

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 898
Ways and Means

Property Tax - Renters' Property Tax Relief and Homeowners' Property Tax Credit Programs - Eligibility and Credit Amount

This bill alters the calculation of the Renters' Property Tax Relief and Homeowners' Property Tax Credit programs. The bill also requires the State Department of Assessments and Taxation (SDAT) to submit specified reports to the General Assembly by December 1, 2026. **The bill takes effect June 1, 2023, and applies to taxable years beginning after June 30, 2023.**

Fiscal Summary

State Effect: General fund expenditures for the homeowners' and renters' property tax credits increase by a significant amount beginning in FY 2024. Under one set of assumptions, general fund expenditures increase by \$19.2 million in FY 2024 and by \$27.6 million in FY 2028. General fund expenditures increase by \$18,000 in FY 2027, and in every year the reports are required, for SDAT to hire a consultant. State revenues are not affected.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	19.2	21.3	23.4	25.5	27.6
Net Effect	(\$19.2)	(\$21.3)	(\$23.4)	(\$25.5)	(\$27.6)

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

Local Effect: The overall effect on local government revenues depends on the impact of the bill on State expenditures. 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 a decrease in revenues.

Small Business Effect: None.

Analysis

Bill Summary: The bill makes the following changes to the calculations of the renters' property tax credit and the homeowners' property tax credit. The bill also requires SDAT to submit reports on the tax credits, beginning in fiscal 2027.

Renters' Property Tax Relief Program

The bill increases the percentages applied to the combined income that are used to calculate the property tax limit to (1) 0% of the first \$16,000 of combined income; (2) 2.5% of the next \$16,000 of combined income; and (3) 5.5% of the combined income over \$32,000. The maximum credit that a renter can receive is increased from \$1,000 to \$1,200.

The bill requires SDAT, by December 1, 2026, and every three years thereafter, to evaluate, as compared to inflation, a specified income limitation on eligibility for and calculation of the renters' property tax credit. The department must report to the General Assembly on its findings and recommendations on adjusting for inflation the income eligibility requirements and calculation of the renters' property tax credit.

Homeowners' Property Tax Credit Program

The bill increases the percentages applied to the combined income that are used to calculate the amount of the property tax credit to (1) 0% of the first \$12,000 of combined income; (2) 4% of the next \$18,000 of combined income; (3) 6.5% of the next \$18,000 of combined income; and (4) 9% of the combined income over \$48,000. The bill also increases the gross income limit for eligibility from \$60,000 to \$87,000.

The bill requires SDAT, by December 1, 2026, and every three years thereafter, to evaluate, as compared to inflation, the calculation of and income limitation on eligibility for the homeowners' property tax credit. The department must report to the General Assembly on its findings and recommendations on adjusting for inflation the calculation and income eligibility requirements of the homeowners' property tax credit.

Current Law:

Homeowners' Property Tax Credit Program

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. Counties and municipalities have the authority to enact local supplements to the program; the cost of such supplemental credits

must be borne by the local governments. The fiscal 2024 State budget includes \$56.5 million in funding for the program.

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; current applications may be filed through October 1, 2023. Approximately 45,000 individuals receive the property tax credit each year.

The maximum assessment against which the credit may be granted is \$300,000, less the amount of any homestead property tax credit received (a State program that 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 annual assessment increases that exceeds a certain percentage or "cap" in any given year). To be eligible for the property tax credit, a recipient's net worth may not exceed \$200,000 and the combined gross household income may not exceed \$60,000.

The total real property tax is the product of the sum of all property tax rates on real property, including special district tax rates, for the taxable year on a dwelling multiplied by the lesser of \$300,000 or the assessed value of the dwelling reduced by the amount of the homestead property tax credit.

The amount of the homeowners' property tax credit is the difference between the total property tax and a calculated tax limit. The tax limit is calculated by applying specified percentages to the homeowners' gross income. The percentages applied to the combined income that are used to calculate the property tax limit are (1) 0% of the first \$8,000 of combined income; (2) 4% of the next \$4,000 of combined income; (3) 6.5% of the next \$4,000 of combined income; and (4) 9% of the combined income over \$16,000.

Renters' Property Tax Relief Program

The Renters' Property Tax Relief Program provides financial assistance for elderly, disabled, and certain low-income renters from the cost attributable to State and local real property taxes. The concept behind the program is that renters indirectly pay property taxes as part of their rent and, thus, should have some protection, as do homeowners. The program makes payments directly to eligible renters to provide relief for the "assumed property tax" that renters indirectly pay as part of their rent. The fiscal 2024 State budget includes \$4.4 million for the program.

The program is based on an "assumed property tax bill" equal to 15% of rent paid. As under the Homeowners' Property Tax Credit Program, qualification is based on a sliding scale of assumed property tax liability and income. If the portion of rent attributable to the assumed property taxes exceeds a fixed amount in relation to income, the renter can, under

specified conditions, receive a maximum credit of \$1,000. A renter's combined net worth cannot exceed \$200,000.

The amount of the property tax credit is the difference between the assumed 15% of occupancy rent and a calculated tax limit. The tax limit is calculated by applying specified percentages to the homeowners' gross income. The percentages applied to the combined income that are used to calculate the property tax limit are (1) 0% of the first \$4,000 of combined income; (2) 2.5% of the next \$4,000 of combined income; and (3) 5.5% of the combined income over \$8,000.

State Fiscal Effect: General fund expenditures for the homeowners' and renters' property tax credit programs increase by a significant amount beginning in fiscal 2024. Based on an analysis of the two programs by SDAT, it is estimated that general fund expenditures will increase by \$19.2 million in fiscal 2024 and by \$27.6 million in fiscal 2028. This estimate assumes a 30% increase in expenditures for each tax credit program beginning in fiscal 2024.

In addition, SDAT advises that general fund expenditures will increase by \$18,000 in fiscal 2027, and in every year the evaluation is required, to hire a consultant to assist in conducting the required reports.

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 revenues 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 a decrease in revenues.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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km/hlb

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