


FROM	NAME & TITLE	Henry Raymond, Deputy Director	CITY of BALTIMORE <b>MEMO</b>	
	AGENCY NAME & ADDRESS	Department of Finance Rm 454, City Hall		
	SUBJECT	City Council Bill No. 14-0407 – Tax Credits Portable Homestead		

DATE: July 30, 2014

TO  
 Honorable President and  
 Members of the City Council  
 C/O Natawana Austin  
 Room 409, City Hall

City Council Bill 14-0407 adds to the City Code provisions that establish a “residential retention” tax credit for a dwelling newly purchased by a homeowner who has, for the five preceding years, received the homestead property tax credit on a dwelling in Baltimore City. This bill incorporates the requirements enacted by Chapter 623 of the General Assembly Acts of 2014. Specifically, the bill creates the credit, provides for the amount of the credit, sets a ceiling on the City’s expenditures on the credit, and provides for the calculation and reinstatement of the normal homestead tax credit upon the new credit’s expiration.

The credit is not transferrable between properties or property owners, and the credit cannot be combined with any other City tax credit. Additionally, this legislation includes language providing a floor on a property owner’s tax liability. The language prohibits the application of the credit, in whole or in part, if the property owner’s tax liability ends up below the amount that he or she was subject to for the previously owned dwelling.

Analysis

This residential retention tax credit was promoted by the sponsoring members of the Maryland General Assembly as an incentive for current Baltimore City residents who are planning on purchasing a different dwelling to do so in Baltimore City. By providing a tax credit to current City residents who have received a homestead credit for the preceding five years, there will be an incentive for that resident to purchase another home in the City. While concrete data on the current retention of City residents is difficult to establish, it is estimated that between 750 and 1500 City resident property owners currently move within the City each year. It is likely that a number of the recipients of this credit will be property owners that would have remained within the City. It is also unclear at this point what affect this property tax credit, will have on the migration of property owners from other counties into the City.

Fiscal Impact

The residential retention tax credit is a fixed credit of \$4,000 that declines over 5 years with \$1,000 being provided in the first year, \$900 in the second, \$800 in the third, \$700 in the fourth, and \$600 in the fifth year of the credit. After the fifth year, the property owner is entitled to receive the normal homestead credit, which will be calculated as though the property owner had been receiving it for the new dwelling throughout the first five years of ownership. This credit is currently being programmed in the Department of Finance’s Tax Credit system and will be available for applications beginning on October 1, 2014. Applications will no longer be accepted after March 31, 2019. No new credits will be awarded for any tax year beginning on or after July 1, 2020.



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Additionally, the credit provides an additional incentive to those property owners that purchase their new dwelling within a low or moderate income census tract. An extra \$1,000 is added to the credit and increases the annual credit amounts by \$200 per year. Due to the complexity of implementing this additional credit, this portion of the credit will be available for applications beginning on October 1, 2015.

The state legislation, while requiring the City expend funds on this credit, does include a cap on the City's expenditures which provides that, "Baltimore City shall allocate no more than \$3,000,000 for each year that applications for the credit under this subsection are accepted." That \$3,000,000 is applied to the total cost of the credits for applicants approved during that year as well as the administrative costs incurred by the City. The following chart reflects the distribution of credit expenditures over the ten years of the credit program. While this chart does not include an allowance for administrative costs or the differential in the number of credits awarded that will occur when the low or moderate income census tract bonus credit is included, it does clearly show the five year cost for each of the five years in which applicants are approved for the credit.

Ten Year Cost of Portability Credit						
Year of Credit Program	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1	\$ 750,000	\$ -	\$ -	\$ -	\$ -	\$ 750,000
2	\$ 675,000	\$ 750,000	\$ -	\$ -	\$ -	\$ 1,425,000
3	\$ 600,000	\$ 675,000	\$ 750,000	\$ -	\$ -	\$ 2,025,000
4	\$ 525,000	\$ 600,000	\$ 675,000	\$ 750,000	\$ -	\$ 2,550,000
5	\$ 450,000	\$ 525,000	\$ 600,000	\$ 675,000	\$ 750,000	\$ 3,000,000
6	\$ -	\$ 450,000	\$ 525,000	\$ 600,000	\$ 675,000	\$ 2,250,000
7	\$ -	\$ -	\$ 450,000	\$ 525,000	\$ 600,000	\$ 1,575,000
8	\$ -	\$ -	\$ -	\$ 450,000	\$ 525,000	\$ 975,000
9	\$ -	\$ -	\$ -	\$ -	\$ 450,000	\$ 450,000
10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
						\$ 15,000,000
Number of annual Credits	750					

With the cap in place, as mandated by the state legislation, the total cost of this credit to the City is \$15,000,000.

Finance Department Position

The City is mandated by State Law to implement the tax credit provided for in Council Bill 14-0407 by law.

cc: Harry E. Black  
 Angela Gibson  
 William Voorhees