

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 227 (Senators Brochin and Raskin)
Budget and Taxation

Tax Sales - Redemption of Property - Taxes, Interest, and Penalties

This bill repeals the requirement that a person redeeming a property subject to a tax sale must pay the tax collector any taxes, interest, and penalties that accrued after the date of the tax sale.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: Annuity Bond Fund revenues decrease in FY 2014, potentially significantly, due to the nonpayment at redemption of any taxes, interest, and penalties that accrued after the date of a tax sale. Minimal increase in Annuity Bond Fund revenues in subsequent years to the extent a person redeeming a property subject to a tax sale pays additional interest and penalties on taxes that accrued after the date of sale. The amount of the decrease and subsequent increase depends on the number of properties redeemed after a tax sale, the value of those properties, and the amount of time it takes for the person to pay any taxes, interest, and penalties that accrue after the sale.

Local Effect: Significant decrease in local revenues in FY 2014 due to the nonpayment of any taxes, interest, and penalties that accrued after the date of the tax sale. Local revenues may increase in subsequent years due to the collection of this payment and added accrued interest and penalties. Local expenditures may increase minimally if the nonpayment of current taxes, interest, and penalties leads to additional tax sales.

Small Business Effect: Minimal.

Analysis

Current Law: All unpaid taxes on real property constitute a lien from the date they become due until paid. It is mandatory that the tax collector sell any property on which taxes are in arrears. When the property is purchased at a tax sale, the purchaser must pay to the tax collector any delinquent taxes, penalties, sale expenses, and, under certain conditions, a high-bid premium. The owner of the property (or other person that has an estate or interest in the property) has the right to redeem the property until a court forecloses that right. If the property is not redeemed, the purchaser must pay the remainder of the purchase price upon the foreclosure.

To redeem the property, the person must pay the collector (1) the total lien amount paid at the tax sale for the property together with interest; (2) any taxes, interest, and penalties paid by any holder of the certificate of sale; (3) any taxes, interest, and penalties accruing after the date of the tax sale; (4) any reimbursable expenses or fees paid by the plaintiff or the holder of the certificate of sale; and (5) for vacant and abandoned property sold for a sum less than the amount due, the difference between the price paid and the unpaid taxes, interest, penalties, and expenses.

State Revenues: Annuity Bond Fund revenues decrease in fiscal 2014 due to the nonpayment at redemption of property taxes, penalties, and interest that accrued after the date of the tax sale. However, Annuity Bond Fund revenues may increase minimally in subsequent years due to the further accumulation of interest and penalties on the eventual payment of these amounts.

Generally, a local jurisdiction's tax sale is held in May or June. For example, Anne Arundel County's 2012 tax sale was held on June 12, and Baltimore City's 2012 tax sale was held on May 21. The tax year ends on June 30. The tax collector for each local jurisdiction must collect both local and State property tax amounts. The collector then remits the State property tax amount to the State. Currently, the person redeeming the property must pay the taxes for the tax year ending on June 30, as well as any accumulated penalties and interest, to redeem the property. Under the bill, the person is not required to pay these amounts and, consequently, the amounts become instantly delinquent. It is possible the person will pay these amounts soon after redeeming the property but it is also possible the person will wait to pay until the property becomes subject to the following year's tax sale. The delay in collection equates to added accrued interest and penalties. The amount of State property tax is \$0.112 per \$100 of assessment with 1% interest accumulating each month the tax is unpaid. A penalty determined by the local jurisdiction is also assessed on delinquent taxes.

The amount of decrease in fiscal 2014 and the amount of the increase in subsequent years is not able to be estimated. The amount depends on the number of properties redeemed

after each jurisdiction's tax sale, the property value of each redeemed property, and the length of delay in payment by a person who has redeemed a property.

Local Fiscal Effect: Local revenues decrease significantly in fiscal 2014 due to the nonpayment at redemption of property taxes, penalties, and interest that accrued after the date of the tax sale. However, as with State Annuity Bond Fund revenues, local revenues may increase in subsequent years. **Exhibit 1** shows the average fiscal 2013 taxable residential assessment and property tax rate for each of the State's 24 jurisdictions.

Exhibit 1
Average Residential Assessments and Property Tax Rates
Fiscal 2013

County	Average Taxable Assessment	Property Tax Rate
Allegany	\$98,020	\$0.9810
Anne Arundel	236,813	0.9410
Baltimore City	106,844	2.2680
Baltimore	204,927	1.1000
Calvert	268,893	0.8920
Caroline	165,373	0.8900
Carroll	269,037	1.0180
Cecil	201,959	0.9907
Charles	231,915	1.1210
Dorchester	147,605	0.9760
Frederick	246,250	1.0640
Garrett	129,672	0.9900
Harford	243,248	1.0420
Howard	356,441	1.1900
Kent	214,280	1.0220
Montgomery	412,783	1.0030
Prince George's	186,405	1.3190
Queen Anne's	310,801	0.8471
St. Mary's	253,158	0.8570
Somerset	105,715	0.8837
Talbot	234,663	0.4910
Washington	176,482	0.9480
Wicomico	135,641	0.8404
Worcester	190,654	0.7700

Source: State Department of Assessments and Taxation; Department of Legislative Services

Calvert, Howard, and Montgomery counties advise that the bill will have an impact on the counties but are unable to estimate this impact. Baltimore City estimates that revenues may decrease by \$3.9 million in fiscal 2014. This estimate is based on the total number of property owners that redeem property, the estimated average value of the properties redeemed, and the length of time before the owners pay the taxes and accrued interest and penalties. Baltimore City estimates that, in future years, local revenues could increase by more than \$400,000 due to the delayed collection of taxes, interest, and penalties.

Montgomery County notes that there are administrative expenditures associated with the possibility of added tax sales from the failure to pay the taxes, interest, and penalties accrued subsequent to the tax sale before the following tax sale.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Calvert, Howard, and Montgomery counties; Baltimore City; State Department of Assessments and Taxation; Office of the Attorney General (Consumer Protection Division); Department of Housing and Community Development; Judiciary (Administrative Office of the Courts); Department of Legislative Services

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