

Department of Legislative Services  
Maryland General Assembly  
2022 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 677  
Ways and Means

(Delegate Hartman, *et al.*)

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**Homestead Property Tax Credit - Portability of Value to New Dwelling**

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This bill establishes the taxable assessment of a new dwelling if a homeowner who previously received the homestead property tax credit purchases a new dwelling within three years by using a taxable assessment portability adjustment. A taxable assessment portability adjustment is defined as the lesser of (1) the difference between the most recent taxable assessment of the original dwelling before the transfer of the original dwelling to a new homeowner and the assessment that would have applied to the original dwelling absent the homestead tax credit or (2) \$25,000. **The bill takes effect June 1, 2022, and applies to taxable years beginning after June 30, 2022.**

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**Fiscal Summary**

**State Effect:** Annuity Bond Fund (ABF) revenues decrease by a significant amount beginning in FY 2023. *For illustrative purposes only*, ABF revenues decrease by \$1.4 million in the first year of implementation and by \$4.3 million in the third year of implementation. Future year revenue decreases could be considerably higher. General fund expenditures increase by \$56,100 in FY 2023 and by \$70,800 in FY 2027. Special fund revenues and expenditures increase by a commensurate amount. Future years reflect annualization and inflation.

**Local Effect:** Local government property tax revenues decrease by a significant amount beginning in FY 2023. *For illustrative purposes only*, local property tax revenues may decrease by \$16.0 million in the first year of implementation and by \$47.9 million in the third year of implementation. Future year revenue decreases could be considerably higher. County expenditures increase by \$56,100 in FY 2023 and by \$70,800 in FY 2027.

**Small Business Effect:** None.

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## Analysis

**Bill Summary:** If a homeowner transfers a dwelling that is subject to a homestead property tax credit and purchases a new dwelling within three years of the transfer, the taxable assessment for the first taxable year of the new dwelling is the assessed value of the new dwelling minus the taxable assessment portability adjustment. If the original dwelling had more than one owner, the taxable assessment for the first taxable year of each new dwelling is the assessed value of the new dwelling minus (1) the proportionate share of the taxable assessment portability adjustment based on the number of co-owners of the original dwelling or (2) the proportionate share of the taxable assessment portability adjustment established in a legal agreement on dissolution of the co-ownership. For each succeeding taxable year, the homestead property tax credit for the new dwelling is calculated in the same manner as under current law.

**Current Law:** 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%, including 21 counties in fiscal 2020, 2021, and 2022. **Exhibit 1** lists county assessment caps for fiscal 2020 through 2022.

Subject to submitting a specified application to the State Department of Assessments and Taxation (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.

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**Exhibit 1**  
**County Assessment Caps**

<b>County</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
Allegany	4%	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	3%	2%	1%
Queen Anne's	5%	5%	5%
St. Mary's	3%	3%	3%
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

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The homestead property tax credit program is administered as follows:

- Increases in property assessments are equally spread out over three years. For example, if a property's assessment increased by \$120,000, from \$300,000 to \$420,000, the increase would be phased-in through increments of \$40,000 annually for the next three years.

- If the assessment cap was set at 10%, however, the amount of assessment subject to taxes would increase by only \$30,000 in the first year, \$33,000 in the following year, and \$36,300 in the third year.
- Since the assessment cap was set lower than the actual market increase, the homeowner does not have to pay taxes on the property's full assessed value.

The extent to which the homestead property tax credit program may actually restrict the ability of a county to raise property tax revenues depends on the county's need for revenues from the property tax and other legal and practical limitations. For example, a county impacted by a charter-imposed property tax limitation measure would presumably reduce tax rates to offset the impact of rising assessments in the absence of the homestead credit.

**State Fiscal Effect:** ABF revenues decrease by a significant amount beginning in fiscal 2023 due to homeowners using the taxable assessment portability adjustment to keep the homeowners' property assessment. Under current law, homestead property tax credits do not transfer from one homeowner to another and each new homeowner receives a new property assessment upon transfer of the property. The amount of the revenue decrease depends on the number of homebuyers who purchase homes each year and the amount of the taxable assessment portability adjustments calculated for each home purchase.

*For illustrative purposes only*, it is estimated that ABF revenues decrease by approximately \$1.4 million in the first year of implementation and by approximately \$4.3 million in the third year of implementation. Future year revenue decreases could be considerably higher. The estimate is based on the following facts and assumptions:

- SDAT reports that there were 109,388 home sales in Maryland in fiscal 2021;
- the estimate assumes a taxable assessment portability adjustment of up to \$25,000 for State and county assessment purposes;
- the homestead credit amount averages \$25,552 statewide, ranging from \$5,446 in Allegany County to \$129,920 in Talbot County;
- 40% of home purchases are made by first-time homebuyers;
- the State real property tax rate is \$0.112 per \$100 of assessment, and current county real property tax rates range from \$0.6565 per \$100 of assessment in Talbot County to \$2.248 per \$100 of assessment in Baltimore City; and
- the number of homes purchased each year remains constant.

To the extent the taxable assessment portability adjustment varies from the estimate, the effect on special fund revenues will vary accordingly.

*Impact on Debt Service Payments*

Debt service payments on the State’s general obligation bonds are paid from the ABF. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the ABF to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2023 State budget includes \$1.4 billion for general obligation debt service costs, including \$430.0 million in general funds, \$993.0 million in special funds from the ABF, \$7.0 million in transfer tax revenues, and \$9.0 million in federal funds.

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

*Personnel Expenditures*

SDAT expenditures increase by \$112,300 in fiscal 2023, which accounts for a 120-day start-up delay and reflects the cost of hiring two auditors to verify the compliance and the new homestead credit amounts. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	\$97,574
Operating Expenses	<u>14,686</u>
<b>Total FY 2023 State Expenditures</b>	<b>\$112,260</b>

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

SDAT also reports that it could incur significant computer programming costs to reprogram their tax system to allow for calculation of the taxable assessment portability adjustment for each new property.

However, the counties and Baltimore City are required to reimburse SDAT for 50% of the costs of real property and business personal property valuation as well as 50% of the costs incurred by the department with regard to information technology. As a result, total general fund expenditures will increase by \$56,100 in fiscal 2023 and by \$70,800 in fiscal 2027, while special fund revenues and expenditures increase by a commensurate amount from reimbursements from county governments to administer the program.

**Local Fiscal Effect:** Local government revenues decrease by a significant amount beginning in fiscal 2023 due to homeowners using the taxable assessment portability adjustment to keep the homeowners’ property assessment. Based on the data and assumptions used to estimate the State fiscal effect, it is estimated that local property tax revenues may decrease by approximately \$16.0 million in the first year of implementation and by approximately \$47.9 million in the third year of implementation. Future year revenue decreases could be considerably higher.

County expenditures increase by \$56,100 in fiscal 2023 and by \$70,800 in fiscal 2027 to reimburse SDAT for the staffing costs needed to administer the program.

**Additional Comments:** It is important to note that the estimate in this fiscal and policy note is based on one year’s sales data, fiscal 2021, and that several factors including fluctuations in the real estate market, the number of home sales, the number of homeowners who may or may not receive the homestead property tax credit, and annual property tax assessments can impact the year-to-year revenue effect of the bill.

*Property Assessments Increase in Recent Years*

Property assessments in Maryland increased significantly between fiscal 2000 and 2008. The average three-year increase in the full cash value of property undergoing reassessment totaled 5.7% in 2000 and 60.2% in 2006, statewide. Property assessments continued to experience strong growth through fiscal 2008; however, the continual rapid increase in property assessments halted in 2009 for most jurisdictions, as property valuation declined reflecting the national credit crisis and deteriorating economic conditions. Over a four-year period, local jurisdictions across Maryland experienced a sharp decline in property assessments. Due to improvements in the national economy, property assessments statewide started to increase in 2014. **Exhibit 2** shows annual assessment increases since 2017. Additional information on local property assessments can be found in the [Local Government Overview](#) report. A copy of the report can be found on the Department of Legislative Services [website](#).

**Exhibit 2**  
**Triennial Change in Full Cash Value**

<u>Assessment Group</u>	<u>2017</u> <u>Group 2</u>	<u>2018</u> <u>Group 3</u>	<u>2019</u> <u>Group 1</u>	<u>2020</u> <u>Group 2</u>	<u>2021</u> <u>Group 3</u>	<u>2022</u> <u>Group 1</u>
Statewide	8.2%	7.7%	9.1%	8.9%	8.1%	12.0%

## **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Maryland Association of Counties; Maryland Municipal League; State Department of Assessments and Taxation; Department of Legislative Services

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