SB 733

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 733 (Senator Lawlah)
Budget and Taxation

Real Property - Assessment - Phased in Value

This bill phases real property assessment decreases over the three-year assessment cycle. Under current law, taxpayers with decreasing property assessments pay taxes on the reduced assessment from the beginning of the assessment cycle while increases in assessments are phased in over the three-year cycle.

Fiscal Summary

State Effect: State special fund revenues would increase by $900,000 in FY 1999 and by $1.3 million in future years. Expenditures would not be affected.

Local Effect: Local revenues would increase by $11.6 million in FY 1999 and by $17.3 million in future years. Expenditures would not be affected.

Small Business Effect: Potential meaningful effect on small businesses as discussed below.

Fiscal Analysis

Background: The Department of Assessments and Taxation assesses all real property in three-year cycles. Property is divided into three groups, with one group reassessed in each year of the cycle. Group Three was reassessed during calendar 1996, and property assessment notices were sent to property owners in December 1996. For any owners whose property assessments decreased, the full decrease, for taxation purposes, was reflected on the reassessment notice.

State Revenues: Under this bill, the phased in value of a property would equal the total value of the property in the third year of the assessment cycle. For example, a home with a total value of $200,000 in the base assessment year with a reassessed value of $170,000 would have phased in values of $190,000 in the first year, $180,000 in the second year, and $170,000 in the third year of the cycle.

The first assessment group to have decreases phased in would be Group One in fiscal 1999. Group Two would be phased in by fiscal 2000, and Group Three for fiscal 2001. Under this bill, it is estimated that the total assessable property base for Group Three in fiscal 1999 would be $210 million greater than under current law. Based on the current State real property tax rate of 21 cents per $100 of assessed value, it is estimated that this bill would increase State property tax revenues by approximately $900,000 in fiscal 1999 and by $1.3 million in future years. Future year estimates reflect a stable assessable property base. State property tax revenues are special funds credited to the Annuity Bond Fund.

Local Revenues: This bill would increase local property tax revenues since taxpayers would pay taxes on higher property values than the actual assessed values until the full effect of a decreased assessment is phased in by the third year of the assessment cycle. Based on a current average local property tax rate of $2.75 per $100 of assessed value, it is estimated that local revenues would increase by an estimated $11.6 million in fiscal 1999 and by $17.3 million in future years.

The phase in of property assessment decreases could reduce the volatility of local tax collections by making any sharp decreases in property assessments more gradual. The more stable property values and assessments are, the less impact that phased in decreases have on local revenues and taxpayers.

Small Business Effect: This bill would alter current law by phasing in the effect of decreases in real property assessments over the three year assessment cycle. This could increase the amount of real property taxes paid by small businesses, an amount which cannot be reliably estimated at this time.

Information Sources: Department of Assessments and Taxation, Allegany County, Baltimore City, Prince George's County, Department of Fiscal Services

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