

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 633
Ways and Means

(Delegate Carr, *et al.*)

Property Tax - Homeowners' Property Tax Credit - Definition of Total Real
Property Tax

This bill alters the definition of total real property tax for purposes of calculating the homeowners' property tax credit by specifying that the total real property tax does not include any adjustment for any other property tax credit against the property tax imposed on the dwelling.

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

Fiscal Summary

State Effect: Potential significant increase in general fund expenditures beginning in FY 2018. Revenues are not affected.

Local Effect: Local governments that have a homeowners' property tax credit supplement could realize a reduction in expenditures for their programs as a result of the increased State credit. Local revenues are not affected.

Small Business Effect: None.

Analysis

Current Law: The maximum assessment against which the homeowners' property tax credit may be granted is \$300,000. To be eligible for the tax credit, a homeowner's combined net worth may not exceed \$200,000 and combined income may not exceed \$60,000. Total real property tax is the product of the sum of all property tax rates on real

property, including special district tax rates, for the taxable year on a dwelling multiplied by the lesser of \$300,000 or the assessed value of the dwelling reduced by the amount of the homestead property tax credit.

The percentages applied to the combined income that are used to calculate the amount of the property tax credit are (1) 0% of the first \$8,000 of combined income; (2) 4% of the next \$4,000 of combined income; (3) 6.5% of the next \$4,000 of combined income; and (4) 9% of the combined income over \$16,000.

The State Department of Assessments and Taxation (SDAT) reports that other tax credits that an eligible homeowner receives is typically applied before calculating the amount of the homeowners' property tax credit.

Background: The Homeowners' Property Tax Credit Program (Circuit Breaker) is a State-funded program (*i.e.*, the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. **Exhibit 1** shows the number of individuals qualifying for the tax credit and the total cost of the program since fiscal 2005, as referenced in the State budget.

Chapter 27 of 2006 made several significant changes to the Homeowners' Property Tax Credit Program: the maximum assessment against which the credit may be granted was increased to \$300,000 from \$150,000; and the percentages used to determine the amount of the tax credit were altered.

Chapter 588 of 2005 altered the calculation of total real property tax for the Homeowners' Property Tax Credit Program by subtracting the homestead tax credit amount from the total assessment rather than the maximum assessment specified under the credit. Chapter 588 also specified additional eligibility criteria for the local supplement to the Homeowners' Property Tax Credit Program by authorizing a local jurisdiction to alter the \$200,000 limitation on a homeowner's net worth for eligibility for a local supplement to the Homeowners' Property Tax Credit Program.

Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. SDAT administers a local supplement granted by a county, but the cost of a local supplement is borne by the local government. For purposes of the local supplement, the counties are authorized to alter the maximum on the assessed value taken into account in calculating the credit, as well as the percentages and income levels specified in the tax limit formula. The counties are also authorized to impose limitations on eligibility for a local supplement in addition to the requirements specified for the State credit. Baltimore City and 13 counties – Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Charles, Frederick, Garrett, Harford,

Howard, Kent, Montgomery, and Washington – have a local homeowners’ property tax credit supplement program that is administered by SDAT. Data collected by the Department of Legislative Services in 2016 indicates that these jurisdictions granted 19,600 homeowners approximately \$8.1 million in local property tax credits in fiscal 2016.

Exhibit 1
Homeowners’ Property Tax Credit Program
Fiscal 2005-2018

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Credit Amount</u>
2005 Actual	48,666	\$39.5 million	\$812
2006 Actual	46,628	41.7 million	894
2007 Actual	48,290	45.6 million	944
2008 Actual	46,618	45.2 million	970
2009 Actual	47,781	50.3 million	1,053
2010 Actual	48,737	53.4 million	1,096
2011 Actual	49,224	55.8 million	1,134
2012 Actual	52,594	62.6 million	1,190
2013 Actual	53,196	62.6 million	1,177
2014 Actual	50,872	61.6 million	1,218
2015 Actual	48,713	59.5 million	1,221
2016 Actual	47,288	58.4 million	1,235
2017 Estimated	48,154	59.9 million	1,244
2018 Estimated	49,599	60.0 million	1,210

Source: Department of Budget and Management

Municipalities are also authorized to provide a supplement to the Homeowners’ Property Tax Credit Program. Under the enabling authority for municipalities, a municipal supplement is limited to 50% of the State credit.

Chapter 444 of 2006 altered the calculation and eligibility criteria of the municipal supplement to make it consistent with the current calculation and eligibility criteria authorized under the county supplement program. Chapter 444 also altered the amount of a supplemental municipal credit that may be granted by repealing the limitation that a municipal supplement may not exceed 50% of the homeowners’ property tax credit. SDAT administers municipal homeowners’ property tax credit supplement programs in the cities of Gaithersburg, Rockville, Bowie, College Park, Greenbelt, Hyattsville, and Mount Rainier.

State Fiscal Effect: The bill alters the calculation of the Homeowners' Property Tax Credit Program by basing the credit on the amount of property taxes paid prior to any adjustments for other property tax credits. In instances where taxpayers receive other property tax credits, SDAT typically applies the homeowners' property tax credit to the property tax after these adjustments are made. As a result of the change, general fund expenditures for the Homeowners' Property Tax Credit Program increase by a potentially significant amount beginning in fiscal 2018. The amount of the increase depends on the extent to which excluding any adjustments for other property tax credits increase the amount of homeowners' property tax credits granted to eligible participants in the program. The amount of this increase depends on the number and amount of other tax credits received by program recipients and cannot be reliably estimated at this time.

SDAT advises that for the past several years Montgomery County has granted a county property tax credit in the amount of \$692 to all owner-occupied properties in the county. Under current practice, SDAT deducts this county property tax credit from the total taxes when the department calculates the amount of the State homeowners' property tax credit and the county supplemental property tax credit. SDAT advises that under the bill, the amount of the homeowners' property tax credit would be determined before deducting any other credits received.

For example, under the program, a homeowner with a household income of \$26,000 has a tax limitation of \$1,320, which means that the homeowner is entitled to a tax credit in an amount equal to the difference between \$1,320 and the actual amount of property taxes owned (tax bill). If this homeowner's tax bill is \$2,595, then the homeowner is entitled to a homeowners' property tax credit of \$1,275. However, if the \$692 Montgomery County tax credit is subtracted from \$2,595, before calculating the homeowners' property tax credit, then the homeowner is only entitled to a homeowners' property tax credit of \$583. SDAT advises that as of February 2017, approximately 4,000 Montgomery County applicants have been approved for and granted a homeowners' property tax credit. If the bill were in effect, these homeowners could be eligible for an increased homeowners' property tax credit, the amount of which depends on each homeowner's income, assessed value of residential property, and total tax bill.

As shown in Exhibit 1, the fiscal 2018 State budget assumes \$60.0 million in expenditures for the Homeowners' Property Tax Credit Program. As a point of reference, and *for illustrative purposes only*, if the program change proposed by the bill increases the amount of tax credits received by homeowners by 5%, program expenditures increase by \$3.0 million. A 10% increase in program expenditures will result in an expenditure increase of \$6.0 million.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Property Tax Assessment Appeals Board; State Department of Assessments and Taxation; Department of Legislative Services

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mm/hlb

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