FROM

NAME & TITLE: William Voorhees, PhD WV
Director Revenue & Tax Analysis

AGENCY NAME & ADDRESS: Department of Finance
Room 545, City Hall (396-4961)

SUBJECT: **City Council Bill 16-0627 – Property Tax Credits – City Supplement to Homeowners' Tax Credit Program**

CITY of BALTIMORE

MEMO

CITY OF BALTIMORE 1797

TO

Honorable President and
Members of the City Council
C/O Natawna B. Austin
Room 409, City Hall

RECEIVED
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BALTIMORE CITY COUNCIL
PRESIDENT'S OFFICE

DATE: May 16, 2016

This CCB 16-0627 – Property Tax Credits – City Supplement to Homeowners' Tax Credit Program is for the purpose of establishing a City supplement to the State Homeowners' Property Tax Credit Program.

Analysis

This bill would provide an additional tax credit to certain individuals that receive tax credits under the State's Homeowners' Tax Credit Program. Specifically, a property's owners are eligible for the City supplemental credit if they are eligible for the State Homeowners' Tax Credit and if, as of the end of the calendar year immediately preceding the taxable year for which the credit is sought, they are at least 62 years of age, they have resided in the dwelling for at least 10 years, and they have a combined income of less than $40,000.

The supplemental credit itself is the amount of the real property tax on the dwelling, less the State Homeowners' Tax Credit, less an aggregate of various percentages of portions of the homeowners' combined income. Much like the State Homeowners' Tax Credit, this credit is designed to dictate how much homeowners are required to pay in real property taxes as opposed to giving a fixed credit or a credit based on the value of the property. As such, qualifying homeowners would still owe up to the total value of 3% of their combined income between $12,000 and $16,000, 7% of their combined income between $16,000 and $20,000, and 9% of their combined income over $20,000.

Fiscal Impact

In the previous fiscal year the State Homeowners' Tax Credit awarded $14.15 million in tax credits on the 9,482 properties that qualified for the credit. Of those, 3,164 have property owners that have been residing in their dwellings for less than 10 years. An additional 62 have property owners with combined incomes too high to qualify for the proposed City supplement.

The remaining 6,256 properties that would qualify for the proposed City Supplement are already receiving $8.91 million in State Homeowners' Tax Credits. Of these 6,256

UF /opposes

properties, only 26 would actually be subject to any of the reductions to the supplement based on the combined incomes of the property owners. Accordingly, 6,230 properties would have their City supplement calculated as the difference between the total real property tax on the dwelling and the homestead credits available to that property. This would result in a total of $8.48 million in City supplements. When the Homestead tax credit, the Targeted Homeowners' Tax Credit, and any other special credits received by these property owners are taken into consideration, $8.48 million in City supplements transforms $4.56 million in tax revenue into negative balance account credits of ($3.92) million. Given that there are no restrictions on City Supplements exceeding actual tax liabilities in the current draft of the legislation, the total cost of the legislation in FY2016 would have been the full $8.48 million. If this potential drafting error were corrected, the City Supplement would still have cost the City $4.56 million in lost revenue in FY2016.

Additionally, while the income strata present in the current legislation may have been created with the best of intentions, they currently represent a potential reduction in the amount of the City supplement total of only $18,600. When applied to the actual amounts billed in FY2016, this language accounts for a reduction in the lost revenue of only $8,258. This benefit, even compounded over a length of years, is unlikely to exceed the cost of the labor hours required to program, implement, and monitor such a complex credit variable.

The Department of Finance anticipates this tax credit will create additional complexity and further delay an already complicated real property tax billing process. In light of these complexities and when combined with the additional cost of the credit itself and the cost of the additional labor required to accommodate it, the Department of Finance opposes CCB 16-0627.

CC: William Voorhees
Natawna Austin