

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 642

(Delegate C. Branch, *et al.*)

Ways and Means

Budget and Taxation

Baltimore City – Homestead Property Tax Credit – Notice

This bill requires Baltimore City to mail, by January 1 of each year, a specified document regarding the homestead property tax credit to homeowners in Baltimore City. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: None. The bill’s requirements can be handled with existing budgeted resources.

Local Effect: Baltimore City expenditures increase by approximately \$22,200 annually beginning in FY 2023. Revenues are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: By January 1 of each year, Baltimore City must mail a notice about the homestead property tax credit to each homeowner in Baltimore City (1) who has not applied for the homestead property tax credit and (2) whose dwelling has an assessed value, when fully phased in, in the current three-year assessment cycle that is more than 10% greater than the dwelling’s assessed value, when fully phased in, in the immediately preceding three-year assessment cycle.

The notice must include (1) a copy of the application for the homestead property tax credit and (2) a separate insert that includes the following statement in conspicuous type and any other relevant information, as determined by the city:

Because the value of your home has increased, the amount of property taxes you owe will also increase. But the amount of your tax increase will be significantly less if you qualify for the homestead property tax credit. You are strongly encouraged to apply for the homestead property tax credit.

Baltimore City must pay all costs to carry out this annual mailing.

By November 1 of each year, the State Department of Assessments and Taxation (SDAT) must provide Baltimore City with a list of the homeowners to whom the notice must be mailed to each year.

Current Law: Several provisions establishing notification requirements for the Homestead Property Tax Credit Program have been passed by the General Assembly in recent years.

Chapter 297 of 2018 requires SDAT to identify homeowners who may be eligible for the homestead property tax credit but have failed to apply for the tax credit and include a separate insert with each assessment notice that is sent to these homeowners informing them that they may be eligible for the homestead property tax credit and how to apply for the credit.

Chapter 333 of 2021 required SDAT to design a document concerning the homestead property tax credit that must be presented to the buyer of residential property at the settlement for the property by the person conducting the settlement. The document must include, in conspicuous type, the following statement:

If you plan to live in this home as your principal residence, you may qualify for the homestead property tax credit. The homestead property tax credit may significantly reduce the amount of property taxes you owe.

The document must also include instructions on how to apply for the homestead property tax credit online and a complete application for the credit and instructions on how to submit the paper application to the department. SDAT must make the document available on its website where it may be easily accessed by persons conducting settlements for residential property.

Chapter 333 also required a contract of sale for residential property to include the statement described above as well as the website address of the document described above.

Homestead Property Tax Credit Program

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%, including 21 counties in fiscal 2020, 2021, and 2022.

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.

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.

Local Fiscal Effect: Baltimore City expenditures increase by approximately \$22,200 annually beginning in fiscal 2023. The estimate assumes that the city will have to notify approximately 49,300 homeowners at \$0.45 per mailing.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 13, 2022
fnu2/hlb Third Reader - March 17, 2022

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