

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 484
Ways and Means

(Delegate Elliott, *et al.*)

Budget and Taxation

Property Tax - Semiannual Payment Schedule - Small Business Property

This bill requires county and municipal governments to establish a semiannual payment schedule for State, county, municipal, and special taxing district property taxes for small business property with a property tax bill of \$50,000 or less.

The bill takes effect October 1, 2010, and applies to taxable years beginning after June 30, 2011.

Fiscal Summary

State Effect: Potential decrease in State interest income (general fund) beginning in FY 2012 depending on the number of businesses that opt to pay property taxes on a semiannual basis. This revenue loss may be offset by service charges allowed under current law. Expenditures are not affected.

Local Effect: Interest income from property tax revenues may decrease beginning in FY 2012 depending on the number of businesses that opt to pay property taxes on a semiannual basis. This revenue loss may be offset by service charges allowed under current law.

Small Business Effect: Minimal. The overall amount of taxes paid by small business is not affected. However, in some instances, the cash flow for these businesses may benefit from paying property taxes in two installments.

Analysis

Bill Summary: Small business property is defined as property that has a commercial use code assigned by the State Department of Assessments and Taxation (SDAT) and which has total State and local property taxes of no more than \$50,000 in a taxable year.

Current Law: Property taxes for owner-occupied residential property are due under a semiannual schedule. The first installment is due on July 1 and may be paid without interest on or before September 30. The second installment is due on December 1 and may be paid without interest on or before December 31. Local governments are authorized to impose a maximum service charge of 1.65% of the second payment to cover lost interest for the three-month delay in the tax collection and associated administrative fees. However, homeowners may elect to pay the full year's property tax on or before September 30 to avoid the service charge or interest.

Property taxes for property other than owner-occupied residential property are due on July 1 and may be paid without interest on or before September 30.

Background: Chapter 123 of 1995 granted taxpayers the option to pay property taxes in semiannual installments. Chapter 305 of 1999 required property owners to pay real property taxes for a principal residence in semiannual installments. However, Chapter 305 allowed homeowners the option of paying both property tax installments on or before September 30 of each year to avoid any service charge that a county may impose to recover anticipated lost interest and administrative expenses associated with the semiannual payment schedule.

State Fiscal Effect: The bill would not change the amount of property taxes paid by a qualifying small business. However, it would alter when payments may be received, which in turn effects the amount of interest earned from property tax payments. Currently property tax payments for commercial properties are due by September 30. Payments for State and local taxes are made to the county where the business is located; the county remits the State taxes to the Comptroller's Office.

The bill may result in a decrease in interest income for the time period between September 30 and December 30, as one-half of State property tax payments for certain small businesses may not be paid until three months later than under current law. However, the number of small businesses that may opt to pay on a semiannual basis cannot be reliably estimated. As a point of reference and *for illustrative purposes only*, if one half of the small business property accounts elect to pay property taxes on a semiannual basis, interest income may decrease by approximately \$53,400, assuming a 3% annual interest rate and a maximum service charge of 1.65%.

However, under current law, a service charge may be imposed that is reasonably equivalent to the anticipated lost interest income associated with the three-month delay, not to exceed 1.5%. Local governments may also charge a maximum of 10% of the lost interest percentage as an administrative fee. Therefore, the service charge cannot exceed

1.65%. Depending on interest rates, the service charges imposed by local governments, and the amount of tax paid on a semiannual basis, it is possible that the service charge could offset any decrease in interest income resulting from the semiannual payment schedule.

Exhibit 1 shows the number of commercial property tax accounts in each county that may be eligible for semiannual payments pursuant to the bill. The total assessment for these properties is approximately \$56.5 billion.

Exhibit 1
Commercial Property Tax Accounts with a Property Tax Bill of \$50,000 or Less
Fiscal 2011

<u>County</u>	<u>Number of Accounts</u>	<u>Assessed Value</u>
Allegany	2,763	\$571,825,301
Anne Arundel	7,655	5,788,231,466
Baltimore City	13,295	5,200,936,679
Baltimore	12,385	7,754,635,928
Calvert	980	628,190,741
Caroline	856	363,542,124
Carroll	2,820	1,678,418,727
Cecil	2,256	1,134,429,084
Charles	2,565	1,566,190,184
Dorchester	1,068	441,840,765
Frederick	3,842	2,554,101,624
Garrett	1,264	401,674,705
Harford	2,943	2,363,103,543
Howard	3,225	2,790,707,479
Kent	615	317,124,339
Montgomery	8,022	7,110,921,992
Prince George's	11,686	8,231,706,561
Queen Anne's	1,344	617,351,737
St. Mary's	1,635	963,212,593
Somerset	1,002	227,302,524
Talbot	1,411	938,395,913
Washington	3,160	1,913,885,568
Wicomico	3,349	1,087,035,994
Worcester	2,954	1,879,832,338
Total	93,095	\$56,524,597,909

Source: State Department of Assessments and Taxation

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2011 State budget includes \$833.4 million for general obligation debt service costs, all of which are special funds from the Annuity Bond Fund.

Local Fiscal Effect: Local property tax revenues will be affected in the same manner as State property tax revenues. Interest income on payments would be lost for the period between September 30 and December 30 for those property tax payments received in December. As a point of reference and *for illustrative purposes only*, if one half of the small business property accounts elect to pay property taxes on a semi-annual basis, total county interest income may decrease by approximately \$540,400, assuming a 3% annual interest rate and a maximum service charge of 1.65%. As discussed above, depending on interest rates, service charges imposed by local governments, and the amount of tax paid on a semiannual basis, it is possible that the service charge allowed under current law may offset any decrease in interest income resulting from the semiannual payment schedule.

Caroline County estimates that a shift to a semiannual payment schedule for certain businesses could increase expenditures for computer programming by \$2,000 and reduce revenues by approximately \$140,000. Montgomery County estimates that the shift may decrease revenues by \$46,200 to \$139,000, depending on interest rates. Prince George's County indicates that county revenues would decrease by an estimated \$300,000. Last year on a similar bill, Charles County estimated that a shift to a semiannual payment schedule for certain businesses could reduce revenues by approximately \$40,000.

Additional Information

Prior Introductions: HB 428 of 2009 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Caroline, Montgomery, and Prince George's counties; City of Bowie; State Department of Assessments and Taxation; Property Tax Assessment Appeals Board; Maryland Association of Counties; Department of Legislative Services

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