

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 20 (Delegate Carr)
 Ways and Means

Homeowners' Property Tax Credit - Calculation of Maximum Assessment

This bill alters the calculation of the maximum assessment of a dwelling against which the homeowners' property tax credit may be granted. The maximum assessment eligible for the property tax credit is the greater of \$300,000 or the average assessed value of improved residential property in the county at the beginning of the previous year.

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$4.3 million in FY 2020. Future year expenditures are estimated to increase by 5% annually. General fund revenues are not affected.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	4.3	4.5	4.7	5.0
Net Effect	\$0.0	(\$4.3)	(\$4.5)	(\$4.7)	(\$5.0)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local government expenditures, in two of the six counties with average residential assessments over \$300,000, decrease by approximately \$1.4 million beginning in FY 2020 as a result of the increased State tax credit. Local revenues are not affected.

Small Business Effect: None.

Analysis

Current Law/Background: The Homeowners' Property Tax Credit Program is a State-funded program that provides credits against State and local real property taxation

for homeowners who qualify based on a sliding scale of property tax liability and income. The fiscal 2019 State budget includes \$60.0 million in funding for the program. Approximately 52,000 individuals are expected to benefit from the program in fiscal 2019. **Appendix – Homeowners’ Property Tax Credit Program** provides a brief description of the program and recent legislative changes.

State Fiscal Effect: The State Department of Assessments and Taxation indicates that six counties – Anne Arundel, Calvert, Howard, Montgomery, Queen Anne’s, and Talbot – had an average residential assessment over \$300,000 in fiscal 2017. As a result, homeowners in these counties will be eligible for an increased homeowners’ property tax credit under the bill.

Based on current tax credit recipients in these counties it is estimated that general fund expenditures will increase by approximately \$4.3 million in fiscal 2020, due to the bill’s October 1, 2018 effective date. Of this amount, approximately \$3.1 million is for increased payments to homeowners in Montgomery County. Future year expenditures are estimated to increase by approximately 5% annually.

Local Fiscal Effect: Local government expenditures in Anne Arundel and Montgomery counties will decrease beginning in fiscal 2020 as a result of the increased State credit. Montgomery County expenditures will decrease by approximately \$1.2 million, while Anne Arundel County expenditures will decrease by approximately \$0.2 million. Local tax credits in Calvert and Howard counties are estimated to remain about the same. Queen Anne’s and Talbot counties do not currently implement a local supplement to the State homeowners’ property tax credit program.

The interaction between the various components of the homeowners’ property tax credit calculation (maximum eligible assessment, income, net worth, State and local property tax liabilities, as well as other tax credits) effectively results in a maximum tax credit that is available to each homeowner. Due to this maximum credit amount, the amount of the local tax credit supplement will usually decrease as the amount of the State tax credit increases, as the amount of the State tax credit is applied first.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation; Department of Legislative Services

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Appendix – Homeowners’ Property Tax Credit Program

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.

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.

Exhibit 1
Homeowners' Property Tax Credit Program
Fiscal 2005-2019

<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	58.0 million	1,179
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	46,751	58.4 million	1,249
2017 Actual	45,964	54.2 million	1,301
2018 Estimated	49,599	60.0 million	1,210
2019 Estimated	52,079	60.0 million	1,152

Source: Department of Budget and Management

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 thirteen 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 approximately 19,600 homeowners approximately \$8.1 million in local property tax credits in fiscal 2016, as shown in **Exhibit 2**.

Exhibit 2
Homeowners' Property Tax Credit Program – Local Supplement
Fiscal 2016

County	Number Claiming	Amount Claimed
Anne Arundel	3,521	\$1,142,096
Baltimore City	0	\$0
Baltimore	7,762	1,162,704
Calvert	0	0
Caroline	644	161,048
Carroll	n.a.	13,618
Charles	1,123	938,706
Frederick	0	0
Garrett	441	40,809
Harford	0	0
Howard	179	38,910
Kent	360	222,422
Montgomery	4,747	4,097,149
Washington	850	280,000
Total	19,627	\$8,097,462

Source: Department of Legislative Services

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.