

Department of Legislative Services
2015 Session

FISCAL AND POLICY NOTE

House Bill 149
Ways and Means

(Delegate Krebs, *et al.*)

State Property Tax - Homestead 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, 2015, and applies to all taxable years beginning after June 30, 2016.

Fiscal Summary

State Effect: Special fund revenues decrease by \$853,000 in FY 2017. 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 2016	FY 2017	FY 2018	FY 2019	FY 2020
SF Revenue	\$0	(\$853,000)	(\$895,700)	(\$940,500)	(\$987,500)
Expenditure	0	0	0	0	0
Net Effect	\$0	(\$853,000)	(\$895,700)	(\$940,500)	(\$987,500)

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%: 21 counties in fiscal 2014, 2015, and 2016. **Exhibit 1** lists county assessment caps for fiscal 2014 through 2016.

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 2014	FY 2015	FY 2016
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 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 Property Tax Credit percentage from 10% to 5%. As discussed above, the Homestead Property Tax Credit caps property tax liability at 10% of the assessment increase. As a result of the bill, revenues decrease

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by approximately \$853,000 in fiscal 2017 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 Thousands)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Assessable Base Loss				
10% Cap	\$537,247	\$564,109	\$592,315	\$621,931
5% Cap	1,298,895	1,363,840	1,432,032	1,503,634
State Tax Rate	0.112	0.112	0.112	0.112
Special Fund Revenue	(\$853)	(\$896)	(\$940)	(\$988)

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 2011 realized a decrease of 17.9%; for 2012 reassessments declined by 13.0% and for 2013 reassessments declined by 3.6%. In the past two years, due to improvements in the national economy, property assessments began to increase. Properties reassessed for 2014 realized a net increase in value of 4.7%, and properties reassessed for 2015 realized a net increase of 10.8%.

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. Due to the fact that assessments increased over the prior two assessment cycles, this fiscal and policy note assumes that the amount of the Homestead Property Tax Credit will increase by 5% annually in the out-years. However, to the extent that property assessments vary in future years from what is estimated in this fiscal and policy 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 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.

Additional Information

Prior Introductions: HB 576 of 2011 received an unfavorable report from the House Ways and Means Committee. 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, Maryland State Treasurer's Office, Department of Legislative Services

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