



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

July 20, 2020

FISCAL AND POLICY NOTE

TO: Robert J. Williams, Jr.
Council Administrator

William M. Hunt
Deputy Council Administrator

THRU: Josh Hamlin *JH*
Senior Legislative Budget and Policy Analyst

FROM: Inez N. Claggett *INC*
Senior Legislative Budget and Policy Analyst

RE: Policy Analysis and Fiscal Note
CB-048-2020 Charter Amendment

CB-048-2020 (*Proposed and presented by: Council Member Davis*)

Assigned to the Committee of the Whole

AN ACT CONCERNING AMENDMENT OF SECTION 812, CHARTER OF PRINCE GEORGE'S COUNTY to alter the deadline to set the homestead property tax credit percentage consistent with State law and to provide that the homestead property tax credit percentage shall be no less than 100% or exceed 110%, and providing for such amendment to be submitted to a referendum of the legal voters of the County.

Fiscal Summary

Direct Impact:

Expenditures: None.

Revenues: Not able to be determined.

Indirect Impact:

Not able to be determined.

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Current Law/Background:

The Homestead Property Tax Credit is a program established by the State Department of Assessments and Taxation (SDAT). Per the SDAT website¹

“To help homeowners deal with large assessment increases on their principal residence, state law has established the Homestead Property Tax Credit. The Homestead Credit limits the increase in taxable assessments each year to a fixed percentage. Every county and municipality in Maryland is required to limit taxable assessment increases to 10% or less each year. Technically, the Homestead Credit does not limit the market value of the property as determined by the Department of Assessments and Taxation. Instead, it is actually a credit calculated on any assessment increase exceeding 10% (or the lower cap enacted by the local governments) from one year to the next. The credit is calculated based on the 10% limit for purposes of the State property tax, and 10% or less (as determined by local governments) for purposes of local taxation. In other words, the homeowner pays no property tax on the market value increase which is above the limit.”

Section 9-105(e)(3) of the Tax-Property Article of the Annotated Code of Maryland requires the enactment of the County’s homestead property tax credit percentage for the taxable year beginning the following July 1, on or before March 15th of the year. Section 812(d) of the Charter of Prince George’s County requires annual establishment of the homestead credit percentage on or before January 1 of the taxable year beginning the following July. The County’s credit shall be no greater than 100% plus the percentage of the increase in the Consumer Price Index for the previous twelve months, rounded to the nearest integer, but may not exceed 105%. The Homestead Property Tax Credit percentage for FY 2021 is 102%.

For example, under current law, assume Taxpayer H owned and lived in their principal residence in Prince George’s County. H’s home assessment was \$100,000. After assessment of H’s home value by the State, H’s phased in assessment for H’s home for the first year is \$120,000. For FY 2021 the Homestead Property Tax Credit in Prince George’s County is 102%. An increase of 2% in H’s home assessment would result in an assessment of \$102,000. The difference between \$120,000 and \$102,000 is \$18,000. The tax credit would apply to the taxes due on the \$18,000. If the County real property tax rate is \$1.00 per \$100 of assessed value, the tax credit would be \$180 ($\$18,000/100 \times \1.00).

Discussion/Policy Analysis:

CB-048-2020 seeks to amend Section 812 of the Charter of Prince George’s County, Maryland to alter the deadline for establishment of the annual Homestead Property Tax Credit percentage from January 1 to March 15, of the fiscal year beginning the following July. The proposed Bill would also require the tax credit percentage to remain to be established at no less than 100% but amends the Charter to require an amended ceiling of 110%. This amended ceiling is an increase in tax credit percentage over the currently allowable ceiling of 105%. This increase in the ceiling for the tax credit percentage could potentially increase revenue for the County should a decision be made to establish the credit over the previous 105% ceiling for any given year.

CB-048-2020 further provides that the Act be submitted to the voters of the County for their approval or disapproval, at the General Election to be held on Tuesday, November 3, 2020. Therefore, enactment of

¹ <https://dat.maryland.gov/realproperty/Pages/Maryland-Homestead-Tax-Credit.aspx>

CB-048-2020 would simply place the decision to allow the County to modify the current Homestead Property Tax Credit regulation on the upcoming ballot for County residents to decide. Should voters decide to allow Homestead Property Tax Credit regulations to be modified as proposed we have discussed the potential impact below.

Impact on County Real Property Tax Revenue

Projected Homestead Property Tax Credit data for Prince George’s County is shown below in Exhibit A for FY 2021.

EXHIBIT A				
FY2021	Cap	Credited Homeowner Assessment	County Revenue Loss (Est.)	County Potential Savings vs 0%
	0%	\$ 8,407,969,714	\$ 84,079,697	\$ -
	1%	\$ 8,126,983,560	\$ 81,269,836	\$ 2,809,862
	2%	\$ 7,851,057,159	\$ 78,510,572	\$ 5,569,126
	3%	\$ 7,581,532,963	\$ 75,815,330	\$ 8,264,368
	4%	\$ 7,317,748,448	\$ 73,177,484	\$ 10,902,213
	5%	\$ 7,059,501,599	\$ 70,595,016	\$ 13,484,681
	6%	\$ 6,806,694,561	\$ 68,066,946	\$ 16,012,752
	7%	\$ 6,559,254,807	\$ 65,592,548	\$ 18,487,149
	8%	\$ 6,317,192,924	\$ 63,171,929	\$ 20,907,768
	9%	\$ 6,081,282,188	\$ 60,812,822	\$ 23,266,875
	10%	\$ 5,851,654,379	\$ 58,516,544	\$ 25,563,153

Homestead Property Tax Credit in Prince George’s County

[Source: State Department of Assessments and Taxation, July 23, 2019]

Assuming the projection data provided in Exhibit A is accurate for FY 2021, Prince George’s County has foregone \$78,510,572 in real property tax revenue for FY 2021 by setting the Homestead Property Tax credit percentage at 102% (2% cap). If Prince George’s County had set the FY 2021 Homestead Property Tax credit percentage at 101% the County would have foregone \$81,269,836 in real property tax revenue and would have saved (or received) \$2,809,862 in additional revenue over the 100% rate, or \$2,759,264 in additional revenue over the 102% rate.

Should the proposed legislation have been adopted by voters prior to FY 2021 and assuming the County had set the Homestead Property Tax Credit percentage at 110%, the County would have foregone \$58,516,544, and would have saved (or received) \$25,563,153 in additional revenue.

Impact on Taxpayer County Real Property Tax Payment

Using the previous Taxpayer H scenario (home assessment of \$100,000 with phased in first year assessment of \$120,000) let’s assume the proposed legislation had been adopted by the County Council and approved by the voters prior to FY 2021 and the County had set the Homestead Property Tax Credit percentage at 110%. An increase of 10% in H’s home assessment would result in an assessment of \$110,000. The difference between \$120,000 and \$110,000 is \$10,000. The tax credit under this assumption would be \$100 (\$10,000/100 x \$1.00). Therefore, the higher the Homestead Property Tax Credit percentage the lower the actual tax credit Taxpayer H will receive on their real estate tax notice.

Now let’s assume Taxpayer H’s home assessment is \$100,000, and the phased in first year assessment is \$105,000. Let’s also assume the proposed legislation had been adopted by the County Council and

approved by the voters prior to FY 2021, and the County had set the Homestead Property Tax Credit percentage at 110%. An increase in 10% in H's home assessment would result in an assessment of \$110,000. The difference between \$105,000 and \$110,000 results in a negative value. In this case Taxpayer H would not receive a Homestead Property Tax Credit because their home did not escalate in percentage value more than allowed by the County's Homestead Property Tax Credit percentage in affect under this assumption. However, Taxpayer H would be paying more real property tax than in the previous year because of the \$5,000 escalation in their home value assessment.

Additional Information

It should be kept in mind that real estate is assessed every 3 years in the State of Maryland. Any increase in the assessment is phased-in over the 3-year period. Therefore, if the growth in the home's assessment does not exceed the Homestead Property Tax Credit percentage, there would be no Homestead Property Tax Credit applied to the real estate taxes assessed.

Fiscal Impact:

Direct Impact

The fiscal impact of enactment of CB-048-2020 is dependent upon approval of the proposed County Charter amendment by voters in the next general election and the subsequent rate at which the County Council decides to set the Homestead Property Tax credit. Therefore, a direct impact cannot be determined at this time because there could be a positive or negative financial impact to the County dependent upon the rate at which the Homestead Property Tax Credit is set. Should the amendment be approved by the voters of the County and the Homestead Property Tax Credit rate is raised, thereby decreasing individual tax credits, the County would realize a positive fiscal impact.

Indirect Impact

The indirect fiscal impact of enactment of CB-048-2020 is dependent upon approval of the proposed County Charter amendment by voters in the next general election and the subsequent rate at which the County Council decides to set the Homestead Property Tax credit. Therefore, an indirect impact cannot be determined at this time because there could be a positive or negative impact dependent upon the rate.

Appropriated in the Current Fiscal Year Budget

No.

Effective Date of Proposed Legislation

If enacted, the proposed Bill shall become effective immediately upon the date of the official certification of its approval by the voters at said general election.

If you require additional information, or have questions about this fiscal impact statement, please call me.