SB 153

Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 153 (Senator Beidle)
Budget and Taxation

Property Tax - Homeowners' Property Tax Credit - Definition of Gross Income

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This bill alters the definition of gross income for purposes of calculating the homeowners' property tax credit by excluding specified documented medical expenses. **The bill takes effect June 1, 2022, and applies to taxable years beginning after June 30, 2022.**

Fiscal Summary

State Effect: General fund expenditures for the homeowners' property tax credit increase by a significant amount beginning in FY 2024. Based on preliminary estimates, the increase in State expenditures could exceed $15 million annually. General fund expenditures for administering the property tax credit increase by approximately $777,900 in FY 2023 and by $593,900 in FY 2027. Future year expenditures represent inflation and annualization. State revenues are not affected.

Local Effect: The overall effect on local government expenditures depends on the impact of the bill on State expenditures. Some homeowners may receive a reduced local supplement, which will decrease local expenditures. However, to the extent that more homeowners become eligible for the homeowners' property tax credit, local governments that provide a supplement to the State homeowners' property tax credit will realize increased expenditures.

Small Business Effect: None.

Analysis

Bill Summary: The bill excludes the following documented medical expenses incurred by a homeowner from gross income used in calculating the homeowners' property tax credit: (1) medical care; (2) specified continuing care; (3) specified care provided by an assisted living program; and (4) specified care provided by a nursing home.

Current Law: 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 the State Department of Assessments and Taxation (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 total cost of the program is approximately $65 million annually.

For purposes of calculating the homeowners' property tax credit, 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, and includes (1) any benefit under the Social Security Act or the Railroad Retirement Act; (2) the aggregate of gifts over $300; (3) alimony; (4) support money; (5) any nontaxable strike benefit; (6) public assistance received in a cash grant; (7) a pension; (8) an annuity; (9) any unemployment insurance benefit; (10) any workers' compensation benefit; (11) the net income received from a business, rental, or other endeavor; (12) any withdrawal, payment, or distribution from an individual retirement account; (13) any withdrawal, payment, or distribution from any qualified retirement savings plan; and (14) any rent on the dwelling, including the rent from a room or apartment.

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.

State Fiscal Effect: General fund expenditures for the homeowners' property tax credit increase by a significant amount beginning in fiscal 2024 as a result of the changes proposed by the bill. The amount of the expenditure increase depends on several factors including the amount of various medical related expenses reported by property tax credit recipients, the amount of the property tax credit currently received, and the number of homeowners who may become eligible for the program.

Based on 2020 application data, the average homeowners' property tax credit recipient is 69 years old with an average gross income of $33,057. There is no data on the number of tax credit recipients who incur expenses for continuing care, assisted living care, or nursing home care. However, as a point of reference, SDAT estimates that general fund expenditures could increase by at least $15 million annually, if 20,000 applicants have at least $10,000 a year in eligible expenses. Including other types of documented medical expenses would increase this estimate by a significant amount.

In order to implement the proposed changes to the tax credit program, SDAT's general fund expenditures increase by approximately $777,900 in fiscal 2023, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring 10 tax credit processors to verify documented medical expenses submitted by tax credit applicants. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses and a one-time cost of $300,000 to update the department's tax credit computer system.

Positions	10
Salaries and Fringe Benefits	$404,469
Computer Programming	300,000
Operating Expenses	73,430
Total FY 2023 State Expenditures	**$777,899**

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses. Administrative expenditures will increase by $546,400 in fiscal 2024 and by $593,900 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.

The overall impact on local expenditures cannot be reliably estimated. In general, the interaction between the various components of the homeowners' property tax credit calculation (maximum eligible assessment, income, net worth, State and local property tax liabilities, as well as other tax credits) effectively results in a maximum tax credit that is available to each homeowner. Due to this maximum credit amount, the amount of the local tax credit supplement will usually decrease as the amount of the State tax credit increases, as the amount of the State tax credit is applied first. However, to the extent that more homeowners become eligible for the homeowners' property tax credit program, local governments that provide a supplement to the State homeowners' property tax credit will realize increased expenditures.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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