

Department of Legislative Services  
 Maryland General Assembly  
 2020 Session

FISCAL AND POLICY NOTE  
 Third Reader - Revised

House Bill 1200  
 Ways and Means

(Delegate Luedtke)

Budget and Taxation

Property Tax - Credit to Offset Increases in Local Income Tax Revenues -  
 Eligibility

This bill alters the eligibility criteria for a local property tax credit that local governments can provide homeowners to offset increases in local income tax revenues. In order to remain eligible for the property tax credit, the homeowner must have an application for the homestead property tax credit on file with the State Department of Assessments and Taxation (SDAT). Any increase in county property tax revenue resulting from the bill may not be counted toward a property tax revenue limitation provision in a county charter. **The bill takes effect June 1, 2022, and applies to taxable years beginning after June 30, 2022.**

Fiscal Summary

**State Effect:** None.

**Local Effect:** Potential increase in Montgomery County property tax revenues to the extent fewer property owners receive the property tax credit. County expenditures are not affected.

**Small Business Effect:** None.

Analysis

**Current Law:** Local governments are authorized to grant a property tax credit against the county or municipal property tax imposed on real property in order to offset increases in local income tax revenues resulting from a county income tax rate in excess of 2.6%. The credit is only available to the owner-occupied property of a homeowner. County and

municipal governments may provide by law for (1) the amount of a property tax credit and (2) any other provisions necessary to carry out the property tax credit.

**Background:** Montgomery County provides a property tax credit to offset increases in the county income tax revenues resulting from a county income tax rate in excess of 2.6%. This property tax credit is called the Income Tax Offset Credit (ITOC), which is currently set at \$692. The ITOC is only available for a property owner's principle residence, as determined by SDAT. The ITOC is applied only against the general county and special service area *ad valorem* real property taxes. The credit does not apply to any State or municipal taxes and charges or county solid waste or water quality protection charges, or Washington Suburban Sanitary Commission charges.

A comprehensive overview on property tax credits in Maryland can be found in Chapter 3 of the [\*Guide to the Property Tax Structure in Maryland\*](#).

Montgomery County currently imposes a 3.2% local income tax rate, the maximum rate allowed under State law. Additional information on local income tax rates and revenues can be found in the [\*County Revenue Outlook report\*](#). A copy of the report is available on the Department of Legislative Services website.

#### *Tax Limitation Provisions*

Five charter counties (Anne Arundel, Montgomery, Prince George's, Talbot, and Wicomico) have amended their charters to limit property tax rates or revenues. In Anne Arundel County, the total annual increase in property tax revenues is limited to the lesser of 4.5% or the increase in the Consumer Price Index (CPI). In Montgomery County, the growth in property tax revenues is limited to the increase in CPI; however, this limitation does not apply to new construction. In addition, the limitation may be overridden by a unanimous vote of all county council members. In Prince George's County, the general property tax rate is capped at \$0.96 per \$100 of assessed value. Special taxing districts, such as the Maryland-National Capital Park and Planning Commission, are not included under the tax cap. In Talbot and Wicomico counties, the total annual increase in property tax revenues is limited to the lesser of 2% or the increase in CPI.

Counties may exceed the charter limitations on local property taxes for the purpose of funding the approved budget of the local boards of education. If a local property tax rate is set above the charter limit, the county governing body may not reduce funding provided to the local board of education from any other local source and must appropriate to the local board of education all of the revenues generated from any increase beyond the existing charter limit. This authority was adopted at the 2012 regular session to ensure that counties have the fiscal ability to meet new education Maintenance of Effort requirements.

**Local Fiscal Effect:** The bill establishes that in order to qualify for the local property tax credit, a homeowner must have an application for the homestead property tax credit on file with SDAT. To the extent that the bill prevents ineligible homeowners from receiving the local property tax credit, Montgomery County property tax revenues will increase beginning in fiscal 2023.

The Department of Legislative Services is unaware of any other jurisdiction that provides this property tax credit to homeowners. If other jurisdictions do provide this property tax credit, the revenue impact would be the same (potential increase in local property tax revenues due to fewer property owners receiving the credit).

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Montgomery County; Maryland Association of Counties; Property Tax Assessment Appeals Board; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 2, 2020  
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