

# Strengthen Circuit Breaker Credits to Build Affordability and Fairness

## Position Statement in Support of House Bill 1427

*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 1427 would improve the credits by increasing income eligibility caps and increasing the credits' value. The bill is especially beneficial for low-income renters who are raising children. The bill partially offsets the state cost and boosts local revenues by reserving the poorly targeted homestead tax credit for households with annual income under \$300,000. **For these reasons, the Maryland Center on Economic Policy supports House Bill 1427.**

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.<sup>i</sup> 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:<sup>ii</sup>

- 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 – direct taxes in the case of homeowners, and implicit taxes embedded in rent in the case of renters. 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, these credits could do more to promote affordability amid rapidly increasing housing costs. House Bill 1427 would increase the value of the credits and increase income eligibility caps. These reforms are especially essential for the renters tax credit, which currently excludes even many low-income families with children and is capped at \$1,000.

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.<sup>iii</sup>
  - 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.<sup>iv</sup>
- 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.

House Bill 1427 partially offsets the state cost of strengthening circuit breakers, as well as boosts local revenues, by reserving the poorly targeted homestead tax credit for households with federal adjusted gross income under \$300,000.

The homestead credit today offers substantial tax breaks to wealthy homeowners at the expense of public services and places a disproportionate share of property tax responsibilities on new homebuyers. Tax policy experts consider homestead credits less effective for promoting affordability than circuit breakers.<sup>v</sup>

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 1427.**

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## Equity Impact Analysis: House Bill 1427

### *Bill summary*

House Bill 1427 would increase the value and income eligibility caps for the state’s homeowners and renters (“circuit breaker”) tax credits, while establishing a \$300,000 federal adjusted gross income eligibility cap for the homestead credit.

### *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 1427 would likely **improve racial and economic equity** in Maryland.

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<sup>i</sup> “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](https://dls.maryland.gov/pubs/prod/InterGovMatters/LocFinTaxRte/Local_Government_Finances_FY_2022.pdf)

<sup>ii</sup> “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>

<sup>iii</sup> *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](https://dls.maryland.gov/pubs/prod/RecurRpt/Handbook_Volume_3_MDs_Revenue_Structure.pdf)

<sup>iv</sup> MDCEP analysis of 2018–2022 IPUMS American Community Survey microdata.

<sup>v</sup> Anna Phillips, “Targeted Reforms Are the Best Way to Promote Property Tax Equity Without Harming Local Services,” Center on Budget and Policy Priorities, 2025, <https://www.cbpp.org/blog/targeted-reforms-are-the-best-way-to-promote-property-tax-equity-without-harming-local>