

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 351
Ways and Means

(Delegate Carr)

Budget and Taxation

**Property Tax - Homestead Property Tax Credit Percentage and Constant Yield
Tax Rate - Deadlines**

This bill extends the deadline by which Baltimore City and county governments (from November 15 to March 15) and municipalities (from November 25 to March 25) must set or alter the homestead property tax credit percentage in a taxable year and then notify the State Department of Assessments and Taxation (SDAT) of any changes. The bill authorizes SDAT to recalculate the constant yield tax rate if a county or municipality changes the homestead tax credit percentage. In addition, the bill requires assessment notices to include a statement that the taxable assessment may change if a county or municipality changes the homestead tax credit percentage, and that the final taxable assessment will be stated on the next property tax bill.

The bill takes effect June 1, 2017, and applies to taxable years beginning after June 30, 2018.

Fiscal Summary

State Effect: None. The requirements of the bill can be handled with SDAT's existing budgeted resources.

Local Effect: None. The bill does not directly affect local governmental finances.

Small Business Effect: None.

Analysis

Current Law: Baltimore City and county governments must set, by law, the homestead property tax credit percentage by November 15 for the taxable year beginning the following July 1. In addition, Baltimore City and county governments must notify SDAT of any changes by November 15 preceding the taxable year for which the action is taken.

Municipal governments must set, by law, the homestead property tax credit percentage by November 25 for the taxable year beginning the following July 1. In addition, municipal governments must notify SDAT of any changes by November 25 preceding the taxable year for which the action is taken.

SDAT must notify each local jurisdiction of the constant yield tax rate that will provide the same property tax revenue that is provided by the real property tax rate that is in effect for the current taxable year. In calculating a constant yield tax rate for a taxable year, SDAT must use an estimate of the total assessment of all real property for the next taxable year, exclusive of real property that appears for the first time on the assessment records. On or before May 15 of each year, SDAT may amend a constant yield tax rate but only (1) when directed to make a change by an enactment of the General Assembly; (2) to correct an error in the calculation of the constant yield tax rate; or (3) to reflect a significant loss of taxable base, as determined by the Director of SDAT.

Background:

Homestead Property Tax Credit Program

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 set their caps between 0% and 10%.

A majority of local subdivisions have assessment caps below 10%: 21 counties in fiscal 2016, 2017, and 2018. **Exhibit 1** lists county assessment caps for fiscal 2016 through 2018.

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 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 second 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
Fiscal 2016-2018

<u>County</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Allegany	7%	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	8%	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	2%	0%	1%
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

Constant Yield Tax Rate

The constant yield rate is the rate that, when applied to the current assessable base, yields the same amount of property tax revenues as in the prior year. The constant yield report issued by SDAT bases its calculations on homestead property tax credit percentages established in November.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Counties; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

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