

Department of Legislative Services
 Maryland General Assembly
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FISCAL AND POLICY NOTE
 First Reader

House Bill 1138
 Ways and Means

(Delegate Feldmark, *et al.*)

Homeowners' Property Tax Credit - Easy Application and Automatic Renewal

This bill alters the application process for the homeowners' property tax credit. In general, the bill requires the Comptroller to include a specified notification concerning the homeowners' property tax credit on the Maryland resident individual income tax return form as well as a separate form that a taxpayer may use to apply for the homeowners' property tax credit. The bill requires that specified qualifying homeowners receive the homeowners' property tax credit for subsequent taxable years without being required to file an application for the credit. The bill defines a qualifying homeowner for purposes of the homeowners' property tax credit. **The bill takes effect January 1, 2023, except for the provisions regarding the usability consultant, which take effect on June 1, 2022.**

Fiscal Summary

State Effect: General fund expenditures increase by \$1.2 million in FY 2023 and by \$751,000 in FY 2027. Futures years reflect annualization, inflation, and elimination of one-time costs. Reporting requirements can be handled with existing budgeted resources. Revenues are not affected.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	1.2	2.2	0.7	0.7	0.8
Net Effect	(\$1.2)	(\$2.2)	(\$0.7)	(\$0.7)	(\$0.8)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill alters the application process for the homeowners' property tax credit, as discussed below.

Comptroller Requirements

The Comptroller is required to include on the income tax return form a conspicuous notification to the taxpayer that (1) the taxpayer may qualify for the homeowners' property tax credit if the taxpayer has limited income and assets; (2) if the taxpayer qualifies, the homeowners' property tax credit may significantly reduce the property taxes the taxpayer owes; and (3) the taxpayer must complete the separate form to apply for the homeowners' property tax credit. The Comptroller must also include a separate form that is required only for individuals who wish to apply for the homeowners' property tax credit with the income tax return form. The separate form must require the taxpayer to provide all the information necessary for the State Department of Assessments and Taxation (SDAT) to determine the taxpayer's eligibility for the homeowners' property tax credit. The separate form may not require the taxpayer to provide any information that the taxpayer is required to provide on the income tax return form, including any sources and amounts of income that are reported on the income tax return form.

The Comptroller must require a taxpayer to submit with the separate form any documentation SDAT requires to verify the taxpayer's income for purposes of the homeowners' property tax credit. The Comptroller may not require a taxpayer to submit with the separate form any document that the taxpayer is required to submit with the income tax return form, including, if submitted with the income tax return form, a copy of the taxpayer's federal income tax return.

The Comptroller must transmit to SDAT the following: (1) a copy of each form submitted by a taxpayer; and (2) for each taxpayer who submits a form, any other information or documentation in the Comptroller's possession that is not included on or with the form submitted but is necessary for SDAT to determine the taxpayer's eligibility for the homeowners' property tax credit.

State Department of Assessments and Taxation Requirements

On receipt of a form from the Comptroller, and if applicable, other information or documentation concerning a taxpayer's application for the homeowners' property tax credit, SDAT must promptly (1) enroll the taxpayer for the homeowners' property tax credit if the taxpayer is eligible; (2) if additional information is required to determine the taxpayer's eligibility for the homeowners' property tax credit, contact the taxpayer to request additional information; or (3) if the taxpayer is not eligible for the homeowners'

property tax credit, notify the taxpayer that the taxpayer is not eligible and inform the taxpayer of the grounds for ineligibility.

A qualifying homeowner who, for any taxable year beginning on or after July 1, 2023, applies for and is granted the homeowners' property tax credit must receive the tax credit for all subsequent taxable years without being required to file an application for the tax credit for any subsequent taxable year, unless SDAT determines that the qualifying homeowner is no longer eligible for the credit.

By February 15, 2024, and each subsequent February 15, SDAT must send a notice to each qualifying homeowner informing the individual that they are required to promptly notify the department if, in the previous year (1) the qualifying homeowner's income has changed for any reason other than a regular cost-of-living adjustment to Social Security benefits or a pension; (2) the individuals who reside in the qualifying homeowner's dwelling have changed; or (3) any other circumstance has changed that would affect the qualifying homeowner's eligibility for the homeowner's property tax credit.

SDAT is required to obtain data from government agencies or other reliable sources that the department must use to verify whether a qualifying homeowner remains eligible for the homeowners' property tax credit. If SDAT receives information from a qualifying homeowner or another reliable source that a qualifying homeowner is no longer eligible for the property tax credit, SDAT must promptly terminate the credit. If the qualifying homeowner is eligible for a different credit amount than the amount the qualifying homeowner currently receives, SDAT must promptly adjust the amount of credit.

SDAT must promptly notify a homeowner of a tax credit termination or change in tax credit amount and the grounds for the termination or change. If an audit determines that a qualifying homeowner received any amount of tax credit for which the qualifying homeowner was not eligible, the department may place a lien on the qualifying homeowner's dwelling for the amount of the credit improperly paid but may not initiate any collection efforts or otherwise act to enforce the lien until ownership of the dwelling is transferred. SDAT may waive the obligation of a qualifying homeowner or a qualifying homeowner's estate to repay to SDAT any amount of credit improperly paid to the qualifying homeowner if the department determines that (1) the qualifying homeowner did not willfully and knowingly misrepresent any material fact regarding the qualifying homeowner's eligibility for the credit and (2) requiring repayment of the credit would impose an undue hardship on a qualifying homeowner or a qualifying homeowner's heirs. If an audit determines that a qualifying homeowner received a lesser amount of the tax credit than the amount the qualifying homeowner was eligible to receive, SDAT must promptly pay the qualifying homeowner the full amount of the difference.

A qualifying homeowner is defined as (1) a homeowner whose gross income is less than the amount that requires the homeowner to file a Maryland resident income tax return or (2) a homeowner who is at least 65 years old, does not have any other individual who resides in the homeowner's dwelling other than an individual who is a dependent of the homeowner under § 152 of the Internal Revenue Code, and does not have income from any source other than Social Security benefits or a pension.

Reporting Requirements

SDAT, in consultation with the Comptroller, must contract with a usability consultant by August 1, 2022, to develop recommendations concerning the design and language of (1) the notification required on the individual income tax return form; (2) the separate form required to be included with the individual income tax return form; and (3) the instructions for the individual income tax return form and the separate form.

The usability consultant must recommend a design and language for the notification, form, and instructions that is as clear and easy to understand as possible, especially for socioeconomically diverse communities. By December 1, 2022, the consultant must submit the recommendations to SDAT and the Comptroller.

By February 1, 2023, SDAT and the Comptroller must jointly submit a report to the Senate Budget and Taxation Committee and the House Committee on Ways and Means that includes (1) the recommendations submitted by the consultant and (2) the final design and language of the notification, form, and instructions that the Comptroller used to implement the provisions of the bill.

Current Law: In order to receive the homeowners' property tax credit, the homeowner must file an application with SDAT by October 1. However, SDAT may accept an application within three years after April 15 of the taxable year for which a credit is sought, if the homeowner (1) is at least 70 years old as of the taxable year for which a credit is sought and (2) was eligible for the credit for the taxable year for which the credit is sought.

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 total cost of the program is approximately \$65 million annually.

Chapters 667 and 668 of 2016 required SDAT to provide the Comptroller with a list of owners of residential properties with an assessed value of \$300,000 or less who failed to claim the homeowners' property tax credit during the preceding three years. The Comptroller must (1) review the information provided by SDAT; (2) identify individuals who may be eligible but failed to claim the homeowners' property tax credit; and (3) provide contact information of the identified individuals to SDAT. SDAT must then contact these individuals by mail to inform them on how to apply for the homeowners' property tax credit program.

State Fiscal Effect: In order to implement the changes to the homeowners' property tax credit application process, general fund expenditures will increase by \$1.2 million in fiscal 2023, \$2.2 million in fiscal 2024, and \$0.7 million beginning in fiscal 2025.

Comptroller Expenditures

The bill requires the Comptroller's Office to collect any documentation SDAT needs to verify income. Since SDAT uses additional and/or different definitions and measures of income than are used for the income tax, the bill requires significant programming and processing by the Comptroller's Office. As a result, general fund expenditures for the Comptroller's Office increase by \$583,500 in fiscal 2023. This estimate reflects the cost of eight additional positions: four revenue examiners to process and send specified documents to SDAT (a nonautomated process); two information technology functional analysts for programming and development of a process to store and transmit electronically filed forms to SDAT and for the development of a process to scan and transmit paper-filed copies to SDAT; one information technology systems technical specialist to oversee handling of federal tax data for recurring formatting and testing of federal and State return data matching; and one program manager to oversee this process. The Comptroller's Office will also incur a one-time cost of \$100,000 for form testing. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses as shown below:

Salaries and Fringe Benefits	\$424,790
Form Testing	100,000
Operating Expenses	<u>58,744</u>
Total FY 2023 State Expenditures	\$583,534

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

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 application processing changes required by the bill. As a result, SDAT’s general fund expenditures increase by approximately \$645,000 in fiscal 2023. This estimate reflects the cost of five additional positions: two auditors to verify eligibility for the homeowners’ property tax credit; one contractual database administrator (fiscal 2023 and 2024); one contractual program manager (fiscal 2023 and 2024); and one usability consultant in fiscal 2023. In addition, the department will incur costs for Department of Information Technology oversight and Maryland OneStop upgrades in fiscal 2023 and 2024. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses as shown below:

	<u>FY 2023</u>	<u>FY 2024</u>
Salaries and Fringe Benefits	\$87,049	\$114,979
Maryland OneStop Upgrades	312,500	937,500
Program Manager Contractor	69,000	207,000
Database Administrator Contractor	66,500	199,500
Department of Information Technology Oversight	67,250	201,750
Usability Consultant	18,000	0
Operating Expenses	<u>24,686</u>	<u>12,131</u>
Total State Expenditures	<u>\$644,985</u>	<u>\$1,672,860</u>

Future year expenditures reflect full salaries with annual increases and employee turnover, annual increases in ongoing operating expenses, and the elimination of system upgrade expenditures after fiscal 2024.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 809 (Senator Hayes) - Budget and Taxation.

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

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