

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1078 (Montgomery County Delegation)
Ways and Means

Montgomery County - Property Tax - Homestead Tax Credit Percentage
MC 28-16

This bill reduces the maximum percentage used to determine the Homestead Property Tax Credit in Montgomery County, for county and municipal purposes, from 10% to 5%, thereby limiting annual Montgomery County property tax assessment increases on owner-occupied residential properties to no more than 5%.

The bill takes effect June 1, 2016, and applies to all taxable years beginning after June 30, 2016.

Fiscal Summary

State Effect: None.

Local Effect: Montgomery County property tax revenues decrease by approximately \$2.7 million in FY 2017 and municipal property tax revenues decrease by approximately \$260,000 in FY 2017 based on current Homestead Property Tax Credit assessment data. County expenditures are not affected. This bill imposes a mandate on a unit of local government.

Small Business Effect: None.

Analysis

Current Law: The cap on property assessment increases is set at 10% for State property tax purposes. A county or municipality can lower the cap percentage to 0% for local property tax purposes.

The Homestead 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%: 21 counties in fiscal 2015, 2016, and 2017. **Exhibit 1** lists county assessment caps for fiscal 2015 through 2017.

The Homestead 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 were 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.

Exhibit 1
County Assessment Caps

County	FY 2015	FY 2016	FY 2017
Allegany	7%	7%	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	8%	8%	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	2%	2%	0%
Queen Anne's	5%	5%	5%
St. Mary's	5%	5%	5%
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

Background: Property assessments in Maryland increased significantly between fiscal 2000 and 2008. The average three-year increase in the full cash value of property undergoing reassessment totaled 5.7% in 2000 and 60.2% in 2006. Properties reassessed for 2007 realized an increase of 56.1% statewide, whereas reassessments for 2008 realized an increase of 33.2%. However, the continual rapid increase in property assessments halted in 2009, as property valuation declined reflecting the national credit crisis and deteriorating economic conditions. Properties reassessed for 2011 realized a decrease of 17.9%; for 2012, reassessments declined by 13.0%, and for 2013, reassessments declined by 3.6%. In

the past two years, due to improvements in the national economy, property assessments began to increase. Properties reassessed for 2015 realized a net increase in value of 10.8%, and properties reassessed for 2016 realized a net increase of 10.9%.

Local Fiscal Effect: The bill lowers the maximum Homestead Property Tax Credit percentage in Montgomery County from 10% to 5% beginning in fiscal 2017. As shown in Exhibit 1, Montgomery County's Homestead Property Tax Credit cap is set at 10% for fiscal 2017.

Current Homestead Property Tax Credit data indicates that there are currently 5,563 Homestead Property Tax Credit recipients in Montgomery County and an additional 1,870 recipients who reside in municipalities in the county. This number increases to approximately 32,700 county recipients and 7,754 municipal recipients if the county's homestead assessment cap were currently set at 5%. Based on this current homestead assessment data, it is estimated that Montgomery County revenues decrease by approximately \$2.7 million in fiscal 2017 and by \$3.3 million in fiscal 2021, assuming the county sets the new Homestead Property Tax Credit percentage at 5%. **Exhibit 2** shows the estimated effect on municipal property tax revenues in fiscal 2017.

It is important to note that to the extent that residential real property assessments in the county increase significantly in future years, the revenue decreases associated with a lower assessment cap will be greater than estimated, as more homeowners will receive greater Homestead Property Tax Credits than are currently received. For example, at the peak of the housing market, Montgomery County lost approximately 15% of the assessable base to the homestead assessment cap. This resulted in an estimated \$222.5 million revenue loss in fiscal 2009. If the homestead tax cap was set at 5% during this period, the associated revenue loss could have reached \$325 million. Additional information on the Homestead Property Tax Credit Program is provided in Chapter 5 of the [Overview of Maryland Local Governments](#) report.

Exhibit 2
Estimated Municipal Revenue Decrease
Fiscal 2017

Municipality	Revenue Decrease
Barnesville	(\$18)
Battery Park	(762)
Brookeville	(49)
Chevy Chase Section 3	(28)
Chevy Chase Section 5	0
Chevy Chase	0
Chevy Chase View	(67)
Chevy Chase Village	(1,414)
Drummond	(488)
Friendship Heights	(863)
Gaithersburg	(52,224)
Garrett Park	(8,063)
Glen Echo	(436)
Kensington	0
Laytonsville	(22)
Martin's Additions	(129)
North Chevy Chase	(80)
Oakmont	(134)
Poolesville	(2,670)
Rockville	(41,927)
Somerset	(3,842)
Takoma Park	(142,258)
Washington Grove	(4,598)
Total	(\$260,074)

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

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Montgomery County, State Department of Assessments and Taxation, Department of Legislative Services

Fiscal Note History: First Reader - March 3, 2016
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