

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 979
Ways and Means

(Prince George's County Delegation)

Prince George's County - Homestead Tax Credit Percentage
PG 414-09

This bill sets the homestead tax credit percentage in Prince George's County at 10% for taxable years beginning July 1, 2009 and ending June 30, 2011. The bill's provisions apply to county property taxes only.

The bill takes effect June 1, 2009.

Fiscal Summary

State Effect: None.

Local Effect: Prince George's County property tax revenues increase by \$17.5 million in FY 2010 and by \$37.3 million in FY 2011. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: The homestead tax credit percentage is 5% in Prince George's County. Municipal homestead tax credit percentages range from 1% to 10%.

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.

Exhibit 1
Homestead Tax Credit Program – Assessment Caps

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

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.

Local Fiscal Effect: Increasing the homestead tax credit percentage in Prince George's County to 10% for two years will result in an increase in county property tax revenue of approximately \$17.5 million in fiscal 2010 and \$37.3 million in fiscal 2011. **Exhibit 2** shows the estimated revenue increase associated with raising the homestead tax credit percentage based on applicable county tax rates and homestead property tax data for fiscal 2010 and 2011. The county tax rate is \$1.319 per \$100 of assessment; however, for purposes of the homestead tax credit, the county excludes the Maryland-National Capital Park and Planning Commission tax (\$0.279) and the Washington Suburban Transit Commission tax (\$0.026) from the calculation.

Exhibit 2
Revenue Increase from Raising the Homestead Tax Credit Percentage
Fiscal 2010 and 2011

<u>Current Cap</u>	<u>Tax Rate</u>	<u>Revenue Increase</u>	
		<u>FY 2010</u>	<u>FY 2011</u>
5%	\$1.0140	\$17.5 million	\$37.3 million

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Prince George's County, State Department of Assessments and Taxation, Department of Legislative Services

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ncs/hlb

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