SB 677

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

Senate Bill 677 (Senator Lawlah)
Budget and Taxation

Property Tax - Mandatory Semiannual Payment

This bill requires property owners to pay real property taxes for a principal residence in semiannual installments. However, the bill provides that a homeowner may choose to pay both property tax installments on or before September 30 of each year to avoid any service charge that a county may impose to recover anticipated lost interest and administrative expenses associated with the semiannual payment schedule. The semiannual payment is optional for taxpayers under current law.

The bill is effective July 1, 2000.

Fiscal Summary

State Effect: Annuity Bond Fund revenues could increase by a maximum of $53,780 in FY 2001. General fund expenditures could decrease by a maximum of $53,780 in FY 2001. Potential indeterminate increase in general fund revenues.

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

Small Business Effect: Potential meaningful.

Fiscal Analysis

Background: Chapter 123 of 1995 granted taxpayers the option to pay property taxes in semiannual installments. Approximately 2% - 3% of taxpayers currently pay property taxes on a semiannual payment basis. Under current law, a home 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.
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. This administrative portion of the service charge may not exceed 10% of the lost interest. Since the calculation of a service charge is based on total State and local tax liability, a portion of the total service charges collected is State revenues.

State Effect: In fiscal 1998 there were approximately 1.3 million owner-occupied properties in the State with an aggregate assessable base of approximately $72.4 billion. **Exhibit 1** shows the total property taxes paid to jurisdictions in that year.

Exhibit 1
Property Taxes to State and Local Jurisdictions
Fiscal 1998

State Property Taxes	$151,987,500
County Property Taxes	$1,830,979,200
Municipal Property Taxes	$116,155,000
Total Property Taxes	$2,099,121,700

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

However, one-half of the State property taxes which are collected by the local governments and remitted to the State would be collected three months later than under current law. Therefore, the State could lose a maximum of $1.2 million in interest income as a result of this bill in fiscal 2001. The extent of the loss in interest income depends upon the number of homeowners who decide to adopt the annual payment schedule.

Under the bill, counties may impose a service charge reasonably equivalent to the anticipated lost interest income associated with the three-month delay. The service charge is calculated by multiplying the amount of the second installment by a rate not exceeding 1.5%. The administrative portion of the service charge may not exceed 10% of the calculated lost interest income.

However, if a property owner chooses to pay property taxes on an annual basis, the property owner must give the escrow account servicer written notification of this choice; otherwise, the account servicers will pay on a semiannual basis. The property owner will not be subject to a service charge associated with the second payment installment if the property owner opts to be on an annual schedule, or both payments are made by September 30.

In addition, for the tax year beginning July 1, 1999, the 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 between July 1 and September 30, 1999.

Exhibit 2 shows the service charges Maryland homeowners would pay if all homeowners choose to pay their second property tax installment after September 30 of the taxable year, assuming that the service charge equals approximately 1.65% of the second payment to recover the anticipated lost interest income and administrative costs as a result of this bill. Future year estimates reflect 2% growth in service charge collections.

Exhibit 2
Service Charges Maryland Homeowners Would Pay under a Semiannual Payment Schedule

State	$1,253,780
County	$15,105,530
Municipal	$958,320
Total	$17,317,630

Combining the loss in interest income and the gain in revenues due to the service charge, State Annuity Bond Fund revenues will increase by a maximum of $53,780 in fiscal 2001. As a result, general fund expenditures could decrease by an equivalent amount.

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

Under current federal law, most homeowners with mortgages pay their property taxes by means of an escrow account. This escrow account legally consists of an amount equal to the taxes for the tax period plus an additional two months of taxes. For the annual payment schedule this is a total of 14 months of taxes. With the semiannual payment schedule, the escrow account can legally only contain an amount equal to six months of taxes plus an additional two months, for a total of eight months of taxes. Therefore, a homeowner who does not elect to pay on an annual basis would be eligible for a one-time escrow refund in fiscal 2001.

The amount of the one-time escrow refund depends on the homeowner's tax liability. Assuming the average homeowner has an annual property tax bill of $1,200, the one-time escrow refund would range from $300 to $500. Assuming there are 900,000 homeowners with mortgages and pay semiannually, the one-time escrow account refund in fiscal 2001 would total from $270 to $450 million. Homeowners may either apply the refund towards their mortgage principal or spend the refund on taxable items. To the extent that homeowners spend the refund on taxable items, sales tax revenues would increase. The increase in sales tax revenues cannot be estimated at this time. For illustrative purposes, if 10% of the refund is spent on taxable purchases, general fund revenues would increase by $1.4 to $2.3 million.

Local Effect: 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. As a result, counties and municipalities will be able to recoup a maximum of $15.1 million and $958,320, respectively, in expenses related to the semiannual payment schedule. However, they could realize a loss if administrative expenses exceed 10% of the anticipated lost interest. Whether counties experience a loss in revenue due to administrative expenses related to the semiannual payment schedule cannot be reliably estimated at this time.

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. Small businesses would also experience an increase in income due to homeowners spending of escrow refunds.

Information Source(s): Department of Assessments and Taxation, Baltimore City, Prince George's County, Carroll County, Cecil County, Harford County

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