

Department of Legislative Services  
Maryland General Assembly  
2022 Session

FISCAL AND POLICY NOTE  
Third Reader

House Bill 203  
Ways and Means

(Delegate Attar)

Budget and Taxation

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Homestead Property Tax Credit Program - Retroactive Qualification and  
Calculation of the Credit

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This bill requires the State Department of Assessments and Taxation (SDAT) to retroactively grant the homestead property tax credit for the prior taxable year, upon receiving an application from the homeowner, if the homeowner is determined to be eligible for the property tax credit. **The bill takes effect June 1, 2022, and applies to taxable years beginning after June 30, 2022.**

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Fiscal Summary

**State Effect:** Annuity Bond Fund revenues decrease by a minimal amount beginning in FY 2023. Expenditures are not affected.

**Local Effect:** Local government revenues decrease by a minimal amount beginning in FY 2023. Local expenditures are not affected.

**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%, 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.

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## **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** SB 197 (Chair, Budget and Taxation Committee)(By Request - Departmental - Assessments and Taxation) - Budget and Taxation.

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

**Fiscal Note History:** First Reader - January 28, 2022  
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