HB 1348

Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1348 (Delegate Feldmark)
Ways and Means

Homestead Property Tax Credit - Calculation of Credit Percentage - Social Security Benefits

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This bill alters the calculation of the homestead property tax credit percentage if more than 50% of a homeowner's household income is composed of Social Security benefits. **The bill takes effect June 1, 2024, and applies to taxable years beginning after June 30, 2024.**

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues decrease beginning in FY 2025. General fund expenditures increase by $472,500 in FY 2025 and by $256,500 in FY 2029. Future years reflect annualization and inflation.

(in dollars)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	$472,500	$225,100	$235,300	$245,600	$256,500
Net Effect	($472,500)	($225,100)	($235,300)	($245,600)	($256,500)

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

Local Effect: County and municipal property tax revenues decrease beginning in FY 2025. Depending on the jurisdiction, the revenue loss could be significant. Potential significant local expenditure increases to accommodate new billing processes to handle multiple homestead credit percentages within jurisdictions.

Small Business Effect: None.

Analysis

Bill Summary: If Social Security benefits compose more than 50% of a homeowner's household income, the homestead property tax credit percentage for the State, bicounty commission, county, and municipal property tax is the lesser of (1) the homestead property tax credit percentage set by the government entity or (2) a percentage equal to the percentage point change in the cost-of-living adjustment (COLA) to Social Security benefits for the current year compared to the previous year, plus 100. However, if the COLA for Social Security benefits is a negative number, then the percentage point change used is zero.

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.

Exhibit 1
County Assessment Caps

County	FY 2022	FY 2023	FY 2024
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

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.

Social Security Benefits

General Social Security benefits have increased by a COLA since 1975. Beginning in 1984, COLAs have been based on increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers from the third quarter of the prior year to the corresponding quarter of the current year in which the COLA became effective.

State Revenues: ABF revenues decrease beginning in fiscal 2025. The amount of the revenue decrease depends on the number of homestead property tax credit recipients that receive a lower homestead property tax credit based on the calculation of the property tax credit under the bill.

SDAT reports that approximately 1.2 million homeowners currently receive the homestead property tax credit. The U.S. Census Bureau reports that there are 682,144 households in the State that received Social Security income within the past 12 months. However, the number of households that receive over 50% of their household income from Social Security benefits is not known.

Impact on Debt Service Payments

Debt service payments on the State's general obligation (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.

State Expenditures: The bill will require SDAT to collect and verify income data from homeowners who receive the homestead property tax credit. This is not information that is currently collected. As a result, SDAT's general fund expenditures increase by $472,523 in fiscal 2025, which accounts for the bill's June 1, 2024, effective date and by $256,500 in fiscal 2029. The estimate reflects the cost of hiring four office secretaries to receive and review financial documentation that will be necessary to determine new homestead tax credit percentages for taxpayers. The estimate also reflects a one-time expenditure increase of $274,000 in fiscal 2025 for computer programming changes to the homestead property tax credit system, which is in the process of being migrated to a third-party vendor, to allow for the receipt of confidential taxpayer information. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	4
Salaries and fringe benefits	$169,499
Computer programming changes	274,000
Operating expenses	29,024
Total FY 2025 State Expenditures	**$472,523**

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

Local Revenues: County and municipal property tax revenues decrease beginning in fiscal 2025. The amount of the revenue decrease depends on the number of homestead property tax credit recipients that receive a lower homestead property tax credit based on the calculation of the property tax credit under the bill. Depending on the jurisdiction, the revenue loss could be significant.

Local Expenditures: County expenditures may increase by a significant amount beginning in fiscal 2025. County governments send out property tax bills for State, county, and municipal property taxes. The bill could require each county to adopt new billing processes to account for multiple homestead property tax credit percentages within their jurisdiction.

Additional Information

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

Designated Cross File: None.

Information Source(s): Kent, Montgomery, and Worcester counties; City of Annapolis; Maryland Municipal League; Social Security Administration; Comptroller's Office; State Department of Assessments and Taxation; Department of Legislative Services

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