

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 779
Ways and Means

(Delegate Glassman)

Property Tax - Assessment of Agricultural Land - Subdivision

This bill allows a farmer to subdivide his/her land into lots of any size and continue to receive an agricultural assessment on the lots, so long as the subdivided land remains actively devoted to farm or agricultural use. The bill also authorizes the State Department of Assessments and Taxation (SDAT) to grant a waiver from the gross income requirement used to determine eligibility for an agricultural land use assessment if the land is subdivided so long as the land remains actively devoted to farm or agricultural use and has not been conveyed to a new owner.

Fiscal Summary

State Effect: Potential minimal decrease in State special fund revenues. The amount of any decrease cannot be reliably estimated and depends on the number of properties that could be reassessed.

Local Effect: Potential minimal decrease in local government revenues. The amount of any decrease cannot be reliably estimated and depends on the number of properties that could be reassessed.

Small Business Effect: None.

Analysis

Current Law: In any year of a three-year assessment cycle, real property must be revalued if any of the following factors causes a change in the value of the real property: (1) the zoning classification is changed at the initiative of the owner or anyone having an

interest in the property; (2) a change in use or character occurs; (3) substantially completed improvements are made which add at least \$50,000 in value to the property; (4) an error in calculation or measurement of the real property caused the value to be erroneous; (5) a specified residential use assessment is terminated; or (6) a subdivision occurs. Subdivision is the division of real property into two or more parcels by subdivision plat, time-share, metes and bounds, or other means.

When real property is revalued, SDAT must: (1) determine the value that would have resulted if the revaluation had occurred for the first year of the three-year cycle; (2) determine the value that would have resulted if the revaluation had occurred for the first year of the preceding three-year cycle; and (3) adjust the phased-in value for each of the years remaining in the three-year cycle to reflect the change that results from the revaluation.

SDAT or the Supervisor of Assessments is required to revalue rezoned, changed, erroneously assessed, residential use assessment termination, and subdivided real property on the semiannual date of finality. The revaluation is effective for the taxable year beginning on the semiannual date of finality, if the notice under this title is sent no later than 30 days after the semiannual date of finality.

SDAT or the Supervisor of Assessments is required to revalue substantially improved real property on the date of finality, semiannual date of finality, or quarterly date of finality following the substantial completion of the improvements to land.

A property owner with less than 20 acres of land may petition for a waiver from the requirement that the land be actively farmed in order to keep the land's agricultural use assessment if the property owner is at least 70 years old or disabled. The land must have been farmed for at least the two previous assessment cycles. In addition, in order to receive a waiver from the income requirement – yield an average gross income of at least \$2,500 – the land must have received the agricultural use assessment in 1984.

Background: Currently, a landowner is permitted to receive an agricultural assessment on a parcel of land of less than 20 acres under specific circumstances: (1) the land must be actively farmed; (2) there may not be more than three parcels of land of less than 20 acres, under the same ownership, in a county; (3) the land may be considered a family farm unit if the parcels are contiguous and not more than one parcel less than 20 acres in size owned by each immediate member of the family of the landowner; (4) the landowner may be required to produce verification of at least \$2,500 worth of income from each parcel under 20 acres or from the agricultural land unit. Under this bill, the parcels which result from the subdivision must be actively farmed to receive an agricultural assessment.

The SDAT procedures manual provides that up to five subdivided lots less than 10 acres in size under the same ownership may qualify for an agricultural use assessment if they are being actively farmed. The number of lots in excess of 10 acres is not limited if they meet the use test. No more than two lots of less than three acres in the same ownership may qualify for farm assessment. SDAT also permits a ratio of active land to the total parcel to determine the amount of acres permitted to be assessed agriculturally. The ratio varies by region but it may not be less than 3 to 1 or more than 10 to 1. As a result, for every 1 acre in agricultural use, 3 to 10 acres may receive an agricultural assessment.

Under the bill, because each parcel must be farmed, some lots which may have received an agricultural assessment under current law due to the land use ratio used by SDAT may no longer be eligible for an agricultural land used assessment.

State Fiscal Effect: To the extent that properties are reassessed at market value after a subdivision under current law, the State would realize an increase in property tax revenues. Therefore, under the bill, the State would lose this potential property tax revenue increase. However, the number of times that this might occur, absent the bill, cannot be reliably estimated. **Exhibit 1** shows the number of properties receiving an agricultural use assessment, as of July 1, 2005. To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

Exhibit 1
Properties Receiving an Agricultural Use Assessment
July 1, 2005

<u>County</u>	<u>Improved</u>	<u>Vacant</u>	<u>Total</u>
Allegany	653	519	1,172
Anne Arundel	1,095	442	1,537
Baltimore City	0	0	0
Baltimore	2,460	1,562	4,022
Calvert	908	373	1,281
Caroline	1,401	1,121	2,522
Carroll	2,891	1,596	4,487
Cecil	1,397	692	2,089
Charles	1,372	590	1,962
Dorchester	1,035	1,260	2,295

<u>County</u>	<u>Improved</u>	<u>Vacant</u>	<u>Total</u>
Frederick	3,298	1,526	4,824
Garrett	1,476	1,048	2,524
Harford	2,192	901	3,093
Howard	789	392	1,181
Kent	811	529	1,340
Montgomery	1,181	833	2,014
Prince George's	831	1,013	1,844
Queen Anne's	1,296	773	2,069
St. Mary's	1,609	705	2,314
Somerset	779	1,254	2,033
Talbot	948	697	1,645
Washington	1,893	976	2,869
Wicomico	1,483	1,838	3,321
Worcester	<u>1,263</u>	<u>1,528</u>	<u>2,791</u>
Total	33,061	22,168	55,229

Local Fiscal Effect: To the extent that properties are reassessed at market value after each subdivision under current law, local governments would realize an increase in property tax revenues. Therefore, under the bill, local governments would lose this potential property tax revenue increase. However, the number of times that this might occur, absent the bill, cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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