The Homestead Tax Credit Program
Lowering the Cap is the Wrong Solution to a Real Problem

Lowering the homestead tax cap would only benefit those who qualify and would, in fact, lower the city's overall property tax revenue - but people who do not qualify for (or benefit from) a lower tax cap would have to pay more property tax to make up for the revenue.

Lowering the homestead tax cap, as some have proposed, would create an unfair tax program. A person with a home assessed at the same value as their neighbor would be taxed a different amount than their neighbor. That is not fair.

The real problem the city needs to take on is to stop increasing expenses. And that is why anyone who supports fair taxes should be against reducing the homestead tax cap.

Do we really want an Eastport (or Annapolis) where next-door neighbors with the same assessed value on their homes pay different taxes? No matter how much the expenses are in the city, this would be the case if we reduced the homestead tax cap.

To reduce the increase in expenses, we need to overhaul the budget process – currently the city approves the tax rate **first** (currently $0.738/$100 of assessed value) and figures out how much money the city will bring in – then the city budgets to that number. That is just not good business. We need to reverse the process, address expenses first, and ensure all expenses are competed with each other based on past performance, needs of the residents and whether it is a good use of taxpayers' money. Only then should the City Council deliberate, with public input, the tax rate that will support those expenses.

BACKGROUND

From the Maryland.gov website:
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. View a listing of homestead caps for each local government.

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.*

Example:
Assume that your old assessment was $100,000 and that your new phased-in assessment for the 1st year is $120,000. An increase of 10% would result in an assessment of $110,000. The difference between $120,000 and $110,000 is $10,000. The tax credit would apply to the taxes due on the $10,000. If the tax rate was $1.04 per $100 of assessed value, the tax credit would be $104 ($10,000 ÷ 100 x $1.04).

DEFINING THE FACTORS

The following factors determine the property tax of a property owner in Annapolis:
{Tax Rate} times {Assessed Property Value} = {Property Tax}

- Tax rate
  - There are three elements of the Property Tax, each with a different rate:
    - Annapolis - The rate is determined annually by the Annapolis City Council and is currently 0.738 cents per $100 of assessed value.
    - Anne Arundel County - Annapolis residents also pay a pro-rated Anne Arundel County property tax (0.538 cents per $100 of assessed value)
    - Maryland - Maryland property tax (0.112 cents per $100 of assessed value)
  - The Mayor of Annapolis proposes and the City Council approves the tax rate annually, currently early in the budget process, before expenses are deliberated.
- Assessed value – this is determined by the state of Maryland every three years (triennial assessment) – this is your new assessed property value.
  - An increase in a property’s assessed value from one triennial assessment to the next is equally divided over three years. One-third of the increase (if there is one) is added to each year’s assessed value to determine the next year’s assessed value for property tax purposes.
- Property Tax – The tax paid to the City of Annapolis by property owner.

HOMESTEAD TAX CREDIT ACT

The Maryland HTC caps the annual increase of assessed value of homeowner occupied residences to 10% of the previous year’s assessment. It also authorizes jurisdictions in the state to lower the maximum annual cap in assessed value of homeowner occupied residences to a smaller number but no lower than a 2% increase.

The inequity in reducing the HTC cap is that not all properties qualify for the HTC limit. The following criteria apply:

- Applies only to homeowners who live in their home as their primary residence
- Does not apply to businesses
- Does not applied to rental property
- Can only be taken on one home
- When property is sold, assessed value is reset at rate of most recent Maryland state triennial assessment

The City of Annapolis currently caps annual increases to a home's assessed value at 10% per year. Anne Arundel County caps the assessed value to increase by no more than 2% per year.

CONSEQUENCES

While the argument can be made that decreasing the cap on the assessed value of property would decrease taxes, this is not true for all properties. The apparent argument to lower the HTC cap from 10% is to reduce taxes. While the city's total property tax revenue would be reduced if the HTC cap was lowered below 10%, this savings in property taxes is not equally shared by all residents.

- The individual property tax bill would only be reduced for owner-occupied homes whose assessment increases more than the capped rate. Other homeowners and all business would not benefit.
- Some homeowners will "win," some will "lose" and others will "break even" due to a reduced HTC cap. Winners are those taxpayers who pay less taxes because of the HTC and losers pay more in property taxes due to the HTC. In general:
    - The biggest winner is a homeowner of an expensive home who lives in their home for a long period of time, and their home increases in assessed value significantly greater than the HTC cap.
        - That person is a bigger winner in the county than the city
            - Assessment limited to 2% increase in county and 10% in city
        - An example of a homeowner who loses in the above scenario is a homeowner who today buys the exact same valued house and is taxed at the full assessed value
    - Another example of a winner is a homeowner who lives in their home for a long period of time and their home increases greater than the HTC in assessed value (currently 2% in the county and 10% in the county)

        - An example of someone who loses in the above scenario is a homeowner who rents their property and does not get the benefit of the HTC.
    - All rental property owners either break even or lose.
        - HTC does not apply to homes that are not owner-occupied.

- There are numerous negative impacts of “limits on growth in assessed values.” Lowering the cap will shift the tax burden to new owners, renters and homeowners whose assessments do not significantly increase.
    - New homes are taxed more heavily than existing ones
        - This has potential effect of disincentivizing new construction
    - Rental homeowners will either pass on higher property tax to renters or receive less income
    - Shift in tax burden from owners with rapidly appreciating property to those whose home values are growing more slowly
    - Large inequities in the size of tax burden to owners of homes of similar size

The creation of “winners” who pay less property taxes than comparable homes and “losers” who pay more property taxes than comparable homes is not fair.