

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 408 (Delegate Hixson. *et al.*)

Ways and Means

Property Tax - Semiannual Payment

This bill prohibits a local government from imposing a service charge in connection with the semiannual payment of property taxes for owner-occupied residential property. The bill also provides that the second installment of the semiannual payment is to be paid on or before December 31.

The bill is effective July 1, 2000.

Fiscal Summary

State Effect: State Annuity Bond Fund revenues could decrease by as much as \$1.3 million in FY 2001 with a corresponding increase in general fund expenditures.

Local Effect: County governments could experience a maximum loss in property tax revenues of approximately \$15.2 million in FY 2001. Municipal governments' property tax revenue could decrease by approximately \$1.5 million.

Small Business Effect: None.

Analysis

Current Law: Local governments are authorized to assess a service fee for those accounts that pay property taxes on a semiannual basis. The service charge to be paid with the second installment must be calculated in an amount (1) reasonably equivalent to the anticipated lost interest income associated with the three-month delay in payment of the second installment with an interest rate not exceeding 1.5%; and (2) covering the administrative expenses associated with the semiannual payment not exceeding the lesser of the actual expenses

incurred in the preceding fiscal year per semiannual tax account or 10% for the charge for the anticipated lost interest income as calculated in (1) above. The maximum that a local government may assess with (1) and (2) combined is 1.65% of the second property tax installment.

A property owner who elects to pay the full year's property tax on or before September 30 of the taxable year may avoid the service charge for lost interest and administrative expenses. Furthermore, if an escrow account is established for the payment of property tax, the escrow account servicer must pay property tax in semiannual installments unless notified by a property owner to pay taxes in annual installments.

The State real property tax rate is \$.21 per \$100 of assessed value. All State property tax revenues are credited to the Annuity Bond Fund, which is dedicated exclusively to paying the debt service on State general obligation bonds. Local governments generally have the authority to set their own property tax rates.

Background: Property tax is one of the largest items required to be paid as part of closing costs when property is purchased. In Maryland, property tax is due in July at the beginning of the taxable year. If the seller has paid the tax for the year, the buyer must reimburse the seller for the property tax that applies for the part of the taxable year remaining after the purchase. In addition, lenders usually require property taxes to be paid into an escrow account for each month of the taxable year, plus an additional month or two for security.

In order to reduce the impact at closing of requiring prepayment of a full year of property taxes, numerous proposals over the years have attempted to provide for payment of property taxes on a semiannual basis to reduce the amount that has to be reimbursed to the seller or otherwise paid at closing. Chapter 408 of 1993 authorized, but did not require, counties and municipal corporations to allow the semiannual payment of property taxes.

Chapter 123 of 1995 required counties and municipal corporations to provide an optional semiannual payment schedule that allowed owners of owner-occupied residential property to elect to pay property tax on a semiannual basis. The taxing authority was authorized to impose a service charge with the second payment for lost interest and administrative expenses resulting from the semiannual payment election.

In spite of this statewide semiannual payment program, only 3% of State residents had taken advantage of the option. The Federal Housing Administration rated Maryland as having the second highest closing costs in the United States. Property taxes represent about 20% of closing costs in most jurisdictions in the State and up to 40% in Baltimore City. Thus, in a further attempt to lower closing costs in the State, during the 1999 session, the General Assembly passed SB 677/HB 897 making the semiannual payment program for owner-occupied residential property mandatory.

Recently, Baltimore and Montgomery counties have announced that they plan to eliminate the current service charges for semiannual property tax payments.

State Fiscal Effect: Annuity Bond Fund revenues could decline by an estimated \$1.3 million in fiscal 2001 with a corresponding increase in general fund expenditures. The calculation of the estimate uses fiscal 2000 assessable base for owner-occupied property (\$74.2 billion) and State tax rate (\$.21 per \$100), assumes imposition of the maximum service charge (1.65% of one-half of the real property tax bill), and assumes that 100% of property eligible for the two-payment schedule will participate. Actual revenue losses will depend on the taxable assessment of property affected, the applicable tax rates, and service charges imposed.

Local Revenues: County governments could experience a loss in property tax revenues of approximately \$15,142,390 million in fiscal 2001. The calculations in this estimate use fiscal 2000 assessable base and tax rates, assume imposition of the maximum service charge (1.65% of one-half of the real property tax bill), and assume 100% of property eligible for the two-payment schedule will participate. Actual revenue losses will depend on the taxable assessment of property affected, the applicable tax rates, and service charges imposed. Below is a schedule by county of the estimated loss in property tax revenue for fiscal 2001.

County	Revenue Loss	County	Revenue Loss
Allegany	\$97,804	Harford	\$714,536
Anne Arundel	1,625,496	Howard	1,041,758
Baltimore City	1,580,052	Kent	48,254
Baltimore County	2,432,757	Montgomery	3,013,338
Calvert	239,637	Prince George's	1,633,096
Caroline	54,930	Queen Anne's	141,251
Carroll	538,532	St. Mary's	181,805
Cecil	205,470	Somerset	28,796
Charles	359,193	Talbot	74,990
Dorchester	50,245	Washington	258,718
Frederick	576,573	Wicomico	127,832
Garrett	48,948	Worcester	75,379
		Total	\$15,149,390

Municipal governments' property tax revenue is generally about 10% of county property tax revenue statewide, so in aggregate municipal revenue could decrease by about \$1,520,000.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Assessments and Taxation, Baltimore City, Caroline County, Howard County, Montgomery County, Prince George's County, Department of Legislative Services

Fiscal Note History: First Reader - February 14, 2000
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