

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 478
Budget and Taxation

(Senator Madaleno)

Property Tax - Tax Sales

This bill increases the minimum amount of taxes due on a property from \$100 to \$500 by which a tax collector may withhold the property from a tax sale. The bill also includes Montgomery County within a provision of law that limits the right of a plaintiff or holder of a certificate of sale to be reimbursed for expenses relating to the foreclosure of a right of redemption that were incurred within four months following a tax sale.

The bill takes effect June 1, 2008 and applies to all certificates of the sale issued on or after July 1, 2008.

Fiscal Summary

State Effect: None.

Local Effect: The bill could result in a decrease in local tax revenues to the extent properties are withheld from tax sale. Baltimore City revenues could decrease by approximately \$5.7 million beginning in FY 2009. Expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Current Law: A tax collector may withhold a property from a tax sale if the total taxes on the property, including interest and penalties, are less than \$100 in any one year.

With specified exceptions, on redemption, the plaintiff or the holder of a certificate of sale is entitled to be reimbursed for expenses incurred in any action or in preparation for any action to foreclose the right of redemption. In addition, the plaintiff or holder of a certificate of sale, on redemption, is entitled to be reimbursed for • fees paid for recording the certificate of sale; • reasonable attorney's fees, provided that the fees may not exceed \$400 unless an action to foreclose the right of redemption has been filed; • expenses incurred in the publication and service of process by publication; • reasonable fees for a necessary title search; and • taxes, including interest and penalties. In Baltimore City, the plaintiff or holder of a certificate of sale is entitled to be reimbursed for taxes, interest, and penalties paid in accordance with specified provisions and interest at a specified rate of redemption provided from the date of payment to the date of redemption. The plaintiff or holder of a certificate of sale is not entitled to be reimbursed for any other expenses.

In 20 jurisdictions (Baltimore City and Allegany, Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Cecil, Charles, Dorchester, Frederick, Garrett, Harford, Howard, Kent, Prince George's, Queen Anne's, St. Mary's, Somerset, Washington, Wicomico, and Worcester counties), the plaintiff or holder of a certificate of sale is not entitled to be reimbursed for expenses incurred within four months after the date of sale. This does not apply to property for which the holder may file a complaint any time after 60 days from the date of sale or must file a complaint within three months from the date of sale.

Background: When a property is purchased at tax sale, the purchaser must pay the tax collector any delinquent taxes, penalties, sale expenses, and under certain conditions, a high bid premium. The remainder of the purchase price is not paid to the collector until the purchaser forecloses the property. The property owner has the right to redeem the property within six months from the date of tax sale by paying the delinquent taxes, penalties, interest, and certain expenses of the purchaser. If the owner redeems the certificate, the purchaser is refunded the amounts paid to the collector plus the interest and expenses. If the owner does not redeem the certificate, the purchaser has the right to foreclose on the property after the six-month right of redemption period has passed. Generally within two years, if the right to foreclose is not exercised by the purchaser, the certificate is void and the purchaser is not entitled to a refund of any monies paid to the collector.

Local Fiscal Effect: The bill could result in a loss of local revenues depending on the number of properties withheld from tax sale due to the increased limit.

Baltimore City indicates that the bill could result in a significant reduction in revenues as it could lead to a decline in the number of properties eligible for tax sale. Based on fiscal 2008 data, Baltimore City indicates that \$5.4 million in revenues would be lost if the tax

sale threshold was raised to \$500. Increasing the threshold to \$500 would exclude 12,198 properties (out of 38,723) from the tax sale resulting in a \$5.4 million reduction in liens (out of \$95.2 million). It is estimated that this amount could increase by about 5% annually beginning in fiscal 2009.

Montgomery County reports that the bill would have little or no effect on county finances.

Additional Information

Prior Introductions: None.

Cross File: HB 1276 (Delegates Carr and Waldstreicher) – Ways and Means.

Information Source(s): Baltimore City, Montgomery County, Department of Legislative Services

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mll/hlb

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