

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

House Bill 85 (Delegates Hutchins and Mitchell)

Ways and Means

Property Tax - Semiannual Payment Schedule

This bill allows a property buyer to elect to pay property taxes on a semiannual payment schedule effective in the current tax year if a property transfer occurs on or after July 1 but on or before September 30.

This bill is effective July 1, 1999.

Fiscal Summary

State Effect: Indeterminate decrease in State Annuity Bond Fund revenues, with a corresponding increase in general fund expenditures.

Local Effect: Indeterminate revenue decrease and expenditure increase. **This bill imposes a mandate on a local government unit.**

Small Business Effect: Potential minimal.

Fiscal Analysis

Background: Chapter 123 of 1995 granted property taxpayers the option to pay property taxes in semiannual installments. Approximately 2% - 3% of property taxpayers currently pay property taxes on a semiannual payment basis. Under current law, a property buyer may elect to pay property taxes on a semiannual payment schedule for the current year only when the property is currently on a semiannual payment schedule. This bill expands the ability of a home buyer to elect a semiannual payment schedule in the year a home is purchased. The bill allows a property buyer to elect to make semiannual payments in the current year if the property is transferred between July 1 and September 30.

State Effect: This bill would not directly affect the total amount of property taxes collected by the State and local governments. In addition, the Department of Assessments and Taxation would not be affected since the billing and collection of property taxes is mainly a local government function.

However, the State property taxes which are collected by the local governments and remitted to the State would be collected four months later than under the annual payment schedule. Therefore, the State would lose interest income as a result of this bill. The loss in interest income depends upon the number of home buyers who decide to adopt the semiannual payment schedule.

A service charge is assessed by local governments for use of the semiannual tax payment system. 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. The administrative portion of the service charge may not exceed 10% of the lost interest. Since the calculation of the service charge would be based on total State and local tax liability, a portion of the total service charges collected would be State revenues.

Combining the loss in interest income and the gain in revenues due to the service charge, State Annuity Bond Fund revenues will decrease to the extent that home buyers decide to adopt the semiannual payment plan because it is assumed that the interest income lost will exceed the revenue gain due to the service charge. As a result, general fund expenditures could increase by an equivalent amount.

The additional cost to taxpayers would be offset to the extent that they are able to invest the money and earn interest during the October through January period.

Local Revenues: As stated above, local governments are able to charge homeowners a service charge for an amount that is reasonably equivalent to the anticipated lost interest income and administrative expenses associated with semiannual payments. However, they could realize a loss if administrative expenses exceed 10% of the anticipated lost interest. The extent to which counties experience a loss in revenue due to administrative expenses related to the semiannual payment schedule cannot be reliably estimated at this time.

Local Expenditures: Administrative costs for local governments could increase as these jurisdictions may be required to refund a property seller half of the property taxes already paid. In addition, local governments may incur additional expenses related to rebilling the new property owner. While any increase in expenditures depends upon the number of property buyers who choose to pay property taxes on a semiannual payment schedule for the

current year, any increase is expected to be minimal.

Information Source(s): Department of Assessments and Taxation, Prince George's County, Department of Legislative Services

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