HB 392

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 392 (Delegate Healey, *et al.*)
Ways and Means

Truth in Taxation - Real Property Tax Assessments

This bill provides that, beginning in tax year 2000, property tax rates shall be applied to 100% of the value of real property, rather than the 40% for most real property under current law. (On October 1, 1999, real property tax rates will be 40% of the rates effective July 1, 1999.) The county and municipal tax rates applicable to personal property and operating real property of utilities shall be 2.5 times the property tax rate for real property.

It is the stated intent of the General Assembly that this bill be revenue neutral; adjustments are made to current law which reference the 40% assessment of property, including State aid, debt limitations, and other provisions of current law. The Department of Assessments and Taxation is required to report to the General Assembly by December 1, 1999 regarding any further amendments which would be required.

The Department of Assessments and Taxation is required to include a statement regarding this change in assessment notices issued for tax year 1999, and local governments are required to include such statements in each real property tax bill beginning in tax year 1999, and in the constant yield tax rate notice for tax year 2000. The department is also required to adopt regulations adjusting the valuation of use value property so that the change in assessments is revenue neutral.

This bill is effective June 1, 1999, with varying other effective dates.

Fiscal Summary

State Effect: None. Assuming the Board of Public Works adopts a tax rate of 8.4 cents per

$100 of value, instead of the current 21 cents, this bill would be revenue neutral for the State.

Local Effect: Negligible redistribution of local revenues. Expenditures would not be affected.

Small Business Effect: None.

Fiscal Analysis

Background: The bill alters the real property assessment law from a program of fractional property assessments to a system of full market value assessments.

Current law requires that all real and personal property be valued for purposes of property taxation at full cash value. However, the law also provides that tax rates are only applied to a percentage of property value, which is termed the "assessment." This system of taxation, common to most states, is one mechanism to provide differing effective tax rates among various types of property. It also causes nominal tax rates to be much higher than under the full value assessment law. Under current law, property assessments are the following percentages of market value:

100% - Personal property and public utility operating real property;

50% - Use value property (agricultural, marshland, woodland, etc.);

40% - All other property.

Current law further provides that counties must impose one tax rate that is applicable to all property, both real and personal. Therefore, differing levels of tax burden are now imposed through the assessment level instead of through the tax rate.

Local Effect: The bill provides that tax years 1999-2000 will be a period of transition from fractional assessments to full value assessments. On October 1, 1999, tax rates on real property will be reduced to 40% of their levels as of July 1, 1999. At the same time, assessments will increase to full value.

However, constant yield tax rates computed in February 2000 will be calculated and compared at the new, lower tax rates, and form the starting point for adoption of tax rates for the tax year beginning July 1, 2000. The tax rates adopted for the tax year beginning July 1, 2000 will be applied for the first time against full value assessments. Tax rates on real property will approximate 40% of their prior levels. Tax rates on personal property and operating real property of public utilities will be 2.5 times the real property tax rate, in effect maintained at their former levels.

While the bill amends many sections of law in order to reflect the transition to full value assessments, it states in several places that the legislative intent is to be revenue neutral and not designed to alter tax liability, State aid formulas, or credit calculations.

Operating land of railroads and utilities will be valued as a part of the operating unit, rather than separate from the operating unit. Thus, some of this tax base could shift between counties. Any such effect is expected to be minimal.

The notice requirements of this bill could be absorbed within existing resources because counties are required to add one paragraph of text to mailings that are required under current law.

Information Source(s): Department of Assessments and Taxation, Department of Legislative Services

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dmm/jr

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