

Department of Legislative Services  
Maryland General Assembly  
2024 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 1324  
Ways and Means

(Delegate Wivell, *et al.*)

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**Homestead Property Tax Credit - Eligible Properties - Alteration**

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This bill expands the eligibility for the homestead property tax credit to include an additional residence. Under current law, the property tax credit is only available to a property owner's principal residence. The bill defines an additional residence as a house and the lot or curtilage on which the house is erected, and includes: (1) a condominium unit of an individual who has a legal interest in the condominium; (2) an apartment in a cooperative apartment corporation of an individual who has a legal interest in the apartment; and (3) a part of real property used other than primarily for residential purposes, if the real property is used as a residence by an individual who has a legal interest in the real property. **The bill takes effect June 1, 2024, and applies to taxable years beginning after June 30, 2024.**

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**Fiscal Summary**

**State Effect:** Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2025. Under one set of assumptions, revenues decrease by \$1.3 million annually. The revenue loss could be significantly higher as discussed below. The revenue 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 (GO) bonds.

**Local Effect:** Local government property tax revenues decrease by a significant amount beginning in FY 2025. Under one set of assumptions, local government property tax revenues decrease by \$30.3 million annually. This revenue loss could be significantly higher as discussed below. Expenditures are not affected.

**Small Business Effect:** None.

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## Analysis

**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%. **Exhibit 1** lists county assessment caps for fiscal 2022 through 2024.

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.

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**Exhibit 1**  
**County Assessment Caps**

<b>County</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
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	1%	5%	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

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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 2025 depending on the number of additional residences that become eligible for the homestead property tax credit.

SDAT reports that approximately 1.2 million homeowners currently receive the homestead property tax credit and that there are approximately 1.9 million residential real property accounts, as shown in **Exhibit 2**. Based on this data, there are 698,200 residential real property accounts that are not currently receiving the homestead property tax credit. **Exhibit 3** shows the average homestead property tax credit for State and county purposes for fiscal 2024 as well as the value of the property tax credit, based on fiscal 2024 county real property tax rates and the State property tax rate of \$0.112 per \$100 of assessment.

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**Exhibit 2**  
**Residential Property Accounts and Homestead Property Tax Credit Recipients**  
**Fiscal 2024**

<b>County</b>	<b>Homestead Recipients</b>	<b>Residential Accounts</b>
Allegany	11,820	25,358
Anne Arundel	141,453	188,767
Baltimore City	97,658	196,915
Baltimore	173,682	246,815
Calvert	19,919	32,760
Caroline	7,268	10,326
Carroll	41,986	55,342
Cecil	21,324	34,621
Charles	30,297	53,572
Dorchester	6,903	13,545
Frederick	56,398	88,059
Garrett	6,952	16,057
Harford	56,086	84,367
Howard	71,054	96,160
Kent	4,972	8,127
Montgomery	207,050	305,891
Prince George's	155,338	248,215
Queen Anne's	13,569	18,966
St. Mary's	23,531	36,281
Somerset	3,202	8,297
Talbot	11,092	15,812
Washington	27,037	45,731
Wicomico	14,128	32,297
Worcester	15,951	54,555
<b>Total</b>	<b>1,218,670</b>	<b>1,916,836</b>

Source: State Department of Assessments and Taxation

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**Exhibit 3**  
**Average State and County Homestead Property Tax Credits**  
**Fiscal 2024**

<b>County</b>	<b>Average County Homestead</b>	<b>Average State Homestead</b>	<b>County Homestead Value</b>	<b>State Homestead Value</b>
Allegany	\$8,419	\$4,341	\$82	\$5
Anne Arundel	91,533	17,823	897	20
Baltimore City	26,032	19,360	585	22
Baltimore	19,449	16,290	214	18
Calvert	15,514	15,514	144	17
Caroline	17,794	11,414	174	13
Carroll	14,888	9,617	152	11
Cecil	10,852	14,304	108	16
Charles	14,351	8,190	173	9
Dorchester	9,458	9,996	95	11
Frederick	20,792	8,920	220	10
Garrett	18,293	33,441	193	37
Harford	6,586	14,018	64	16
Howard	21,722	15,231	272	17
Kent	12,657	9,891	129	11
Montgomery	25,217	25,217	262	28
Prince George's	84,046	14,415	1,155	16
Queen Anne's	17,799	9,347	148	10
St. Mary's	17,013	11,615	144	13
Somerset	9,040	9,040	90	10
Talbot	137,256	18,510	1,020	21
Washington	16,819	9,548	156	11
Wicomico	13,155	7,996	116	9
Worcester	36,146	14,656	305	16

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

If, for illustrative purposes, 10% of the residential properties in each county that are not receiving the homestead property tax credit qualify as an additional residence under the bill, State property tax revenues decrease by approximately \$1.3 million as shown in **Exhibit 4**. If additional properties qualify for a homestead property tax credit, State revenues could decrease by a significantly higher amount. For example, if 25% of the residential properties in each county that are not receiving the homestead property tax credit qualify as an additional residence under the bill, State property tax revenues decrease by approximately \$3.3 million. For example, if 50% of the residential properties in each county that are not receiving the homestead property tax credit qualify as an additional residence under the bill, State property tax revenues decrease by approximately \$6.6 million.

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credit qualify as an additional residence under the bill, State property tax revenues could decrease by over \$3 million annually.

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**Exhibit 4**  
**Potential State and County Revenue Decrease**

<b>County</b>	<b>County Revenue Decrease</b>	<b>State Revenue Decrease</b>
Allegany	\$111,127	\$6,582
Anne Arundel	4,244,177	94,447
Baltimore City	5,808,513	215,221
Baltimore	1,564,600	133,430
Calvert	184,673	22,312
Caroline	53,326	3,909
Carroll	202,423	14,386
Cecil	143,202	21,302
Charles	402,494	21,350
Dorchester	62,820	7,436
Frederick	697,793	31,631
Garrett	175,885	34,102
Harford	182,142	44,402
Howard	681,691	42,828
Kent	40,811	3,495
Montgomery	2,592,671	279,157
Prince George's	10,725,362	149,948
Queen Anne's	79,731	5,650
St. Mary's	183,901	16,586
Somerset	46,059	5,159
Talbot	481,610	9,785
Washington	291,777	19,991
Wicomico	211,646	16,271
Worcester	1,179,096	63,367
<b>Total</b>	<b>\$30,347,530</b>	<b>\$1,262,746</b>

Source: Department of Legislative Services

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### *Impact on Debt Service Payments*

Debt service payments on the State's GO 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 2025 State budget includes \$1.5 billion for GO debt service costs, including \$376.1 million in general funds, \$1.1 billion in special funds from the ABF, \$7.0 million in transfer tax revenues, and \$4.9 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.

**Local Fiscal Effect:** Local government revenues decrease by a significant amount beginning in fiscal 2025 depending on the number of additional residences that receive the homestead property tax credit. Based on the data and assumptions used to estimate the State fiscal effect, local property tax revenues may decrease by approximately \$30.3 million annually beginning in fiscal 2025, as shown in Exhibit 4. This estimate is based on 10% of the residential properties in each county that are not currently receiving the homestead property tax credit becoming eligible as an additional residence under the bill. If additional properties qualify for a homestead property tax credit, local revenues could decrease by a significantly higher amount. For example, if 25% of the residential properties in each county that are not receiving the homestead property tax credit qualify as an additional residence under the bill, local property tax revenues could decrease by over \$75 million annually.

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### **Additional Information**

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

**Designated Cross File:** None.

**Information Source(s):** Maryland Municipal League; Judiciary (Administrative Office of the Courts); State Department of Assessments and Taxation; Department of Legislative Services



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