HB 639

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 639 (Delegate C. Davis, *et al.*)
Ways and Means

Property Tax - Mandatory Semiannual Payment

This bill requires property owners to pay real property taxes for a principal residence in semiannual installments; this is optional for taxpayers under current law. The bill also amends the calculation of a service charge assessed for the use of a semiannual payment system and delays the implementation of the calculation change until fiscal 2000.

This bill is effective July 1, 1997.

Fiscal Summary

State Effect: Revenues would increase by $42.6 million in FY 1998, reflecting service charge collections and a one-time increase in income tax collections. Future year estimates reflect growth in service charge revenues.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$42.6	$1.5	$1.5	$1.6	$1.6
GF Expenditures	0	0	0	0	0
Net Effect	$42.6	$1.5	$1.5	$1.6	$1.6

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Revenues would increase by $22.4 million from increased piggyback income tax collections and by $20.4 million in service charge revenues for FY 1998. Potential increase in expenditures in FY 1998 as discussed below.

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

Fiscal Analysis

State Effect: This bill creates a one-time impact on federal, State, and local income taxes in the year of transition to semiannual payments. This impact will occur because homeowners usually deduct property taxes as an itemized deduction, but one-half of homeowner property tax payments would be delayed from calendar 1997 to calendar 1998 under this bill. One-half of property taxes will be paid on January 31, 1998 that otherwise would have been paid by September 30, 1997.

In fiscal 1997 there are approximately 1.3 million owner-occupied properties in the State with an aggregate assessable property base of approximately $68.4 billion. **Exhibit 1** shows the total property taxes paid to jurisdictions in that year.

Exhibit 1
Property Taxes to State and Local Jurisdictions
Fiscal 1997

State Property Taxes	$143,394,000
County Property Taxes	$1,880,399,000
Municipal Property Taxes	$124,000,000
Total Property Taxes	**$2,147,793,000**

Assuming 75% of homeowners elect to have itemized deductions and assuming 2% growth in fiscal 1998, income tax deductions for calendar 1997 under current law would be $1,643,062,000. Under this bill, one-half of those deductions, approximately $821,531,000, would not be paid until January 1998. Therefore, these deductions would not be available as a deduction for calendar 1997.

As a result of delayed property tax payments, taxpayers would pay an estimated $164.3 million in additional federal income taxes, $41.1 million in additional State income taxes, and $22.4 million in additional local income taxes for calendar 1997. These estimates assume an average effective federal tax rate of 20%, an average State tax rate of 5%, and an average local rate of 54.5% of State tax liability.

This bill would not directly affect the total amount of property taxes collected by State and local governments; the Department of Assessments and Taxation (DAT) would also be unaffected since billing and collection of property taxes is mainly a local government function. A service charge would be assessed by local governments for use of the semiannual tax payment system; since the calculation of a service charge would be based on total State and local tax liability, a portion of the total service charges collected would be State revenues. Assuming that total service charges collected would equal approximately 2% of the total taxes deferred, the State would receive approximately $1.5 million in fiscal 1998 service charge revenues. Future year estimates reflect 2% growth in service charge collections.

Local Effect: As mentioned previously, local governments would receive $22.4 million in additional income taxes for fiscal 1998. Local governments could incur additional expenditures due to increased mailings of tax reports and any administrative changes necessary to accommodate a semiannual payment system; interest earnings for local governments could also be reduced. Any additional expenditures and lost interest earnings may be offset by the service charge assessed by local governments for use of the semiannual payment system. Assuming that this service charge would equal approximately 2% of the total taxes deferred, taxpayers would pay approximately $20.4 million in service charges in fiscal 1998.

Under current law, the service charge assessed is calculated in an amount that is reasonably equivalent to the anticipated lost interest income associated with a semiannual payment schedule and that covers administrative expenses associated with semiannual payments. This administrative portion of the service charge may not exceed 25% of the lost interest. Beginning in fiscal 1999, the service charge would include an amount for lost interest income and administrative expenses not exceeding the lesser of the actual expenses incurred in the preceding year per account as approved by DAT or 100% of the charge for lost interest. This bill would amend the percentage of the charge for lost interest to 10% and delay the change in calculation until fiscal 2000. This change is not expected to have a significant fiscal impact on State or local governments, because the actual administrative expenses are anticipated to be a small percentage of lost interest.

Small Business Effect: Expenses for small business mortgage lenders servicing loans could increase as a result of paying two property tax installments to local jurisdictions from escrow accounts.

Information Sources: Department of Assessments and Taxation, Allegany County, Baltimore City, Wicomico County, Department of Fiscal Services

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