

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 305
 Ways and Means

(Delegate Tarlau, *et al.*)

Budget and Taxation

Homestead Property Tax Credit Program - Eligibility Awareness

This bill requires the State Department of Assessments and Taxation (SDAT) to identify homeowners who may be eligible for the homestead property tax credit but have failed to apply for the tax credit and include a separate insert with each assessment notice that is sent to these homeowners informing them that they may be eligible for the homestead property tax credit and how to apply for the credit.

Fiscal Summary

State Effect: General fund expenditures increase by \$30,000 annually beginning in FY 2019. Annuity bond fund revenues may decrease beginning in FY 2020 to the extent more homeowners become eligible for the homestead property tax credit.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
SF Revenue	\$0	(-)	(-)	(-)	(-)
GF Expenditure	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
Net Effect	(\$30,000)	(\$30,000)	(\$30,000)	(\$30,000)	(\$30,000)

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

Local Effect: Local property tax revenues may decrease beginning in FY 2020 to the extent that more homeowners become eligible for the homestead property tax credit. Local expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: SDAT must notify homeowners of the possibility of receiving the homestead property tax credit.

Background: The homestead property 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 2017, 2018, and 2019. **Exhibit 1** lists county assessment caps for fiscal 2017 through 2019.

Exhibit 1 County Assessment Caps

County	FY 2017	FY 2018	FY 2019
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	4%	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	0%	1%	2%
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

Since its inception in 1977, the fundamental purpose of the homestead property tax credit has been to limit the amount of property taxes paid by a residential homeowner due to property tax assessment increases. The credit was designed to provide a cumulative or year-over-year protection to longtime homeowners against significant appreciations in property values. Increases in the number of recipients and the inability to verify eligibility during the early part of the 2000s prompted concern over potential abuses or fraud. In response to this concern, Chapters 564 and 565 of 2007 were enacted to require homeowners to apply to SDAT for the credit. No longer is the credit automatically applied against owners' assessments.

State Fiscal Effect: Approximately 470,500 owner-occupied real property accounts have been identified by the department as not having applied for the homestead property tax credit. Pursuant to the bill, SDAT will create and include an insert with the annual assessment notice which will be mailed to 156,800 individuals each year (representing one-third of the total accounts identified). As a result, general fund expenditures increase by \$30,000 annually beginning in fiscal 2019.

To the extent more homeowners receive the homestead property tax credit, State property tax revenues may decrease as the homestead tax credit caps annual assessment increases at 10% for State property tax purposes. The amount of any decrease cannot be reliably estimated and depends on the number of homeowners that become eligible for the homestead property tax credit and annual assessment increases.

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes; premiums from bond sales; and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

Local Fiscal Effect: To the extent more homeowners receive the homestead property tax credit, local government property tax revenues may decrease as the homestead tax credit caps annual assessment increases at a specified amount in each jurisdiction. The amount of any decrease cannot be reliably estimated and depends on the number of homeowners that become eligible for the homestead property tax credit, annual assessment increases, and the jurisdictions assessment cap percentage.

Additional Information

Prior Introductions: None.

Cross File: SB 158 (Senator Rosapepe) - Budget and Taxation.

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

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