Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1081 (Delegate Rosenberg)
Ways and Means Budget and Taxation

Homestead Property Tax Credit Reform Act of 2012

This bill provides that a person who has been granted a homestead property tax credit and is subsequently found to not qualify for the credit must be assessed all State, county, and municipal property taxes otherwise due for each taxable year the person did not qualify to receive the tax credit. A person who has willfully misrepresented facts and has been granted a homestead property tax credit based on this willful action is subject to a 25% penalty. The amount of the penalty must be separately itemized on the person's property tax bill and constitutes a lien on the property until paid in full or the property has been sold in foreclosure.

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

Fiscal Summary

State Effect: Potential increase in Annuity Bond Fund revenues to the extent ineligible homestead property tax credits are repaid by homeowners. The amount of the increase depends on the number of repayments, including penalties, and the amount of each homestead property tax credit.

Local Effect: Potential increase in local property tax revenues to the extent ineligible homestead property tax credits are repaid by homeowners. The amount of the increase depends on the number of repayments, including penalties, and the amount of each homestead property tax credit.

Small Business Effect: None.

Analysis

Current Law: 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 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.

A majority of local subdivisions have assessment caps below 10%: 20 counties in fiscal 2011 and 2012, and 21 in fiscal 2013. **Exhibit 1** lists county assessment caps for fiscal 2011 through 2013. Two counties (Prince George's and Queen Anne's) raised the assessment cap for fiscal 2013, while one county (Wicomico) lowered the assessment cap.

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 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 2011	FY 2012	FY 2013
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%	5%	5%
Cecil	8%	8%	8%
Charles	7%	7%	7%
Dorchester	5%	5%	5%
Frederick	5%	5%	5%
Garrett	5%	5%	5%
Harford	5%	5%	5%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George’s	0%	1%	4%
Queen Anne’s	5%	0%	5%
St. Mary’s	5%	5%	5%
Somerset	10%	10%	10%
Talbot	0%	0%	0%
Washington	5%	5%	5%
Wicomico	10%	10%	5%
Worcester	3%	3%	3%

Source: State Department of Assessments and Taxation

Assessment Increases in Recent Years

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% and for 2012 reassessments declined by 13.0%. 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, the value of the homestead property tax credit continues to decline as taxable assessments get closer to market assessments.

Application Process for Homestead Property Tax Credit Program

Over the past decade, there has been a significant increase in the number of properties receiving the homestead property tax credit and the average amount of each credit. The increase in the number of recipients and the inability to verify eligibility prompted concern over potential abuses or fraud. In response to this concern, Chapters 564 and 565 of 2007 were enacted to require homeowners to apply to the department for the credit. No longer is the credit automatically applied against owners' assessments. All those seeking the credit must apply by December 31, 2012.

SDAT reports that as of January 17, 2012, the department has received approximately 725,000 homestead tax credit applications statewide. This number represents approximately 90% of the statewide recipients of the homestead tax credit for fiscal 2012. During its most recent assessment cycle, SDAT mailed a second application to those homeowners who had not filed an application three years earlier with that group's reassessment notice. Only one of the three assessment groups will not have received a second homestead tax credit application as part of their regular assessment notices before the absolute filing deadline of December 31, 2012. Therefore, SDAT is sending a second homestead tax credit application to nonfiling homeowners in this group in early 2012. Any homeowner not filing a homestead tax credit application by December 31, 2012, will have his or her credit eligibility removed for their fiscal 2014 tax bill. However, should a homeowner subsequently file an application for the credit in fiscal 2015, the credit will be calculated as if the credit had not been removed.

Recent press articles have highlighted the improper granting of the homestead tax credit to ineligible properties or owners. As noted, SDAT has been engaged in a multi-year effort to ensure that only eligible properties receive the credit. A total of 41,927 properties had credits removed between fiscal 2008 and 2010, which added $1.7 billion to the State's taxable assessable base and $2.3 billion to the county taxable assessable base. The higher county assessable base number reflects the greater value of the credits resulting from most counties setting eligibility for the credit below the 10% cap used by the State.

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 fiscal 2013 State budget includes $921.6 million for general obligation debt service costs, including $908.1 million in special funds from the Annuity Bond Fund, $1.6 million in transfer tax revenues, and $12.0 million in federal funds.

State Fiscal Effect: State special fund revenues may increase beginning in fiscal 2013 depending on the number of homestead property tax credits that are repaid by individuals who have been determined to be improperly receiving the homestead tax credit. The amount of any increase depends on the number of ineligible homeowners who are receiving the tax credit and the amount of property taxes avoided as a result of the tax credit. The bill also imposes a penalty equal to 25% of the amount of the property tax credit improperly received.

Using the average homestead property tax credit amounts shown in **Exhibit 2**, and the current State property tax rate of $0.112 per $100 of assessment, Annuity Bond Fund revenues will increase by $1,137 if one homestead property tax credit is revoked in each county and the tax owed is paid back in that same year. Revenues will also increase by an additional 25% due to the bill's penalty provision. However, the bill does not specify whether the penalty is to be paid to the Annuity Bond Fund or the general fund.

Local Fiscal Effect: Local property tax revenues will increase in the same manner as the State increase in a given year. Based on the data used above, local property tax revenues will increase by approximately $9,250 in fiscal 2013 if one homestead property tax credit is revoked in each county. Revenues will also increase by an additional 25% due to the bill's penalty provision, which equates to an additional $2,313.

Exhibit 2
Average Assessment and Average Homestead Property Tax Credit
Fiscal 2013

County	Average Assessment	Average Homestead Credit
Allegany	$109,143	$9,635
Anne Arundel	339,716	108,567
Baltimore City	151,366	46,929
Baltimore	245,548	40,755
Calvert	325,230	34,774
Caroline	199,495	26,423
Carroll	291,622	19,660
Cecil	227,026	19,067
Charles	260,999	20,404
Dorchester	183,808	26,260
Frederick	269,234	19,630
Garrett	153,570	23,985
Harford	263,865	14,328
Howard	387,712	46,133
Kent	271,844	58,616
Montgomery	444,066	29,324
Prince George's	230,220	45,480
Queen Anne's	369,108	53,337
St. Mary's	293,182	44,610
Somerset	125,405	20,948
Talbot	462,920	222,961
Washington	199,669	17,983
Wicomico	158,374	14,441
Worcester	247,442	50,552
Statewide Average	**$258,774**	**$42,283**

Source: State Department of Assessments and Taxation

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): City of Frederick; City of Havre de Grace; Montgomery County; State Department of Assessments and Taxation; Property Tax Assessment Appeals Board; Judiciary (Administrative Office of the Courts); Department of Labor, Licensing, and Regulation; Department of Legislative Services

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Analysis by: Michael Sanelli

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