

**Department of Legislative Services**  
Maryland General Assembly  
2022 Session

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

House Bill 1361  
Ways and Means

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**Property Taxes - Exemption - Dwellings of Senior Citizens**

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This bill establishes a property tax exemption for dwellings owned by specified senior citizens. The bill requires a reimbursement from the State Lottery Fund to county and municipal governments to cover the cost of the exemption. **The bill takes effect June 1, 2022, and the property tax exemption applies to taxable years beginning after June 30, 2022.**

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**Fiscal Summary**

**State Effect:** Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2023. Under one set of assumptions, special fund revenues decrease by approximately \$5.4 million beginning 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. Net general fund expenditures increase by a significant amount beginning in FY 2023. Under one set of assumptions, general fund expenditures increase by \$38.3 million in FY 2023 and by \$33.3 million in FY 2027.

**Local Effect:** To the extent that certain homeowners drop out of the homeowners' property tax credit program, local governments that provide a supplement to the State credit will realize an increase in revenues. Local expenditures are not affected.

**Small Business Effect:** None.

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**Analysis**

**Bill Summary:** The bill establishes a property tax exemption for a dwelling owned by a senior citizen if (1) the dwelling is owned by an eligible senior citizen or, following transfer

of ownership to a joint owner, an individual who is at least 64 years old at the time of the transfer; (2) the combined income of all individuals residing in the dwelling does not exceed \$40,000; (3) neither the eligible senior citizen nor any other individual residing in the dwelling is claiming or otherwise receiving any other exemption for another property located in the State; and (4) specified application requirements are met.

An eligible senior citizen must apply for the exemption by providing the supervisor of assessments at the State Department of Assessments and Taxation (SDAT) (1) the names and social security numbers of all owners of the property for which the exemption is claimed; (2) a certification that the eligible senior citizen is at least 65 years old, currently resides at the dwelling, and has resided at the dwelling for at least 10 years; (3) evidence that the combined income of all individuals residing at the dwelling does not exceed \$40,000; and (4) a certification that no taxes are in arrears for the property. This information may not be inspected by individuals other than the supervisor of assessments and appropriate employees of the State, a county, or a municipality.

In order to maintain the property tax exemption, the eligible senior citizen must submit an application each year demonstrating that they continue to satisfy the requirements for the exemption.

The State must cover the cost of the local property tax exemption by making direct payments to each local jurisdiction in the amount of the calculated property tax exemption. In order for a county or municipality to receive a reimbursement from the State, by August 31 in any calendar year, the county or municipality must submit an annual request to SDAT for the amount required by June 30 that year. On receipt of the request from a county or municipality, the department must certify the reimbursement due to each county or municipality to the Comptroller by July 31.

On receipt of the certification from SDAT, the Comptroller must reimburse each county or municipality by August 31 by transferring the reimbursement amount from the State Lottery Fund. If a county or municipality submits its reimbursement request after June 30 (1) SDAT must issue its certification to the Comptroller within 30 days after receipt of the request and (2) the Comptroller must reimburse the county or municipality within 30 days after receipt of the certification.

#### *Definitions*

Combined income is defined as the combined gross income of all individuals who actually reside in a dwelling except an individual who (1) is a dependent of the homeowner or (2) pays a reasonable amount for rent or room and board.

An eligible senior citizen is an individual who (1) is at least 65 years old and (2) has resided in the individual's dwelling for a period of at least 10 years.

“Gross income” is the total income from all sources for the calendar year that immediately precedes the taxable year, whether or not the income is included in the definition of gross income for federal or state tax purposes. Gross income includes (1) income derived from salaries, wages, bonuses, and commissions, including income from self-employment; (2) the first 50% of Social Security or Railroad retirement benefits; (3) the aggregate of gifts over \$300; (4) alimony; (5) support money; (6) any nontaxable strike benefit; (7) public assistance received in a cash grant; (8) a pension; (9) an annuity; (10) any unemployment insurance benefit; (11) any workers’ compensation benefit; (12) all interest received from the federal government, the State, a county, or a municipality; (13) realized capital gains; (14) any withdrawal, payment, or distribution from an individual retirement account; (15) any withdrawal, payment, or distribution from any qualified retirement savings plan; (16) any rental income; and (17) the gross amount of loss of time insurance benefits and life insurance benefits and proceeds, excluding the first \$5,000 of death benefit payments. Gross income does not include (1) any income tax refund received from the State or federal government or (2) any loss from business, rental, or other endeavor.

**Current Law:** A local option property tax credit for elderly individuals and veterans was established at the 2016 session and has been amended several times since then as discussed below.

Chapter 498 of 2016 authorized local governments to grant, by law, a property tax credit for a dwelling owned by (1) an individual who is at least 65 years old and has lived in the same dwelling for at least the preceding 40 years or (2) a retired member of the U.S. Armed Forces who is at least 65 years old. The amount of the property tax credit may not exceed 20% of the county or municipal property tax imposed on the property and may be granted for up to 5 years.

Local governments may provide, by law, for (1) the maximum assessed value of a dwelling that is eligible for the tax credit; (2) additional eligibility criteria for the tax credit; (3) regulations and procedures for the application and uniform processing of requests for the tax credit; and (4) any other provision necessary to carry out the tax credit.

Chapter 184 of 2017 altered the eligibility criteria for the property tax credit by requiring that specified individuals must be members of the uniformed services of the United States as defined by 10 U.S.C. Section 101, the military reserves, or the National Guard.

Chapters 309 and 310 of 2018 altered the eligibility criteria once again by adding the surviving spouse of the retired service member as an eligible recipient of the property tax

credit. However, to be eligible for the property tax credit, the surviving spouse cannot be remarried.

Chapter 36 of 2019 altered the eligibility for the property tax credit by requiring the surviving spouse to be at least 65 years old to be eligible for the property tax credit. In addition, Chapter 36 enabled a surviving spouse who is under age 65 to continue to receive the property tax credit if the surviving spouse qualified for and received the property tax credit before June 1, 2019.

Chapter 642 of 2020 altered the eligibility criteria for the property tax credit by extending eligibility to certain disabled military personnel under the age of 65. Eligible individuals include specified active duty, retired, or honorably discharged members of (1) the uniformed services of the United States as defined in 10 U.S.C. § 101; (2) the military reserves; or (3) the national guard. To qualify for the property tax credit, the individuals must have a service-connected disability as defined in a local law. In addition, a surviving spouse of these individuals who has not remarried also qualifies for the property tax credit. Local governments are authorized to establish the criteria that define a service-connected disability of an eligible individual.

### *Homeowners' Property Tax Credit Program*

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. Homeowners must apply to SDAT each year in order to be eligible for the property tax credit. The application is available on the department's website, and current applications may be filed beginning February 15, 2022, through October 1, 2022. Approximately 45,000 individuals receive the property tax credit each year. SDAT reports that the average homeowners' property tax credit is approximately \$1,350. The proposed fiscal 2023 State budget includes \$64.7 million for the program.

**State Revenues:** ABF revenues decrease by a significant amount beginning in fiscal 2023 as a result of the State property tax exemption for specified senior citizens. The amount of the decrease depends on the number of homeowners age 65 and over who qualify for the property tax exemption and the assessed value of each eligible dwelling.

As a point of reference, ABF revenues may decrease by approximately \$5.4 million annually beginning in fiscal 2023 based on the following:

- there are 2.5 million housing units in Maryland, according to the U.S. Census Bureau;
- the home ownership rate is 66.9%;

- the percentage of the State population age 65 and over is 15.9%;
- approximately 8.0% of individuals age 65 and over live in poverty;
- the average residential real property assessment is \$240,125; and
- the State real property tax rate is \$0.112 per \$100 of assessment.

*Impact on Debt Service Payments*

Debt service payments on the State's general obligation bonds are paid from the ABF. Revenue sources for the fund include State property taxes, premiums from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the ABF to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2023 State budget includes \$1.4 billion for general obligation debt service costs, including \$430.0 million in general funds, \$993.0 million in special funds from the ABF, \$7.0 million in transfer tax revenues, and \$9.0 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 ABF revenues, or the State property tax rate would have to be increased to meet debt service payments. This assumes that the ABF does not have an adequate fund balance to cover the reduction in State property tax revenues.

**State Expenditures:** The bill affects State expenditures in three ways. First, the bill requires the State to reimburse local governments for the cost of the proposed property tax exemption through direct payments from the State Lottery Fund to counties and municipalities. Second, the bill may result in a decrease in general fund expenditures for the homeowners' property tax credit program to the extent that some current recipients receive the proposed property tax exemption instead. Finally, the bill requires a significant increase in computer programming expenditures by SDAT to comply with the bill's requirements.

*Property Tax Exemption Reimbursement for Counties and Municipalities*

Based on the data and assumptions used in estimating the cost of the State property tax exemption, an average county residential property tax assessment of \$233,892 and an average weighted property tax rate of \$1.195 per \$100 of assessment, State expenditures for local reimbursements increase by approximately \$60.5 million annually beginning in fiscal 2023.

### *Effect on Current Homeowners' Property Tax Credit Recipients*

As noted, approximately 45,000 homeowners receive the homeowners' property tax credit and the average property tax credit totals \$1,345. It is assumed that some current recipients will receive the property tax exemption under the bill, thereby negating their need for the homeowners' property tax credit and reducing general fund expenditures for the program. Based on the data and assumptions used to estimate the effect of the State and local property tax exemption, general fund expenditures for the homeowners' property tax credit program may decrease by approximately \$27.2 million beginning in fiscal 2023.

### *State Department of Assessments and Taxation Expenditures*

SDAT is in the midst of a multi-year upgrade to the department's tax processing and data collection and maintenance computer system. Therefore, SDAT will have to add additional components to this process in order to implement the property tax exemption application processing changes required by the bill. As a result, SDAT's general fund expenditures increase by approximately \$5.0 million in fiscal 2023.

In addition, SDAT may need to hire additional personnel for the processing of applications, audits, and the overall administration of the property tax exemption.

### *Net General Fund Expenditures*

Based on the various expenditure impacts of the bill, net general fund expenditures may increase by \$38.3 million in fiscal 2023 and by \$33.3 million in fiscal 2027.

**Local Fiscal Effect:** Local governments are authorized to grant a local supplement to the homeowners' property tax credit program. While SDAT administers the local program, local governments are responsible for covering the cost of the local supplement. Currently, Baltimore City and 13 counties (Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Charles, Frederick, Garrett, Harford, Howard, Kent, Montgomery, and Washington) provide a local supplement to the State program. In addition, several municipalities also provide a local supplement.

To the extent that certain homeowners drop out of the homeowners' property tax credit program due to the property tax exemption provided by the bill, local governments that provide a supplement to the State credit will realize an increase in revenues.

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## **Additional Information**

**Prior Introductions:** None.

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**Designated Cross File:** None.

**Information Source(s):** Harford and Montgomery counties; State Department of Assessments and Taxation; Maryland State Lottery and Gaming Control Agency; Department of Legislative Services

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