Strengthen Circuit Breaker Credits for a More Equitable Property Tax

Position Statement in Support of House Bill 44

Given before the Ways and Means Committee

Maryland's homeowners and renters tax credits are an important tool to keep property taxes affordable for low-income Marylanders and to make our tax system fairer. However, flaws in these credits' current design limit their effectiveness. House Bill 44 would improve the credits by increasing income eligibility caps, excluding cash benefits from gross income for purposes of eligibility and credit calculation, and making other changes. The bill is especially beneficial for low- and middle-income renters who are raising children. **For these reasons, the Maryland Center on Economic Policy supports House Bill 44.**

Property taxes are the bedrock of local public services, making up 36% of county own-source revenues in fiscal year 2022 and 40% of municipal revenues.[i] However, because property taxes do not take into account families' ability to pay, they are part of the reason Maryland's tax system is upside-down:[ii]

- The 20% of Maryland households with income below about $30,000 pay about 3.7% of their income in state and local property taxes.
- Middle-income households taking home between about $60,000 and $100,000 per year pay 2.5% of their income in state and local property taxes.
- The wealthiest 1%, with annual income over about $700,000, pay only 1.7% of their income in state and local property taxes.

The homeowners and renters tax credits are an essential tool to counteract this upside-down distribution of property taxes. These credits act as "circuit breakers," kicking in if low- or middle-income families' property tax responsibilities eat up an excessive portion of their income. Circuit breakers are the most effective way to keep property taxes affordable, providing more targeted relief than measures such as tax caps and assessment growth caps (homestead credits).

However, design flaws in our circuit breakers make them less effective and less equitable:

- Both credits appropriately limit eligibility to low- and middle-income families. However, they include public cash benefits in the definition of income, undermining these benefits' ability to keep families afloat. We should not help families afford necessities with one hand and then take that help away with the other.
- Like most states with circuit breaker programs, Maryland extends property tax relief to some renters, because landlords pass at least a portion of their property taxes through to tenants in the form of higher rent. However, our renters tax credit has highly restrictive eligibility standards and a low benefit cap, severely limiting the credit's effectiveness.

	Current Law ❌ Design Flaws		HB 44 ☑ Major Improvements	
	Renters	Homeowners	Renters	Homeowners
Asset cap	$200,000	$200,000	$200,000	$200,000
Categorical eligibility	Age ≥ 60 or Disabled, no income cap	N/A	Age ≥ 60 or Disabled, no income cap	N/A
Income cap (parents)	❌ **Poverty threshold**	$60,000	☑ **$70,000**	$70,000
Income cap (non-parents	**Not eligible**	$60,000	Not eligible	$70,000
Public assistance included in income?	**Yes**	**Yes**	☑ **No**	☑ **No**
Applicable assessment cap	N/A	$300,000	N/A	$450,000
Credit cap	**$1,000**	N/A	$1,000	N/A
Local option	**No**	Yes	No	Yes
FY 2022 cost	$3.0 million	$55.4 million		
FY 2022 claims	6,600	37,800		
FY 2022 average credit	$446	$1,465		
Homestead credit FY 2019 local cost (comparison)[iii]	N/A	$224.9 million		

House Bill 44 improves Maryland's circuit breakers by:

- Excluding public benefits from gross income for purposes of eligibility and credit calculation
- Increasing the income eligibility cap for non-elderly, non-disabled renters with children from the poverty threshold to $70,000 per year
- Updating the homeowners credit by increasing the income eligibility cap from $60,000 to $70,000 and increasing the assessment against which the credit may be applied from $300,000 to $450,000

Strengthening the renters tax credit is essential to make it both more effective and more equitable:

- In fiscal year 2022, the state provided only $3 million in property tax relief to renters, compared to $55 million provided to homeowners.[iv]
    - Only 6,600 renters claimed the credit, compared to nearly 38,000 homeowners.
    - Partly because of the program's $1,000 cap, renters received an average benefit of only $446, compared to nearly $1,500 for homeowners.
- Between 2018 and 2022, about half of Maryland renters faced unaffordable housing costs (more than 30% of income), compared to only 22% of homeowners. Rent ate up more than half of household income for 26% of renters, compared to 10% of homeowners.[v]
- 19% of renters had family income below the federal poverty line during this period, and 38% had income less than double the poverty line. In comparison, 5% of homeowners were below the poverty line and 12% were below double the poverty line.
- 78% of white households in Maryland owned their homes, compared to only 51% of Black households, Latinx households, and American Indian/Alaska Native households. Overall, 57% of households of color owned their homes.

- Homeowners and renters were equally likely to be raising children and equally likely to have a disability.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 44.

Equity Impact Analysis: House Bill 44

Bill summary

House Bill 44 makes the following changes to the homeowners and renters tax credits:

- Excludes public benefits from gross income for purposes of eligibility and credit calculation
- Increases the income eligibility cap for non-elderly, non-disabled renters with children from the poverty threshold to $70,000 per year
- Increases the income eligibility cap for homeowners from $60,000 to $70,000
- Increases the assessment against which the homeowners credit may be applied from $300,000 to $450,000

Background

- Higher-income households in Maryland typically pay a smaller share of their income in property taxes than lower-income households:
    - The 20% of Maryland households with income below about $30,000 pay about 3.7% of their income in state and local property taxes.
    - Middle-income households taking home between about $60,000 and $100,000 per year pay 2.5% of their income in state and local property taxes.
    - The wealthiest 1%, with annual income over about $700,000, pay only 1.7% of their income in state and local property taxes.
- In fiscal year 2022, the state provided only $3 million in property tax relief to renters, compared to $55 million provided to homeowners.
    - Only 6,600 renters claimed the credit, compared to nearly 38,000 homeowners.
    - Partly because of the program's $1,000 cap, renters received an average benefit of only $446, compared to nearly $1,500 for homeowners.

Equity Implications

- Between 2018 and 2022, about half of Maryland renters faced unaffordable housing costs (more than 30% of income), compared to only 22% of homeowners. Rent ate up more than half of household income for 26% of renters, compared to 10% of homeowners.
- 19% of renters had family income below the federal poverty line during this period, and 38% had income less than double the poverty line. In comparison, 5% of homeowners were below the poverty line and 12% were below double the poverty line.
- 78% of white households in Maryland owned their homes, compared to only 51% of Black households, Latinx households, and American Indian/Alaska Native households. Overall, 57% of households of color owned their homes.

- Homeowners and renters were equally likely to be raising children and equally likely to have a disability.

Impact

House Bill 44 would likely **improve racial and economic equity** in Maryland.

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i “Local Government Finances in Maryland: Fiscal Year Ending June 30, 2022,” Department of Legislative Services, 2023, https://dls.maryland.gov/pubs/prod/InterGovMatters/LocFinTaxRte/Local_Government_Finances_FY_2022.pdf

ii “Who Pays? A Distributional Analysis of the Tax Systems in All 50 States (Seventh Edition),” Institute on Taxation and Economic Policy, 2024, https://media.itep.org/ITEP-Who-Pays-7th-edition.pdf

iii “Overview of Maryland Local Governments,” Department of Legislative Services, 2019, https://dls.maryland.gov/pubs/prod/InterGovMatters/LocFinTaxRte/Overview-of-Maryland-Local-Governments-2019.pdf

iv *Legislative HandBook Series Vol. III: Maryland’s Revenue Structure*, Department of Legislative Services, 2022, https://dls.maryland.gov/pubs/prod/RecurRpt/Handbook_Volume_3_MDs_Revenue_Structure.pdf

v MDCEP analysis of 2018–2022 IPUMS American Community Survey microdata.