SB 769

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 769 (Senator Manno)
Budget and Taxation

Property Tax - Renters' Property Tax Relief Program - Assets

This bill excludes the cash value of qualified retirement savings plans or individual retirement accounts from the definition of "assets" for purposes of calculating the renters' property tax credit.

The bill takes effect June 1, 2017, and applies to taxable years beginning after December 31, 2016.

Fiscal Summary

State Effect: General fund expenditures increase beginning in FY 2018 to the extent that program changes result in more eligible renters receiving the tax credit. The amount of the expenditure increase depends on the number of eligible renters receiving the tax credit and the amount of the tax credit received. Under one set of assumptions, expenditures may increase by $150,000 annually. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

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. Chapter 483 of 2016 altered 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. **Exhibit 1** shows the major provisions of the Renters' Property Tax Credit Program.

Exhibit 1
Major Provisions of Renters' Property Tax Credit Program

	<u>**Current Law**</u>
Calculation Formula:	0.0% of the first $4,000 of combined income
	2.5% of the second $4,000 of combined income
	5.5% of the combined income over $8,000
Maximum Renters' Tax Relief	**$1,000**

Under the program, assets do not include the cash value of the life insurance policies on the life of the renter.

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 $1,000.

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, to $750 in 2006, and to $1,000 in 2016. 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 2005-2018

Year	Eligible Applications	State Funding	Average Payment
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	7,732	2.3 million	301
2017 Estimate	7,736	1.9 million	247
2018 Estimate	8,663	3.0 million	346

Source: Department of Budget and Management

State Fiscal Effect: General fund expenditures for the Renters' Property Tax Credit Program increase beginning in fiscal 2018. The amount of the increase depends on the number of renters who become eligible for the program as a result of excluding the cash value of any qualified retirement savings plan or individual retirement account from the definition of assets. The number of renters who may become eligible for the program cannot be reliably estimated at this time.

As a point of reference, and *for illustrative purposes only*, if the program changes increase the number of eligible renters by 5%, program expenditures increase by $150,000. A 10% increase in program participation will result in an expenditure increase of $300,000, while a 2% increase will result in an expenditure increase of $60,000.

Additional Information

Prior Introductions: None.

Cross File: HB 338 (Delegate Tarlau, *et al.*) - Ways and Means.

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

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md/hlb

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