

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE

House Bill 1349 (Delegate Manno)
 Ways and Means

Homeowners' Property Tax Credit - Assessment Limit

This bill alters the calculation of the Homeowners' Property Tax Credit by increasing the maximum property assessment used in calculating the tax credit from \$300,000 to \$450,000 and then altering that amount by a cost-of-living adjustment for taxable years beginning after June 30, 2011. The State Department of Assessments and Taxation (SDAT) must determine the annual cost-of-living adjustment by October 1 each year based on the Consumer Price Index (CPI) for All Urban Consumers in the Washington and Baltimore Region.

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

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$2.2 million in FY 2011. Future year expenditures reflect assessment increases and projected changes in CPI. Revenues are not affected.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	2.2	2.9	3.6	4.4	5.2
Net Effect	(\$2.2)	(\$2.9)	(\$3.6)	(\$4.4)	(\$5.2)

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

Local Effect: The increased State credit may reduce local expenditures in Anne Arundel, Calvert, and Harford counties and the City of Rockville because these jurisdictions have maximum eligible assessments greater than \$300,000 as part of their local homeowners' property tax credit supplement program.

Small Business Effect: None.

Analysis

Current Law: The maximum assessment against which the Homeowners' Property Tax Credit may be granted is \$300,000. In order to be eligible for the tax credit, a homeowner's combined net worth may not exceed \$200,000 and combined income may not exceed \$60,000.

Background: The Homeowners' Property Tax Credit Program (Circuit Breaker) is a State-funded program (*i.e.*, the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. **Exhibit 1** shows the number of individuals qualifying for the tax credit and the total cost of the program since fiscal 2005, as referenced in the State budget.

Exhibit 1 Homeowners' Property Tax Credit Program Fiscal 2005-2011

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Credit Amount</u>
2005 Actual	48,666	\$39.5 million	\$812
2006 Actual	46,628	41.7 million	894
2007 Actual	48,290	45.6 million	944
2008 Actual	46,618	45.2 million	970
2009 Actual	47,781	50.3 million	1,053
2010 Estimated	48,737	53.4 million	1,096
2011 Allowance	49,224	55.8 million	1,134

Source: Department of Budget and Management

Chapter 27 of 2006 made several significant changes to the Homeowners' Property Tax Credit Program: the maximum assessment against which the credit may be granted was increased to \$300,000 from \$150,000; and the percentages used to determine the amount of the tax credit were altered.

Chapter 588 of 2005 altered the calculation of total real property tax for the Homeowners' Property Tax Credit Program by subtracting the homestead tax credit

amount from the total assessment rather than the maximum assessment specified under the credit. Chapter 588 also specified additional eligibility criteria for the local supplement to the Homeowners' Property Tax Credit Program, by authorizing a local jurisdiction to alter the \$200,000 limitation on a homeowner's net worth for eligibility for a local supplement to the Homeowners' Property Tax Credit Program.

Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. SDAT administers a local supplement granted by a county, but the cost of a local supplement is borne by the local government. For purposes of the local supplement, the counties are authorized to alter the maximum on the assessed value taken into account in calculating the credit, as well as the percentages and income levels specified in the tax limit formula. The counties are also authorized to impose limitations on eligibility for a local supplement in addition to the requirements specified for the State credit. Twelve counties – Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Charles, Frederick, Garrett, Harford, Howard, Kent, and Montgomery – have a local homeowners' property tax credit supplement program which is administered by SDAT.

Municipalities are also authorized to provide a supplement to the Homeowners' Property Tax Credit Program. Under the enabling authority for municipal corporations, a municipal supplement is limited to 50% of the State credit.

Chapter 444 of 2006 altered the calculation and eligibility criteria of the municipal supplement to make it consistent with the current calculation and eligibility criteria authorized under the county supplement program. Chapter 444 also altered the amount of a supplemental municipal credit that may be granted by repealing the limitation that a municipal supplement may not exceed 50% of the Homeowners' Property Tax Credit. SDAT administers five municipal homeowners' property tax credit supplement programs for the cities of Gaithersburg, Rockville, College Park, Greenbelt, and Hyattsville.

State Fiscal Effect: The bill alters the calculation of the Homeowners' Property Tax Credit for each taxable year beginning in fiscal 2011 by indexing the maximum assessment to changes in CPI.

These changes could increase general fund expenditures by approximately \$2.2 million beginning in fiscal 2011 as shown in **Exhibit 2**. The estimate assumes 7,167 new real property accounts being eligible for the tax credit in fiscal 2011 and an average annual increase of 5% for assessments and projected changes in CPI. As the maximum assessment increases each year, general fund expenditures will increase accordingly.

Exhibit 2
Projected Increase in Homeowners' Property Tax Credits under Bill
(\$ in Millions)

<u>Fiscal Year</u>	<u>Current Law</u>	<u>Proposed Legislation</u>	<u>Difference</u>
2011	\$55.8	\$58.0	\$2.2
2012	58.1	60.9	2.9
2013	60.4	64.0	3.6
2014	62.8	67.2	4.4
2015	65.3	70.5	5.2

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Department of Legislative Services

Fiscal Note History: First Reader - March 23, 2010
mam/hlb

Analysis by: Michael Sanelli

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