

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1200 (Delegate Niemann, *et al.*)
 Ways and Means

Homeowner's Property Tax Credit - Administration

This bill requires the State Department of Assessments and Taxation to notify and provide an application for the Homeowners' Property Tax Credit to potentially eligible homeowners by July 1 of each year based on tax return information provided by the Comptroller's Office. The Comptroller must provide SDAT with a list of resident individuals with federal adjusted gross income less than or equal to the maximum combined income level specified for eligibility for the tax credit program.

SDAT and the Comptroller must study alternatives for the application process for the Homeowners' Property Tax Credit and develop a plan for automating the application process for the tax credit. A report must be presented to the Ways and Means Committee and the Budget and Taxation Committee by December 31, 2008.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: General fund expenditures could increase by \$599,700 in FY 2009 as a result of notifying potentially eligible taxpayers about the Homeowners' Property Tax Credit. Future year costs reflect inflation. Revenues would not be affected.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	599,700	611,700	623,900	636,400	649,100
Net Effect	(\$599,700)	(\$611,700)	(\$623,900)	(\$636,400)	(\$649,100)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: A homeowner's combined net worth may not exceed \$200,000 and combined income may not exceed \$60,000 in order to be eligible for the Homeowners' Property Tax Credit.

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.

Exhibit 1 Homeowners' Property Tax Credit Program Fiscal 2005-2009

<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 Budgeted	48,800	48.3 million	990
2009 Allowance	49,300	52.2 million	1,059

Source: Department of Budget and Management

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.

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. Prior to July 1, 2005, Montgomery and Anne Arundel counties were the only jurisdictions providing a local supplement; beginning July 1, 2005, Charles, Frederick, and Howard counties also provided a local supplement.

Municipalities are also authorized to provide a supplement to the Homeowners' Property Tax Credit Program. Under the enabling authority for municipal corporations, 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 State Homeowners' Property Tax Credit. Beginning July 1, 2005, the City of Rockville began providing a local supplement.

State Fiscal Effect: The bill requires SDAT to notify potentially eligible homeowners, with federal adjusted gross income of less than \$60,000, of the Homeowners' Property Tax Credit and provide each of them with a copy of an application.

In tax year 2006 there were 2.8 million income tax returns filed with the Comptroller (including nontaxable returns), of which 1.4 million had a federal adjusted gross income of less than \$60,000. At this time it is not known how the agency would determine which of those taxpayers would meet the other eligibility criteria for the credit, such as net worth, and which taxpayers are homeowners. Assuming that SDAT does not notify current tax credit recipients, the agency could still have to notify approximately

1.4 million taxpayers of the credit annually. As a result, SDAT expenditures could increase by \$599,700 in fiscal 2009. The estimate assumes the following:

- notifying 1.38 million taxpayers;
- \$20,000 for forms and envelopes; and
- postage costs of \$0.42 cents per mailing.

In addition, to the extent that the bill results in more applications for the tax credit and more tax credits being granted, general fund expenditures could increase by approximately \$1,059 for each additional credit granted (see Exhibit 1). The number of new credits being granted cannot be reliably estimated at this time. However, it is important to note that because the tax credit is a State funded program included in the State budget, a significant increase in the number and amount of credits granted could result in a change in the program and/or a potential decrease in the benefits received by individual homeowners.

The Comptroller's Office reports that it could handle both of the bill's requirements with existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 3, 2008
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