

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 996 (Delegate Long, *et al.*)
Ways and Means

Homestead Property Tax Credit - Application Requirement - Repeal

This bill repeals a requirement that a homeowner submit a specified application to the State Department of Assessments and Taxation (SDAT) in order to receive the Homestead Property Tax Credit.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: Annuity Bond Fund revenues decrease by a potentially significant amount beginning in FY 2016 due to homeowners receiving the Homestead Property Tax Credit who may be otherwise ineligible, or who never filed an application, under current law. The amount of the decrease depends on the number of new homeowners receiving the tax credit and the amount of the tax credit. 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.

Local Effect: Local property tax revenues decrease by a potentially significant amount beginning in FY 2016 due to homeowners receiving the Homestead Property Tax Credit who may be otherwise ineligible, or who never filed an application, under current law. The amount of the decrease depends on the number of new homeowners receiving the tax credit and the amount of the tax credit. Local expenditures to administer the application process will decrease by approximately \$1.2 million annually.

Small Business Effect: None.

Analysis

Current Law: Chapters 564 and 565 of 2007 required homeowners to file a specified application with SDAT to qualify for the Homestead Property Tax Credit. SDAT was prohibited from authorizing the credit and the State, county, and municipal governments were prohibited from granting the credit unless the application is filed (1) by July 1 of the first taxable year for which the property tax credit is to be allowed or (2) on or before December 31, 2012, for a dwelling that was last transferred to new ownership on or before December 31, 2007. SDAT was required to provide homeowners the option of submitting the required application electronically on its website.

Chapters 25 and 26 of 2013 extended, from December 31, 2012, to December 30, 2013, the date by which homeowners were required to file a specified application for the Homestead Property Tax Credit with SDAT. Chapters 25 and 26 also altered the date by which an application for the Homestead Property Tax Credit must be filed for a newly purchased home by requiring the application to be filed by May 1 preceding the first taxable year for which the property tax is allowed.

Background: Prior to the enactment of Chapters 564 and 565, State law did not provide for a method of accurately verifying eligibility for the Homestead Property Tax Credit. In fact, at the time, the Homestead Property Tax Credit was one of the few Maryland tax credits for which recipients were not required to provide any information to the administering agency that could be used to verify eligibility. The credit was granted based on information provided by the homeowner at the time of settlement.

Over the decade prior to the enactment of Chapters 564 and 565 there was a significant increase in the number of properties receiving the tax credit and the average amount of each tax credit. The increasing number of recipients and the inability to verify eligibility prompted concern over potential abuses or fraud, which led to the application process required by Chapters 564 and 565.

As of January 31, 2015, SDAT has approved over 1 million applications for the Homestead Property Tax Credit. There are over 1.4 million owner-occupied residential accounts. Of the applications approved by SDAT, 363,752 property accounts are currently receiving the Homestead Property Tax Credit, as shown in **Exhibit 1**.

Exhibit 1
Effect of One New Homestead Property Tax Credit in Each County

| County | Average Assessment | Number of Homestead Tax Credit Accounts | Average Homestead Property Tax Credit | State Revenue Decrease | County Revenue Decrease |
|-----------------|---------------------------|--|--|-------------------------------|--------------------------------|
| Allegany | \$104,350 | 453 | \$11,159 | (\$12) | (\$109) |
| Anne Arundel | 368,283 | 96,047 | 89,970 | (101) | (848) |
| Baltimore City | 165,842 | 54,761 | 32,753 | (37) | (736) |
| Baltimore | 251,766 | 60,369 | 19,929 | (22) | (219) |
| Calvert | 269,056 | 25 | 32,872 | (37) | (293) |
| Caroline | 196,669 | 669 | 18,017 | (20) | (173) |
| Carroll | 311,395 | 1,731 | 10,442 | (12) | (106) |
| Cecil | 285,121 | 96 | 17,128 | (19) | (170) |
| Charles | 374,133 | 430 | 13,097 | (15) | (158) |
| Dorchester | 225,325 | 692 | 27,286 | (31) | (266) |
| Frederick | 305,372 | 5,101 | 9,587 | (11) | (102) |
| Garrett | 139,037 | 1,601 | 15,994 | (18) | (158) |
| Harford | 329,440 | 606 | 12,267 | (14) | (128) |
| Howard | 398,737 | 23,430 | 20,384 | (23) | (243) |
| Kent | 273,436 | 1,354 | 46,224 | (52) | (472) |
| Montgomery | 350,320 | 4,407 | 17,574 | (20) | (177) |
| Prince George's | 248,431 | 91,988 | 26,445 | (30) | (349) |
| Queen Anne's | 380,103 | 1,985 | 29,168 | (33) | (247) |
| St. Mary's | 286,521 | 4,231 | 30,591 | (34) | (262) |
| Somerset | 133,535 | 54 | 15,912 | (18) | (146) |
| Talbot | 417,315 | 7,509 | 174,022 | (195) | (917) |
| Washington | 216,398 | 1,076 | 12,062 | (14) | (114) |
| Wicomico | 207,113 | 686 | 6,998 | (8) | (67) |
| Worcester | 236,602 | 4,451 | 33,842 | (38) | (261) |
| Total | \$269,763 | 363,752 | \$30,155 | (\$811) | (\$6,722) |

Source: State Department of Assessments and Taxation; Department of Legislative Services

The Homestead Property Tax Credit Program

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 set their caps between 0% and 10%.

A majority of local subdivisions have assessment caps below 10%: 21 counties in fiscal 2015. **Exhibit 2** lists county assessment caps for fiscal 2013 through 2015.

Exhibit 2 County Assessment Caps

| County | FY 2013 | FY 2014 | FY 2015 |
|-----------------|----------------|----------------|----------------|
| 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 | 5% | 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 | 4% | 2% | 2% |
| Queen Anne’s | 5% | 5% | 5% |
| St. Mary’s | 5% | 5% | 5% |
| Somerset | 10% | 10% | 10% |
| Talbot | 0% | 0% | 0% |
| Washington | 5% | 5% | 5% |
| Wicomico | 5% | 5% | 5% |
| Worcester | 3% | 3% | 3% |

Source: State Department of Assessments and Taxation; Department of Legislative Services

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 was 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.

State Fiscal Effect: Annuity Bond Fund revenues will decrease beginning in fiscal 2016 due to homeowners receiving the Homestead Property Tax Credit who may be otherwise ineligible, or who never filed an application, under current law. The amount of the decrease depends on the number of homeowners receiving the credit and the amount of the tax credit. Based on the number of potentially eligible homeowners, the revenue decrease could be significant. The State property tax rate is \$0.112 per \$100 of assessment.

Exhibit 1 shows the estimated State property tax revenue (Annuity Bond Fund) decrease for fiscal 2016 if one homeowner in each county receives the Homestead Property Tax Credit as a result of the application repeal provided by the bill. As noted, there are over 1.4 million owner-occupied residential accounts and that SDAT has approved just over 1.0 million homestead applications. The remaining 365,500 accounts have either had an application rejected by SDAT or they have not applied to receive the homestead credit. The bill may allow all of these owner-occupied accounts to receive the homestead credit at some time. The actual number cannot be reliably estimate at this time. Some of these homeowners will be mathematically ineligible to receive the tax credit due to current assessment trends, but may become eligible at a later date. As shown in Exhibit 1, there are only 363,752 homeowners currently receiving the tax credit of those who have an approved application. If residential assessments increase, the number of homeowners receiving the Homestead Property Tax Credit will likely increase as well. In addition, it is unclear whether or not a homeowner who had an application rejected in the past will be eligible for the credit under the bill.

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 Governor's proposed fiscal 2016 State budget includes \$1.13 billion for general obligation debt service costs, including \$839.0 million in special funds from the Annuity Bond Fund, \$274.0 million in general funds, \$6.4 million in transfer tax revenues, and \$11.5 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.

Local Fiscal Effect: Local property tax revenues will decrease by a potentially significant amount beginning in fiscal 2016 due to homeowners receiving the Homestead Property Tax Credit who would otherwise be ineligible under current law, or who never filed an application, as discussed above. The amount of the decrease depends on the number of homeowners receiving the credit and the amount of the tax credit. Exhibit 1 shows the estimated local property tax revenue decrease for fiscal 2016 for one homeowner in each county who receives the Homestead Property Tax Credit as a result of the application repeal provided by the bill.

SDAT charges local governments for the cost to administer the tax credit application process. These costs totaled \$1.0 million in fiscal 2014 and \$1.2 million in fiscal 2015. With the repeal of the application requirement, local expenditures will decrease by approximately \$1.2 million annually.

Additional Information

Prior Introductions: None.

Cross File: SB 375 (Senator Salling, *et al.*) - Budget and Taxation.

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

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