SB 822

Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 822 (Senator Jennings)
Budget and Taxation

Property Tax - Tax Credit for Nonprimary Residence

This bill requires the State and local governments to provide a property tax credit for a nonprimary residence to offset the increase in property assessments. The assessment cap must be set at 15% for State property tax purposes; however, local governments have the authority to lower the cap. The property tax credit may only be granted to one nonprimary residence of a homeowner. A nonprimary residence does not include residential real property that is held by the owner primarily for rental, investment, or the generation of income. **The bill takes effect June 1, 2025, and applies to taxable years beginning after June 30, 2025.**

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2026. Under one set of assumptions, revenues decrease by $165,000 annually. 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. General fund expenditures increase by $588,100 in FY 2026 and by $400,200 in FY 2030. Special fund revenues increase from county reimbursements for administrative costs.

Local Effect: Local property tax revenues decrease by a significant amount beginning in FY 2026. Under one set of assumptions, local government property tax revenues decrease by $1.8 million annually. County expenditures increase to reimburse the State for the administration of the credit. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: The bill requires the State, county, and municipal governments to grant a property tax credit to nonprimary residences that are not eligible for the homestead property tax credit. Homeowners must apply to the State Department of Assessments and Taxation (SDAT) to receive the credit. The assessment cap must be set at 15% for State property tax purposes; however, local governments have the authority to lower the cap.

For each taxable year, the property tax credit is calculated by (1) multiplying the prior year's taxable assessment by the nonprimary residence credit percentage (assessment cap); (2) subtracting that amount from the current year's assessment; and (3) if the difference is a positive number, multiplying the difference by the applicable property tax rate for the current year.

A nonprimary residence is defined as (1) a house that is not used as the principal residence of the homeowner that is actually occupied or expected to be actually occupied by the homeowner for fewer than 6 months of a 12-month period beginning with the date of finality for the taxable year for which the property tax credit is sought; and for which the homestead property tax credit is not applicable and (2) the lot or curtilage on which the house is erected.

A nonprimary residence includes (1) a condominium unit that is occupied by an individual who has a legal interest in the condominium; (2) an apartment in a cooperative apartment corporation that is occupied by 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 principal residence by an individual who has a legal interest in the real property.

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 2023 through 2025.

Subject to submitting a specified application to 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.

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.

Additional information on the homestead property tax credit program and the fiscal impact on county governments is provided in the *Local Government Overview Report*. A copy of the report is available on the Department of Legislative Services website.

Exhibit 1
County Assessment Caps

County	FY 2023	FY 2024	FY 2025
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%	3%
Harford	5%	5%	5%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George's	5%	5%	3%
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

State Revenues: ABF revenues decrease by a significant amount beginning in fiscal 2026 depending on the number of nonprimary residences that become eligible for the property tax credit. Based on information provided by SDAT, over 40,000 property accounts could be eligible to receive the property tax credit, with the potential assessment loss totaling $578.7 million. If 25% of these property accounts become eligible for the property tax credit, State revenues could decrease by approximately $165,000 annually. The potential revenue loss could reach $325,000 annually if 50% of the property accounts receive the property tax credit.

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 2026 State budget includes $1.4 billion for GO debt service costs, including $181.7 million in general funds, $1.2 billion in special funds from the ABF, $1.7 million in transfer tax revenues, and $2.6 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.

State Expenditures: SDAT will need additional personnel to administer the new property tax credit, including six homestead tax credit processors. The new staff will be tasked with processing tax credit applications, verifying eligibility for the property tax credit, and providing tax credit information to county governments for tax billing purposes. The additional personnel costs are projected to total $270,800 in fiscal 2026 and $400,200 by fiscal 2030. These costs include salaries, fringe benefits, and ongoing operating expenses. In addition, SDAT will incur $278,000 in computer programming expenses in fiscal 2026 to add the property tax credit to the current tax system. These costs include discovery, design, development, testing, and system interfaces.

Positions	6.0
Salaries and Fringe Benefits	$265,873
Computer Programming Expenses	278,000
One-time Equipment Costs	39,240
Operating Expenses	4,973
Total FY 2026 State Expenditures	**$588,086**

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

SDAT advises that the programming changes to the department's tax system cannot be completed by the June 1 effective date of the bill due to the complexity of the changes required, namely allowing each jurisdiction to have multiple cap percentages.

Local Fiscal Effect: Local government revenues decrease by a significant amount beginning in fiscal 2026. Based on current assessment data, local revenues could decrease by $1.8 million annually if 25% of the property accounts become eligible for the property tax credit and by $3.7 million annually if 50% of the property accounts become eligible for the property tax credit.

Due to the location of the nonprimary residences, certain local governments will be disproportionately affected by the proposed property tax credit. Approximately 75% of the affected property accounts are located in three jurisdictions (Baltimore City and Garrett and Worcester counties). It is anticipated that the primary beneficiaries of the proposed property tax credit would be non-city/county residents. To offset the projected revenue loss from the property tax credit, the jurisdictions may be required to increase their local property tax rates on city/county residents.

Additional Information

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

Designated Cross File: None.

Information Source(s): Prince George's County; Maryland-National Capital Park and Planning Commission; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - March 3, 2025
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