

# Assessment of the Principal Residence Tax Credit

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# CountyStat Principles

- **Require Data-Driven Performance**
- **Promote Strategic Governance**
- **Increase Government Transparency**
- **Foster a Culture of Accountability**



# Agenda

- Welcome and introductions
- Meeting goal and purpose
- Scope of principal residence tax credits
- Data analysis & current administrative processes
- Recommendations
- Wrap-up and follow-up items



# Meeting Goal

## Purpose

- To assess the breadth and financial impact of properties erroneously receiving principal residence tax credits
- To discuss potential approaches in reducing the number of credits given in error

## Key Issues:

- Magnitude of known unlicensed rental properties whose owners receive tax credit
- Lag in state updating of tax assessment data, resulting in lost tax collections for both State and County



# Overview: Property Tax Credit Programs

## State of Maryland & Montgomery County

Eligibility for the majority of credits is determined by the Maryland State Department of Assessments and Taxation (SDAT). SDAT determines whether a property is a “principal residence” (i.e. owner-occupied) making it eligible for the County’s largest tax expenditures: (1) homestead credit, and (2) local income tax offset credit (property tax credit).

Tax Credit	Qualification Details
<b>Homestead Property Tax Credit</b>	<ul style="list-style-type: none"> <li>Assists homeowners with the fiscal impact from large assessment increases by limiting the annual taxable assessment increase to a rate set annually by county resolution between 1% and 10%.</li> <li>Administered by SDAT and applied only to <u>owner-occupied residential dwellings</u>.</li> </ul>
<b>Property Tax Credit – Local Income Tax Offset</b>	<ul style="list-style-type: none"> <li>Offsets increases in the county income tax revenues resulting from a county income tax rate in excess of 2.6%.</li> <li>Available only to the <u>owner of an owner-occupied residential property</u>, as determined by SDAT.</li> </ul>
<b>Supplemental Homeowner’s Property Tax Credit</b>	<ul style="list-style-type: none"> <li>Provides tax credits for homeowners who qualify on the basis of their household income as compared to their tax bill.</li> <li>Administered by SDAT.</li> <li>Pertains only to County property taxes; this credit does not require a separate application, taxpayers must apply for the state Homeowner’s Tax Credit to be considered for the supplemental.</li> </ul>
<b>Senior Property Tax Credit</b>	<ul style="list-style-type: none"> <li>If you are at least 70 years of age, you will automatically receive the Montgomery County Senior Property Tax Credit if you receive either or both of the Maryland and Montgomery County Tax Credits.</li> </ul>

**Source: Dept. of Finance, “Tax Expenditure Report, Property Tax Credits, Tax Deferral, and Tax Exemptions, Montgomery County, MD, June 2009”**



# Overview: Property Tax Credit Programs

## Key Terms

- **"Homeowner" means an individual who:**
  - has a legal interest in a dwelling or who is an active member of an agricultural ownership entity that has a legal interest in a dwelling.
- **"Dwelling" means a house that is:**
  - used as the principal residence of the homeowner; and
  - actually occupied or expected to be actually occupied by the homeowner for more than 6 months of a 12-month period beginning with the date of finality for the taxable year for which the property tax credit under this section is sought

*Maryland Code, Title 9. Property Tax Credits and Property Tax Relief § 9-105. Homestead property tax credit*



# County Fiscal Impact

## Homestead Property Tax Credit

Distributed Homestead Property Tax Credit, 2000-2008

Levy	Credit Amount (\$)	Rate	Recipients	% of Homeowners
<b>2000</b>	\$481,785	10%	2,197	1%
<b>2001</b>	\$1,151,871	10%	7,298	3%
<b>2002</b>	\$2,731,549	10%	21,082	9%
<b>2003</b>	\$13,375,985	10%	91,032	37%
<b>2004</b>	\$37,831,123	10%	150,237	60%
<b>2005</b>	\$80,701,935	10%	201,490	78%
<b>2006</b>	\$135,035,604	10%	214,368	83%
<b>2007</b>	\$193,762,295	10%	225,214	87%
<b>2008</b>	\$214,432,827	10%	223,711	86%

To assist homeowners with the fiscal impact from large assessment increases, the Homestead Property Tax Credit program limits the annual taxable assessment increase to a rate set annually by county resolution between 1% and 10%.



**Source: Dept. of Finance, "Tax Expenditure Report, Property Tax Credits, Tax Deferral, and Tax Exemptions, Montgomery County, MD, June 2009"**

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# Homestead Credit Percent Limits

## County & Municipal

County	Percent Limit	Date of Action	Received by Department
Anne Arundel	102%	10/25/2002	11/1/2002
Baltimore City	104%	12/15/1992	12/23/1992
Baltimore	104%	9/7/1993	9/13/1993
Frederick	105%	6/23/2005	7/5/2005
Howard	105%	12/8/1992	12/24/1992
Montgomery	110%	12/1/1992	12/10/1992
Prince George's	100%	11/3/2009	11/19/2009
Average	104%		
Median	104%		

*\*Effective July 1, 2010*

Of all Maryland benchmark jurisdictions, Montgomery County has the highest percent limit. On average for peer Maryland jurisdictions, the percent limit is 6% lower than what the County currently has in place.

**Source: State Department of Assessment and Taxation, "MD Homestead Tax Credit," <http://www.dat.state.md.us/sdatweb/homestead.html>**





# County Fiscal Impact

## Property Tax Credit – Local Income Tax Offset

Distributed Property Tax Credit, 2000-2008

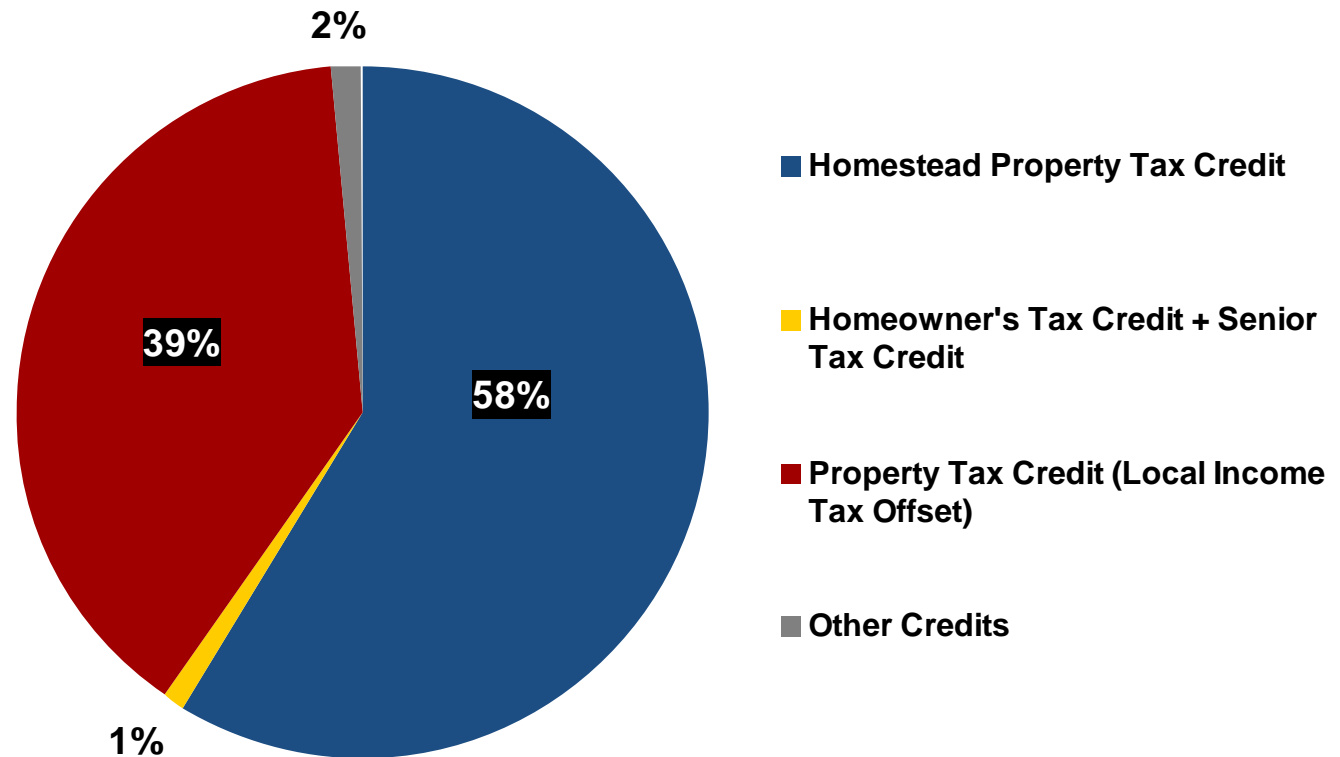
Levy	Credit Amount (\$)	Recipients
2000	--	--
2001	--	--
2002	--	--
2003	--	--
2004	--	--
2005	\$26,236,636	243,421
2006	\$53,746,316	243,196
2007	\$150,295,953	245,181
2008	\$142,295,619	245,761

The County may grant, by law, a property tax credit against the county tax imposed on real property, in order to offset, in whole or in part, increases in the county income tax revenues resulting from a county income tax rate in excess of 2.6%. It also is only available to residents who own and occupy their own homes.

**Source: Dept. of Finance, "Tax Expenditure Report, Property Tax Credits, Tax Deferral, and Tax Exemptions, Montgomery County, MD, June 2009"**



# County Fiscal Impact Tax Credit Programs



Together, the Homestead Property Tax Credit and Property Tax Credit represent 97% of issued tax credits by Montgomery County.



Source: Dept. of Finance, "Tax Expenditure Report, Property Tax Credits, Tax Deferral, and Tax Exemptions, Montgomery County, MD, June 2009"

## Missed Opportunities

- The 2 largest tax credits provided by the County are based on a requirement of principal residence.
- Within the larger picture of residents who might be receiving principal residence credits in error, there is an opportunity within the County's principle residence-based tax credit to recoup lost revenue as a result of the following:
  1. Residents who maintain unlicensed rentals and receive principal residence tax credits
  2. Lag in records updating at the state-level for status changes related to licensed rental properties
- The following slides provide detail on relevant processes and data analysis



# 1. Residents who maintain unlicensed rentals and claim the principal residence tax credit

Fiscal Year	DHCA Licensed Rentals*	Rentals listed as "Principal Residence" in same year	% of Rental Properties listed as "Principal Residence"**
2004	14,729	3,222	17%
2005	15,606	3,090	11%
2006	16,240	1,930	8%
2007	17,255	2,345	13%
2008	19,105	1,474	7%
2009	18,133	1,198	6%
2010	22,483	1,895	8%

\* Rental properties listed as principal residence may be duplicative from year to year.

\*\*This accounts for corrections made by the State in that year.

Each year, the County's Department of Housing and Community Affairs (DHCA) works to ensure compliance with the County's rental license requirements. Each year, a number of licensed rental units are listed as the owner's principal residence and require correction.



**Source: Dept. of Finance**

## **1. Residents who maintain unlicensed rentals and claim the principal residence tax credit**

- **What tools does the County have to enforce the principal residence requirement?**
- **What tools (that the County currently does not have) would improve its ability to do so?**



# Processes: County Rental Licensing and Registration

## Licensing Process

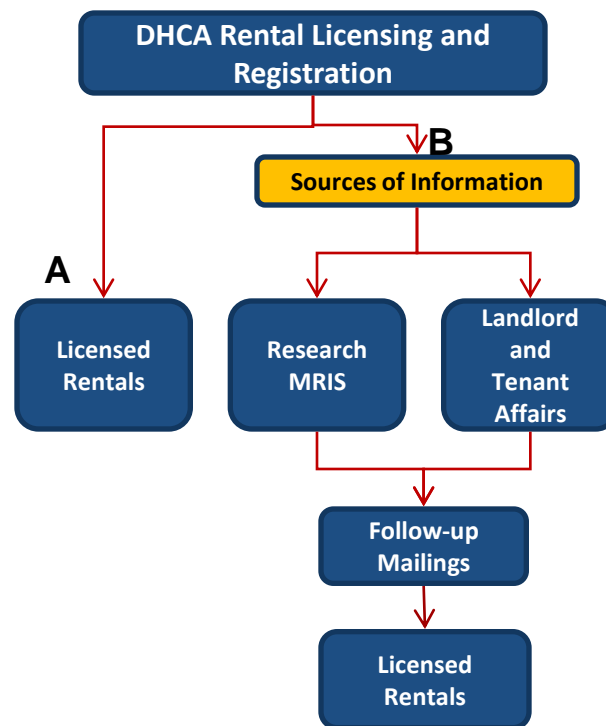
- Includes application and annual license fee.
  - Class II licenses for individual properties are \$98 a year.
  - Class I licenses range from \$38 to \$56.

## Exemptions from licensing requirements

- Owner-occupied: if someone who claims to be a partial owner lives in the unit
- Relative-occupied: if it is occupied by the owner's relative

## Penalties for failure to obtain a license

- Failure to license/register is a Class A violation of the County Code. Violators may be issued a civil citation for \$500 for the initial offense, and \$750 for repeat offenses.
- However, if a violator complies once notified by DHCA, they are not fined.



Chapter 29 of the Montgomery County Code requires that owners of residential property be licensed before their property may be rented to someone else. This licensing obligation rests with the owner of the property.



**Source: DHCA, Licensing and Registration**

[http://www.montgomerycountymd.gov/dhctmpl.asp?url=/Content/dhca/Licensing/licensing\\_landlord\\_tenant.asp](http://www.montgomerycountymd.gov/dhctmpl.asp?url=/Content/dhca/Licensing/licensing_landlord_tenant.asp)

# Processes: County Rental Licensing and Registration

- **DHCA has the following tools to find unlicensed rentals:**

- Complaints from surrounding neighbors
- Homeowner and condo associations
- Rental listings
- Tax records
- Landlord-Tenant Affairs

Fiscal Year	Unlicensed Rental Properties Found by DHCA
2007	2,240
2008	2,365
2009	2,234
2010	1,397 (YTD)



## Processes: County Rental Licensing and Registration

- What would improve the department's ability to track down and license rentals?





## Processes: County Rental Licensing and Registration Rentals to Family Members

- Montgomery County does not require homeowners renting to family members to license their property.

Fiscal Year	Properties Reported as Family Rentals
2004	39
2005	40
2006	57
2007	62
2008	95
2009	199
2010	69*

*\*DHCA has not completed its annual outreach to identify relative-occupied properties for 2010*

If all properties rented to family members of the homeowners were to have their eligibility status changed this would equate to an estimated \$224,000 in tax credits for levy year 2009 (using the average homestead credit and property tax credit).



**Source: DHCA**

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## 2. Lag in records updating at the state-level for status changes related to licensed rental properties

Fiscal Year	DHCA Licensed Rentals	Rentals listed as "Principal Residence" (Updates sent to State by Mont. Co.)	Changes made by State in the same year	Changes made by State in the following year	% Updates resulting in a State-made change
2004	14,729	3,222	711		22%
2005	15,606	3,090	1,372		44%
2006	22,655	1,930	631		33%
2007	17,255	2,345	115		5%
2008	19,105	1,474	104		7%
2009	18,133	1,198	40		3%
2010	22,483	1,895	--		--

The County regularly provides updated principal residence information to the State Department of Assessment and Taxation.



**Source: Dept. of Finance**

Principal Residence Tax  
Credit

## **2. Lag in records updating at the state-level for status changes related to licensed rental properties**

- **Why does the State only update a select number of records?**
- **What is the burden of proof for the County to establish erroneous receipt of principal residence tax credits?**



# Processes: Principal Residence Tax Credit Validation

## Status Change Process:

Montgomery County

State Department of Assessment and Taxation (SDAT)

DHCA

Finance

## Internal Process:

Determines  
Principal  
Residence  
Status

Property address =  
mailing address

Neighboring property  
owners' complaint

Returned/  
undeliverable mail

Returned assessment  
notice

MRIS data of property  
listed as rentals

Licenses  
County Rental  
Properties

Validates  
Rentals

Cross references  
rental properties  
with billing  
information

Provides  
information to  
SDAT for review  
and approval

Sends out tax  
bills

Each year the County sends corrected principal residence data to the State to update its records. The State, in turn, makes a limited number of corrections based on the County's data.



# Processes: Determining Occupancy

## “Primary Residence” Status

### State Methods for Determining Occupancy Status

- Owner’s mailing address
- “First-time homeowners” affidavit
  - Completed at property settlement, the state uses this as the basis for granting an “owner-occupied” status
- Assessor’s conversation in the field with a tenant
- Neighboring property owner’s complaint
- Returned/undeliverable mail
- Returned assessment notice
- **Applications for rental licenses (county/municipal government)**
- MRIS property data: rental listings obtained by the central administration to change the property to non-owner occupied

SDAT has limited resources to determine the occupancy status.



**Source: Maryland Assessment Procedures Manual**  
**<http://www.dat.state.md.us/sdatweb/procedures/012150040.htm>**

# Financial Impact of Change in Residency Status

Year	Licensed Rental Corrections sent to State	Changes <i>not</i> made by State in the same year	Changes <i>not</i> made by State in the following year	Total \$ in Homestead Tax Credit (*Cost to the County)	Total \$ in Property Tax Credit	Credits distributed due to changes not made by State
2004	3,222	2,511		\$38,463	-	\$38,463
2005	3,090	1,718		\$210,131	-	\$210,131
2006	1,930	1,299		\$473,563	\$150,684	\$624,247
2007	2,345	2,230		\$740,236	\$492,830	\$1,233,066
2008	1,474	1,370		\$1,272,058	\$839,810	\$2,111,868
2009	1,198	1,158		\$526,540	\$670,482	\$1,197,022
2010	1,895	1,895		\$611,099	\$1,307,550	\$1,918,649
TOTAL				\$3,872,090	\$3,461,356	\$7,333,446



Source: Dept. of Finance

Principal Residence Tax Credit

## Recommendations/Next Steps

- What steps have been taken to prompt State action?
- What steps can be taken in the future to do so?



## Wrap-up

- Follow-up items

