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FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 322

(Senator Pinsky, *et al.*)

Budget and Taxation

Ways and Means

Homeowners' Property Tax Credit Program - Eligibility Awareness Campaign

This bill requires the State Department of Assessments and Taxation (SDAT) to provide the Comptroller with a list of owners of residential properties with an assessed value of \$300,000 or less who failed to claim the Homeowners' Property Tax Credit during the preceding three years. The Comptroller must (1) review the information provided by SDAT; (2) identify individuals who may be eligible but failed to claim the Homeowners' Property Tax Credit; and (3) provide contact information of the identified individuals to SDAT. SDAT must then contact these individuals by mail to inform them on how to apply for the Homeowners' Property Tax Credit Program. The bill repeals duplicative provisions of law regarding the notification of homeowners of the Homeowners' Property Tax Credit.

Fiscal Summary

State Effect: General fund expenditures increase by a significant amount beginning in FY 2017. Expenditures include personnel costs for the Comptroller's Office beginning in FY 2017 and notification costs for SDAT beginning in FY 2018. In addition, to the extent more individuals are eligible and receive the Homeowners' Property Tax Credit, general fund expenditures for the program will increase. *For illustrative purposes only*, a 10% increase in program cost will result in an additional \$6.3 million in general fund expenditures. State revenues are not affected.

Local Effect: Local expenditures for supplemental homeowners' property tax credit program may increase in future years to the extent more individuals are eligible for the State property tax credit.

Small Business Effect: None.

Analysis

Current Law: SDAT is required to notify homeowners of the possibility of the property tax credit when assessment notices are sent out. The Comptroller must include, in each package of income tax forms and instructions, notice of the availability of the property tax credit, including, eligibility, filing deadlines, applicable limitations, and contact information for application forms. The notice must be prominently placed, printed in specified open type face, and positioned and colored to distinguish it from income tax material. The Comptroller must cooperate with SDAT in adopting a procedure to audit the application forms and supply SDAT with specified additional information. The Comptroller must assist SDAT in audits and postaudits of applications for the tax credit.

Background: The Homeowners' Property Tax Credit Program (Circuit Breaker) is a State-funded program (*i.e.*, the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. **Exhibit 1** shows the number of individuals qualifying for the tax credit and the total cost of the program since fiscal 2005, as referenced in the State budget.

Exhibit 1 Homeowners' Property Tax Credit Program Fiscal 2005-2017

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Credit Amount</u>
2005 Actual	48,666	\$39.5 million	\$812
2006 Actual	46,628	41.7 million	894
2007 Actual	48,290	45.6 million	944
2008 Actual	46,618	45.2 million	970
2009 Actual	47,781	50.3 million	1,053
2010 Actual	48,737	53.4 million	1,096
2011 Actual	49,224	55.8 million	1,134
2012 Actual	52,594	62.6 million	1,190
2013 Actual	53,196	62.6 million	1,177
2014 Actual	50,872	61.6 million	1,218
2015 Actual	48,713	59.5 million	1,221
2016 Estimated	53,800	61.6 million	1,171
2017 Estimated	55,855	63.3 million	1,205

Source: Department of Budget and Management

Chapter 27 of 2006 made several significant changes to the Homeowners' Property Tax Credit Program: the maximum assessment against which the credit may be granted was increased to \$300,000 from \$150,000, and the percentages used to determine the amount of the tax credit were altered.

Chapter 588 of 2005 altered the calculation of total real property tax for the Homeowners' Property Tax Credit Program by subtracting the homestead tax credit amount from the total assessment rather than the maximum assessment specified under the credit. Chapter 588 also specified additional eligibility criteria for the local supplement to the Homeowners' Property Tax Credit Program, by authorizing a local jurisdiction to alter the \$200,000 limitation on a homeowner's net worth for eligibility for a local supplement to the Homeowners' Property Tax Credit Program.

Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. SDAT administers a local supplement granted by a county, but the cost of a local supplement is borne by the local government. For purposes of the local supplement, the counties are authorized to alter the maximum on the assessed value taken into account in calculating the credit, as well as the percentages and income levels specified in the tax limit formula. The counties are also authorized to impose limitations on eligibility for a local supplement in addition to the requirements specified for the State credit. Thirteen counties – Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Charles, Frederick, Garrett, Harford, Howard, Kent, Montgomery, and Washington – have a local homeowners' property tax credit supplement program which is administered by SDAT.

Municipalities are also authorized to provide a supplement to the Homeowners' Property Tax Credit Program. Under the enabling authority for municipalities, a municipal supplement is limited to 50% of the State credit.

Chapter 444 of 2006 altered the calculation and eligibility criteria of the municipal supplement to make it consistent with the current calculation and eligibility criteria authorized under the county supplement program. Chapter 444 also altered the amount of a supplemental municipal credit that may be granted by repealing the limitation that a municipal supplement may not exceed 50% of the Homeowners' Property Tax Credit. SDAT administers municipal homeowners' property tax credit supplement programs in the cities of Gaithersburg, Rockville, Bowie, College Park, Greenbelt, Hyattsville, and Mount Rainier.

There is a memorandum of understanding between the Comptroller's Office and SDAT to develop a data warehouse that will make the verification of Homeowners' Property Tax

Credit applications easier. Currently the verification process by the Comptroller's Office is done manually.

State Fiscal Effect: The bill requires SDAT to provide the Comptroller, by May 1 of each year, a list of owners of residential properties with an assessed value of \$300,000 or less who failed to claim the Homeowners' Property Tax Credit during the preceding three years. The Comptroller must identify the individuals who may be eligible for the program and provide contact information to SDAT. SDAT must then contact these individuals by mail of their potential eligibility for the Homeowners' Property Tax Credit Program.

Comptroller's Office Expenditures

Due to the bill's notification requirements, general fund expenditures for the Comptroller's Office will likely increase beginning in fiscal 2017. The Comptroller's Office indicates that if SDAT can provide them with the Social Security numbers of potential recipients, the office will be able to generate a report at a cost of \$20,000 that would identify eligible taxpayers who failed to claim the Homeowners' Property Tax Credit. This estimate assumes three contractors at a salary of \$190 per hour to produce a data warehouse matching program. The Comptroller's Office will incur ongoing costs of approximately \$3,000 annually to update this program.

If however, SDAT is unable to provide Social Security numbers for potential recipients, expenditures will increase significantly. The Comptroller's Office advises that under this scenario, it will require additional personnel to manually identify the affected taxpayers. The Comptroller's Office may need to hire an additional 15 revenue examiners (grade 9) on a contractual basis at a cost of approximately \$550,000. This estimate assumes that each revenue examiner will analyze 80 returns a day and work 60 days in the designated minimum three-month period specified by the bill.

SDAT Expenditures

Beginning in fiscal 2018, SDAT will have to notify certain homeowners by mail of their eligibility for the Homeowners' Property Tax Credit based on information provided by the Comptroller. This notification requirement will increase SDAT's general fund expenditures beginning in fiscal 2018. The amount of the expenditure increase depends on the number of potentially eligible homeowners who are identified by the Comptroller. SDAT reports that notification costs will total \$0.56 per mailing.

As noted, the Homeowners' Property Tax Credit Program provides property tax credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. Because home value is not the sole factor

in determining eligibility for the tax credit, the number of notifications that may need to be sent out will vary from year to year and cannot be reliably estimated.

SDAT reports that there are 823,948 residential real property accounts in the State that have an assessed value of \$300,000 or less. If, *for illustrative purposes only*, 30% of these accounts require a notification based on this and other program eligibility criteria, general fund expenditures will increase by \$103,800 annually beginning in fiscal 2018.

Program Expenditures

General fund expenditures for the Homeowners' Property Tax Credit Program may increase to the extent more individuals are eligible and receive the Homeowners' Property Tax Credit. The amount of the increase depends on the number of eligible homeowners and the amount of the property tax credit received. As noted, the proposed fiscal 2017 budget includes \$63.3 million for the Homeowners' Property Tax Credit Program and the average credit per recipient is estimated at \$1,205. *For illustrative purposes only*, a 10% increase in program cost will increase general fund expenditures by \$6.3 million.

Local Fiscal Effect: Local expenditures for supplemental homeowners' property tax credit program may increase to the extent more individuals are eligible for the State property tax credit.

Additional Information

Prior Introductions: None.

Cross File: HB 378 (Delegate Tarlau, *et al.*) - Ways and Means.

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

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Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510