

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 630 (Senator Muse)
Budget and Taxation

Property Taxes - Homestead Property Tax Credit - Notification and Recoupment

This bill requires the disclosure and disclaimer form issued by the State Real Estate Commission to contain the following statement: “Due to a variety of Maryland property tax credit programs, the buyer’s property tax bill may be significantly different than the tax bill paid previously by the seller of the property. Buyers should contact the local government for an estimate of this property tax obligation.”

The bill also specifies that the homestead property tax credit may not be denied to a homeowner at a later date if the credit was erroneously or mistakenly granted. The bill authorizes a homeowner who has had the homestead property tax credit denied under this circumstance to be refunded the amount of taxes paid as a result of the denial.

The bill takes effect July 1, 2010; the provision of the bill regarding the homestead property tax credit applies to taxable years beginning after June 30, 2007.

Fiscal Summary

State Effect: State special fund revenues decrease by \$14,400 beginning in FY 2011 based on current estimates of affected homeowners. Updating the disclosure and disclaimer form will not impact State operations or finances.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	(\$14,400)	(\$14,400)	(\$14,400)	(\$14,400)	(\$14,400)
Expenditure	0	0	0	0	0
Net Effect	(\$14,400)	(\$14,400)	(\$14,400)	(\$14,400)	(\$14,400)

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

Local Effect: Local property tax revenues decrease by \$264,800 beginning in FY 2011, based on current estimates of affected homeowners. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: Sellers of single-family residential real properties must provide to each buyer either a written residential property condition disclosure statement or a written residential property disclaimer statement, on a single standardized form provided by the State Real Estate Commission.

An eligible dwelling for purposes of qualifying for a homestead property tax credit is defined as a house that is used as the principal residence of the homeowner and actually occupied or expected to be actually occupied by the homeowner for more than 6 months of a 12-month period beginning with the date of finality for the taxable year for which the homestead property tax credit is sought. It includes the lot on which the house is erected. A homeowner may only claim the homestead property tax credit for one dwelling.

Background: The State Real Estate Commission has a link to the residential property disclosure and disclaimer form on the Department of Labor, Licensing, and Regulation (DLLR) web site at www.dllr.state.md.us.

Exhibit 1 shows the number of residential property sales, by county, for fiscal 2005 through 2009.

Homestead Property Tax Credit Program

The homestead property 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.

Exhibit 1
Residential Property Sales
Fiscal 2005-2009

County	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Allegany	624	656	570	456	339
Anne Arundel	10,648	10,002	7,571	5,451	4,114
Baltimore City	6,130	4,255	7,100	4,392	2,774
Baltimore	13,980	13,516	11,234	7,756	5,531
Calvert	1,391	1,227	855	504	411
Caroline	469	544	423	244	124
Carroll	2,797	2,654	2,118	1,494	1,108
Cecil	1,491	1,381	1,166	776	580
Charles	3,164	3,295	2,766	1,529	970
Dorchester	439	413	369	248	160
Frederick	5,095	4,830	3,549	2,020	1,327
Garrett	154	132	130	95	81
Harford	5,109	5,112	3,961	2,827	1,995
Howard	5,448	5,263	4,404	3,387	2,582
Kent	188	212	187	150	99
Montgomery	19,907	18,220	13,757	9,176	7,676
Prince George's	15,578	16,003	9,457	3,370	2,713
Queen Anne's	762	803	617	387	283
St. Mary's	1,628	1,536	1,251	942	724
Somerset	168	183	149	68	58
Talbot	710	593	485	288	201
Washington	2,181	1,944	1,498	930	490
Wicomico	1,307	1,231	1,115	762	527
Worcester	268	260	239	325	192
Total	99,636	94,265	74,971	47,577	35,059

Source: State Department of Assessments and Taxation

A majority of local subdivisions have assessment caps below 10%: 19 counties in fiscal 2009 and 20 counties in fiscal 2010 and 2011. **Exhibit 2** 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 tax fiscal 2011. The homestead property tax credit program has provided significant local property tax relief in recent years. In fiscal 2010, assessment caps reduced the amount of the county assessable base that is taxable by almost 17%. The corresponding foregone revenue is estimated at \$1.4 billion.

The homestead property 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.

Application Process for Homestead Property Tax Credit Program

Homeowners are required to file a specified application with the State Department of Assessments and Taxation (SDAT) to qualify for the homestead property tax credit program. Homeowners must file an application within 180 days following the date the property transfers to a new owner. For property transfers that occurred prior to December 31, 2007, an application must be filed with SDAT by December 31, 2012.

The first 476,000 homestead tax credit applications were sent out to Maryland homeowners with the annual assessment notices in December 2007, and an additional 28,819 were sent to new purchasers of residential property during calendar 2008. SDAT sent out 471,068 assessment notices along with the application for calendar 2009. It is expected that 471,068 will be mailed out for calendar 2010.

SDAT reports that it processed 281,782 applications sent out for 2008, including 103,278 that were submitted electronically via the department’s web site. Of the applications sent out for 2009, SDAT had received 286,227 (as of December 9, 2009) and processed 187,915. Of this amount, 91,258 applications were submitted electronically.

SDAT reports that audits of applications sent out and received for the period of January 1, 2008 through December 9, 2009, have resulted in the removal of 6,207 homestead tax credits. This has resulted in an increase of \$826,090 in State property tax revenue and approximately \$14.8 million in local property tax revenue.

Exhibit 2
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

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.

State Revenues: State special fund revenues may decrease beginning in fiscal 2011. The amount of the revenue decrease depends on the number of homeowners who have been denied a homestead property tax credit after being erroneously granted the tax credit, the assessed value of each home, and annual assessment increases. The estimated average homestead property tax credit for fiscal 2011 is \$42,040 for State property tax purposes and \$86,833 for county property tax purposes. Based on a survey of local assessment offices, SDAT estimates that approximately 305 properties have had the homestead property tax credit revoked after being erroneously granted the tax credit. Assuming all 305 properties would be eligible to have the tax credit reinstated pursuant to the bill, State property tax revenues will decrease by \$14,361 annually, beginning in fiscal 2011.

As a point of reference, **Exhibit 3** shows the effect on State and local property tax revenues of one homeowner in each county qualifying for an additional homestead property tax credit, based on fiscal 2011 average assessments and average homestead property tax credits, and fiscal 2010 tax rates.

Exhibit 3
Effect of One Eligible Homeowner Receiving
Additional Homestead Property Tax Credit in Each County
Fiscal 2011

County	Average Assessment	Average County Homestead Credit	County Tax Rate	County Revenue Loss
Allegany	\$110,394	\$12,530	\$0.9829	(\$123)
Anne Arundel	388,692	154,714	0.8760	(1,355)
Baltimore City	160,479	59,492	2.2680	(1,349)
Baltimore	281,919	80,957	1.1000	(891)
Calvert	376,552	42,868	0.8920	(382)
Caroline	230,242	48,881	0.8700	(425)
Carroll	329,221	49,485	1.0480	(519)
Cecil	265,084	27,318	0.9400	(257)
Charles	308,207	52,387	1.0260	(537)
Dorchester	208,354	49,435	0.8960	(443)
Frederick	318,627	60,851	1.0640	(647)
Garrett	156,863	31,461	0.9900	(311)
Harford	293,754	29,522	1.0640	(314)
Howard	441,888	115,051	1.1495	(1,323)
Kent	299,098	82,535	0.9720	(802)
Montgomery	493,800	57,213	0.9160	(524)
Prince George's	320,198	123,585	1.3190	(1,630)
Queen Anne's	408,460	87,480	0.7700	(674)
St. Mary's	327,205	84,793	0.8570	(727)
Somerset	149,012	26,216	0.9000	(236)
Talbot	512,702	265,845	0.4320	(1,148)
Washington	226,913	39,911	0.9480	(378)
Wicomico	189,456	24,717	0.7590	(188)
Worcester	271,601	79,706	0.7000	(558)
County Revenues	\$334,520	\$86,883		(\$15,742)
State Revenues				(\$1,014)

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

State Expenditures: DLLR indicates that updating the disclosure and disclaimer form does not affect agency expenditures as the form is only a model for use by real estate professionals. In addition, the form is updated periodically to conform to changes mandated by the General Assembly.

Local Fiscal Effect: County and municipal property tax revenues may decrease beginning in fiscal 2011. The amount depends on the number of homeowners who have been denied a homestead property tax credit after being erroneously granted the tax credit, the assessed value of each home, annual assessment increases, and the local government's property tax rate. As noted, SDAT estimates that there are approximately 305 properties that have had the homestead tax credit revoked after being erroneously granted the tax credit. Assuming all 305 properties would be eligible to have the tax credit reinstated pursuant to the bill, county property tax revenues will decrease by \$264,841 annually, beginning in fiscal 2011.

As shown in **Exhibit 4**, approximately 60.5% of improved residential property accounts are expected to receive a county homestead tax credit in fiscal 2011.

Exhibit 4
Improved Residential Accounts Receiving Homestead Tax Credit
Fiscal 2011

County	Improved Residential Accounts¹	Accounts Receiving Homestead Credit	Percentage Receiving Homestead Credit
Allegany	26,565	12,493	47.0%
Anne Arundel	173,570	136,195	78.5%
Baltimore City	196,434	110,703	56.4%
Baltimore	241,356	195,501	81.0%
Calvert	31,793	16,414	51.6%
Caroline	11,433	7,735	67.7%
Carroll	54,704	37,464	68.5%
Cecil	34,280	18,081	52.7%
Charles	47,621	23,537	49.4%
Dorchester	13,895	7,978	57.4%
Frederick	76,477	49,339	64.5%
Garrett	16,758	7,334	43.8%
Harford	80,866	49,116	60.7%
Howard	85,639	62,116	72.5%
Kent	8,716	4,954	56.8%
Montgomery	292,682	93,635	32.0%
Prince George's	233,877	177,702	76.0%
Queen Anne's	18,458	12,043	65.2%
St. Mary's	33,732	23,066	68.4%
Somerset	9,104	2,779	30.5%
Talbot	16,036	10,367	64.6%
Washington	45,514	29,365	64.5%
Wicomico	32,233	10,425	32.3%
Worcester	54,756	13,370	24.4%
Total	1,836,499	1,111,712	60.5%

¹Includes improved agricultural, residential, condominium, and townhouse classifications.
Source: State Department of Assessments and Taxation

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore City; Caroline, Montgomery, and Prince George's counties; State Department of Assessments and Taxation; Property Tax Assessment Appeals Board; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - March 8, 2010
ncs/hlb

Analysis by: Michael Sanelli

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