

Department of Legislative Services  
Maryland General Assembly  
2013 Session

FISCAL AND POLICY NOTE

House Bill 965 (Delegate Dumais)  
Ways and Means

---

Homestead Tax Credit - Eligibility - Definition of Legal Interest

---

This bill alters the definition of “legal interest” for purposes of the Homestead Property Tax Credit to include an interest in a dwelling as a settlor, grantor, or beneficiary of a trust if (1) the settlor, grantor, or beneficiary of the trust resides in the dwelling as his or her principal residence and (2) legal title to the dwelling is held in the name of the trust or in the names of the trustees for the trust. The bill must be construed to act retroactively and must be applied to taxable years beginning after June 30, 2007.

The bill takes effect June 1, 2013.

---

Fiscal Summary

**State Effect:** Annuity Bond Fund revenues decrease in FY 2014 due to settlers, grantors, and beneficiaries of trust receiving the Homestead Property Tax Credit who are otherwise ineligible under current law. The amount of the decrease depends on the number of additional individuals receiving the tax credit and the amount of the tax credit. This decrease may require either (1) an increase in the State property tax rate or (2) a general fund appropriation to cover debt service on the State’s general obligation bonds.

**Local Effect:** Local property tax revenues decrease in FY 2014 due to additional individuals receiving the Homestead Property Tax Credit who are otherwise ineligible under current law. The amount of the decrease depends on the number of additional individuals receiving the tax credit and the amount of the tax credit.

**Small Business Effect:** None.

---

## Analysis

**Current Law:** For purposes of the Homestead Property Tax Credit, a homeowner is defined as an individual who has a legal interest in a dwelling or who is an active member of an agricultural ownership entity that has a legal interest in a dwelling. A legal interest is defined as interest in the dwelling (1) as a sole owner; (2) as a joint tenant; (3) as a tenant in common; (4) as a tenant by the entireties; (5) through membership in a cooperative; (6) under a specified land installment contract; or (7) as a holder of a life estate.

**Background:** Chapters 564 and 565 of 2007 (SB 522/HB 436) required homeowners to file a specified application with the State Department of Assessments and Taxation (SDAT) to qualify for the Homestead Property Tax Credit. SDAT is prohibited from authorizing the credit and the State, county, and municipal governments are prohibited from granting the credit unless the application is filed (1) by July 1 of the first taxable year for which the property tax credit is to be allowed or (2) on or before December 31, 2012, for a dwelling that was last transferred to new ownership on or before December 31, 2007. SDAT was required to provide homeowners the option of submitting the required application electronically on its website.

### *Homestead Property Tax Credit Program*

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%: 20 counties in fiscal 2012 and 21 counties in fiscal 2013 and 2014. **Exhibit 1** lists county assessment caps for fiscal 2012 through 2014. One county (Prince George’s) lowered its assessment cap for fiscal 2014.

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 were 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.

#### *Status of the Homestead Property Tax Credit Application Process*

As noted, homeowners in Maryland had until December 31, 2012, to file an application for the Homestead Property Tax Credit. As of January 3, 2013, SDAT has received approximately 1.1 million Homestead Property Tax Credit applications. SDAT reports that in the past five years the department has mailed out two applications and instructions to every homeowner in the State; and, in August/September of 2012, it mailed an application and instructions to all homeowners in Group 1 who would be receiving their reassessment notices in January 2013. In addition, beginning in July 2012, the department began a major public information campaign using radio, television, major newspapers, local newspapers, and county finance offices to remind the public of the December 31, 2012 application filing deadline. Two county governments paid for special mailings to homeowners in their jurisdiction.

As a result of these efforts, SDAT reports that between September 1 and December 31, 2012, it received 175,000 tax credit applications. During that same time period, the department received as many as 200 phone calls per hour and answered over 13,000 emails from homeowners requesting tax credit information and applications.

---

**Exhibit 1**  
**Homestead Assessment Caps for Maryland Counties**

<b>County</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Allegany	7%	7%	7%
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	8%	8%	8%
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	1%	4%	2%
Queen Anne's	0%	5%	5%
St. Mary's	5%	5%	5%
Somerset	10%	10%	10%
Talbot	0%	0%	0%
Washington	5%	5%	5%
Wicomico	10%	5%	5%
Worcester	3%	3%	3%

Source: State Department of Assessments and Taxation, Department of Legislative Services

---

**State Fiscal Effect:** Annuity Bond Fund revenues will decrease in fiscal 2014 due to any settlers, grantors, or beneficiaries of trust receiving the Homestead Property Tax Credit who would not have otherwise received the tax credit under current law. The amount of the decrease depends on the number of additional individuals receiving the tax credit and the amount of the tax credit. SDAT advises that it cannot reliably estimate the number of persons that this may apply to. The bill applies retroactively to fiscal 2008, which will likely require a rebate of both State and local property taxes for affected persons.

**Exhibit 2** shows the estimated State property tax revenue (Annuity Bond Fund) decrease for fiscal 2014 if one settlor, grantor, or beneficiary of trust in each county qualifies to receive the Homestead Property Tax Credit as a result of the bill.

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, premium 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. The fiscal 2014 State budget includes \$983.6 million for general obligation debt service costs, including \$101.0 million in general funds, \$864.1 million in special funds from the Annuity Bond Fund, \$6.1 million in transfer tax revenues, and \$12.4 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 Annuity Bond Fund revenues or the State property tax rate would have to be increased in order 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:** Local property tax revenues decrease in fiscal 2014 due to any settlers, grantors, or beneficiaries of trust receiving the Homestead Property Tax Credit who would not have otherwise received the tax credit under current law. The amount of the decrease depends on the number of additional individuals receiving the tax credit and the amount of the tax credit. As noted, the bill's retroactive provision will likely require a rebate of local property taxes. The values of Homestead Property Tax Credits have decreased in recent years as residential real property assessments have decreased.

Montgomery County has identified approximately 7,400 properties that may be eligible for the Homestead Property Tax Credit under the bill. Depending on the assessed value of these properties and the estimated Homestead Property Tax Credits, the effect on county revenues may be significant. Under one set of assumptions, the county estimates that revenues could decrease by up to \$1.6 million annually.

Exhibit 2 shows the estimated local property tax revenue decrease for fiscal 2014 if one settlor, grantor, or beneficiary of trust in each county qualifies to receive the Homestead Property Tax Credit as a result of the bill.

**Exhibit 2**  
**Effect of One Homestead Property Tax Credit Account in Each County**

<b>County</b>	<b>Average Assessment</b>	<b>Number of Homestead Tax Credit Accounts</b>	<b>Average Homestead Property Tax Credit</b>	<b>State Revenue Decrease</b>	<b>County Revenue Decrease</b>
Allegany	\$107,682	1,781	\$9,662	(\$11)	(\$95)
Anne Arundel	335,568	108,620	98,755	(111)	(929)
Baltimore City	145,440	81,025	38,596	(43)	(875)
Baltimore	234,855	108,704	29,928	(34)	(329)
Calvert	310,935	125	42,042	(47)	(375)
Caroline	187,197	1,772	21,824	(24)	(194)
Carroll	287,428	3,480	18,391	(21)	(187)
Cecil	220,873	291	18,914	(21)	(187)
Charles	252,599	1,167	20,684	(23)	(232)
Dorchester	173,996	2,166	26,391	(30)	(258)
Frederick	266,101	4,409	19,851	(22)	(211)
Garrett	152,669	3,834	22,997	(26)	(228)
Harford	258,845	1,256	15,597	(17)	(163)
Howard	389,704	34,600	33,263	(37)	(396)
Kent	268,340	2,734	54,060	(61)	(552)
Montgomery	448,814	3,407	36,031	(40)	(361)
Prince George's	216,100	97,668	29,695	(33)	(392)
Queen Anne's	353,718	4,948	42,917	(48)	(364)
St. Mary's	287,078	12,072	33,920	(38)	(291)
Somerset	122,187	229	16,472	(18)	(146)
Talbot	434,634	8,925	199,971	(224)	(982)
Washington	189,755	3,461	13,273	(15)	(126)
Wicomico	148,617	368	12,976	(15)	(109)
Worcester	229,073	8,104	38,419	(43)	(296)
<b>Total</b>	<b>\$250,925</b>	<b>495,146</b>	<b>\$37,276</b>	<b>(\$42)</b>	<b>(\$345)</b>

Source: State Department of Assessments and Taxation; Department of Legislative Services

**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Anne Arundel, Dorchester, and Montgomery counties; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 5, 2013  
ncs/hlb

---

Analysis by: Michael Sanelli

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