HB 1085

# Department of Legislative Services

Maryland General Assembly
2009 Session

## FISCAL AND POLICY NOTE

House Bill 1085 (Harford County Delegation, *et al.*)
Ways and Means

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**Task Force to Study Maryland Property Tax Assessment Procedure**

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This bill establishes a Task Force to Study Maryland Property Tax Assessment Procedure. The task force must: (1) study the use of the triennial assessment process in Maryland; (2) review and make recommendations regarding the best property assessment practices used by other states; and (3) review and evaluate property tax relief measures including the homestead property tax credit program, the homeowners' tax credit program, and property tax limitation measures that limit the property tax rate that can be imposed by the county council or the property tax revenue that can be collected. The State Department of Assessments and Taxation (SDAT) must provide staff support to the task force. The task force must submit a report of its findings and recommendations to the Governor and the General Assembly by January 1, 2010.

The bill takes effect July 1, 2009, and terminates July 31, 2010.

## Fiscal Summary

**State Effect:** Given the State's fiscal difficulties, agency budgets have been constrained. Thus, the requirement to staff the task force and develop the report may not be absorbable within the existing budgeted resources of SDAT. Instead, general fund expenditures may increase in FY 2010 for contractual staff to support the task force and complete the required evaluation. Revenues are not affected.

**Local Effect:** None.

**Small Business Effect:** None.

# Analysis

**Background:** Under current law, real property is valued and assessed once every three years. This approach, the triennial assessment process, was part of major property tax reform established in 1979. Under this process, assessors from SDAT physically inspect each property every three years. However, in practice, due to having significantly fewer assessors than necessary, not every property receives a physical inspection once every three years. No adjustments are made in the interim, except in the case of (1) a zoning change; (2) a substantial change in property use; (3) extensive improvements to the property; or (4) a prior erroneous assessment. The assessor determines the current "full market value" of the property and any increase in value is phased in over a three-year period. Any decrease, however, is recognized immediately for assessment purposes.

Because only one-third of the properties in each county is reassessed in a given year, local governments can rely on prior years' growth in the other two-thirds of the base to reduce the full impact of any one-year decline in assessable base. Conversely, when market values are rising, assessed values lag behind the current market, resulting in a slower annual growth in the assessable base than the market may indicate. As a result, the triennial process and its three year phase-in schedule provide some cushion for taxpayers during periods of dramatically increasing property values and for local governments during a downturn in the housing market.

Most states require that real property be reassessed at a frequency of one to five years, as shown in **Exhibit 1**.

The homestead tax credit program (assessment caps) provides tax credits against State, county, and municipal real property taxes for owner-occupied residential properties for the amount of real property taxes resulting from an annual assessment increase that exceeds a certain percentage or "cap" in any given year. The State requires the cap on assessment increases to be set at 10% for State property tax purposes; however, local governments have the authority to lower the cap.

The Homeowners' Property Tax Credit Program (Circuit Breaker) is a State-funded program (*i.e.*, the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income.

### Exhibit 1
### Real Property Assessment Cycles by State

| Years in Cycle | State | Number of States |
|---|---|---|
| 1 | Arizona, California, Delaware, District of Columbia, Florida, Georgia, Hawaii, Kansas, Michigan, New Jersey, New Mexico, New York, North Dakota, Pennsylvania, South Dakota, Vermont | 16 |
| 2 | Colorado, Iowa, Missouri | 3 |
| 3 | Arkansas, **Maryland**, Texas, West Virginia | 4 |
| 4 | Alabama, Illinois, Kentucky, Louisiana, Maine, Mississippi, Oklahoma, Oregon, Virginia, Washington, Wyoming | 11 |
| 5 | Idaho, Indiana, Minnesota, Nevada, New Hampshire, South Carolina, Utah, Wisconsin | 8 |
| 6 | Alaska, Montana, Nebraska, Ohio, Tennessee | 5 |
| 8 | North Carolina | 1 |
| 9 | Massachusetts, Rhode Island | 2 |
| 10 | Connecticut | 1 |

Source: CCH Incorporated; National Conference of State Legislatures; Department of Legislative Services

## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Department of Legislative Services

**Fiscal Note History:** First Reader - March 9, 2009
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