HB 576

Department of Legislative Services
2011 Session

FISCAL AND POLICY NOTE

House Bill 576 (Delegate Krebs, *et al.*)
Ways and Means

State Property Tax - Homeowner's Property Tax Assessment Cap Reduction

This bill reduces the percentage used to determine the Homestead Property Tax Credit for State property tax purposes from 10% to 5%, thereby limiting annual State property tax assessment increases on owner-occupied residential properties to 5%.

The bill takes effect October 1, 2011, and applies to all taxable years beginning after June 30, 2012.

Fiscal Summary

State Effect: Special fund revenues decrease by $1.2 million in FY 2013. This decrease may require either (1) an increase in the State property tax rate; or (2) a general fund appropriation to cover debt service on the State's general obligation bonds. Future year revenues reflect estimated assessments and the cap imposed by the bill.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
SF Revenue	$0	($1,158,045)	($371,042)	($118,883)	($38,091)
Expenditure	0	0	0	0	0
Net Effect	$0	($1,158,045)	($371,042)	($118,883)	($38,091)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The cap on property assessment increases is set at 10% for State property tax purposes. A county or municipality can lower the cap percentage to 0% for local property tax purposes.

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%: 20 counties in fiscal 2010, 2011, and 2012. **Exhibit 1** lists county assessment caps for fiscal 2010 through 2012. Due to the continuing changes in property assessments and/or other factors, two counties (Carroll and Queen Anne's) lowered their assessment cap for fiscal 2012, and one county (Prince George's) increased their assessment cap for 2012.

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 were 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.

Exhibit 1
County Assessment Caps

County	FY 2010	FY 2011	FY 2012
Allegany	7%	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%	5%
Cecil	8%	8%	8%
Charles	7%	7%	7%
Dorchester	5%	5%	5%
Frederick	5%	5%	5%
Garrett	5%	5%	5%
Harford	9%	5%	5%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George's	5%	0%	1%
Queen Anne's	5%	5%	0%
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 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.

State Fiscal Effect: The bill lowers the State Homestead Tax Credit percentage from 10% to 5%. As discussed above, the Homestead Tax Credit caps property tax liability at 10% of the assessment increase. As a result of the bill, revenues decrease by approximately $1.2 million in fiscal 2013 for the Annuity Bond Fund. **Exhibit 2** outlines the impact on special fund revenues.

Exhibit 2
Impact on State Revenues
Homestead Property Tax Credit Percentage at 5%
($ in Millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Assessable Base Loss					
10% Homestead Cap	$7,432.9	$2,381.5	$763.1	$244.5	$78.3
5% Homestead Cap	n/a	3,415.5	1,094.3	350.6	112.3
State Tax Rate	$0.112	$0.112	$0.112	$0.112	$0.112
Revenue Decrease	**$0**	**($1.2)**	**($0.4)**	**($.1)**	**($.04)**

Note: Estimate assumes no change in current property tax rate.
Source: State Department of Assessments and Taxation; Department of Legislative Services

Property assessments in Maryland increased significantly between fiscal 2000 and 2008. The average three-year increase in the full cash value of property undergoing reassessment totaled 5.7% in 2000 and 60.2% in 2006. Properties reassessed for 2007 realized an increase of 56.1% statewide; whereas, reassessments for 2008 realized an increase of 33.2%. However, the continual rapid increase in property assessments halted in 2009, as property valuation declined reflecting the national credit crisis and deteriorating economic conditions. Properties reassessed for 2010 realized a decrease of 16.1%, with only two counties not experiencing a decrease in property reassessments; for 2011 reassessments declined by 17.9%.

Under the State's triennial assessment process, the increase in the full cash value of property is phased in over a three-year period; however, any decrease in value is reflected immediately. As a result, it is estimated that the gap between the estimated assessable base loss at a 10% homestead cap and a 5% homestead cap will virtually close, so that by fiscal 2016, there will be only a minimal revenue loss associated with reducing the cap to 5%. However, to the extent that property assessments vary in future years from what is estimated in this fiscal note, the effect of a lower cap on State property tax revenues will vary accordingly.

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 fiscal 2012 State budget includes $878.4 million for general obligation debt service costs, including $865.8 million in special funds from the Annuity Bond Fund, $1.6 million in transfer tax revenues, and $11.1 million in federal funds.

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.

Additional Information

Prior Introductions: HB 366 of 2010, HB 156 of 2009, HB 189 of 2008, and HB 9 of 2007 received a hearing in the House Ways and Means Committee, but no further action was taken on any of the bills. SB 446 of 2009 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

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

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