

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE

Senate Bill 525
Budget and Taxation

(Senator King, *et al.*)

Homestead Property Tax Credit - Eligibility - Child Support Payments

This bill requires the State Department of Assessments and Taxation (SDAT) to revoke the homestead property tax credit for a homeowner who is certified to be in arrears for child support payments by the Child Support Enforcement Administration (CSEA). The homestead property tax credit must be reinstated if the homeowner is certified to be up to date with child support payments. The bill specifies the procedures that must be followed by CSEA to certify the homeowner is in arrears for child support payments and the procedures that must be followed by SDAT to reinstate the tax credit.

The bill takes effect June 1, 2013, and applies to all taxable years beginning after June 30, 2014.

Fiscal Summary

State Effect: Potential increase in Annuity Bond Fund revenues to the extent homestead property tax credits are revoked. The amount of the increase depends on the number of revocations and the amount of each homestead property tax credit. Based on current data, revenues may increase by \$5,900. State expenditures are not affected.

Local Effect: Potential increase in local property tax revenues to the extent homestead property tax credits are revoked. The amount of the increase depends on the number of revocations and the amount of each homestead property tax credit. Based on current data, revenues may increase by \$52,500. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: 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.

Background: 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.

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

State Fiscal Effect: Revoking the homestead property tax credit for homeowners who are certified to be in arrears for child support payments will increase State property tax revenue for the years the tax credit is revoked. The amount of the increase will depend on the number of revocations and the amount of each homestead tax credit that is revoked. To the extent homeowners are certified as no longer being in arrears for child

support payments, the homestead property tax credit will be restored and calculated as if the credit had not been lost in the intervening taxable years.

CSEA has provided SDAT with a list of approximately 110,300 individuals who are delinquent in child support payments. SDAT has identified 537 of these individuals as receiving the homestead property tax credit, of which 124 are the sole owner of a residence. Using an average homestead tax credit of \$42,283, as 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 \$5,900 if all 124 homeowners who have been identified as being delinquent in child support payments lose their homestead property tax credit. However the bill specifies that if the property is jointly owned by the child support obligator and the custodial parent, the homestead property tax credit cannot be revoked. As a result, the revenue increase may be somewhat less than estimated. This estimate is based on fiscal 2013 data. The actual impact, which would begin in fiscal 2015, may be different depending on assessment increases and market conditions, as well as the number of individuals who may be delinquent with child support payments.

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.

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 may increase by approximately \$52,500. This estimate is based on fiscal 2013 data. The actual impact, which would begin in fiscal 2015, may be different depending on assessment increases and market conditions, as well as the number of individuals who may be delinquent with child support payments.

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 |
| Average Statewide | \$258,774 | \$42,283 |

Source: State Department of Assessments and Taxation

Additional Information

Prior Introductions: HB 913 of 2011 a similar bill, passed the House and received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, SB 859, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: HB 565 (Delegate Zucker, *et al.*) - Ways and Means.

Information Source(s): Baltimore, Carroll, Cecil, Harford, Montgomery, Queen Anne's, and St. Mary's counties; Child Support Enforcement Agency; State Department of Assessments and Taxation; Department of Legislative Services

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