

**Department of Legislative Services**  
2018 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

House Bill 586 (Delegate Krebs, *et al.*)  
Ways and Means

**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, 2018, and applies to all taxable years beginning after June 30, 2019.**

**Fiscal Summary**

**State Effect:** Special fund revenues decrease by \$1.5 million in FY 2020 and by \$1.7 million in FY 2023. 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 millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
SF Revenue	\$0	(\$1.5)	(\$1.6)	(\$1.6)	(\$1.7)
Expenditure	0	0	0	0	0
Net Effect	\$0.0	(\$1.5)	(\$1.6)	(\$1.6)	(\$1.7)

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law:** 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 lower the cap. A majority of local subdivisions have assessment caps below 10%: 21 counties in fiscal 2017, 2018, and 2019. **Exhibit 1** lists county assessment caps for fiscal 2017 through 2019.

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### Exhibit 1 County Assessment Caps

County	FY 2017	FY 2018	FY 2019
Allegany	7%	4%	4%
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	4%	4%	4%
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	0%	1%	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

**Background:** The Homestead Property 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.

The extent to which the Homestead Property 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.

#### *Property Assessments Increase in Recent Years*

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, statewide. Property assessments continued to experience strong growth through fiscal 2008; however, the continual rapid increase in property assessments halted in 2009 for most jurisdictions, as property valuation declined reflecting the national credit crisis and deteriorating economic conditions. Over a four-year period, local jurisdictions across Maryland experienced a sharp decline in property assessments. Due to improvements in the national economy, property assessments statewide started to increase in 2014 as shown in **Exhibit 2**. Additional information on local property assessments can be found in Chapter 5 of the [Overview of Maryland Local Governments](#) report. A copy of the report can be found on the Department of Legislative Services website.

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**Exhibit 2**  
**Triennial Change in Full Cash Value**

<u>Assessment Group</u>	<u>2014</u> <u>Group 2</u>	<u>2015</u> <u>Group 3</u>	<u>2016</u> <u>Group 1</u>	<u>2017</u> <u>Group 2</u>	<u>2018</u> <u>Group 3</u>
Statewide	4.7%	10.8%	10.9%	8.2%	7.7%

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**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. Based on assessable base and homestead tax credit projections, revenue for the Annuity Bond Fund is estimated to decrease by \$1.5 million in fiscal 2020 and by \$1.7 million in fiscal 2023. **Exhibit 3** outlines the impact on special fund revenues.

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**Exhibit 3**  
**Impact on State Revenues**  
**Homestead Property Tax Credit Percentage at 5%**  
**(\$ in Thousands)**

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
<b>Assessable Base Loss</b>				
10% Cap	\$1,130,475	\$1,186,999	\$1,246,349	\$1,308,666
5% Cap	2,455,732	2,578,519	2,707,445	2,842,817
State Tax Rate	0.112	0.112	0.112	0.112
<b>Special Fund Revenue</b>	<b>(\$1,484)</b>	<b>(\$1,559)</b>	<b>(\$1,636)</b>	<b>(\$1,718)</b>

Note: Estimate assumes no change in current property tax rate.

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

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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 2019 State budget includes \$1.3 billion for

general obligation debt service costs, including \$289.0 million in general funds, \$997.0 million in special funds from the Annuity Bond Fund, \$7.1 million in transfer tax revenues, and \$12.8 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 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.

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### **Additional Information**

**Prior Introductions:** HB 284 of 2017 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 170 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 149 of 2015 received a hearing in the House Ways and Means Committee, but no further action was taken. Similar bills were introduced during the 2007 through 2011 sessions.

**Cross File:** None.

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

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