SB 520

Department of Legislative Services

2010 Session

FISCAL AND POLICY NOTE

Revised

Senate Bill 520 (Senator Robey)

Budget and Taxation Ways and Means

Homestead Property Tax Credit - Eligibility of Employees of the Federal Government Stationed Outside the State

This bill enables homeowners employed by the federal government who are stationed out of state for not more than six consecutive years 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. Pursuant to the bill, the homeowner will be eligible to continue to receive the tax credit in the taxable year following their resumption of living in the residence. The tax credit is calculated on the prior year's taxable assessment determined as if the tax credit had not been lost when the homeowner was stationed outside of the State.

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

Fiscal Summary

State Effect: Special fund revenues decrease by approximately $9,200 beginning in FY 2011. Expenditures are not affected.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	($9,200)	($9,200)	($9,200)	($9,200)	($9,200)
Expenditure	0	0	0	0	0
Net Effect	($9,200)	($9,200)	($9,200)	($9,200)	($9,200)

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

Local Effect: County property tax revenues decrease by approximately $117,900 beginning in FY 2011. 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. However, 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.

Chapters 564 and 565 of 2007 require homeowners to file a specified application with SDAT to qualify for the homestead property tax credit. Certain homeowners have until December 31, 2012, to file an application.

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%: 19 counties in fiscal 2009 and 20 counties in fiscal 2010 and fiscal 2011. **Exhibit 1** lists the assessment caps for each county. Due to the continuing changes in property assessments, two counties – Harford and Prince George's – lowered their assessment cap for fiscal 2011.

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.

State Fiscal Effect: Extending the homestead property tax credit to federal employees who are stationed out of state and who are ineligible for the credit due to the residency requirement, may reduce State property tax revenue by approximately $9,200 annually beginning in fiscal 2011 as shown in **Exhibit 2**. This estimate is based on the 152 homestead property tax credit applications submitted by federal employees that were denied for fiscal 2009, and assumes a constant level of denied credits each year and that each employee is out of the State for one year. To the extent that some federal employees are stationed out of the State for more than one year (but less than six), the revenue loss will be greater than estimated. The State Department of Assessments and Taxation (SDAT) was unable to provide the number of homestead credits that were denied in fiscal 2010.

As a point of reference, the 2007 edition of the *Office of Personnel Management's Federal Civilian Workforce Statistics Fact Book*, indicates that approximately 88,700 civilian employees of the federal government work overseas. Most of these employees were from the Department of Defense (54.3%) and the State Department (23.4%)

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 who are stationed out of state and serving on active duty.

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 proposed fiscal 2011 State budget includes $833.4 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 1
Homestead Assessment Caps for Maryland Counties

County	FY 2009	FY 2010	FY 2011
Allegany	10%	7%	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	9%	9%	5%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George’s	3%	5%	0%
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

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	$110,394	$12,530	0	$0.9829	$0
Anne Arundel	388,692	154,714	10	0.8760	(13,553)
Baltimore City	160,479	59,492	0	2.2680	0
Baltimore	281,919	80,957	0	1.1000	0
Calvert	376,552	42,868	0	0.8920	0
Caroline	230,242	48,881	0	0.8700	0
Carroll	329,221	49,485	0	1.0480	0
Cecil	265,084	27,318	0	0.9400	0
Charles	308,207	52,387	0	1.0260	0
Dorchester	208,354	49,435	0	0.8960	0
Frederick	318,627	60,851	0	1.0640	0
Garrett	156,863	31,461	1	0.9900	(311)
Harford	293,754	29,522	0	1.0640	0
Howard	441,888	115,051	25	1.1495	(33,063)
Kent	299,098	82,535	0	0.9720	0
Montgomery	493,800	57,213	100	0.9160	(52,408)
Prince George's	320,198	123,585	10	1.3190	(16,301)
Queen Anne's	408,460	87,480	0	0.7700	0
St. Mary's	327,205	84,793	0	0.8570	0
Somerset	149,012	26,216	0	0.9000	0
Talbot	512,702	265,845	0	0.4320	0
Washington	226,913	39,911	6	0.9480	(2,270)
Wicomico	189,456	24,717	0	0.7590	0
Worcester	271,601	79,706	0	0.7000	0
County Revenues	**$334,520**	**$86,883**	**152**		**($117,900)**
State Revenues					**($9,150)**

Source: State Department of Assessments and Taxation; Department of Legislative Services

Local Fiscal Effect: Extending the homestead property tax credit to federal employees who are stationed out of state, but who are otherwise eligible for the credit, may reduce county property tax revenue by approximately $117,900 beginning in fiscal 2011. This estimate is based on the 152 homestead property tax credit applications submitted by federal employees that were denied for fiscal 2009, and assumes a constant level of denied credits each year and that each employee is out of the State for one year. To the extent that some federal employees are stationed out of the State for more than one year (but less than six), the revenue loss will be greater than estimated.

Exhibit 2 shows the potential revenue loss based on the applications that were denied in fiscal 2009. The fiscal impact is limited to six jurisdictions, with Montgomery County realizing the largest revenue loss.

Additional Information

Prior Introductions: HB 390 of 2009 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: HB 199 (Delegate Pendergrass, *et al.*) - Ways and Means.

Information Source(s): Baltimore, Charles, Frederick, and Montgomery counties; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - February 5, 2010
mlm/hlb Revised - Senate Third Reader - April 6, 2010

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510