

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 123

(Delegate Anderson)(By Request - Baltimore City
Administration)

Ways and Means

Budget and Taxation

Baltimore City - Residential Retention Property Tax Credit - Modification

This bill alters the Baltimore City Residential Retention Property Tax Credit to allow a recipient of that property tax credit to also receive a specified local property tax credit that offsets local revenue increases resulting from a local income tax rate above 2.6%. As a result, the bill allows Baltimore City to provide the Targeted Homeowners Tax Credit (THTC) to recipients of the Residential Retention Property Tax Credit beginning in fiscal 2017.

The bill takes effect June 1, 2016, and applies to taxable years beginning after June 30, 2016 and terminates June 30, 2024.

Fiscal Summary

State Effect: None.

Local Effect: The bill will not directly affect Baltimore City finances as the THTC is budgeted each year and the number of recipients does not affect the overall cost of the tax credit program in any given year.

Small Business Effect: None.

Analysis

Current Law: Chapter 623 of 2014 established the Baltimore City Residential Retention Property Tax Credit which required Baltimore City to provide a property tax credit for homeowners who move into another dwelling in Baltimore City and who had previously

received the Homestead Property Tax Credit for a home in the city for the preceding five years. Chapter 623 also allowed an additional credit amount if the new dwelling is located in specified low-income areas.

The tax credit is a fixed amount of \$4,000 to be applied to the homeowner's property tax bill over a five-year period as follows: (1) \$1,000 in the first year; (2) \$900 in the second year; (3) \$800 in the third year; (4) \$700 in the fourth year; and (5) \$600 in the fifth year. The Mayor and Baltimore City Council may increase the total amount provided by up to an additional \$1,000 for a homeowner who purchases a dwelling located within a low- or moderate-income census tract, as designated by the U.S. Department of Housing and Urban Development and in which at least 51% of the persons living in the tract are in households earning 80% or less of the area median income. A homeowner residing within a low- or moderate-income census tract when the homeowner submits an application must remain eligible for the increased tax credit even if the census tract changes following the date of application and the homeowner would otherwise be ineligible for the increased credit during the five-year period. Baltimore City may not allocate more than \$3.0 million for each year that applications for the tax credit are accepted.

A homeowner may not receive the tax credit or a portion of the tax credit, if, in any year, the application of the tax credit, or a portion of the tax credit, would reduce the homeowner's property tax liability below the homeowner's property tax liability for the dwelling previously occupied by the homeowner. In any year in which a homeowner receives a tax credit, the homeowner may not receive the local portion of the Homestead Property Tax Credit or any other property tax credit provided by Baltimore City. The tax credit may not be transferred to a person who purchases a dwelling from a homeowner who received the tax credit or a dwelling that is subsequently purchased by a homeowner who received the tax credit.

After the termination of the tax credit, a homeowner is entitled to the local portion of the Homestead Property Tax Credit, which must be calculated as if the homeowner had received the Homestead Property Tax Credit beginning in the second year the homeowner occupied the dwelling and based on the full assessed value of the dwelling in each year the homeowner received the tax credit.

The Baltimore City Finance Director must review and approve applications for the tax credit based on the date the application was received and the availability of the funds allocated for the tax credit. The Baltimore City Finance Department is authorized to adopt regulations as necessary to carry out the tax credit.

Chapter 623 terminates June 30, 2024.

Background: To provide property tax relief to homeowners and attract new city residents, Baltimore City adopted the THTC in 2012. The goal of the program is to reduce the effective tax rate for owner-occupied dwellings by 20 cents by the year 2020. Homeowners who have an approved application for the Homestead Property Tax Credit on file with the State Department of Assessments and Taxation automatically receive the THTC. Consequently, only properties that the owner occupies for more than six months a year qualify for the credit. To receive the THTC in any given year, a property owner only has to be eligible to receive the homestead credit; the owner does not have to be actually benefitting from the homestead credit that year.

The THTC is calculated by multiplying the credit rate by the assessed value of the improved portion of the property so as to reward homeowners who have invested in their properties. The credit rate is set annually by the city's Board of Estimates, and is based on the amount of funding available for the credit. The credit is currently funded through various spending reductions; it is planned that 90% of the city's revenue from the new downtown casino as well as reductions in city spending will fund the program in the future. The total cost of the tax credit program is approximately \$20.3 million in fiscal 2015 and increasing to \$38 million by 2020.

For fiscal 2015, there are 116,159 homeowners receiving the THTC. The average amount of the credit is currently \$174. For the average Baltimore City home valued at \$150,000, the estimated tax savings by 2020 is \$300.

Additional Information

Prior Introductions: None.

Cross File: SB 186 (Senator McFadden, By Request - Baltimore City Administration) - Budget and Taxation.

Information Source(s): State Department of Assessments and Taxation, Baltimore City, Department of Legislative Services

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mar/hlb

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