

Department of Legislative Services  
Maryland General Assembly  
2020 Session

FISCAL AND POLICY NOTE  
Third Reader

House Bill 1076  
Ways and Means

(Delegate Kaiser)

Budget and Taxation

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**Homestead Property Tax Credit - Date of Transfer of Dwelling**

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This bill alters the deadline for a new owner of a dwelling to submit an application for the homestead property tax credit to the State Department of Assessments and Taxation (SDAT). A homeowner may request that the date of the deed be accepted as the date of transfer of the dwelling for purposes of the homestead property tax credit. The bill provides that the property tax is not due on a dwelling for the second taxable year following the date of the deed until 30 days after a revised tax bill is sent to the homeowner if the homeowner submits an application for the homestead property tax credit after May 1 of the first taxable year following the date of the deed and there is an expected reduction in property tax resulting from the homestead property tax credit. The bill requires SDAT to include in its notice to homeowners regarding the homestead property tax credit that an individual may apply to the department to have the date of deed accepted as the date of transfer for purposes of the homestead property tax credit. **The bill takes effect June 1, 2020.**

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**Fiscal Summary**

**State Effect:** The bill provides homeowners, in some instance, a longer period of time to apply for the homestead property tax credit. As a result, State property tax revenues (Annuity Bond Fund) are not expected to be significantly affected. Notification requirements can be handled with existing budgeted resources.

**Local Effect:** The bill provides homeowners, in some instance, a longer period of time to apply for the homestead property tax credit. As a result, local property tax revenues are not expected to be significantly affected. Local expenditures may increase by a minimal amount to issue new property tax bills.

**Small Business Effect:** None.

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## 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 2018, 2019, and 2020. **Exhibit 1** lists county assessment caps for fiscal 2018 through 2020.

Subject to submitting a specified application to SDAT and having the application approved, the department must authorize and the State, a county, or a municipality must grant a homestead property tax credit for a taxable year unless during the previous taxable year (1) the dwelling was transferred for consideration to new ownership; (2) the value of the dwelling was increased due to a change in the zoning classification of the dwelling initiated or requested by the homeowner or anyone having an interest in the property; (3) the use of the dwelling was changed substantially; or (4) the assessment of the dwelling was clearly erroneous due to an error in calculation or measurement of improvements on the real property.

In addition, in order to qualify for the property tax credit, a homeowner must actually reside in the dwelling by July 1 of the taxable year for which the property tax credit is to be allowed. A homeowner may claim a property tax credit for only one dwelling. SDAT must notify homeowners of the possibility of receiving the homestead property tax credit.

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**Exhibit 1**  
**County Assessment Caps**

<b>County</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
Allegany	4%	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	1%	2%	3%
Queen Anne's	5%	5%	5%
St. Mary's	5%	5%	3%
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

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**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.

Since its inception in 1977, the fundamental purpose of the homestead property tax credit has been to limit the amount of property taxes paid by a residential homeowner due to property tax assessment increases. The credit was designed to provide a cumulative or year-over-year protection to longtime homeowners against significant appreciations in property values. Increases in the number of recipients and the inability to verify eligibility during the early part of the 2000s prompted concern over potential abuses or fraud. In response to this concern, Chapters 564 and 565 of 2007 were enacted to require homeowners to apply to SDAT for the credit. No longer is the credit automatically applied against owners' assessments.

#### *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. **Exhibit 2** shows annual assessment increases since 2016. 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>2016</u> <u>Group 1</u>	<u>2017</u> <u>Group 2</u>	<u>2018</u> <u>Group 3</u>	<u>2019</u> <u>Group 1</u>	<u>2020</u> <u>Group 2</u>
Statewide	10.9%	8.2%	7.7%	9.1%	8.9%

Source: State Department of Assessments and Taxation

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**Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Baltimore City; Harford County; Montgomery County; Property Tax Assessment Appeals Board; State Department of Assessments and Taxation; Department of Legislative Services

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