HB 44

Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 44 (Delegate Charkoudian)
Ways and Means

Renters' Property Tax Relief and Homeowners' Property Tax Credit Programs - Gross Income and Assessed Value Limitations - Alterations

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This bill alters the calculations for the Renters' Property Tax Relief and Homeowners' Property Tax Credit programs. **The bill takes effect June 1, 2024, and applies to taxable years beginning after June 30, 2024.**

Fiscal Summary

State Effect: General fund expenditures for the homeowners' and renters' property tax credits increase by a significant amount beginning in FY 2025. Under one set of assumptions, general fund expenditures increase by at least $20 million beginning in FY 2025. State revenues are not affected.

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.

Renters' Property Tax Relief Program

The bill increases the gross income limitation for the tax credit to $70,000. Under current law, gross income must be below a specified poverty threshold established by the U.S. Department of Commerce. The bill alters the definition of gross income to exclude public assistance received as a cash grant.

Homeowners' Property Tax Credit Program

The bill alters the definition of gross income to exclude public assistance received as a cash grant. The bill increases the maximum assessment against which the credit may be claimed from $300,000 to $450,000. The bill also increases the combined gross income limit for eligibility for the tax credit from $60,000 to $70,000.

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 2025 State budget includes $48.0 million in funding for the program.

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; current applications may be filed through October 1, 2024. 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 2025 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' Tax Credit Program and the Renters' Property Tax Relief Program increase by a significant amount beginning in fiscal 2025. Based on 2022 applications received for each tax credit, general fund expenditures could increase by at least $20 million annually, beginning in fiscal 2025. The estimate is based on the following data provided by SDAT:

- the average renters' property tax credit is $450;
- the average homeowners' property tax credit is $1,500;
- 22 renters' property tax credit applicants had reported income from public assistance programs;

- 44 renters’ property tax credit applicants had a reported income between $60,000 and $70,000;
- 1,727 homeowners’ property tax credit applicants had reported income between $60,000 and $70,000; and
- 10,820 homeowners’ property tax credit applicants had properties with assessed values of between $300,000 and $450,000.

It should be noted that the above data only reflects applications that were received for the property tax credits in 2022 and does not reflect any new tax credit recipients who may become eligible for either program due to the changes to the programs proposed by the bill. As a point of reference, if expenditures for each program increase by an additional 10%, general fund expenditures would increase by an additional $5.2 million.

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

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

Designated Cross File: SB 343 (Senator McCray) - Budget and Taxation.

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

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