

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 659 (Senator Stoltzfus)
Budget and Taxation

Somerset County - Property Tax - Homestead Tax Credit Percentage

This bill prohibits the maximum homestead tax credit percentage in Somerset County from exceeding 5% for any taxable year. This limitation applies to both county and municipal property taxes.

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

Fiscal Summary

State Effect: None.

Local Effect: County and municipal property tax revenues in Somerset County decrease by approximately \$455,400 beginning in FY 2011. Local expenditures are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: The homestead tax credit percentage is 10% in Somerset County and 10% in the municipalities of Crisfield and Princess Anne.

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 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 Percent

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

Local Fiscal Effect: Reducing the maximum homestead tax credit percentage in Somerset County and its municipalities to 5% will result in a total decrease in county and municipal property tax revenue of approximately \$455,400 beginning in fiscal 2011. **Exhibit 2** shows the estimated revenue decrease associated with reducing the homestead tax credit percentage based on current county and municipal tax rates and homestead property tax data for fiscal 2010. To the extent that the county and/or municipalities increase tax rates to compensate for the reduction in the homestead tax credit percentage, the revenue losses would be mitigated.

Exhibit 2
Revenue Loss Resulting from Capping the Homestead Tax Credit Percentage at
105 Percent
Fiscal 2011

	<u>Current Cap</u>	<u>Tax Rate</u>	<u>Revenue Loss</u>
Somerset County	10%	\$0.920	\$411,600
Crisfield	10%	0.700	30,000
Princess Anne	10%	0.854	13,800
			\$455,400

Additional Information

Prior Introductions: None.

Cross File: HB 431 (Delegate Elmore) - Ways and Means is listed as a cross file, however, the bills are not identical.

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

Fiscal Note History: First Reader - February 13, 2009
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