

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 73
Ways and Means

(Delegate R. Long)

Homestead Property Tax Credit – Calculation of Credit for Dwelling Purchased
by First-Time Homebuyer

This bill enables a first-time homebuyer in the State to receive the homestead property tax credit for a newly purchased home through the use of a “homestead credit carryover amount.” The bill provides for the calculation of the property tax credit as well as the phase-out of the homestead credit carryover amount. **The bill takes effect June 1, 2023, and applies to taxable years beginning after June 30, 2023.**

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2024. Under one set of assumptions, revenues decrease by \$100,300 in FY 2024 and by \$337,100 in FY 2028. 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. General fund expenditures increase by \$59,300 in FY 2024 and by \$79,300 in FY 2028. Special fund revenues and expenditures increase by a commensurate amount. Future years reflect annualization and inflation.

Local Effect: Local government property tax revenues decrease by a significant amount beginning in FY 2024. Under one set of assumptions, local government property tax revenues decrease by \$4.7 million in FY 2024 and by \$15.7 million in FY 2028. County expenditures increase by \$59,300 in FY 2024 and by \$79,300 in FY 2028.

Small Business Effect: None.

Analysis

Bill Summary: The homestead credit carryover amount is the difference between the most recent taxable assessment of a dwelling before the transfer of the dwelling to a new homeowner and the assessment that would have applied to the dwelling absent the homestead property tax credit.

The property tax credit proposed by the bill is calculated by multiplying the homestead credit carryover amount by the applicable property tax rate for the current year for the homeowner's property. The bill requires that the homestead credit carryover amount used to calculate the credit be reduced by 20% each year beginning in the second year a homeowner receives the credit. A homeowner may receive the greater of either the credit calculated under the bill or the homestead property tax credit.

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 2021, 2022, and 2023. **Exhibit 1** lists county assessment caps for fiscal 2021 through 2023.

Subject to submitting a specified application to the State Department of Assessments and Taxation (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.

Exhibit 1
County Assessment Caps

County	FY 2021	FY 2022	FY 2023
Allegany	4%	4%	4%
Anne Arundel	2%	2%	2%
Baltimore City	4%	4%	4%
Baltimore	4%	4%	4%
Calvert	10%	10%	10%
Caroline	5%	5%	5%
Carroll	5%	5%	5%
Cecil	4%	4%	4%
Charles	7%	7%	7%
Dorchester	5%	5%	5%
Frederick	5%	5%	5%
Garrett	5%	5%	5%
Harford	5%	5%	5%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George's	2%	1%	5%
Queen Anne's	5%	5%	5%
St. Mary's	3%	3%	3%
Somerset	10%	10%	10%
Talbot	0%	0%	0%
Washington	5%	5%	5%
Wicomico	5%	5%	5%
Worcester	3%	3%	3%

Source: State Department of Assessments and Taxation; Department of Legislative Services

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.

State Fiscal Effect: ABF revenues decrease by a significant amount beginning in fiscal 2024 due to first-time homebuyers using homestead credit carryover amounts to keep the prior homeowners property assessment. Under current law, homestead property tax credits do not transfer from one homeowner to another, and each new homeowner receives a new property assessment upon transfer of the property. The amount of the revenue decrease depends on the number of first-time homeowners who purchase homes each year and the amount of the homestead credit carryover amount.

For illustrative purposes only, it is estimated that ABF revenues decrease by approximately \$100,300 in fiscal 2024 and by \$337,100 in fiscal 2028. The estimate is based on the following facts and assumptions:

- SDAT reports that for all home sales in Maryland in fiscal 2022, the total pre-sale assessment for residential property was approximately \$41.6 billion for county assessment purposes and \$42.4 billion for State assessment purposes;
- SDAT reports that for all home sales in Maryland in fiscal 2022, the total post-sale assessment for residential property was approximately \$42.6 billion;
- the total estimated homestead carryover amount is therefore \$1.0 billion for county assessment purposes and \$223.8 million for State assessment purposes;
- 40% of home purchases are made by first-time homebuyers;
- the State real property tax rate is \$0.112 per \$100 of assessment, and current county real property tax rates range from \$0.6820 per \$100 of assessment in Talbot County to \$2.248 per \$100 of assessment in Baltimore City; and
- the number of homes purchased by first-time homebuyers remains constant.

To the extent the homestead property tax credit amount is greater in future years, State revenues may be impacted since the bill authorizes the homeowner to receive the greater of the homestead credit carryover amount or the homestead property tax credit.

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, premium 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 2024 State budget includes \$1.5 billion for general obligation debt service costs, including \$433.8 million in general funds, \$1.0 billion in special funds from the ABF, \$7.0 million in transfer tax revenues, and \$7.5 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.

Personnel Expenditures

SDAT expenditures increase by \$118,500 in fiscal 2024, which accounts for a 120-day start-up delay and reflects the cost of hiring two auditors to verify the compliance and first-time home ownership in Maryland. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	\$103,728
Operating Expenses	<u>14,818</u>
Total FY 2024 State Expenditures	\$118,546

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

SDAT also reports that it could incur significant computer programming costs to reprogram their tax system to allow for the carryover of the homestead property tax credit from one homeowner to another.

However, the counties and Baltimore City are required to reimburse SDAT for 50% of the costs of real property and business personal property valuation as well as 50% of the costs incurred by the department with regard to information technology. As a result, total general fund expenditures will increase by \$59,300 in fiscal 2024 and by \$79,300 in fiscal 2028, while special fund revenues and expenditures increase by a commensurate amount from reimbursements from county governments to administer the program.

Local Fiscal Effect: Local government revenues decrease by a significant amount beginning in fiscal 2024 due to first-time homebuyers using homestead credit carryover amounts for newly purchased residences. Based on the data and assumptions used to estimate the State fiscal effect, it is estimated that local property tax revenues will decrease by approximately \$4.7 million in fiscal 2024 and by \$15.7 million in fiscal 2028.

County expenditures increase by \$59,300 in fiscal 2024 and by \$79,300 in fiscal 2028 to reimburse SDAT for the staffing costs needed to administer the program.

Additional Comments: It is important to note that the estimate in this fiscal and policy note is based on one year’s sales data, fiscal 2022, and that several factors including fluctuations in the real estate market, the number of first-time homebuyers, the number of homeowners who may or may not receive the homestead property tax credit, and annual property tax assessments can impact the year-to-year revenue effect of the bill.

Property Assessments Increase in Recent Years

Property assessments in Maryland increased significantly between fiscal 2000 and 2008. The average three-year increase in the full cash value of property undergoing reassessment totaled 5.7% in 2000 and 60.2% in 2006, statewide. Property assessments continued to experience strong growth through fiscal 2008; however, the continual rapid increase in property assessments halted in 2009 for most jurisdictions, as property valuation declined reflecting the national credit crisis and deteriorating economic conditions. Over a four-year period, local jurisdictions across Maryland experienced a sharp decline in property assessments. Due to improvements in the national economy, property assessments statewide started to increase in 2014. **Exhibit 2** shows annual assessment increases since 2018. Additional information on local property assessments can be found in the [Local Government Overview](#) report. A copy of the report can be found on the Department of Legislative Services [website](#).

Exhibit 2
Triennial Change in Full Cash Value

<u>Assessment Group</u>	<u>2018</u> <u>Group 3</u>	<u>2019</u> <u>Group 1</u>	<u>2020</u> <u>Group 2</u>	<u>2021</u> <u>Group 3</u>	<u>2022</u> <u>Group 1</u>	<u>2023</u> <u>Group 2</u>
Statewide	7.7%	9.1%	8.9%	8.1%	12.0%	20.6%

Additional Information

Prior Introductions: Similar legislation has been introduced within the past three years. See HB 480 of 2022, HB 557 of 2021, and HB 411 of 2020.

Designated Cross File: None.

Information Source(s): Anne Arundel and Charles counties; State Department of Assessments and Taxation; Department of Legislative Services

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