

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

House Bill 610
Ways and Means

(Delegate Hill)

Budget and Taxation

Homeowners' and Homestead Property Tax Credits - Eligibility and Access

This bill alters the definition of legal interest, as it pertains to the homeowners' property tax credit, to include an interest in a dwelling as a surviving family member who stands to inherit the dwelling of a deceased homeowner under the terms of (1) the deceased homeowner's will or trust or a nonprobate instrument of writing or (2) under the laws of intestate succession. As a result, certain surviving family members of a homeowner who stand to inherit the dwelling of the homeowner are eligible to receive the homeowners' property tax credit. The bill also requires the State Department of Assessments and Taxation (SDAT) to create a specified document regarding the homestead property tax credit for inclusion with contracts of sale for residential real property. Finally, the bill establishes certain reporting requirements for SDAT. **The bill takes effect June 1, 2021, and applies to taxable years beginning after June 30, 2021.**

Fiscal Summary

State Effect: General fund expenditures for the homeowners' property tax credit program may increase beginning in FY 2022, depending on the number of surviving family members who receive the homeowners' property tax credit. General fund expenditures increase by \$18,000 in FY 2022 for SDAT to hire a usability consultant. Reporting requirements can be handled with existing budgeted resources. State revenues are not affected.

Local Effect: Local governments that provide a supplement to the State homeowners' property tax credit will realize increased expenditures depending on the number of surviving family members who receive the State homeowners' property tax credit.

Small Business Effect: None.

Analysis

Bill Summary:

Homestead Property Tax Credit

The bill requires SDAT to design a document concerning the homestead property tax credit that must be presented to the buyer of residential property at the settlement for the property by the person conducting the settlement. The document must include, in conspicuous type, the following statement:

If you plan to live in this home as your principal residence, you may qualify for the homestead property tax credit. The homestead property tax credit may significantly reduce the amount of property taxes you owe.

The document must also include instructions on how to apply for the homestead property tax credit online and a complete application for the credit and instructions on how to submit the paper application to the department. SDAT must make the document available on its website where it may be easily accessed by persons conducting settlements for residential property.

The bill also requires a contract of sale for residential property to include the statement described above as well as the website address of the document described above.

Reporting Requirements

SDAT must contract with a usability consultant to review all the public informational materials and forms produced by the department concerning the homestead and homeowners tax credits by August 1, 2021. The consultant must make recommendations to SDAT, by December 1, 2021, regarding ways the department's public informational materials and forms concerning the homestead and homeowners' property tax credits could be made more usable, especially for socioeconomically diverse communities. The consultant must make specific recommendations concerning (1) how the department's website and other written materials could more clearly and effectively communicate information concerning the tax credits, including why it is important and beneficial for homeowners to apply; (2) how to simplify and clarify the applications for the credits and minimize errors by individuals completing the applications; and (3) the design of the addendum document required for the homestead property tax credit.

SDAT must submit a report, by February 1, 2022, to the Senate Budget and Taxation Committee and the House Ways and Means Committee that includes (1) the

recommendations submitted by the consultant and (2) the actions the department has taken or plans to take to implement the recommendations.

In addition, during the 2021 legislative interim, SDAT and the Comptroller's Office must collaborate with the Senate Budget and Taxation Committee and the House Ways and Means Committee on a study of (1) how to simplify the definition of "gross income" for purposes of the homeowners' property tax credit, such as by using Maryland Adjusted Gross Income without increasing State expenditures by changing how the amount of the credit is calculated and (2) ways that the homeowners' property tax credit could be made automatically renewable for recipients of the credit.

Current Law:

Homeowners' Property Tax Credit Program

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. Homeowners must apply to SDAT each year in order to be eligible for the property tax credit. The application is available on the department's website and current applications may be filed beginning February 1, 2021, through October 1, 2021. The fiscal 2022 State budget includes \$64.0 million in funding for the program. Approximately 45,000 individuals receive the property tax credit each year. SDAT reports that the average homeowners' property tax credit is approximately \$1,350.

An unmarried surviving spouse of a homeowner who received the homeowners' property tax credit may continue to receive the property tax credit, provided eligibility criteria, except age or disability, are met.

Homestead Property Tax Credit

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 lower the cap. A majority of local subdivisions have assessment caps below 10%: 21 counties in fiscal 2021.

Subject to submitting a specified application to SDAT and having the application approved, the department must authorize and the State, a county, or a municipality must grant a homestead property tax credit for a taxable year unless during the previous taxable year

(1) the dwelling was transferred for consideration to new ownership; (2) the value of the dwelling was increased due to a change in the zoning classification of the dwelling initiated or requested by the homeowner or anyone having an interest in the property; (3) the use of the dwelling was changed substantially; or (4) the assessment of the dwelling was clearly erroneous due to an error in calculation or measurement of improvements on the real property.

In addition, in order to qualify for the property tax credit, a homeowner must actually reside in the dwelling by July 1, of the taxable year for which the property tax credit is to be allowed. A homeowner may claim a property tax credit for only one dwelling.

State Fiscal Effect: General fund expenditures for the homeowners' property tax credit program may increase beginning in fiscal 2022, depending on the number of surviving family members who are eligible to receive the transferred property tax credit. As a point of reference, the average State homeowners' property tax credit was equal to approximately \$1,300 for fiscal 2017 through fiscal 2021. For illustrative purposes only, if there are 450 instances, which represents 1% of the total number of individuals currently receiving the tax credit, in which the current property tax credit is transferred to a family member, State expenditures could increase by \$0.5 million annually.

In addition, general fund expenditures for SDAT increase by \$18,000 in fiscal 2022 to hire a usability consultant to conduct the required review.

SDAT advises that the current homestead property tax credit application is two pages. The department notes that creating a new document for the homestead property tax credit can be handled with existing resources. In addition, the reporting requirements for both SDAT and the Comptroller's Office can be handled with existing budgeted resources.

Local Fiscal Effect: Local governments that provide a supplement to the State homeowners' property tax credit will realize increased expenditures depending on the number of surviving family members who are eligible for the transferred State homeowners' property tax credit each year.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History:
rh/hlb

First Reader - January 31, 2021
Third Reader - March 24, 2021
Revised - Amendment(s) - March 24, 2021
Enrolled - May 10, 2021
Revised - Amendment(s) - May 10, 2021

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510