

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

House Bill 340
Ways and Means

(Delegate Tarlau, *et al.*)

Budget and Taxation

Property Tax - Renters' Property Tax Relief Program

This bill alters the calculation of the Renters' Property Tax Credit Program by (1) changing the percentages used to calculate the amount of the property tax credit and (2) increasing the maximum credit allowed.

The bill takes effect June 1, 2016, and applies to taxable years beginning after December 31, 2015.

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$571,600 in FY 2017 and by \$618,800 in FY 2021. If the number of program recipients increases by 10%, general fund expenditures will increase by an additional \$293,500 annually. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: The Renters' Property Tax Credit Program provides relief for elderly or disabled renters from the burden attributable to State and local real property taxes. The concept behind the program is that renters indirectly pay property taxes as part

of their rent and, thus, should have some protection, as do homeowners. It is not actually a tax credit but rather makes payments directly to eligible renters to provide relief for the “assumed property tax” that renters indirectly pay as part of their rent. **Exhibit 1** shows the major provisions of the Renters’ Property Tax Credit Program and the proposed changes under the bill.

Exhibit 1
Major Provisions of Renters’ Property Tax Credit Program Compared to HB 340

	<u>Current Law</u>	<u>HB 340</u>
Calculation Formula	<ul style="list-style-type: none"> • 0% of the 1st \$4,000 of combined income • 2.5% of the 2nd \$4,000 of combined income • 5.5% of the 3rd \$4,000 of combined income • 7.5% of the 4th \$4,000 of combined income • 9% of the combined income over \$16,000 	<ul style="list-style-type: none"> • 0% of the 1st \$4,000 of combined income • 2.5% of the 2nd \$4,000 of combined income • 5.5% of the combined income over \$8,000
Maximum Renters’ Tax Relief	\$750	\$1,000

Background: Originally, the program was based on an “assumed property tax bill” equal to 10% of rent paid. Credits were substantially increased in 1981 to 15% of rent paid. As under the Homeowners’ Property Tax Credit Program, qualification is based on a sliding scale of assumed property tax liability and income. If the portion of rent attributable to the assumed property taxes exceeds a fixed amount in relation to income, the renter can, under specified conditions, receive a maximum credit of \$750.

The formula to calculate the credit has been altered several times, increasing the credit by \$15 in 1982 and 1985, and again in 1989 by \$40. The maximum credit allowed was increased from \$450 to \$500 in 1985, to \$600 in 1989, and to \$750 in 2006. Finally, in 1992, the program was expanded to include certain renters under 60 years of age who live with a minor dependent. The State pays the amount directly to program recipients.

Exhibit 2 shows the number of individuals qualifying for the program and the total cost of the program since fiscal 2005, as referenced in the State budget.

Exhibit 2
Renters' Property Tax Credit Program
Fiscal 2005-2017

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Payment</u>
2005	11,111	\$3.3 million	\$294
2006	10,628	2.6 million	248
2007	10,491	2.5 million	235
2008	9,333	2.5 million	263
2009	9,511	2.2 million	234
2010	9,646	2.7 million	284
2011	8,388	2.4 million	291
2012	8,316	2.7 million	321
2013	8,249	2.4 million	294
2014	8,112	2.4 million	296
2015	7,838	2.4 million	306
2016 Estimate	8,942	2.7 million	302
2017 Estimate	7,700	1.9 million	207

Source: Department of Budget and Management

State Fiscal Effect: The proposed changes to the Renter's Property Tax Credit Program will increase general fund expenditures by at least \$571,600 beginning in fiscal 2017, which results in an average credit increase of approximately \$75 per eligible recipient. Assuming an annual growth rate of 2.75%, general fund expenditures will increase by approximately \$618,800 in fiscal 2021. The estimate is based on a comparison between tax credit amounts received by current recipients and additional credits these recipients will receive based on the changes under the bill. To the extent new recipients become eligible for the program, general fund expenditures will increase accordingly.

As a point of reference and *for illustrative purposes only*, if the proposed changes to the Renters' Property Tax Credit Program increases the number of program recipients by 10%, general fund expenditures increase by an additional \$293,500, which increases the cost of the bill to approximately \$865,100 beginning in fiscal 2017.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 16, 2016
kb/hlb Revised - Enrolled Bill - May 4, 2016

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