

Department of Legislative Services  
Maryland General Assembly  
2018 Session

FISCAL AND POLICY NOTE  
First Reader

Senate Bill 897

(Senator Guzzone)

Budget and Taxation

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**Property Tax – Homeowners’ Property Tax Credit – Repeal of Age Requirement**

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This bill allows homeowners of any age to apply retroactively for the Homeowners’ Property Tax Credit Program by repealing the requirement that the homeowner be at least 70 years old in order to apply retroactively to the State Department of Assessments and Taxation (SDAT) for a prior year tax credit. **The bill takes effect June 1, 2018, and applies retroactively to taxable years beginning after June 30, 2015.**

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**Fiscal Summary**

**State Effect:** General fund expenditures increase by a significant amount beginning in FY 2019. The amount of the increase depends on the number of homeowners who apply retroactively for prior year property tax credits and the amount of the property tax credits received. Under one set of assumptions, general fund expenditures increase by \$54.3 million in FY 2019. Revenues are not affected.

**Local Effect:** Local government expenditures for local supplemental homeowners’ property tax credits increase by a significant amount beginning in FY 2019. The amount of the increase depends on the number of homeowners who apply retroactively for prior year property tax credits and the amount of the property tax credits received. Local revenues are not affected.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** SDAT is authorized to accept an application for the homeowners’ property tax credit within three years after April 15 of the taxable year for which a credit is sought,

if the homeowner is at least 70 years old. A homeowner may apply to SDAT for the property tax credit by filing an application on the form that is provided by SDAT. The homeowner must state under oath that the facts in the application are true. SDAT may require the homeowner to provide a copy of an income tax return or other evidence detailing gross income or net worth. On certification by SDAT, the Comptroller must pay to the homeowner the property tax credit due.

**Background:** The Homeowners' Property Tax Credit Program is a State-funded program that provides credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. The fiscal 2019 State budget includes \$60.0 million in funding for the program. Approximately 52,000 individuals are expected to benefit from the program in fiscal 2019. **Appendix – Homeowners' Property Tax Credit Program** provides a brief description of the program and recent legislative changes.

**State Fiscal Effect:** The bill repeals the requirement that a homeowner be at least 70 years old in order to apply retroactively for a prior year homeowners' property tax credit. As a result, general fund expenditures increase by a significant amount beginning in fiscal 2019. The amount of the expenditure increase depends on the number of homeowners who apply retroactively back to fiscal 2016, the number who are eligible to receive the property tax credit, and the amount of the property tax credit that they receive.

**Exhibit 1** shows the number of prior year applications that were received by SDAT and the amount of the property tax credits that were provided retroactively for fiscal 2015 through 2017. In fiscal 2015, the department received 2,218 retroactive applications for the homeowners' property tax credit going back to fiscal 2011, of which 1,127 applications were eligible for the property tax credit. The department issued \$1.5 million in property tax credits for these retroactive applications. In fiscal 2016, SDAT issued \$1.4 million in retroactive property tax credits for 998 eligible applications (out of 2,042) going back to fiscal 2012. In fiscal 2017, SDAT issued \$988,100 in retroactive property tax credits for 711 eligible applications (out of 1,557) going back to fiscal 2013. **Exhibit 2** shows the average retroactive property tax credit that was issued each year (\$1,292 in fiscal 2015, \$1,369 in fiscal 2016, and \$1,390 in fiscal 2017).

The bill allows homeowners of any age to apply retroactively for the property tax credit. SDAT advises that, as a result of the homeowners' property tax credit awareness campaign that was begun last year, the department has identified approximately 134,000 homeowners who could be eligible for the homeowners' property tax credit but who have not applied. As a result, and *for illustrative purposes*, if 10% of those homeowners who may be eligible for the credit apply for and receive the tax credit back to fiscal 2016, general fund expenditures increase by approximately \$54.3 million in fiscal 2019. If 5% of eligible

homeowners apply, expenditures increase by \$27.1 million. This estimate is based on an average \$1,350 tax credit for a three-year period.

SDAT may incur additional staffing expenditures depending on the number of additional applications that are received each year.

**Local Fiscal Effect:** Local government expenditures for local homeowners' supplemental tax credits will increase by a significant amount beginning in fiscal 2019 to the extent more homeowners become eligible for the State homeowners' property tax credit. The amount of the expenditure increase depends on the number of homeowners who apply retroactively back to fiscal 2016, the number who are eligible to receive the property tax credit, and the amount of the property tax credit that they receive.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office; Property Tax Assessment Appeals Board; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 12, 2018  
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**Exhibit 1**  
**Prior Year Homeowners' Property Tax Credit Applications and Amounts**

	<b>FY 2015</b>			<b>FY 2016</b>			<b>FY 2017</b>		
	<b>Applications Received</b>	<b>Approved Applications</b>	<b>Amount of Credit</b>	<b>Applications Received</b>	<b>Approved Applications</b>	<b>Amount of Credit</b>	<b>Applications Received</b>	<b>Approved Applications</b>	<b>Amount of Credit</b>
2011	19	2	\$3,561	0	0	\$0	0	0	\$0
2012	336	146	165,341	72	32	54,213	0	0	0
2013	515	247	285,172	301	148	185,885	33	14	17,728
2014	1,348	732	1,002,402	470	207	261,342	201	75	92,193
2015	0	0	0	1,199	611	865,263	344	120	148,426
2016	0	0	0	0	0	0	979	502	729,780
<b>Total</b>	<b>2,218</b>	<b>1,127</b>	<b>\$1,456,476</b>	<b>2,042</b>	<b>998</b>	<b>\$1,366,703</b>	<b>1,557</b>	<b>711</b>	<b>\$988,127</b>

Source: State Department of Assessments and Taxation

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**Exhibit 2**  
**Average Property Tax Credit for Prior Year Applications**

<b><u>Year Applied For</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>
2011	\$1,781	\$0	\$0
2012	1,132	1,694	0
2013	1,155	1,256	1,266
2014	1,369	1,263	1,229
2015	0	1,416	1,237
2016	0	0	1,454
<b>Total</b>	<b>\$1,292</b>	<b>\$1,369</b>	<b>\$1,390</b>

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

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## Appendix – Homeowners’ Property Tax Credit Program

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**Current Law:** The maximum assessment against which the homeowners’ property tax credit may be granted is \$300,000. To be eligible for the tax credit, a homeowner’s combined net worth may not exceed \$200,000 and combined income may not exceed \$60,000. Total real property tax is the product of the sum of all property tax rates on real property, including special district tax rates, for the taxable year on a dwelling multiplied by the lesser of \$300,000 or the assessed value of the dwelling reduced by the amount of the homestead property tax credit.

The percentages applied to the combined income that are used to calculate the amount of the property tax credit are (1) 0% of the first \$8,000 of combined income; (2) 4% of the next \$4,000 of combined income; (3) 6.5% of the next \$4,000 of combined income; and (4) 9% of the combined income over \$16,000.

**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.

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.

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**Exhibit 1**  
**Homeowners' Property Tax Credit Program**  
**Fiscal 2005-2019**

<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	58.0 million	1,179
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 Actual	46,751	58.4 million	1,249
2017 Actual	45,964	54.2 million	1,301
2018 Estimated	49,599	60.0 million	1,210
2019 Estimated	52,079	60.0 million	1,152

Source: Department of Budget and Management

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Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. Maryland State Department of Assessment and Taxation (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. Baltimore City and 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 that is administered by SDAT. Data collected by the Department of Legislative Services in 2016 indicates that these jurisdictions granted approximately 19,600 homeowners approximately \$8.1 million in local property tax credits in fiscal 2016, as shown in **Exhibit 2**.

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**Exhibit 2**  
**Homeowners' Property Tax Credit Program – Local Supplement**  
**Fiscal 2016**

<u>County</u>	<u>Number Claiming</u>	<u>Amount Claimed</u>
Anne Arundel	3,521	\$1,142,096
Baltimore City	0	\$0
Baltimore	7,762	1,162,704
Calvert	0	0
Caroline	644	161,048
Carroll	n.a.	13,618
Charles	1,123	938,706
Frederick	0	0
Garrett	441	40,809
Harford	0	0
Howard	179	38,910
Kent	360	222,422
Montgomery	4,747	4,097,149
Washington	850	280,000
<b>Total</b>	<b>19,627</b>	<b>\$8,097,462</b>

Source: Department of Legislative Services

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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.