

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE  
Revised

House Bill 7

(Charles County Delegation)

Ways and Means

Budget and Taxation

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Charles County - Property Tax - Payment Deferral

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This bill authorizes Charles County to provide, by law, a payment deferral of the county property tax for residential real property occupied as the principal residence of the owner, provided that at least one of the owners has lived in the dwelling for the previous five years and meets specified age and income requirements.

The bill takes effect June 1, 2006 and is applicable to all taxable years beginning after June 30, 2006.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Potential minimal decrease in Charles County property tax revenues during any deferral period. The amount of any revenue decrease depends on the nature of the deferral program that is established and the number of participants in a given year. Revenues would increase upon repayment. County expenditures would not be affected.

**Small Business Effect:** None.

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Analysis

**Bill Summary:** The bill requires Charles County to specify the following criteria if a deferral program is authorized: (1) a minimum age requirement; (2) the amount of tax that may be deferred and the duration of the deferral; (3) restrictions on the amount of real property eligible for a payment deferral; (4) the interest rate; (5) a requirement that

any mortgagee or beneficiary under a deed of trust receive specified notification; and (6) income eligibility.

The bill also provides for other requirements and criteria related to the administration of property tax deferral payments in Charles County, including: (1) a requirement that the cumulative amount of the tax deferral and interest be included in the taxpayer's annual property tax bill; (2) a lien must be attached to the property in the amount of all deferred taxes and interest and must remain until all deferred taxes and interest are paid; and (3) the deferral must be authorized by a written agreement reflecting the terms and conditions of the deferral. Finally, the bill provides that penalties may not be charged during the deferral period on deferred taxes.

**Current Law:** Tax – Property Article § 10-204 authorizes counties and municipal corporations to defer the payment of the increase in county and municipal property taxes for owner-occupied residential real property of an elderly or disabled homeowner, for property that is the principal residence of the individual.

Statute provides specified age and eligibility requirements (at least 65 years of age, living in the home for at least five years, and/or permanently or totally disabled). The law also provides for the procedures that local governments must follow when implementing a property tax deferral program, including payment dates, amounts of deferral and interest to be reported on annual tax bills, lien provisions, and penalties.

**Background:** Property tax deferral programs typically give low-income elderly homeowners the opportunity to defer payment of property taxes. Under most deferral programs, deferred property taxes become a lien against the value of the taxpayer's home. When the home is sold, any back taxes and interest are then due. If the homeowner dies, deferred taxes must be paid upon settlement of the estate.

Several Maryland counties offer a property tax deferral program for senior citizens and other special categories of homeowners. **Exhibit 1** provides a brief summary of each local program.

The State Department of Assessments and Taxation (SDAT) and the counties have indicated that only a small number of taxpayers have used the property tax deferral programs noted above. One reason given is that the associated interest rates are often in the 8% to 10% range and are therefore considered prohibitive by some taxpayers. For example, the Montgomery County Council has recently changed its program by reducing its interest rate from 9% to an amount set annually that does not exceed the prime lending rate available at the time. In addition, the county also increased the gross income limitation from \$60,000 to \$120,000. However, it should be noted that interest rates in the 8% to 10% are similar to rates charged in other states for tax deferral programs.

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**Exhibit 1**  
**Summary of Local Property Tax Deferral Programs**

<u><b>Jurisdiction</b></u>	<u><b>Program Summary</b></u>
Anne Arundel	Deferred tax payment program for owner-occupied homes of elderly (65 and over) or disabled individuals. Gross income limit of \$30,000. The program allows for a 50-year payment deferral; the amount deferred may not exceed the increase in county property taxes on the date of deferral. Interest accrues at 6% annually.
Baltimore County	Deferred tax payment program for owner-occupied homes of elderly or disabled individuals who have experienced a financial hardship. Since owner-occupied properties are eligible for a homestead credit (4% in Baltimore County), only 4% of the increase can be deferred. Interest accrues at 9% annually.
Frederick	Deferred payment of the increase in property tax plus 3% interest.
Harford	Tax deferral program based on a change in homeowner's financial situation (unemployment, medical hardship, etc.).
Howard	Program for property owners ages 65 and over who have lived in their current dwelling for the previous five years. Income cannot exceed \$75,000.
Montgomery	Program based on household income, rather than age. Specified residents may defer any tax increase in taxes over the tax liability at the time of the deferral. The homeowner must have resided at the property for five years and have a gross income of less than \$120,000. The deferral may not exceed 50% of the value of the property. The interest rate is based on the prime rate.
Prince George's	Deferred tax payment program for owner-occupied homes of elderly or disabled individuals. Gross income may not exceed \$45,000 in the prior year. Deferred taxes may not exceed the increase in the county property tax rate from the date of deferral. The full amount of deferred taxes and interest may not exceed 50% of the full cash value of the property. Interest accrues at 9% annually.
Queen Anne's	Deferred tax payment program for owner-occupied homes of elderly or disabled individuals. The program allows for a 50-year payment deferral equal to but not exceeding the increase in county property taxes on eligible real property taxes on the date of deferral. Interest accrues at 2% annually.
Salisbury	The City of Salisbury grants tax deferrals to developments that offer housing to seniors or families with low or moderate incomes – the taxes are deferred to a later date.

Source: Maryland Association of Counties, State Department of Assessments and Taxation, Department of Legislative Services

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## Other States

Property tax deferral programs exist in 24 states and the District of Columbia. However, in six of these states, programs are provided at the option of local governments. In some states, the deferral of all property taxes due is allowed, while in others, only a portion may be deferred so that property tax bills do not increase by more than a specified percentage.

**Exhibit 2** provides a summary of tax deferral programs in surrounding states as provided in the National Conference of State Legislatures report noted above, as updated by Legislative Services.

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### Exhibit 2 Property Tax Deferral Programs in Nearby States

<u>State</u>	<u>Age Limit</u>	<u>Income Cap</u>	<u>Description</u>
Delaware	n/a	n/a	None
District of Columbia	None	None	Qualified owners of residential realty may apply for deferral each year if residential realty tax owed is in excess of 110% of the preceding year's tax.
Maryland	65 and over	Local limits	Local option for counties and cities to defer property taxes.
New Jersey	n/a	n/a	None
North Carolina	n/a	n/a	None
Pennsylvania	None	\$15,000	Local option to defer property tax increases. A deferral may not be granted if the amount of the deferred taxes, the liens on the residence, and the principal remaining on the taxpayer's mortgage for the residence is greater than 85% of the residence's market value. A deferral also will be denied if the outstanding principal on all mortgages is more than 70% of the residence's market value.
Virginia	65 and over	\$50,000	Local option to provide a deferral of realty taxes if combined net worth, excluding the value of the dwelling and lot, is not over \$75,000. Specific counties, cities, and towns may raise the maximum total combined income.
West Virginia	n/a	n/a	None

Source: National Conference of State Legislatures, Department of Legislative Services

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**Local Fiscal Effect:** Charles County property tax revenues could decrease as a result of the bill. The amount of any decrease cannot be reliably estimated and depends on the nature of any deferral program that is established by the county and the number of participants in a given year. However, based on the fact that very few properties owners use deferral programs, any associated revenue decrease is likely to be minimal. Revenues would increase in the years that any deferred payments are paid back. For fiscal 2006, there are 36,559 owner-occupied properties in Charles County; the average assessment is \$188,452. SDAT indicates that there are currently three property owners using the deferral program in Anne Arundel County.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** State Department of Assessments and Taxation, Charles County, Maryland Association of Counties, Department of Legislative Services

**Fiscal Note History:** First Reader - February 13, 2006  
ncs/hlb Revised - House Third Reader - March 28, 2006

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