

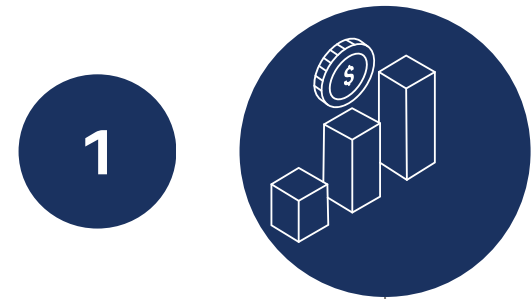
Mayor's Tax Credit Workgroup

Homestead Tax Credit

March 26, 2024



Agenda



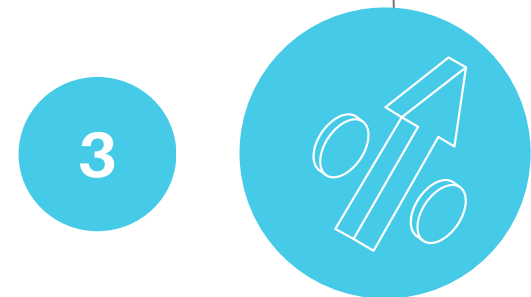
Background

Purpose, Class of Property, Qualifications, Duration



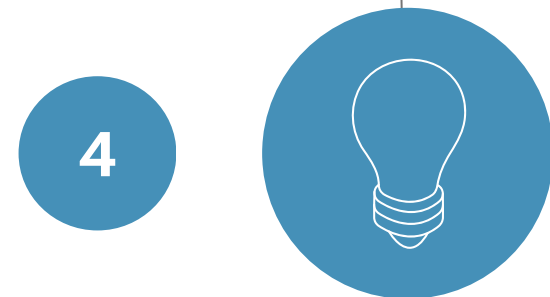
History

Historical Trend, Legislative History



Current State

Current Heat Map, Top Neighborhoods, Neighborhood Examples



Policy Choices

Comparison to Other Counties, Impact of Different Caps

Homestead Tax Credit

Background



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Homestead Tax Credit Basics

1 Purpose

- The tax credit is designed to limit the increase in taxable assessment each year to a fixed percentage, which by State law must be 10% or less.
- In effect, the homeowner is not responsible for any market value assessment increase above the limit.

2 Class of Property

- The Homestead Property Tax Credit applies only to **owner-occupied residential property**.

3 Qualifications

- Homeowners must submit a one-time application confirming that the property is their primary residence.
- The homeowner can claim only one tax credit for this dwelling, and must reside there by July 1st of the taxable year for which the tax credit is granted.

4 Duration

- Indefinite as long as the dwelling is an owner-occupied unit.
- The Homestead Tax Credit expires and resets if there is a transfer of ownership.



Homestead Tax Credit Calculation

The Homestead Tax Credit is calculated by comparing the actual assessed value of the property vs. the assessed value within the allowable Homestead Cap.

Baltimore City has set the allowable Homestead Cap at 4%.

In effect, a homeowner is shielded from paying taxes on the amount of assessed property value that exceeds the 4% cap on an annual basis.

	Actual	Homestead
Assessment Year 1	\$100,000	\$100,000
Assessment Year 2	\$120,000	\$104,000
Tax Rate	2.248%	2.248%
Taxes Owed	\$2,698	\$2,338
Difference		\$360



Homestead Tax Credit

History

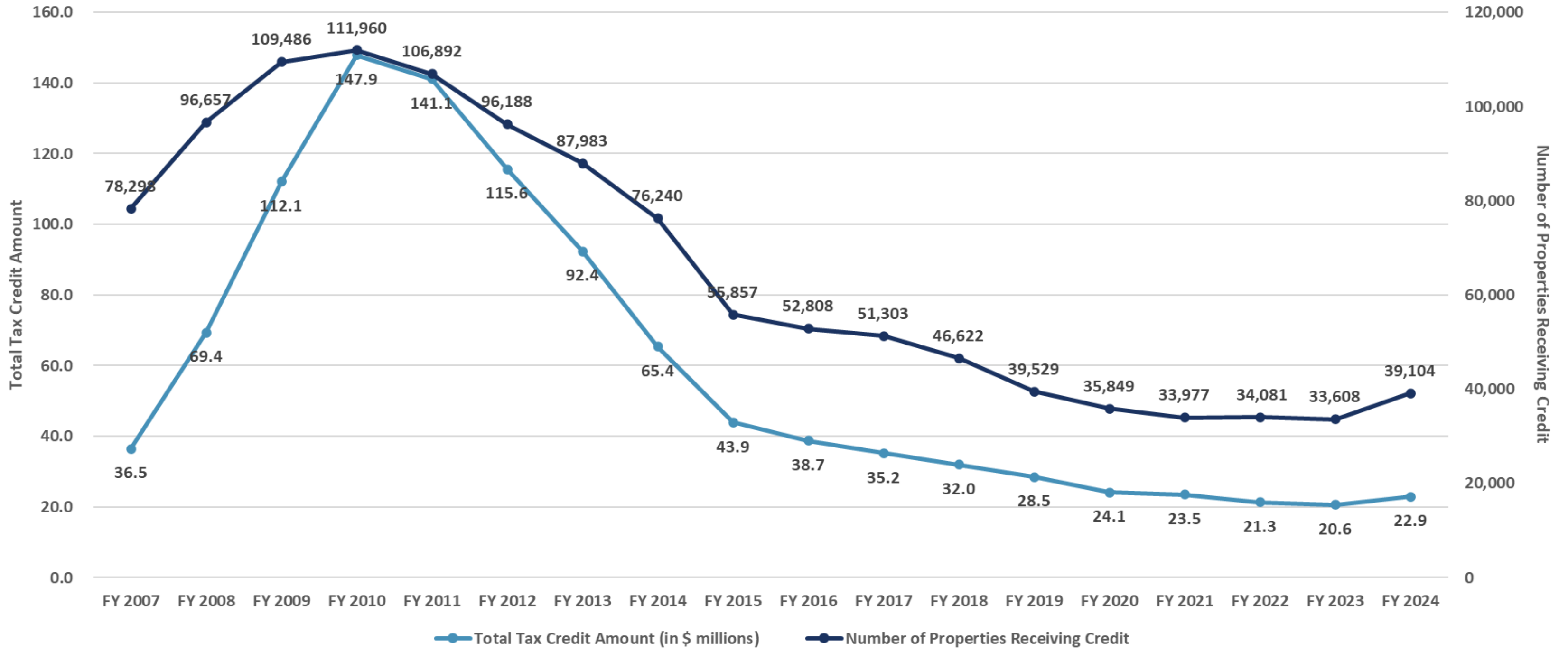


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Homestead Tax Credit - Historical Trend

Homestead Tax Credit Historical Trend
 Total Tax Credit Amount (in \$ millions) and Number of Properties Receiving Credit



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Legislative History

APPLICATION REQUIREMENT (2007)

State legislation requires homeowners to submit a one-time application to continue their eligibility for the Homestead Tax Credit, in response to allegations that property owners were improperly receiving the Credit on vacation homes and rental properties. Final requirement was delayed until December 2012.

PENALTY FOR ABUSE (2012)

State legislation allows SDAT to penalize homeowners for improperly receiving the Credit, at an amount up to 25% of the value of the Credit that was improperly received.

NOTIFICATION AT TIME OF SALE (2021)

State legislation requires the buyer's agent to inform home buyer that they may qualify for Homestead Tax Credit if they plan to live in the home as principal residence, and to present an application at the time of settlement.



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Current State



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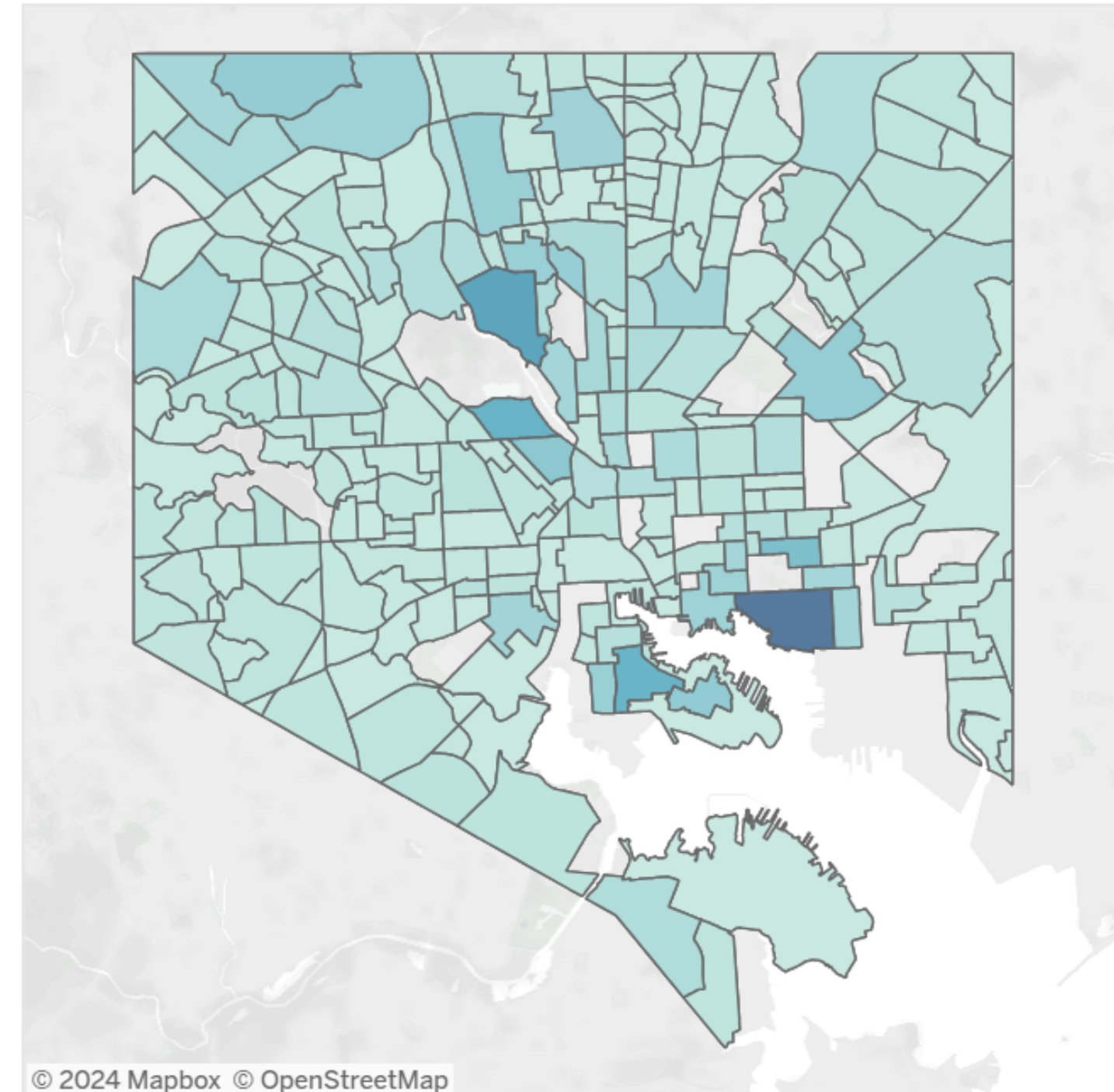
Homestead Tax Credit

Top Neighborhoods

Total Credit Amount
Fiscal 2025

Neighborhood	Total Credit Amount
Canton	\$1,782,957
Hampden	\$1,132,152
Riverside	\$892,885
Locust Point	\$526,625
Cheswolde	\$493,538
Roland Park	\$451,788
Homeland	\$404,188
Mount Washington	\$393,696
Guilford	\$252,236
Frankford	\$165,233

Total Homestead Tax Credit Value by Neighborhood
Fiscal 2025



Total Credit Received



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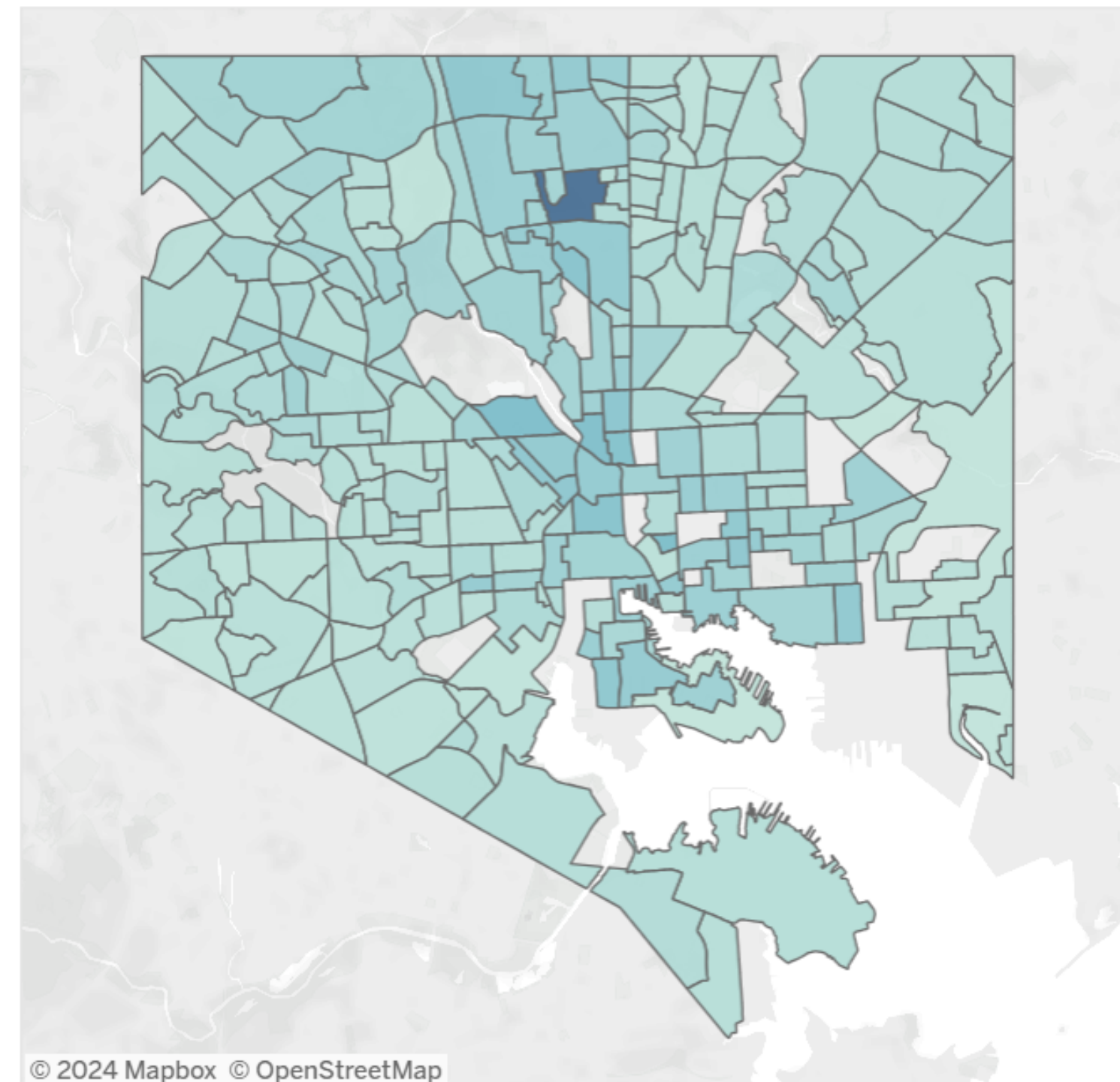
Homestead Tax Credit

Top Neighborhoods

Average Credit Amount
Fiscal 2025

Neighborhood	Average Credit Amount
Loyola/Notre Dame	\$5,121
Pleasant View Gardens	\$1,857
Reservoir Hill	\$1,814
Charles North	\$1,761
Greenmount West	\$1,679
Mount Vernon	\$1,580
Tuscany-Canterbury	\$1,565
Barclay	\$1,482
Madison Park	\$1,417
Butchers Hill	\$1,406

Average Homestead Tax Credit Value by Neighborhood
Fiscal 2025



Average ATC (\$) Amount



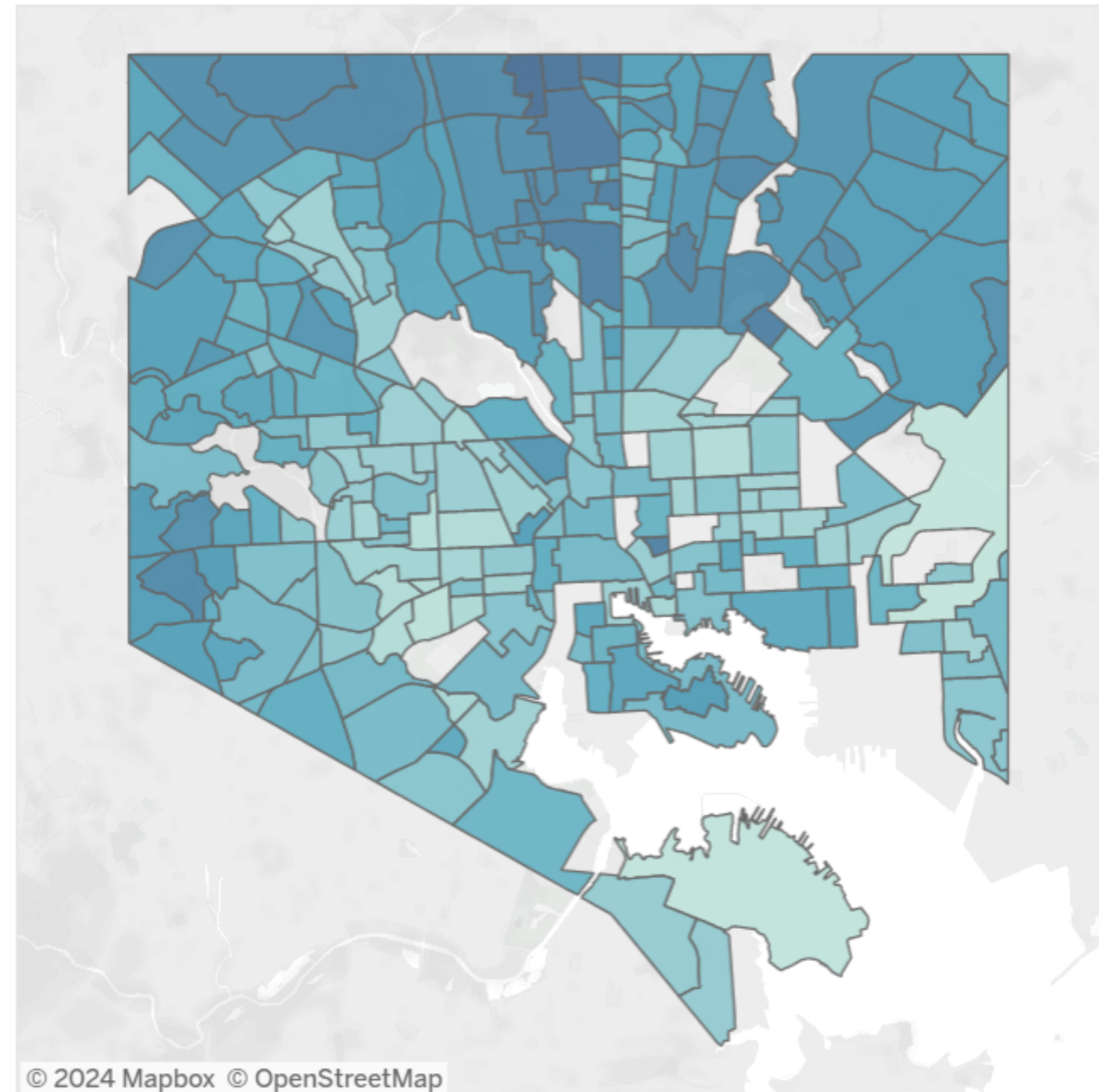
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Homestead Tax Credit

Top Neighborhoods % of Residential Properties Receiving Fiscal 2025

Neighborhood	% of Residential Properties Receiving ATC
The Orchards	82.7%
Bellona-Gittings	78.8%
Cedarcroft	75.8%
Homeland	73.1%
Radnor-Winston	72.6%
Mayfield	72.2%
Guilford	71.2%
Pleasant View Gardens	70.4%
Original Northwood	69.0%
Evergreen	67.1%

Percent of Residential Properties Receiving ATC by Neighborhood
Fiscal 2025



% of Residential Properties Receiving ATC



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Real Homestead Examples



How did the Homestead Tax Credit influence a homeowners' tax burden in three different neighborhoods over the past decade?

1

Growing Property Values

Canton, 811 South Potomac Street

2

Stable Property Values

Bel-Air Edison, 2625 Pelham Ave

3

Declining Property Values

Brooklyn, 417 Annabel Ave



Homestead Case Study #1

Growing Neighborhood: Canton

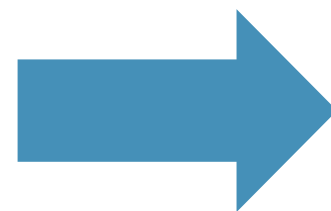
Property Address: 811 South Potomac Street



Fiscal 2014

\$160,800

Assessed Value

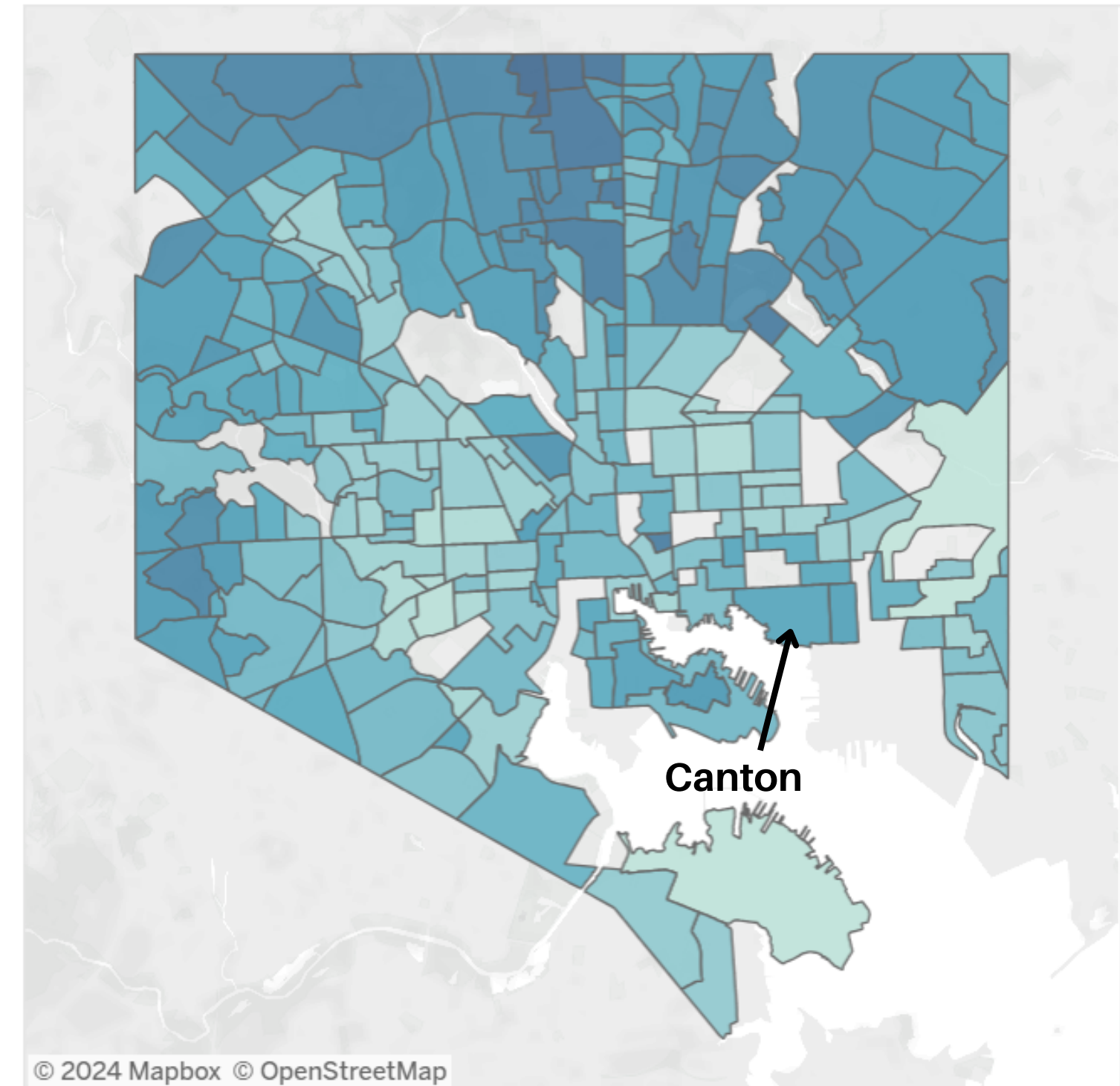


Fiscal 2024

\$309,100

Assessed Value

Percent of Residential Properties Receiving ATC by Neighborhood
Fiscal 2025



% of Residential Properties Receiving ATC



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Homestead Case Study #1

Growing Neighborhood: Canton

Property Address: 811 South Potomac Street

Growing Property	Baseline	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Actual Assessed Value	160,800	173,700	220,400	267,100	313,800	309,400	309,400	309,400	309,100	309,100	309,100
Homestead Assessed Value		151,857	157,931	164,248	170,817	164,248	170,818	177,651	184,757	192,147	199,833
Gross Property Taxes		3,905	4,955	6,004	7,054	6,955	6,955	6,955	6,949	6,949	6,949
Homestead Credit Amount		(491)	(1,404)	(2,312)	(3,214)	(3,263)	(3,115)	(2,962)	(2,795)	(2,629)	(2,456)
Net Taxes Owed		3,414	3,550	3,692	3,840	3,692	3,840	3,994	4,153	4,319	4,492
Net Taxes Owed - Growth			4.0%	4.0%	4.0%	-3.8%	4.0%	4.0%	4.0%	4.0%	4.0%

Notes

- This property is a good example of how a property can benefit for an extended period of time from the Homestead Tax Credit even with just a quick and rapid rise in the property’s assessed value.
- The property assessment grew dramatically between FY 2014 and FY 2018 and then stabilized.
- The actual assessed value in FY 2024 is still over \$100,000 higher than the Homestead assessed value, so this property owner is likely to benefit from the Homestead Tax Credit for many years to come.



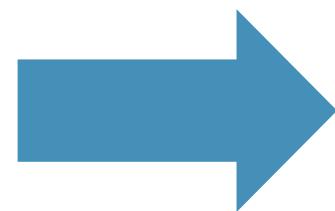
Homestead Case Study #2

Stable Neighborhood: Belair-Edison

Property Address: 2625 Pelham Ave

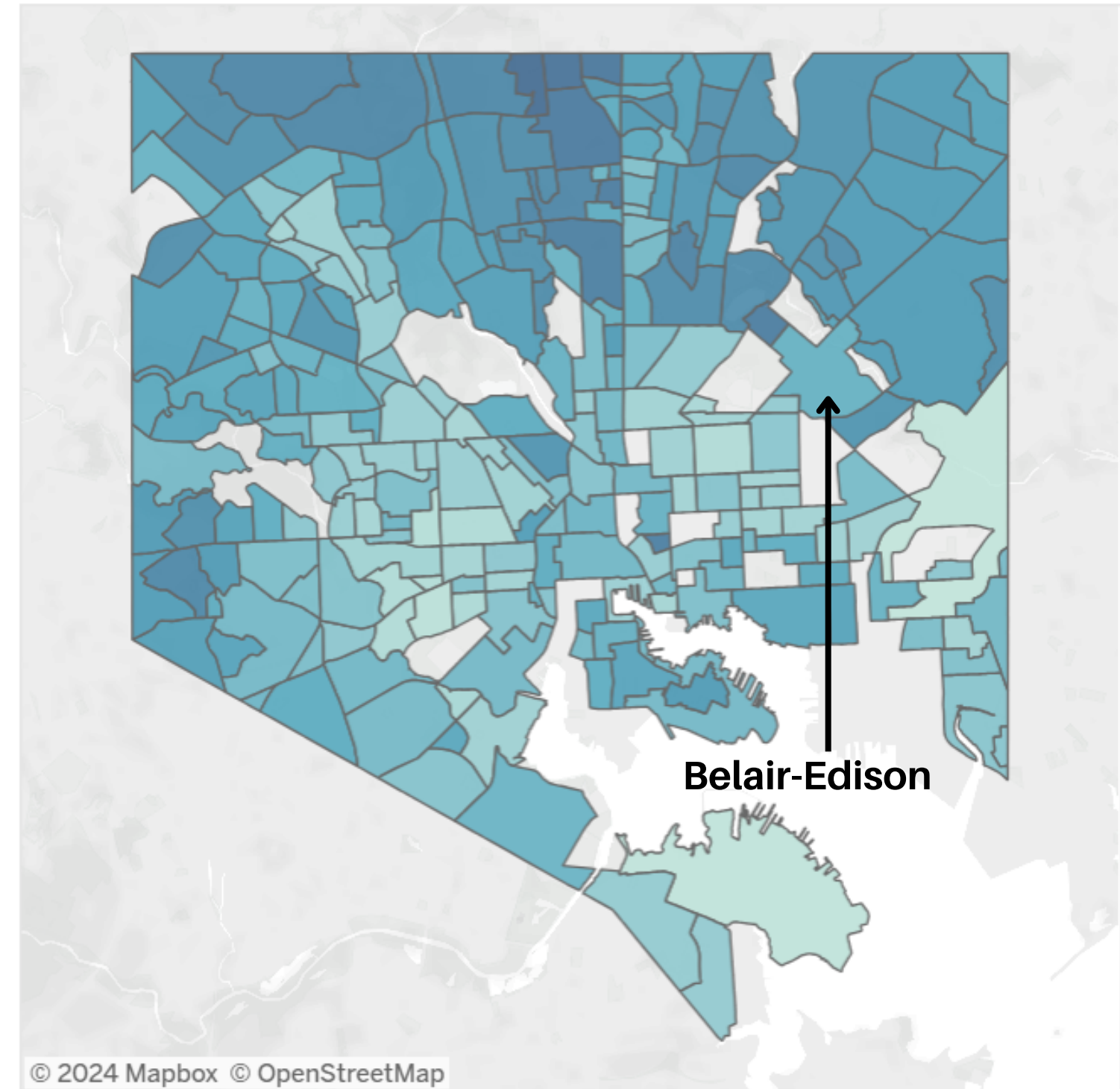


Fiscal 2014
\$105,400
Assessed Value



Fiscal 2024
\$124,900
Assessed Value

Percent of Residential Properties Receiving ATC by Neighborhood
Fiscal 2025



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Homestead Case Study #2

Stable Neighborhood: Belair-Edison

Property Address: 2625 Pelham Ave

Stable Property	Baseline	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Actual Assessed Value	105,400	103,700	103,700	103,700	107,400	111,100	114,800	116,467	118,133	119,800	124,900
Homestead Assessed Value		85,428	88,845	92,399	96,095	99,939	103,937	108,094	112,418	116,915	121,592
Gross Property Taxes		2,331	2,331	2,331	2,414	2,498	2,581	2,618	2,656	2,693	2,808
Homestead Credit Amount		(411)	(334)	(254)	(254)	(251)	(244)	(188)	(128)	(65)	(74)
Net Taxes Owed		1,920	1,997	2,077	2,160	2,247	2,337	2,430	2,527	2,628	2,733
Net Taxes Owed - Growth			4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

Notes

- This property likely has a very long-time homeowner whose property experienced some growth in value prior to FY 2014.
- This property is also a good example of how long a property can benefit from the Homestead Tax Credit even where the assessed value has stabilized.
- The property grew in value an average of 1.8% annually over the past decade, but the homeowners' actual taxes increased 4% per year as the Homestead assessed value caught up with the actual assessed value.



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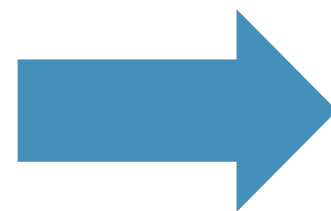
Homestead Case Study #3

Declining Neighborhood: Brooklyn

Property Address: 417 Annabel Ave

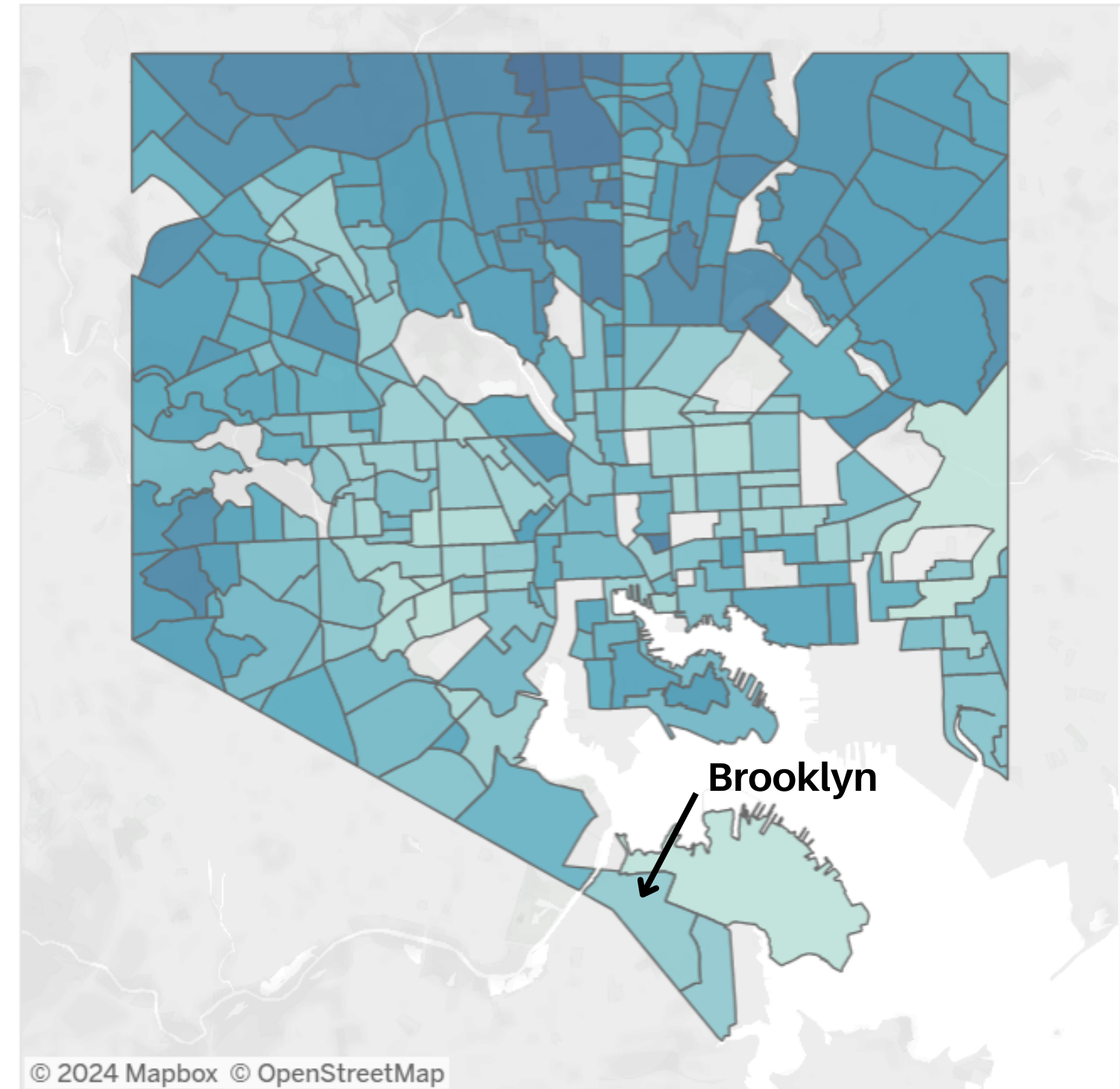


Fiscal 2014
\$98,000
Assessed Value



Fiscal 2024
\$21,000
Assessed Value

Percent of Residential Properties Receiving ATC by Neighborhood
Fiscal 2025



% of Residential Properties Receiving ATC

0.8% 82.7%



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Homestead Case Study #3

Declining Neighborhood: Brooklyn

Property Address: 417 Annabel Ave

Declining Property	Baseline	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Actual Assessed Value	98,000	30,000	41,660	53,400	65,100	50,100	50,100	50,100	56,800	63,500	21,000
Homestead Assessed Value		30,000	41,660	53,400	65,100	50,100	50,100	50,100	52,104	54,188	21,000
Gross Property Taxes		674	937	1,200	1,463	1,126	1,126	1,126	1,277	1,427	472
Homestead Credit Amount		0	0	0	0	0	0	0	(106)	(209)	0
Net Taxes Owed		674	937	1,200	1,463	1,126	1,126	1,126	1,171	1,218	472
Net Taxes Owed - Growth			38.9%	28.2%	21.9%	-23.0%	0.0%	0.0%	4.0%	4.0%	-61.2%

Notes

- This property was not owner-occupied between FY 2015 and FY 2018 and received no Homestead protection, with both the property value and taxes owed growing.
- A new homeowner received some Homestead protection in FY 2022 and FY 2023, but then the Homestead quickly lapsed when the property received a vacant notice and saw a dramatic write-down in assessed value in FY 2024.

Tax Credit Workgroup

Policy Choices & Considerations



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Homestead Tax Cap

How does the City cap compare to other Maryland Counties and Municipalities?

The City has a 4% cap for the Homestead Tax Credit, which ranks near the bottom for Maryland counties and municipalities.

What are the City's options?

State law allows local jurisdictions to choose a cap anywhere between 0% and 10%.

Increasing the City's cap above 4% would lead to additional property tax revenues.

Decreasing the City's cap below 4% would lead to lower property tax revenues.

Maryland Counties	
County	Cap
State of Maryland	10%
Calvert	10%
Montgomery	10%
Somerset	10%
Charles	7%
Caroline	5%
Carroll	5%
Dorchester	5%
Frederick	5%
Garrett	5%
Harford	5%
Howard	5%
Kent	5%
Prince Georges	5%
Queen Anne's	5%
Washington	5%
Wicomico	5%
Allegheny	4%
Baltimore County	4%
Cecil	4%
Baltimore City	4%
St. Mary's	3%
Worcester	3%
Anne Arundel	2%
Talbot	0%

Maryland Municipalities		
Municipality	Cap	County
Gaithersburg	10%	Montgomery
Rockville	10%	Montgomery
Annapolis	10%	Anne Arundel
Laurel	10%	Prince Georges
Hyattsville	10%	Prince Georges
Takoma Park	10%	Montgomery
Easton	10%	Talbot
Aberdeen	10%	Harford
New Carrollton	10%	Prince Georges
Bel Air	10%	Harford
Bladensburg	10%	Prince Georges
Mount Rainier	10%	Prince Georges
Elkton	8%	Cecil
Westmister	7%	Carroll
La Plata	7%	Charles
Frederick	5%	Frederick
Bowie	5%	Prince Georges
Hagerstown	5%	Washington
Greenbelt	5%	Prince Georges
Havre de Grace	5%	Harford
Cambridge	5%	Dorchester
Cumberland	4%	Allegheny
Baltimore City	4%	Baltimore City
Mount Airy	3%	Carroll
College Park	0%	Prince Georges

Note: Municipality list includes all municipalities with population greater than 10,000.



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Homestead Tax Cap

How Does the Cap Impact the City's Budget?

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
2% Cap	(4.0)	(9.3)	(13.7)
4% Cap (Baseline)	0.0	0.0	0.0
6% Cap	3.3	7.0	10.2
8% Cap	6.0	11.6	16.5
10% Cap	8.1	14.7	20.5

Key Takeaways

Even a modest increase in the cap from 4% to 6% would generate an additional \$10.2 million of recurring property tax revenue by FY 2027.

For perspective, if that \$10.2 million were returned as tax relief to all residential owner-occupied properties via the Targeted Homeowners Tax Credit (THTC), the effective property tax rate could be reduced by 5 cents from \$2.048 to \$1.998.

The revenue impacts are highly sensitive to residential assessed value growth. During times of rapidly rising residential values, there is a larger budget impact when increasing the cap.



Homestead Tax Cap

How Does the Cap Impact the Homeowners' Monthly Housing Costs?

Higher-Priced Home						
Example: \$400,000 home with \$300,000 30-year fixed mortgage (5%)						
	<u>Baseline</u>	<u>2% Cap</u>	<u>4% Cap</u>	<u>6% Cap</u>	<u>8% Cap</u>	<u>10% Cap</u>
Mortgage Payment	1,610	1,610	1,610	1,610	1,610	1,610
Property Tax	749	764	779	794	809	824
Home Insurance	<u>125</u>	<u>129</u>	<u>129</u>	<u>129</u>	<u>129</u>	<u>129</u>
Total Monthly Payment	2,484	2,503	2,518	2,533	2,548	2,563
Montly Payment Increase		0.8%	1.4%	2.0%	2.6%	3.2%

Lower-Priced Home						
Example: \$100,000 home with \$75,000 30-year fixed mortgage (5%)						
	<u>Baseline</u>	<u>2% Cap</u>	<u>4% Cap</u>	<u>6% Cap</u>	<u>8% Cap</u>	<u>10% Cap</u>
Mortgage Payment	403	403	403	403	403	403
Property Tax	187	191	195	199	202	206
Home Insurance	<u>125</u>	<u>129</u>	<u>129</u>	<u>129</u>	<u>129</u>	<u>129</u>
Total Monthly Payment	715	722	726	730	734	737
Montly Payment Increase		1.0%	1.6%	2.1%	2.6%	3.1%

Key Takeaways

Fixed rate mortgages make up over 90% of loans nationally.

This partially mitigates the impact of a higher Homestead cap because the largest component of most homeowners' monthly cost is the fixed mortgage payment.

Moving from a 4% to 6% cap would result in an additional cost of **\$15** more per month.



Homestead Tax Cap

What are the arguments for staying at a lower cap?



Live Baltimore Perspective

Annie Milli, Executive Director

- 1 Promotes Buying over Renting
- 2 Retention Strategy
- 3 Social Contract



Are there other alternatives to consider?

- **Fixed-Dollar Cap**

- Some states provide a fixed-dollar homestead exemption rather than limiting assessment growth on a percentage basis.
- Under Maryland law, this could be partially achieved by setting the highest possible Homestead cap (10%) and then providing a fixed-dollar tax credit to owner-occupied homes.
- Montgomery County does this by setting a high Homestead cap (10%) and then offering a flat “Income-Tax Offset Credit” of \$692 per household.



- **Deferral Programs**

- Under this program a homeowners’ tax liability above the cap is deferred until the property is sold.
- Upon sale the accumulated unpaid taxes are repaid to the City as a lien against the property.
- This provides the same protection to homeowners but allows the City to recapture the lost property tax revenue upon the sale of property.
- Montgomery County allows residential homeowners to defer property tax payment with interest if they have occupied their home for at least five years.



Other Observations

Efficiency

1

The Homestead tax creates friction in the local housing market. The Homestead cap resets upon transfer of property, which encourages longer-term homeowners to stay in their property to retain the tax benefit.



Equity

1

The Homestead Tax Credit is vertically regressive, as higher-valued properties tend to experience greater growth in value and reap more benefit from the Homestead.

2

The Homestead Tax Credit is horizontally inequitable, as newer homeowners with shorter terms of residency face a higher effective tax rate than longer-term homeowners.

Discussion and Deliberation

- 1 Should the City consider a higher or lower Homestead tax cap? Why or why not?
- 2 Would setting a different Homestead cap have a noticeable effect on homeowners? How would it impact the housing market?
- 3 If we could make changes to the State law governing this program, what would we advocate for?
- 4 Are there any other factors that we should be considering?



Tax Credit Workgroup

Wrap-Up



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