Bill 3-25 Homeowners' Property Tax Credit – County Supplement – Amendments

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 3-25 would have a positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By expanding eligibility for the local supplement to the state's Homeowner's Property Tax Credit (HOTC), the Bill would reduce property tax liabilities for certain residents who are currently ineligible to receive the credit. Holding all else equal, reduced property tax liabilities would reduce nondiscretionary household expenses, effectively increasing net household income for these recipients. In addition, based on OLO's review of impact evaluations on the economic impacts of property tax relief, the Bill may reduce mobility among certain new recipients of the credit, which, in some cases, may prevent moves induced by mortgage foreclosure or property tax liens. Finally, because new recipients likely would use a portion of the property tax savings to spend on goods and services produced by County-based businesses, certain businesses' revenue and income would likely increase.

BACKGROUND AND PURPOSE OF BILL 3-25

The County levies a real estate property tax on residential property owners. A **property tax credit** directly reduces the amount of tax owed by eligible homeowners. Taxpayers determine their final tax liability by subtracting applicable credits from their total tax obligation.[1] Policymakers use property tax credits to provide financial relief to homeowners and incentivize certain behaviors. However, these credits also reduce overall tax revenue available for other public goods (i.e., commodities and services that benefit all members of the public).

The County offers various property tax credits for homeowners, including a local supplement to the state's HOTC.[2] The state's HOTC is available to applicants with a total income under $60,000 and a net worth below $200,000.[3] The credit applies to the first $300,000 of assessed value and is structured progressively by providing larger credits on their property taxes to lower income households.[4] Under state law (Tax-Property § 9-215), the County may adjust the income and net worth criteria, the amount of the County supplement, the portion of assessed value eligible for the credit, and the credit calculation based on a sliding scale tied to the homeowner's income level.[5]

[1] Center on Budget and Policy Priorities, "Policy Basics: Tax Exemptions, Deductions, and Credits," November 24, 2020.
[2] For a list of property tax credit programs, see Department of Finance, "Tax Expenditure Report: Property Tax Credits, Tax Deferral, and Tax Exemptions (FY24)" (Department of Finance, Montgomery County Government, October 2024).
[3] Christine Wellons, *Memorandum to County Council on Bill 3-25*, February 6, 2025, in *Introductory Staff Report for Bill 3-25 - Homeowners' Tax Credit - County Supplement - Amendments*.
[4] Montgomery County Council, "Committee Introduces Bill to Increase Eligibility for Homeowners Property Tax Credit," news release, February 11, 2025.
[5] Wellons, *Memorandum on Bill 3-25*.

Bill 3-25 aims to expand eligibility for the County's supplement to the HOTC by:[6]

- Raising the combined income eligibility level from $60,000 to $75,000;
- Increasing the net worth criteria from $200,000 to $250,000; and
- Expanding the assessed value from $300,000 to $375,000.

Additionally, the Bill would maintain the progressive structure of the property tax credit, while increasing the amounts for each gross income threshold. All dollar amounts specified in the Bill would be adjusted annually by the Consumer Price Index for All Urban Consumers (CPI-U) for the Washington-Arlington-Alexandria Core Based Statistical Area.[7]

The Council introduced Bill 3-25 on February 11, 2025.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

As required by 2-81B of the Montgomery County Code, this Economic Impact Statement evaluates the impacts of Bill 3-25 on residents and private organizations in relation to Council's priority economic indicators. In doing so, it examines whether the Bill would have a net positive or negative impact on overall economic conditions in the County.[8]

Methodology and Information Sources: To assess the Bill's economic impacts, this analysis draws on Economic Impact Statements from previous legislation on property tax credits and *impact evaluations* to identify empirically well-established effects of such credits on economic outcomes. Impact evaluations are a key tool of evidence-based policymaking that are designed to assess the cause-and-effect relationships between a policy or program and specific economic outcomes.[9,10]

This analysis focuses on the following peer-reviewed articles:

- Hanson, Andrew (2021), "Taxes and Economic Development: An Update on the State of the Economics Literature," *Economic Development Quarterly*
- Kim, Jinyhup, and Casey Dawkins (2021), "Aging, Property Taxes, and Housing Adjustments: Lessons From the Health and Retirement Study," *Housing Policy Debate*
- Mouiton, Waller, and Wentland (2018), "Who Benefits from Targeted Property Tax Relief?" *Journal of Policy Analysis and Management*
- Spreen and Keddington (2023), "Temporary Property Tax Relief and Residential Home Sales," *National Tax Journal*

[6] Montgomery County Council, "Committee Introduces Bill to Increase Eligibility for Homeowners Property Tax Credit,"
[7] Montgomery County Council, *Introductory Staff Report for Bill 3-25 - Homeowners' Tax Credit - County Supplement - Amendments*, February 11, 2025.
[8] "Sec. 2-81B, Economic Impact Statements," Montgomery County Code.
[9] Paul J. Gertler et al., *Impact Evaluation in Practice, Second Edition* (Washington, DC: Inter-American Development Bank and World Bank, 2016).
[10] Priority is given to studies that use quasi-experimental methods over non-experimental studies because the former are better able to identify the causal effects of a policy intervention from outcomes correlated with, but unrelated to, the intervention due to unmeasured confounding and other threats to causal inference.

In later sections of this analysis, OLO reviews these studies to draw evidence-based conclusions about the impacts of property tax credits on specific outcomes. These conclusions, along with findings from other sources cited in this report, are the primary basis on which OLO infers the economic impacts that the Bill would have on businesses, residents, and overall economic conditions in the County.

Scope of Analysis: The economic impacts of the Bill would primarily depend on its effects on the total number of residents eligible to receive the property tax credit and the total amount of credits disbursed on an annual basis. Since the County would use tax revenue to fund these credits, the transfer from the County to recipients would not generate a net increase in economic activity. Therefore, the Bill's overall economic impact hinges on two key factors:

1. The annual economic effects on County residents and businesses resulting from reduced property tax liabilities for recipients.

2. The annual economic opportunity cost of the forgone County revenues.

Because OLO cannot determine how the County would otherwise allocate the forgone tax revenue if the Bill were not enacted, this analysis does not consider the economic impacts of alternative government spending. Instead, the scope is limited to assessing the economic effects of reduced property tax liabilities for residents who would not receive the credit under current law.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 3-25 are the following:

- total number of property tax credit recipients
- total property tax savings for recipients
- residential property values
- residential mobility

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Impact Evaluations

Rising home values increase property wealth but also lead to higher property tax liabilities for homeowners. Higher property taxes can be especially burdensome for homeowners who have low incomes, depend on retirement or disability payments, or face other financial constraints. In response to rising property tax burdens, some homeowners may downsize, to a smaller home, shifting to renting within their current jurisdiction, or relocate to areas with lower taxes.[11] To mitigate these financial pressures, many state and local governments

[11] Thomas Luke Spreen and Colton Keddington, "Temporary Property Tax Relief and Residential Home Sales," *National Tax Journal* 76, no. 3 (September 2023): 593–620; Jinyhup Kim and Casey Dawkins, "Aging, Property Taxes, and

have implemented targeted property tax relief programs designed to assist low-income households, seniors, individuals with disabilities, and veterans.

There is a substantial body of research on the economic impacts of property tax exemptions, with much of the existing literature focusing on programs designed for seniors. These programs are typically permanent and portable across properties within a given state or locality. Studies consistently find that such programs have two primary effects:[12]

(1) Reduce senior homeowner mobility: Property tax relief programs have been found to decrease mobility among senior homeowners. This effect is significant because it suggests that such programs may help prevent home sales driven by financial distress, such as tax lien sales or mortgage foreclosures.

Spreen and Keddington (2023) examined whether the effects observed in permanent senior property tax relief programs also apply to the temporary programs implemented in Maryland counties, including Montgomery County, beginning in 2017. Their findings indicate that "the balance of the empirical results suggest that temporary [senior] property tax relief did not significantly affect the home sales decisions of eligible homeowners during the benefit period."[13]

(2) Increase property values: Property tax relief programs have also been shown to increase property values, a phenomenon linked to property tax capitalization. This occurs when tax relief increases demand for homeownership among the beneficiaries, leading to higher home prices. This outcome disproportionately benefits current homeowners at the time of the policy change, regardless of whether they belong to the targeted group.[14] In contrast, "the corresponding homeownership cost hikes may potentially offset some or all of the tax relief benefit among future homeowners in the targeted groups, who subsequently purchase homes at higher prices."[15]

Moulton et al. (2019) examined Virginia's property tax relief program for disabled veterans and found that "areas with high proportions of veterans experienced an 8.1 percent increase in property prices, while areas with relatively fewer veterans report no statistically significant effect." This suggests that the extent to which property tax relief affects home values may depend on the share of eligible homeowners within a given housing market.

Housing Adjustments: Lessons From the Health and Retirement Study," *Housing Policy Debate* 31, no. 6 (November 2, 2021): 947–66.

[12] Spreen and Keddington, "Temporary Property Tax Relief and Residential Home Sales"; Andrew Hanson, "Taxes and Economic Development: An Update on the State of the Economics Literature," *Economic Development Quarterly* 35, no. 3 (August 1, 2021): 232–53; Kim and Dawkins, "Aging, Property Taxes, and Housing Adjustments."

[13] Spreen and Keddington, "Temporary Property Tax Relief and Residential Home Sales."

[14] Jeremy G. Mouiton, Bennie D. Waller, and Scott A. Wentland, "Who Benefits from Targeted Property Tax Relief? Evidence from Virginia Elections," *Journal of Policy Analysis and Management* 37, no. 2 (April 1, 2018): 240–64.

[15] Ibid.

Residents

OLO anticipates that Bill 3-25 would have a positive impact on certain residents in the County in terms of the Council's priority economic indicators.

The Bill would primarily impact homeowners who would not receive the credit under current law by reducing property tax liabilities. As shown in Table 1, recent data from Department of Finance shows that the average credit per recipient ranged from $1,024 in 2019 to $1,276 in 2023. Holding all else equal, lower property tax liabilities would decrease nondiscretionary household expenses, effectively increasing net household income for these recipients.

Table 1. County's supplement to the HOTC[16]

Levy Year	Recipients	Credit Amount	Average Amount
2023	4,486	$5,725,147	$1,276
2022	4,002	$4,857,854	$1,214
2021	3,842	$4,536,883	$1,181
2020	4,079	$4,758,884	$1,167
2019	4,424	$4,529,412	$1,024

Based on impact evaluations on the effect of permanent senior property tax relief on residential mobility, the Bill may reduce mobility for new recipients of the tax credit. In some cases, it could prevent moves induced by mortgage foreclosure or property tax liens, reducing the financial costs associated with unwanted relocations.

The Bill's potential impact on property values in local housing markets within the County is uncertain. As discussed earlier, research suggests that property tax relief programs can increase home prices, but this effect may depend on the share of homeowners eligible for the credit in each local market.

OLO does not have estimates on the number of residents who would meet the new eligibility requirements for the credit and, therefore, cannot assess the concentration of new recipients in local housing markets in the County. But if the concentration is too low to influence property values, future recipients would benefit from reduced tax liabilities without facing offsetting increases in home prices.

Beyond these potential impacts, OLO does not expect the Bill to affect residents in terms of the Council's other priority indicators.

[16] Department of Finance, "Tax Expenditure Report (FY24)."

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Bill 3-25 would have positive impacts on certain private organizations in the County in terms of the Council's priority economic indicators.

By decreasing nondiscretionary household expenses, the Bill may lead to some residents allocating a portion of their property tax savings toward goods and services provided by County-based businesses. Holding all else equal, this increased spending would generate higher revenue and income for these businesses.

However, by reducing homeowner mobility, the Bill could have a negative impact on certain residential real estate firms if it leads to a reduction in home sales.

Beyond these potential impacts, OLO does not expect the Bill to affect private organizations in terms of the Council's other priority indicators.

Net Impact

OLO anticipates that Bill 3-25 would have a positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By expanding eligibility for the local supplement to the state's HOTC, the Bill would reduce property tax liabilities for certain residents who are currently ineligible to receive the credit. Holding all else equal, reduced property tax liabilities would reduce nondiscretionary household expenses, effectively increasing net household income for these recipients. In addition, based on OLO's review of impact evaluations on the economic impacts of property tax relief, the Bill may reduce mobility among certain new recipients of the credit, which, in some cases, may prevent moves induced by mortgage foreclosure or property tax liens. Finally, because new recipients likely would use a portion of the property tax savings to spend on goods and services produced by County-based businesses, certain businesses' revenue and income would likely increase.

DISCUSSION ITEMS

Not applicable

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration.

AUTHOR

Stephen Roblin (OLO) prepared this report.