

MEMORANDUM

February 21, 2013

TO: Government Operations and Fiscal Policy Committee
FROM: Jacob Sesker, Senior Legislative Analyst 
SUBJECT: Briefing—Homestead property tax credit compliance

The Department of Finance will present an update of current efforts of the Compliance Unit, established in 2012. The Compliance Unit is in the process of identifying owners of residential real property who may be renting a residential unit while also receiving tax credit benefits intended only for owner-occupants. The following individuals will be present for this briefing: Joe Beach, Director; Robert Hagedoorn, Treasurer; James Babb, Tax Operations Manager; Mary Ann Dolan, Homestead Compliance.

Background

Only owner-occupied residential accounts are eligible for the County's Homestead Credit and Property Tax Credit (Income Tax Offset Credit) programs. However, many ineligible accounts have also been receiving these credits—for example, rental properties, bank-owned foreclosures, and residences that are not principal residences. Each ineligible property that receives the credit in effect increases the tax burden that must be borne by all property owners.

In FY13 this Committee recommended, and the Council approved, a budget for the Department of Finance which included a new position created for the purpose of identifying, contacting, and billing these accounts. The Committee correctly anticipated that this position would generate sufficient revenues to not only cover its costs, but provide additional revenues as well.

Identifying and notifying non-compliant accounts

The Compliance Unit searches for ineligible accounts by reviewing MRIS (a multiple listings service) and the DHCA Rental List. Most of the accounts identified to date have been identified using the MRIS website. *See Compliance Unit Overview, © 1.* Each week, Finance sends a list of non-compliant accounts to SDAT. SDAT verifies the list and changes the codes from "H" (homeowner occupied) to "N" for levy year 2012.

SDAT notifies the County after SDAT changes the code. The County then prepares and mails a letter to the property owner on SDAT's behalf. *See SDAT Verification Letter, © 3.* The County then prepares and mails a second letter from the County to the property owner informing the property owner that they will be billed for credits received in levy years 2009, 2010, and 2011. Of course, property owners who were eligible to receive the tax credit for any or all of those levy years may provide supporting documentation that the residence was in fact their principal residence during that time. *See County Verification Letter, © 4.* The County sends bills to the property owners 45 days after the letter from the County is sent.

Results as of January 30, 2013

To date, 1,956 accounts have been identified and have been sent to SDAT for verification; 999 of these have been verified. The County has sent bills to 216 accounts and has received \$134,206 to date. *See Compliance Unit Overview, © 1.* Finance estimates that these accounts potentially represent a return to County taxpayers of \$5,421,298 for credits received during 2009-2012. *See Spreadsheet, © 5.* That amount does not include approximately 2,500 properties that were identified through the Compliance Unit's review of the DHCA Rental List but which have not yet been verified by SDAT.

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Compliance Unit Overview

The Compliance Unit was established May 2012, and the following data encompass all research from June 1, 2012 through January 30, 2013. This is a summation of the Homestead Compliance research process and results.

Process

1. Search rentals for non-compliant accounts. The two main sources are MRIS (a regional multiple listings service) and the DHCA Rental List.
2. Send weekly non-compliant list to SDAT.
3. SDAT verifies the list and changes codes from H to N for 2012.
4. SDAT informs the County when to prepare and mail SDAT Verification Letters to the changed accounts. The County mails the Verification Letters on behalf of SDAT.
5. County Verification Letters are prepared and mailed. The letter informs the homeowner that they will be back billed to 2009, 2010, and 2011 if supporting documentation is not received in a timely manner. These letters have not been sent yet. The SDAT Verification Letters and the County Verification Letters will be mailed around the same date.
6. 45 days after the date the County Verification letters are sent, County bills are sent.
7. The attached spreadsheet tracks Potential County Credit, County Credit Billed, and County Credit Received from Homeowners

Methods

The majority of the accounts have been found by searching rentals listed with the MRIS website. The research dates were isolated to July 2010 – present, and the rentals are searched in one-week blocks moving forward. We are currently in April 2012 and systematically moving toward the present.

The Compliance Unit receives the bi-annual DHCA Rental List. The entire list of about 3,500 accounts is analyzed to delete blocks of accounts that do not need correcting by SDAT. Additional information is researched and added to each account in an effort to help SDAT expedite correcting the accounts, and for our own tracking purposes. The most recent DHCA Rental List resulted in approximately 2,500 accounts that needed to be changed. These accounts have not yet been added to the spreadsheet, but are expected to be included in February, March, and April as each block of information is prepared for sending to SDAT.

Data and Results

The results of the research are compiled in the accompanying spreadsheet. The spreadsheet tracks the process from the initial research to receiving revenue from the homeowner. As of January 30, 2013, an SDAT Verification Letter was mailed to each of the corrected accounts.

The totals as of January 30, 2012 are as follows:

1. \$5,421,298 in Potential County Credit. This total includes the revenue expected from the 2012 billing, and back billing 2009, 2010, and 2011.
2. 1,956 accounts have been identified as non-compliant and sent to SDAT for correction.
3. 999 accounts have been changed by SDAT. SDAT Verification Letters were sent.
4. 216 revised 2012 bills have been sent, 194 have been paid, resulting in \$134,208 received from the non-compliant homeowners.

Our research shows that a conservative estimate of 12% of the searched accounts reveal non-compliant homes. That percentage is expected to decrease as accounts are corrected.

Potential Negatives

1. Although a lot of effort is taken to ensure accurate information for the Homestead Compliance List entries, it is expected that a small percentage of errors cannot be avoided. Some accounts may have been listed that are no longer rentals, or are receiving a bill at a different address for a family member living in the subject property, or had a transfer of ownership. These particular accounts will be corrected upon receiving supporting documentation from the homeowner.
2. We can expect to receive many inquiries from the public via phone, email, and fax. It will take a substantial amount of time to handle them.
3. The Compliance Unit cannot move forward on sending letters and/or bills until SDAT makes the changes requested by the County. This has slowed progress considerably because SDAT has limited resources and many tasks. They have been a great help in making this process successful, but they simply don't have the resources to update the changes as they receive them from the County. Given SDAT's limited resources, they are doing a commendable job for the County and are well appreciated.

Going Forward

The process has nearly run full circle. A decision was made to back bill 2009 - 2011 bills for the rebate credit only, in addition to the full credits for the 2012 billing. The Compliance Unit will soon be mailing County Verification Letters and bills. When the credits are received from the homeowners, the process is complete.

Date

Name

Address

Address

Dear Maryland Property Owner:

This Department is requesting verification for the mailing address and occupancy status for your property. The Department requires one of the following forms of verifications: primary owner's Driver's License, Voter Registration Card, Federal and or State Income Tax Returns. If you wish to change your mailing address at this time, please use the enclosed Change of Address Form. Please have your verification document(s) and or change of address form mailed back to this office within the next thirty (30) days. If you have any questions, please call our office at the number listed below.

Thank you for your cooperation with this matter.

Definition of Owner Occupied

An "owner occupied " property is defined as the principal residence of a homeowner which is actually occupied for more than 6 months of the year and which is used by the homeowner as the address for purposes of voting, obtaining a driver's license and filing a tax return. Only one residence may be designated as your principal residence.

Re: Adress

Address

Account Number

Date

Name

Address

Address

Dear Montgomery County Property Owner:

The Compliance Unit of the Montgomery County Department of Finance has begun conducting ongoing research to verify Homestead Compliance. The purpose of the research is to identify non-compliant accounts -- those homes with Owner Occupied status that are not occupied by the owner for more than half the year. As a result of a recent search, your property at the address listed below was shown to be non-compliant by the Maryland State Department of Assessments and Taxation (SDAT) and the record has been adjusted for 2012 to reflect the change.

In an effort to recoup credits from incorrectly coded accounts, all non-compliant accounts will be back billed for the credits received for Levy Years 2009 - 2011. This will only effect the credits given by Montgomery County. It will not effect the SDAT credits.

It is not necessary to respond to this letter unless the subject property was Owner Occupied for more than 6 months in each of 2009, 2010, and 2011. Supporting documentation verifying the Owner Occupied status of the subject property must be received by this office within thirty (30) days of the date of this letter. Montgomery County requires that the homeowner provide any supporting documentation showing that, during that time, the Subject Property was your Primary Residence.

**Subject Property: Address
Address
Account Number**

If supporting documentation is not received in a timely manner, back billing preparation will begin and you will receive a bill for credits due. If you have any questions, please call Montgomery County's information line: 240-777-0311.

Definition of Owner Occupied (Primary/Principal Residence) Property

An "Owner Occupied " property is defined as the principal residence of a homeowner which is actually occupied for more than 6 months of the year and which is used by the homeowner as the address for purposes of voting, obtaining a driver's license and filing a tax return. Only one residence may be designated as your principal residence.



DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

Joseph P. Beach
Director

To: James Babb, Tax Operations Manager
From: Mary Ann Dolan, Homestead Compliance
Subject: Non-Compliant Tax Credit Tracking

Date: January 30, 2013
Data as of: January 30, 2013

FY 2012		Potential County Credit					Sent to All Changed Accts				County Credit Billed		County Credit Received		
Month	Accts Sent to SDAT	2009	2010	2011	2012	Total	SDAT Chngd	SDAT Ltrs Sent	MoCo Ltrs Sent	MoCo Bills Sent	2012	Total	2012	Total	
June	274	\$690	\$692	\$692	692 + all County Credits		269	08/17/12		207	143,204	143,204	128,672	128,672	
FY 2013															
July	185	127,650	128,020	128,020	127,732	511,422	185	08/17/12		9	6,228	6,228	5,536	5,536	
August	171	117,990	118,332	118,332	120,905	475,559	171	11/28/12			-	-	-	-	
September	374	258,060	258,808	258,808	260,843	1,036,519	374	11/28/12			-	-	-	-	
October	331	228,390	229,052	229,052	231,434	917,928	-				-	-	-	-	
November	274	189,060	189,608	189,608	188,124	756,400	-				-	-	-	-	
December	20	13,800	13,840	13,840	13,840	55,320	-				-	-	-	-	
January	327	225,630	226,284	226,284	230,398	908,596	-				-	-	-	-	
February	-	-	-	-	-	-	-				-	-	-	-	
March	-	-	-	-	-	-	-				-	-	-	-	
April	-	-	-	-	-	-	-				-	-	-	-	
May	-	-	-	-	-	-	-				-	-	-	-	
June	-	-	-	-	-	-	-				-	-	-	-	
YTD Totals:	1,682	1,160,580	1,163,944	1,163,944	1,173,277	4,661,745	730			9	6,228	6,228	5,536	5,536	
Totals To Date															
	1,956	1,349,640	1,353,552	1,353,552	1,364,554	5,421,298	999			216	149,432	149,432	134,208	134,208	

- 1,956 Accounts have been identified by the Compliance Unit as non-compliant
- 999 Accounts have been changed by SDAT (269 for LY 2011, 730 for LY 2012)
- 216 Bills have been sent by the County, totaling \$149,432
- 194 Bills have been paid, totaling \$134,208 received by the County
- Back billing for 2009, 2010, and 2011 rebates only will begin soon