

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 225
Ways and Means

(Delegate G. Clagett, *et al.*)

Real Property Tax Bills - Contents

This bill requires a taxing authority to include additional information on the face of or with a real property tax bill. The new information includes: (1) a statement of the amount of property tax imposed on the property for the previous taxable year; and (2) a statement of the factors contributing to any difference between the amount of property tax imposed for the taxable year and the tax imposed for the previous taxable year, including where applicable, an increase or decrease in the real property tax rate, an increase or decrease in the property assessment, or a change in eligibility for or the amount of any property tax credit or exemption.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: None. County governments issue State and local property tax bills.

Local Effect: Potential significant increase in local expenditures in certain jurisdictions. Other local jurisdictions, however, would incur only a minimal increase in expenditures. Local revenues would not be affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: A county is required to annually include on the face of a real property tax bill: (1) the county real property tax rate and the constant yield tax rate for the taxable year; (2) the amount, if any, by which the county real property tax rate exceeds the constant yield tax rate; and (3) a designation that the property is either the owner's "principle residence" or "not a principle residence." A county must also include specified information regarding the constant yield tax rate with the real property tax bill.

Background: Each year the Department of Assessments and Taxation (SDAT) assesses one-third of all real property based on a physical inspection prior to the date of finality. Over a three-year period all properties in the State are assessed based on a physical inspection. As of July 1, 2003, there were 2,028,274 taxable accounts statewide and 87,459 exempt accounts statewide. Any increase in the full cash value (market value) is phased in equally over the next three years. All property is assessed at 100% of full cash value. The real property tax base for a given fiscal year is the total assessed value of all real property subject to the property tax as of the first of January (the date of finality) immediately preceding the first day of a fiscal year. New construction substantially completed as of July 1 of the fiscal year is taxed for the full year and new construction substantially completed as of January 1 of the fiscal year is taxed for a half-year.

Constant Yield Tax Rate

The constant yield tax rate is the rate that, when applied to the current base, yields the same local property tax revenues as in the prior year. When there is growth in the assessable base, the constant yield tax rate is lower than the existing tax rate. SDAT notifies all county and municipal corporations by February 14 of their constant yield tax rate for the upcoming fiscal year.

Under the Constant Yield Tax Rate Program, taxing authorities are required to: (1) provide information about the constant yield tax rate and the assessable base to the public through advertisements in local newspapers; and (2) hold public hearings regarding proposals to enact a tax rate that is higher than the constant yield rate. Municipalities are exempt under certain circumstances. SDAT is required to report to the Attorney General any taxing authority that appears to have violated the requirements of this law. Jurisdictions that violate this provision must reduce their property tax rates to the constant yield level.

Certain types of real property are exempted from property taxation such as government, charitable, benevolent, educational, religious, veterans' organizations, fire companies, historical societies, museums, etc. SDAT is responsible for determining exemptions as

specified by law. SDAT is required by law to assess all exempt real property, except that owned by the federal government.

Local Fiscal Effect: The bill requires a significant amount of new information to be included on property tax bills. Because counties issue these bills, the burden of providing this new information falls to them. Counties with more real property accounts would be impacted more than counties with fewer real property accounts.

Montgomery County utilizes a tax system called MUNIS to administer its property tax collections. Currently, the MUNIS system does not allow for multi-year analysis and bill information presentment. To comply with the bill's provisions, Montgomery County would have to modify its current computerized tax system. The county indicates that these changes cannot be completed in time for the fiscal 2005 tax year. With approximately 300,000 property tax accounts, Montgomery County expenditures could increase by \$653,000 in fiscal 2005. This includes the cost to hire two treasury managers and two information technology professionals, as well as significant changes to the MUNIS computer tax system. In fiscal 2003, Montgomery County budgeted \$852,000 and 14 positions (work years) for property tax collections.

Garrett County, on the other hand, indicates that it could implement the bill's provisions with minimal additional expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 9, 2004
mh/hlb

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510