property tax applications submitted by federal employees that were denied for fiscal 2009 and the potential that additional individuals will become eligible for the credit.

Since the bill applies retroactively, Legislative Services advises that the number of homeowners that will be affected by the bill will most likely be greater than the number of credits that were denied in fiscal 2009. In addition, Chapters 564 and 565 of 2007 require homeowners to file a specified application with the State Department of Assessments and Taxation (SDAT) to qualify for the homestead property tax credit. Certain homeowners have until December 31, 2012 to file an application. The estimate also assumes that 75% of the individuals that were denied a credit in fiscal 2009 were stationed in a foreign country.

For illustrative purposes, if 150 homestead property tax credits were denied annually over a three-year period State revenues would be reduced by $30,400 annually based on current homestead credit amounts and a constant State property tax rate. If only 152 homestead property tax applications are affected; State revenues will decrease by approximately $13,500 annually. **Exhibit 2** shows the potential revenue loss from the applications that were denied in fiscal 2009. It is assumed that only 75% of the individuals were stationed in a foreign country.

As a point of reference, as of September 2008, a total of 34,268 federal civilian employees were serving in a foreign country. Most of these employees were from the Department of Defense (91%) followed by the Department of Homeland Security, and USAID (about 3% each). Approximately 1,500 of the employees are estimated to be Maryland residents. In addition, the U.S. Foreign Service employs about 6,500 diplomats overseas.

The Servicemembers Civil Relief Act (50 U.S.C. App. §§ 501-596), which replaced the Soldiers' and Sailors' Civil Relief Act, is a federal law that provides military members certain protections as they enter active duty and other protections while they are on active duty. As a result, SDAT indicates that it does not revoke the homestead property tax credit for members of the armed forces that are stationed out of State.

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.

Exhibit 2
Effect of Extending the Homestead Property Tax Credit
Credits Denied in Fiscal 2009

County	Average Assessment	Average Homestead Credit	Federal Employees Denied Credit	County Tax Rate	Revenue Decrease
Allegany	$91,404	$11,895	0	$0.9829	$0
Anne Arundel	381,086	174,682	10	0.8880	(15,512)
Baltimore City	135,657	59,438	0	2.2680	0
Baltimore	257,944	90,143	0	1.1000	0
Calvert	348,201	66,211	0	0.8920	0
Caroline	198,075	58,696	0	0.8700	0
Carroll	320,822	79,764	0	1.0480	0
Cecil	243,002	38,793	0	0.9600	0
Charles	314,877	69,660	0	1.0260	0
Dorchester	179,787	56,367	0	0.8960	0
Frederick	328,388	90,303	0	1.0640	0
Garrett	133,450	27,318	1	1.0000	(273)
Harford	268,904	34,064	0	1.0820	0
Howard	446,077	149,973	25	1.1495	(43,099)
Kent	246,878	82,897	0	0.9720	0
Montgomery	525,271	84,273	100	0.9150	(77,110)
Prince George's	292,894	129,859	10	1.3190	(17,128)
Queen Anne's	383,231	108,427	0	0.7700	0
St. Mary's	291,240	95,738	0	0.8570	0
Somerset	126,680	27,626	0	0.9200	0
Talbot	449,024	278,062	0	0.4490	0
Washington	219,902	60,996	6	0.9480	(3,469)
Wicomico	173,760	25,566	0	0.8140	0
Worcester	284,828	105,681	0	0.7000	0
County Revenues	**$326,439**	**$58,685**	**152**		**($156,591)**
State Revenues					**($13,450)**

Source: State Department of Assessments and Taxation

Local Fiscal Effect: Extending the homestead property tax credit to federal employees who are stationed in a foreign country, but who are otherwise eligible for the credit, may reduce county property tax revenue by approximately $352,300 beginning in fiscal 2010. This estimate is based on 152 homestead property tax applications submitted by federal employees that were denied for fiscal 2009 and the potential that additional individuals will become eligible for the credit.

If only 152 homestead property tax applications are affected, county property tax revenues will decrease by approximately $156,600 annually. Exhibit 2 shows the potential revenue loss from the applications that were denied in fiscal 2009. The fiscal impact is limited to six jurisdictions, with Montgomery County realizing the largest revenue loss. In addition, it is assumed that only 75% of the individuals were stationed in a foreign country.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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